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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

December 23, 2015

Charter School Board
Herron High School, Inc.
110 E. 16th Street
Indianapolis, IN 46202

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Herron High School, Inc., as of June 30, 2015, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Audit Report for Herron High School, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner



**HERRON HIGH SCHOOL, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2015 and 2014

**HERRON HIGH SCHOOL, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY**

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Independent Auditors' Report

Board of Directors
Herron High School, Inc. and its Wholly-Owned Subsidiary

We have audited the accompanying consolidated financial statements of Herron High School, Inc. and its Wholly-Owned Subsidiary (an Indiana not-for-profit organization), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Herron High School, Inc. and its Wholly-Owned Subsidiary as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

2014 Consolidated Financial Statements

The consolidated financial statements of Herron High School, Inc. and its Wholly-Owned Subsidiary as of and for the year ended June 30, 2014, were audited by other auditors who expressed an unmodified opinion on those consolidated financial statements on December 9, 2014.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 20, 2015

HERRON HIGH SCHOOL, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash and equivalents	\$ 1,057,075	\$ 1,118,114
Restricted cash	1,047,051	826,381
Accounts receivable		1,285
Grants receivable	319,709	129,925
Current portion of pledges receivable, net of allowance for uncollectible accounts of \$12,000 in 2015 and 2014	333,597	462,738
Prepaid expenses	14,786	11,213
Total Current Assets	<u>2,772,218</u>	<u>2,549,656</u>
PROPERTY AND EQUIPMENT		
Land	614,000	614,000
Buildings	9,011,546	8,859,129
Furniture and equipment	779,708	724,275
Computer and office equipment	813,477	764,957
Books and educational materials	170,732	149,826
	<u>11,389,463</u>	<u>11,112,187</u>
Less: Accumulated depreciation	<u>(2,682,212)</u>	<u>(2,186,013)</u>
Total Property and Equipment, net	<u>8,707,251</u>	<u>8,926,174</u>
OTHER ASSETS		
Net pledges receivable, net of current portion	571,659	728,798
Bond issuance cost, net	91,148	93,967
Total Other Assets	<u>662,807</u>	<u>822,765</u>
TOTAL ASSETS	<u><u>\$12,142,276</u></u>	<u><u>\$12,298,595</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 76,388	\$ 122,482
Current maturities of long-term debt	221,651	208,730
Accrued expenses	481,177	447,909
Total Current Liabilities	<u>779,216</u>	<u>779,121</u>
LONG-TERM DEBT, less current maturities	<u>5,987,418</u>	<u>6,210,925</u>
Total Liabilities	<u>6,766,634</u>	<u>6,990,046</u>
NET ASSETS		
Unrestricted	3,139,197	3,139,410
Temporarily restricted	2,236,445	2,169,139
Total Net Assets	<u>5,375,642</u>	<u>5,308,549</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$12,142,276</u></u>	<u><u>\$12,298,595</u></u>

See accompanying notes.

