B47639

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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February 2, 2017

Charter School Board
Paramount School of Excellence
3020 Nowland Avenue
Indianapolis, IN 46201

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Blue & Co., LLC, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. 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 the Paramount School of Excellence, as of June 30, 2016, 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 the Paramount School of Excellence, 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

FINANCIAL STATEMENTS

JUNE 30, 2016

CPAs / ADVISORS

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

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CPAS / ADVISORS

blue

Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Paramount School of Excellence
Indianapolis, Indiana

We have audited the accompanying financial statements of Paramount School of Excellence, Inc. (Paramount), a nonprofit organization, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Paramount as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016, on our consideration of Paramount's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paramount's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
December 22, 2016

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Current assets	
Cash and cash equivalents	$ 2,053,896
Accounts receivable, net	98,323
Prepaid expenses	41,097
Total current assets	2,193,316
Investments - restricted by debt instrument	507,748
Property and equipment	
Land and improvements	999,001
Building and improvements	5,591,362
Equipment	1,323,834
Software and educational materials	312,352
Construction in progress	1,592,597
	9,819,146
Less accumulated depreciation	2,099,441
Property and equipment, net	7,719,705
Other assets	
Debt issue costs, net	84,550
Deposits	3,715
Total other assets	88,265
Total assets	$ 10,509,034

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued expenses	$ 504,593
Accrued salaries, wages and related liabilities	320,505
Current portion of long-term debt	96,910
Current portion of capital leases	34,399
Total current liabilities	956,407
Long-term liabilities	
Long-term debt, less current portion	5,368,286
Capital leases	35,159
Total liabilities	6,359,852
Net assets - unrestricted	4,149,182
Total liabilities and net assets	$ 10,509,034

See accompanying notes to the financial statements.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016

Revenues and support	
State support	$ 5,133,125
Federal support	1,294,243
Contributions and donations	56,137
Other revenues and support	49,056
Interest income	5,167
Net assets released from restriction	22,035
Total revenues and support	6,559,763
Program and supporting service expenses	
Salaries and benefits	3,933,779
Professional services	493,838
Advertising	20,089
Depreciation and amortization	355,689
Occupancy	194,253
Supplies	488,317
Insurance	52,497
Interest	119,092
Other	451,571
Total program and supporting service expenses	6,109,125
Change in unrestricted net assets	450,638
Temporarily restricted net assets	
Net assets released from restriction	(22,035)
Change in net assets	428,603
Net assets	
Beginning of year	3,720,579
End of year	$ 4,149,182

See accompanying notes to the financial statements.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

Operating activities		
Change in net assets	$	428,603
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization		355,689
Changes in operating assets and liabilities		
Accounts receivable		94,554
Prepaid expenses		8,713
Deposits		(3,715)
Accounts payable and accrued expenses		19,697
Accured salaries, wages and other liabilities		54,345
Deferred revenue		(17,500)
Net cash flows from operating activities		940,386
Investing activities		
Property and equipment additions		(1,130,055)
Purchase of investments		(3,671)
Net cash flows from investing activities		(1,133,726)
Financing activities		
Cash paid for debt issue costs		(89,000)
Proceeds of issuance of long-term debt		5,465,196
Payments of long-term debt		(4,156,182)
Payments on capital lease obligations		(36,831)
Net cash flows from financing activities		1,183,183
Change in cash and cash equivalents		989,843
Cash and cash equivalents		
Beginning of year		1,064,053
End of year	$	2,053,896
Supplemental cash flows information		
Cash paid for interest, net of capitalized interest of approximately $21,600	$	119,092
Property and equipment included in accounts payable	$	378,917
Equipment purchased through capital lease	$	106,389

See accompanying notes to the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Paramount School of Excellence, Inc. (Paramount) is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. Paramount operates a public charter school established under Indiana Code 20-24 and is sponsored by the Mayor's Office of the City of Indianapolis. Paramount provides educational instruction to students in grades kindergarten through eighth grade.

Basis of Accounting

Paramount prepares its 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.

Use of Estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Paramount considers highly liquid investments available for operating purposes with an original maturity of 90 days or less to be cash and cash equivalents. Paramount maintains its cash in accounts, which at times, may exceed federally insured limits. Paramount has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable represent the uncollected portion of funds from amounts awarded to Paramount. Accounts receivable are reported net of an allowance for doubtful accounts. There was no allowance, as of June 30, 2016 based on management's estimate of the amount of receivables that will be collected.

Prepaid Expenses

Prepaid expenses relate to advance payments on products or services that will be used for future programs or activities.

Investments – Restricted by Debt Instrument

Investments consist of certificates of deposit recorded at contract value. The investments serve as collateral for debt instrument and are restricted to use. See the Long-Term Debt note for further information.

Property, Equipment and Depreciation

Property and equipment are recorded at cost, or if donated, at fair market value at date of donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Maintenance repairs and minor renewals are expenses as incurred. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss for the period is recognized. Depreciation is provided over the estimated useful life of each class of depreciable asset, ranging from 3-40 years, and is computed on using the straight-line method. Depreciation expense was approximately $351,000 for 2016.

Debt Issue Costs

Unamortized debt issue costs as of June 30, 2016 were approximately $85,000. Debt issue costs are amortized over a period of 10 years. Accumulated amortization as of June 30, 2016 was approximately $4,400. Amortization expense for the years ending June 30, 2017 through 2022 will be approximately $8,900 annually.

Contributions

Unconditional promises to give cash and other assets to Paramount are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Paramount reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Temporarily restricted net assets are those that are restricted as to time or purpose. When the restriction expires, the net assets are reclassified to unrestricted net assets and are reported in the statement of activities and changes in net assets as net assets released from restriction. Absent any donor-imposed restrictions, gifts of cash and other assets are recorded as unrestricted net assets.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Paramount. Volunteers also provide program services throughout the year that are not recognized as contributions in the financial statements unless the recognition criteria are met. These services include volunteering at events and clerical work.

Net Assets Classifications

Net assets are classified into one of three classes of net assets based on the absence or existence of donor-imposed restrictions. A description of each class follows:

Unrestricted net assets - The unrestricted net asset class includes general assets and liabilities of Paramount. The unrestricted net assets of Paramount may be used at the discretion of management to support Paramount's purpose and operations.

Temporarily restricted net assets - The temporarily restricted net asset class relate to gifts with explicit donor-imposed restrictions that have not been met as to a specified purpose, or to later periods of time or after specified dates. There were no temporarily restricted net assets as of June 30, 2016.

Permanently restricted net assets - The permanently restricted net asset class includes assets for which the donor has stipulated that the contribution be maintained in perpetuity. There were no permanently restricted net assets as of June 30, 2016.

State and Federal Support

Paramount receives state funds that have been designated for charter schools from the Indiana Department of Education. The State of Indiana uses a formula based on the number of students enrolled in the school during the year to determine the amount of funds Paramount receives. Paramount also receives federal support through a variety of programs administered by the Department of Education and United States Department of Agriculture.

Paramount derives a significant portion of its revenue from state and federal funding programs (approximately 98% in 2016). The receipt of future revenues by Paramount is subject to among other factors, state and federal policies affecting education, economic conditions, and other conditions which are impossible to predict.

Advertising

Paramount uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising expense totaled approximately $20,000 during 2016 and is included within operating expenses within the statement of activities and changes in net assets.

Income Taxes

Paramount is a not-for-profit corporation as defined by Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal and state income taxes. As such, Paramount is generally exempt from income taxes. However, Paramount is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Paramount and recognize a tax liability if Paramount has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by Paramount, and has concluded that as of June 30, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. Paramount is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Paramount filed its federal and state income tax returns for periods through June 30, 2015. The income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Subsequent Events

Paramount has evaluated events or transactions occurring subsequent to the statement of financial position date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is December 22, 2016.