HERRON HIGH SCHOOL, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT						
School lunch program	\$ 213,043		\$ 213,043	\$ 166,604		\$ 166,604
Student fees and fundraising	245,186		245,186	207,024		207,024
Contributions and donations	169,371	\$ 362,151	531,522	132,142	\$ 2,281,728	2,413,870
Federal and state support	5,484,104		5,484,104	5,425,451		5,425,451
Other revenue	6,390		6,390	772		772
Net assets released from restrictions by satisfaction of temporary restrictions	294,845	(294,845)		349,715	(349,715)	
Total Revenues and Support	<u>6,412,939</u>	<u>67,306</u>	<u>6,480,245</u>	<u>6,281,708</u>	<u>1,932,013</u>	<u>8,213,721</u>
PROGRAM AND SUPPORTING SERVICE EXPENSES						
Salaries and benefits	4,160,735		4,160,735	4,085,039		4,085,039
Instructional services	137,940		137,940	147,995		147,995
Information technology	70,565		70,565	78,633		78,633
Accounting services	69,417		69,417	70,696		70,696
Other outside services	137,293		137,293	160,109		160,109
Course materials and supplies	277,648		277,648	252,931		252,931
Nutritional support	216,650		216,650	183,012		183,012
Travel and entertainment	21,610		21,610	19,556		19,556
Vehicle and transportation expense	37,076		37,076	39,196		39,196
Rent and facilities	514,661		514,661	523,691		523,691
Depreciation and amortization	499,020		499,020	513,424		513,424
Interest expense	155,523		155,523	194,091		194,091
Insurance	61,422		61,422	46,583		46,583
Advertising	3,299		3,299	3,435		3,435
Small equipment purchases	17,354		17,354	20,076		20,076
Miscellaneous	32,939		32,939	41,410		41,410
Total Program and Supporting Service Expenses	<u>6,413,152</u>		<u>6,413,152</u>	<u>6,379,877</u>		<u>6,379,877</u>
INCREASE (DECREASE) IN NET ASSETS	(213)	67,306	67,093	(98,169)	1,932,013	1,833,844
NET ASSETS						
Beginning of Year	<u>3,139,410</u>	<u>2,169,139</u>	<u>5,308,549</u>	<u>3,237,579</u>	<u>237,126</u>	<u>3,474,705</u>
End of Year	<u>\$ 3,139,197</u>	<u>\$ 2,236,445</u>	<u>\$ 5,375,642</u>	<u>\$ 3,139,410</u>	<u>\$ 2,169,139</u>	<u>\$ 5,308,549</u>

See accompanying notes.

HERRON HIGH SCHOOL, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2015 and 2014

	2015	2014
OPERATING ACTIVITIES		
Increase in net assets	\$ 67,093	\$ 1,833,844
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	499,020	513,424
Contribution of property and equipment	(2,400)	
Contributions restricted for long-term investment	(418,423)	(1,040,191)
(Increase) decrease in certain assets:		
Accounts receivable	1,285	(1,285)
Grants receivable	(189,784)	(84,333)
Pledges receivable	286,280	(985,587)
Prepaid expenses	(3,573)	20,579
Increase (decrease) in certain liabilities:		
Accounts payable	(71,094)	60,335
Accrued expenses	33,268	(29,467)
Net Cash Provided by Operating Activities	<u>201,672</u>	<u>287,319</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(249,878)	(930,404)
Increase in restricted cash	<u>(220,670)</u>	<u>(801,896)</u>
Net Cash Used by Investing Activities	<u>(470,548)</u>	<u>(1,732,300)</u>
FINANCING ACTIVITIES		
Long-term debt borrowings		112,249
Long-term debt repayments	(210,586)	(160,836)
Proceeds from contributions restricted for long-term investment	418,423	1,040,191
Net Cash Provided by Financing Activities	<u>207,837</u>	<u>991,604</u>
NET INCREASE IN CASH AND EQUIVALENTS	(61,039)	(453,377)
CASH AND EQUIVALENTS		
Beginning of Year	<u>1,118,114</u>	<u>1,571,491</u>
End of Year	<u>\$ 1,057,075</u>	<u>\$ 1,118,114</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 155,523	\$ 189,957
Property and equipment acquired with accounts payable	25,000	

See accompanying notes.

HERRON HIGH SCHOOL, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: Herron High School, Inc. (the School) is a public charter school located in Indianapolis, Indiana providing classical liberal arts, college preparatory education. The School is structured around an art history timeline and emphasizes the classical art and literature of many cultures. Through an integrated curriculum and classical methodology, the School believes all students can learn to think logically, express themselves creatively, appreciate aesthetics fully, and approach any subject intelligently.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the School and its wholly-owned subsidiary, Herron Museum Building, LLC (the LLC). All material intra-entity accounts and transactions have been eliminated from the consolidated financial statements. The School leased the building from the LLC through June 30, 2014. As of July 1, 2014, the LLC's assets were transferred to the School and only the School remains. The School also includes the Herron Main Building, LLC (the Main Building), a single member LLC. The School is the sole member of the Main Building.