2. LONG-TERM DEBT

Long-term debt as of June 30, 2016 is summarized as follows:

Indiana Finance Authority Educational Facilities Revenue Bonds Payable, Series 2015, maturing in December 2041, variable interest rate of 2.72% as of June 30, 2016, principal payments due in monthly installments ranging from $10,600 to $13,700 plus interest, secured by property with a net book value of approximately $7,068,000 and a certificate of deposit of approximately $508,000 as of June 30, 2016.	$ 4,453,174
Mortgage payable to IFF, maturing in November 2031, fixed interest rate of 6.375%, monthly principal and interest payments of approximately $13,000, secured by by property with a net book value of approximately $924,000 as of June 30, 2016.	512,022
Loan payable to Indiana Common School Fund and the State Board of Education, maturing in December 2025, fixed interest rate of 1.0%, interest only due annually with no required payments of principal until December 2025, secured by property with a net book value of approximately $500,000 as of June 30, 2016.	500,000
	5,465,196
Less current portion	96,910
	$ 5,368,286

In December 2015, the Indiana Finance Authority (IFA) issued the IFA Educational Facilities Revenue Bonds Series 2015 (Series 2015 Bonds) in the amount of $5,175,000. The proceeds were used to retire an existing mortgage loan with National Bank of Indianapolis (NBI) and to fund the renovation and expansion of Paramount's current facilities. Approximately $4,453,000 of the Series 2015 Bonds had been disbursed as of June 30, 2016.

Also in December 2015, Paramount, IFA and NBI entered into a Bond Purchase Agreement whereby NBI purchased from IFA all the Series 2015 Bonds in a private placement. The interest rate on the Series 2015 Bonds is variable at the prime rate less .78% (2.72% as of June 30, 2016) through the completion of the renovation and expansion phase which is expected to be December 2016. Once the renovation and expansion phase is complete, the interest rate will be fixed at 3.39% through December 2021. The fixed interest rate will be adjusted after 2021 for another 5-year period based on the tax-exempt borrowing rate at that time. The fixed interest rate will be adjusted every 5 years through the Series 2015 Bonds maturity date of 2041. Additionally, NBI has agreed to hold the Series 2015 Bonds through the maturity date in 2041.

In March 2016, Paramount entered into a mortgage agreement in the amount of $1,500,000 with IFF (an Illinois not for profit corporation) to finance a portion of the cost of construction, equipping, renovation and improvement of certain facilities. As of June 30, 2016, approximately $512,000 of the available amount had been disbursed to Paramount. The interest rate is fixed at 6.375% for the first 5 years of the mortgage agreement. For each 5-year period after the initial 5-year period, the rate will be adjusted to a fixed rate as defined in the mortgage agreement. The mortgage payable matures in November 2031. The mortgage agreement is subordinated to the Series 2015 Bonds.

In December 2015, the Indiana Common School Fund and the State Board of Education issued a $500,000 loan to Paramount. This agreement does not require principal payments, however, it does require interest payable on an annual basis at a fixed rate of 1% per year. The unpaid principal balance is due 10 years from the date of the agreement, which will be due December 2025.

Paramount has agreed to certain covenants, which, among other things, limit additional indebtedness and guarantees and require Paramount to maintain specific financial ratios. Management believes they are in compliance with the covenants as of June 30, 2016.

Principal payments on the Series 2015 Bonds and the IFF mortgage agreement commence upon completion of the renovation and expansion of facilities which is expected to be December 2016. Aggregate future maturities for long-term debt obligations for the years succeeding June 30, 2016 are as follows:

Year Ending June 30,		
2017	$	96,910
2018		199,768
2019		208,768
2020		217,625
2021		227,897
Thereafter		4,514,228
	$	5,465,196

During 2016, Paramount entered into a capital lease for equipment. The capital lease runs through November 2017 with an interest rate of 3.50% with annual payments of principal and interest of approximately $36,800. As of June 30, 2016, the cost of the equipment was approximately $106,000 with accumulated depreciation of approximately $36,000.

Future payments on the capital lease for the years succeeding June 30, 2016 are as follows:

Year Ending June 30,		
2017	$	36,831
2018		36,831
		73,662
Less interest		4,104
	$	69,558

3. PENSION PLANS

403(b) Plan

Paramount's eligible faculty and administrative staff are participants in a 403(b) tax deferred annuity retirement plan (the Plan). Paramount may make a discretionary matching contribution on participant deferrals and may make a discretionary profit sharing contribution to the Plan. Paramount's contribution to the Plan, net of forfeitures, was approximately $184,000 in 2016.

Indiana Public Retirement System

Paramount 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 Indiana Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011.

TRF is a defined benefit pension plan. TRF is also 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 of Indiana. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate. Indiana Code (IC 5-10.2) governs, through the INPRS Board, most requirements of the system, and give Paramount 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. Paramount's required contribution rate is 7.5%. Paramount may elect to make additional contributions on behalf of the member. Retirement plan contributions for TRF were approximately $37,000 for 2016. The plan is not governed by the Employee Retirement Income Security Act of 1974 and is not required to file a Federal Form 5500, Annual Return/Report of Employee Benefit Plan. There were no surcharges imposed and there is no expiration date of the plan included in state statutes. Upon withdrawing from TRF, Paramount, would be obligated for its proportionate share of the plan's unfunded vested benefits. Paramount has no intention of withdrawing from the plan. A complete copy of the annual report for the year ended June 30, 2015 can be obtained at www.in.gov/inprs.

4. RISKS AND UNCERTAINTIES

Paramount provides education instruction services to families residing in Marion and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana. Changes in state legislation could significantly affect Paramount. Additionally, Paramount is subject to monitoring and audit by state agencies. Those examinations may result in additional liabilities to be imposed on Paramount.

5. COMMITMENTS AND CONTINGENCIES

Operating Leases

Paramount leases certain equipment and modular classrooms under operating leases through 2017. Total lease expense for the 2016 was approximately $67,000. Future minimum lease payments for leases for 2017 are approximately $2,000.

Litigation

Paramount may be involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the future financial position, results of operations or cash flows of Paramount.

Construction Commitments

Construction commitments for the building expansion project approximate $1,500,000 as of June 30, 2016. The project is expected to be completed in fiscal year 2017 and is being funded with debt financing. See the Long-Term Debt footnote for more information.

6. FUNCTIONAL EXPENSES

Paramount incurred the following program services as well as management and general expenses for 2016:

	Program Services	Management and General	Total Expenses
Salaries and benefits	$ 2,977,756	$ 956,023	$ 3,933,779
Professional services	373,821	120,017	493,838
Advertising	15,207	4,882	20,089
Depreciation and amortization	269,246	86,443	355,689
Occupancy	147,044	47,209	194,253
Supplies	369,642	118,675	488,317
Insurance	39,739	12,758	52,497
Interest	90,149	28,943	119,092
Other	341,826	109,745	451,571
	$ 4,624,430	$ 1,484,695	$ 6,109,125

Certain costs have been allocated among the program and management and general categories based on the actual direct expenditures and cost allocations based upon time spent by Paramount's personnel. Although the methods used were appropriate, alternative methods may provide different results.

7. RECENTLY ISSUED ACCOUNTING STANDARDS

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606), which deferred the effective date for all entities by one year. These new standards, which Paramount is not required to adopt until its year ending June 30, 2020 deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

In April 2015, the FASB issued ASU 2015-03*, Interest – Imputation of Interest (Topic 835)*, was issued to simplify the presentation of debt issuance costs. After the implementation of this ASU, debt issuance costs will be required to be presented as a direct deduction of the debt liability with the related amortization reported as interest expense. This treatment is similar to that of a bond discount or bond premium. This ASU is effective for Paramount's year ending June 30, 2017.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which Paramount is not required to adopt until its fiscal year ending June 30, 2020, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958) that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which Paramount is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two phase project to amend not-for-profit financial reporting requirements.

Paramount is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.

SUPPLEMENTARY INFORMATION

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant ID Number	Expenditures
Major program			
U.S. Department of Education (DOE) through Indiana Department of Education (IDOE)			
Title I, Part A Cluster - Grants to Local Educational Agencies	84.010	S010A150014	$ 517,726
Non-major programs			
U.S. Department of Agriculture through IDOE			
Child Nutrition Cluster			
School Breakfast Program	10.553	Not Available	132,376
National School Lunch Program	10.555	Not Available	280,105
Total for cluster			412,481
DOE - through IDOE - Special Education Cluster - Grants to States	84.027	14215-551-PN01	135,358
DOE - through IDOE - Twenty-First Century Community Learning Centers	84.287	A58-5-15DL-0130	48,571
DOE - through IDOE - Improving Teacher Quality to State Grants	84.367	Not Available	180,107
Total non-major programs			776,517
Total federal expenditures			$ 1,294,243

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of Paramount for the year ended June 30, 2016, and is presented on the accrual basis of accounting. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some of the amounts presented in this SEFA may differ from amounts presented in or used in the preparation of the basic financial statements. The basic financial statement classifications may include other financial activity for reporting purposes.