Basis of Accounting: The School prepares its consolidated financial statements using the accrual basis of accounting. Accrual accounting requires the recognition of revenues when they are earned and measurable in the accounting period when services are provided, and the recognition of expenses in the period in which they occur.

Estimates: Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could vary from those estimates.

Cash and Equivalents: At times, balances in bank accounts may exceed federally insured limits. The School has not experienced any losses from its bank accounts. For purposes of the consolidated statement of cash flows, the School considers all highly liquid investments, if any, purchased with an original maturity of three months or less to be cash equivalents.

Revenue Recognition: Revenues primarily come from resources provided under the Indiana Charter Schools Act (the Act). Under the Act, the School receives an amount per student in relation to the funding received by public schools. Funding from the State of Indiana is based on an enrollment estimate provided by the School in May prior to the start of the school year. The official enrollment is submitted in September and any differences from the estimates to the actual are reconciled in monthly payments through December. Enrollment is reported again in February and monthly payments for January to June are reconciled to reflect enrollment in February. Revenue is recognized in the year in which the educational services are rendered.

A portion of the School's revenue is based on cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amounts of costs and expenses at the time incurred. The School reports grants of cash and other assets as restricted support if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the grant is received, the School reports the support as unrestricted.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Receivable represent the uncollected portion of funds from grants awarded to the School. Grant receivables are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2015 and 2014, based on management's estimate of the amount of receivables that will actually be collected. Grant receivables are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts.

Pledges Receivable consist of gifts from various individuals payable in future installments. The School recognizes pledges receivable at fair value. An allowance of \$12,000 was recorded at June 30, 2015 and 2014.

Property and Equipment are recorded at cost or, if contributed, at the estimated fair value at the date of the gift. The School capitalizes additions of property and equipment with a useful life of more than one year. Depreciation of property and equipment is computed using the straight-line method and based upon the estimated useful lives of the assets ranging from 3 to 40 years. Expenditures for property and equipment and for renewals or improvements which extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

Depreciation expense was \$496,201 and \$511,287 for the years ended June 30, 2015 and 2014, respectively.

Long-lived Assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount to future net undiscounted cash flows expected to be generated by the related asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair market value of the assets. To date, no adjustments to the carrying amount of long-lived assets have been necessary.

Contributed Materials and Services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying consolidated financial statements as in-kind contributions are offset by like amounts included in expense or additions to property and equipment.

The School received \$2,400 and \$0 of in-kind contributions during the years ended June 30, 2015 and 2014, respectively.

Volunteers provide program services throughout the year that are not recognized as contributions in the financial statements since they do not meet the recognition criteria.

Net Asset Classification: The consolidated financial statements report the changes in each net asset class, based upon donor or grant restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, and permanently restricted.

- **Unrestricted Net Assets** include general and board designated assets and liabilities of the School. The unrestricted net assets of the School may be used at the discretion of management to support the School's purposes and operations.
- **Temporarily Restricted Net Assets** include assets of the School related to gifts with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates.
- **Permanently Restricted Net Assets** include assets of the School for which the donor has stipulated that the contribution be maintained in perpetuity. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses: The costs of providing the various programs and other activities have been summarized in Note 12. Some expenses relate directly to specific programs or supportive services while others do not. Expenses that relate to more than one program or supporting service are allocated among the applicable functions. The allocation is based on a formula contained within the grant documents.

Costs are allocated to the programs and supporting services. Management periodically evaluates its allocation method and revises it when necessary. Management and general expenses include those that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the School.

Income Taxes: The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The School is not considered to be a private foundation. Accordingly, no provision or liability for income taxes has been included in the consolidated financial statements.

In the normal course of business, the School is subject to examination by taxing authorities. The School's tax returns for years subsequent to fiscal year 2011 are open, by statute, for review by authorities. However, at present, there is no ongoing income tax audits or unresolved disputes with the various income tax authorities that the School currently files or has filed.

The LLC is a limited liability company, whose income, loss, credits, etc. are recognized by its individual members for income tax reporting purposes. Accordingly, no provision for federal or state income taxes has been recognized in the accompanying financial statements. As of June 30, 2014, the LLC is a disregarded entity for income tax purposes.

The Main Building is a disregarded entity for income tax purposes, but there is no income or expenses related to this entity. Therefore, no provision or liability for income taxes has been included in the financial statements.

Concentration of Credit Risk: Financial instruments that potentially subject the School to concentrations of credit risk consist primarily of temporary cash investments and grants receivable.

The School places its temporary cash investments with financial institutions. There was \$1,785,690 and \$1,217,146 in excess of insured limits at June 30, 2015 and 2014, respectively. The School has not experienced any losses in these accounts.

Concentrations of credit risk with respect to grants receivable are limited to the School's ability to accomplish the terms of the grants. Credit losses, if any, have been provided in the consolidated financial statements and have been within management's expectations.

Operating funds from the Indiana Department of Education amounted to 85% and 65% of the School's revenues and support for the years ended June 30, 2015 and 2014, respectively. A state funding formula is used to determine the amount of revenue a charter school receives. The formula is based on the number of students enrolled in the school during the year.

Risks and Uncertainties: The School provides education instruction services to students residing in Marion and surrounding counties in Indiana, and is subject to risks of economic and competitive forces at work within this geographic region.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, non-compliance in regards to federal and state standards and regulations could result in a reduction of funding or repayment of disallowed costs.

Advertising Costs are expensed as incurred. Advertising expenses amounted to \$3,299 and \$3,435 for the years ended June 30, 2015 and 2014, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications: Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the presentation of the 2015 consolidated financial statements.

Subsequent Events: The School has evaluated the consolidated financial statements for subsequent events occurring through October 20, 2015, the date the consolidated financial statements were available to be issued.

NOTE 2 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

Education: The academic program of the School is designed to challenge every student to achieve on or above grade level performance in all academic subjects. While students may enter the school below grade level in many areas, the school is prepared for the challenge of equipping students with the knowledge, skills, and habits necessary for success in an academically rigorous college preparatory high school.

NOTE 3 - GRANTS RECEIVABLE

Grants receivable at June 30, 2015 and 2014 represented amounts due relating to the following sources and are all due within one year:

	2015	2014
Walton Family Foundation	\$250,000	
Title I	13,655	\$ 20,245
Special education	8,698	19,656
Title II	2,356	7,024
Per pupil charter facilities grant		38,000
Allen Whitehill Clowes Operations Grant	<u>45,000</u>	<u>45,000</u>
	<u>\$319,709</u>	<u>\$129,925</u>

NOTE 4 - PLEDGES RECEIVABLE

During 2011, the School launched a capital campaign to purchase and restore the two vacant buildings on its campus. By adding these two buildings, the School is able to accommodate an increased enrollment from 450 to 750 students. This restoration and renovation also allows the School to add an additional science wing as well as classrooms dedicated to the fine arts. Common areas added include a cafeteria and the Lyceum.

During the years ended June 30, 2015 and 2014, the School recognized \$122,166 and \$2,076,325 of contributions related to the campaign. Pledges receivable related to this campaign at June 30, 2015 and 2014, net of a discount to present value and an allowance of \$12,000 in both years, totaled \$905,256 and \$1,191,536, respectively.

Pledges receivable at June 30, 2015 and 2014 are as follows:

	2015	2014
Due in one year	\$ 345,597	\$ 474,738
Due in one to three years	<u>605,519</u>	<u>777,695</u>
	951,116	1,252,433
Less: Allowance	<u>(12,000)</u>	<u>(12,000)</u>
Subtotal	939,116	1,240,433
Less: Discount to present value at 2.5%	<u>(33,860)</u>	<u>(48,897)</u>
Total Pledges Receivable, net	<u>\$ 905,256</u>	<u>\$1,191,536</u>

NOTE 5 - OPERATING LEASES

The School has an operating lease with the Harrison Center of the Arts (the Center) that is renewed on an annual basis. The lease allows the School to use the Center's gymnasium. For the years ended June 30, 2015 and 2014, rent expenses with the Center totaled \$20,000 and \$21,000, respectively.

The School also has a lease with Hogan Transfer & Storage. For the months of July through October 2014 the School paid \$297 per month. For the period of November 2014 to June 30, 2015, the School paid \$396 per month. For the year ended June 30, 2014, the School paid \$297 per month. For the years ended June 30, 2015 and 2014, the storage rent was \$4,356 and \$3,312, respectively.

NOTE 6 - LONG TERM DEBT

Long-term debt included the following at June 30, 2015 and 2014:

	2015	2014
Qualified School Construction Bonds (QSCBs) Series 2010A secured by real estate and assignments of leases and rents. The bond bears interest at 6.75% per annum (less a rebate of 5.27% from the U.S. Treasury), payable in quarterly installments of \$91,486, including interest, maturing on July 1, 2025. (A)	\$3,715,195	\$3,825,661
Qualified School Construction Bonds (QSCBs) Series 2010B secured by real estate and assignments of leases and rents. The bond bears interest at 7.00% per annum (less a rebate of 5.17% from the U.S. Treasury), payable in quarterly installments of \$5,592, including interest, maturing on July 1, 2025. (B)	162,634	173,151
Educational Facilities Revenue Bond, Series 2014. The loan bears interest at 3.17% per annum, payable in quarterly installments of \$41,268, maturing on April 17, 2024.	<u>2,331,240</u>	<u>2,420,843</u>
Less: Current maturities	<u>6,209,069</u> <u>(221,651)</u>	<u>6,419,655</u> <u>(208,730)</u>
Total Long-term Debt	<u>\$5,987,418</u>	<u>\$6,210,925</u>

(A) Under the American Recovery and Reinvestment Act of 2009, the Federal Treasury created QSCBs tax credit bonds, which provide federal subsidy equal to 5.27% interest.

(B) Under the American Recovery and Reinvestment Act of 2009, the Federal Treasury created QSCBs tax credit bonds, which provide federal subsidy equal to 5.17% interest.

NOTE 6 - LONG TERM DEBT (CONTINUED)

At June 30, 2015, the principal maturities of long-term debt are as follows:

Year Ending	Series 2010A Bonds	Series 2010B Bonds	Series 2014 Bonds	Total
June 30, 2016	\$ 118,117	\$ 11,274	\$ 92,260	\$ 221,651
June 30, 2017	126,294	12,084	95,220	233,598
June 30, 2018	135,037	12,952	98,274	246,263
June 30, 2019	144,386	13,883	101,427	259,696
June 30, 2020	154,381	14,881	104,680	273,942
Thereafter	<u>3,036,980</u>	<u>97,560</u>	<u>1,839,379</u>	<u>4,973,919</u>
	<u>\$3,715,195</u>	<u>\$162,634</u>	<u>\$2,331,240</u>	<u>\$6,209,069</u>

Total interest paid during the years ended June 30, 2015 and 2014 was \$155,523 and \$189,957, respectively.

The Series 2010A and 2010B bonds were issued for the acquisition of land, renovation, installation and equipping of charter school facility, together with the purchase of equipment to be utilized therein. The Series 2014 bond was a refinance of a mortgage that was originally borrowed for the renovation, installation and equipping of the charter school facility.

NOTE 7 - BOND ISSUANCE COST

Bond issuance cost associated with long-term debt is amortized using the interest method over the life of the related bond issue, and consisted of the following at June 30, 2015 and 2014:

	2015	2014
Gross amounts	\$112,770	\$112,770
Accumulated amortization	<u>(21,622)</u>	<u>(18,803)</u>
	<u>\$ 91,148</u>	<u>\$ 93,967</u>

Amortization expense for the years ended June 30, 2015 and 2014 was \$2,819 and \$2,137, respectively.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes or periods at June 30, 2015 and 2014:

	2015	2014
Capital campaign	\$1,934,255	\$2,029,346
Community assistance	4,300	4,300
Walton Family Foundation	250,000	
College visits	5,000	
Allen Whitehill Clowes Capital Grant	<u>42,890</u>	<u>135,493</u>
	<u>\$2,236,445</u>	<u>\$2,169,139</u>

The Walton Family Foundation grant is restricted for expense associated with the opening of a second campus. The School applied for and were approved for an additional charter from the Office of the Mayor of Indianapolis. The School plans to open the second campus for the 2017-2018 school year.

NOTE 9 - NET ASSETS RELEASED FROM RESTRICTIONS

During June 30, 2015 and 2014, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	2015	2014
Allen Whitehill Clowes Capital Grant	\$ 92,603	\$164,507
Capital campaign	<u>202,242</u>	<u>185,208</u>
	<u>\$294,845</u>	<u>\$349,715</u>

NOTE 10 - PENSION PLAN

403(b) Plan

The School's eligible faculty and administrative staff are participants in a 403(b) tax deferred annuity retirement plan. Quarterly discretionary contributions are made to the Plan. The School's contribution to the Plan, net of forfeitures, was \$204,297 and \$225,264 for the years ended June 30, 2015 and 2014, respectively.

Indiana Public Retirement System

The School elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011.

The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The plan is recorded as a multiemployer plan, which was established by the state. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate. State statute (IC 5-10.2) governs, through the INPRS Board, most requirements of the system, and give the School authority to contribute to the plan. The retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus interest credited to the member's account. The School's required contribution rate is 7.5%. The School may elect to make additional contributions on behalf of the member. Retirement plan contributions for TRF was \$29,194 and \$44,110 for the years ended June 30, 2015 and 2014, respectively. The plan is not governed by ERISA and is not required to file a Form 5500. There were no surcharges imposed and there is no expiration date of the plan included in state statutes. Upon withdrawing from TRF, the School would be obligated for its proportionate share of the plan's unfunded vested benefits. The School has no intention of withdrawing from the plan.

NOTE 11 - RELATED PARTIES

As mentioned in Note 1, the School leased space from the LLC under a noncancellable operating lease, which was eliminated in consolidation. The School also recorded related party transactions with other organizations in which one or more of the board members have an interest.

As mentioned in Note 1, the LLC is a disregarded entity and is no longer considered a related party.

The School leases space from the Center and incurs additional expense related to productions and programs held during the year. One board member from the School is the Executive Director of the Center and another serves as a board member for both organizations. Related party rent expense totaled \$20,000 and \$201,000 for the years ended June 30, 2015 and 2014, respectively. The School also paid Claude McNeal Productions, owned by the Head of School's spouse, for instructional services for the theater program. The related expense was \$35,355 and \$29,000 for the years ended June 30, 2015 and 2014, respectively.

NOTE 11 - RELATED PARTIES (CONTINUED)

During May 2013, a member of the School’s board of directors prepaid \$100,000 of the construction bond debt. Another board member then purchased the construction bond which was originally purchased by the Local Initiatives Support Corporation (LISC) in October 2010, thus repaying LISC and making the School his debtor. The bond bears an interest rate of 7.00% and matures in July 2025. At June 30, 2015 and 2014, the outstanding principal balance on the note was \$162,634 and \$173,151, respectively.

Gross pledges receivable from members of the board of directors totaled \$934,559 and \$1,228,196 at June 30, 2015 and 2014, respectively.

NOTE 12 - FUNCTIONAL EXPENSES

Expenses by functional classifications for the years ended June 30, 2015 and 2014, were as follows:

	2015	2014
Program services	\$4,832,758	\$5,159,265
General and administrative	1,338,001	1,003,128
Fundraising	<u>242,393</u>	<u>217,484</u>
Total Expenses	<u>\$6,413,152</u>	<u>\$6,379,877</u>

NOTE 13 - CONCENTRATIONS

Contributions from two donors represented 58% of total contributions and donations during the year ended June 30, 2015. Contributions from one donor represented 83% of total contributions and donations during the year ended June 30, 2014.

OTHER REPORTS

HERRON HIGH SCHOOL, INC.

OTHER REPORTS

The report presented herein was prepared in addition to other official reports prepared for the school as listed below:

Supplemental Audit Report of Herron High School, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.