Note B – Summary of Significant Accounting Policies

Expenditures report on this SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Paramount has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note C – Amounts Passed through to Subrecipients

Paramount did not pass through any federal awards to subrecipients during 2016.

CPAS / ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Paramount School of Excellence, Inc.
Indianapolis, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Paramount School of Excellence, Inc. (Paramount) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Paramount's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Paramount's internal control. Accordingly, we do not express an opinion on the effectiveness of Paramount's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Paramount's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be material weaknesses as findings 2016-001 through 2016-003.

Board of Directors
Paramount School of Excellence, Inc.
Indianapolis, Indiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paramount's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Responses to Findings

Paramount's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Paramount's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance *with Government Auditing Standards* in considering Paramount's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
December 22, 2016

CPAs / ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Paramount School of Excellence, Inc.
Indianapolis, Indiana

Report on Compliance for Each Major Federal Program

We have audited Paramount School of Excellence, Inc.'s, (Paramount) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Paramount's major federal programs for the year ended June 30, 2016. Paramount's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Paramount's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Paramount's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Paramount's compliance.

Opinion on Each Major Federal Program

In our opinion, Paramount complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-004 and 2016-005. Our opinion on each major federal program is not modified with respect to these matters.

Paramount's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Paramount's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control over Compliance

Management of Paramount is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Paramount's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Paramount's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-004 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-005 to be a significant deficiency.

Paramount's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Paramount's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
December 22, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Section I – Summary of Audit Results:

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	X yes	___ none reported
Significant deficiency(ies) identified that are not considered to be material weakness(es) noted?	___ yes	X none reported
Noncompliance material to financial statements noted?	___ yes	X no

Federal Awards

Internal controls over major programs:		
Material weakness(es) identified?	X yes	___ none reported
Significant deficiency(ies) identified that are not considered to be material weakness(es) noted?	X yes	___ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	X yes	___ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I, Part A Cluster - Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and B programs:	$750,000	
Auditee qualified as low-risk auditee?	___ yes	X no

Section II – Findings related to financial statements reported in accordance with *Government Auditing Standards*:

2016-001 - Material weakness related to financial reporting and oversight and preparation of financial statements.

Condition: Management review and oversight were not consistently applied to ensure financial transactions were properly recorded and reported in the financial statements and the financial statements were prepared and presented in accordance with accounting principles generally accepted in the United States of America.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting.

Cause: The cause of this deficiency relates to inconsistent application of controls and review processes to ensure financial transactions are properly recorded and reported in the financial statements and available resources for preparing and presenting financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect: Potential material misstatements in the financial statements due to error or fraud could occur and not be prevented or detected and corrected in a timely manner.

Recommendation: We recommend management implement controls to ensure financial transactions are properly recorded and reported and review processes are consistently applied to identify and resolve differences in a timely manner to ensure financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States of America.

Views of Responsible Officials and Planned Corrective Action: Management concurs with audit finding 2016-001. Paramount is developing procedures to improve financial reporting and oversight and preparation and presentation of financial statements in accordance with accounting principles generally accepted in the United States of America.

2016-002 – Material weakness related to timely reconciliation of key general ledger activity and accounts.

Condition: Management did not timely reconcile accounts to identify and resolve differences for key general ledger activity and accounts for proper reporting in the financial statements.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting.

Cause: The cause of this deficiency relates to inconsistent application of controls and review processes to ensure financial transactions are properly recorded and reported in the financial statements.

Effect: Potential material misstatements in the financial statements due to error or fraud could occur and not be prevented or detected and corrected in a timely manner.

Recommendation: We recommend management implement controls to ensure key general ledger accounts are reconciled timely and properly recorded and reported in the financial statements.

Views of Responsible Officials and Planned Corrective Action: Management concurs with audit finding 2016-002. Paramount is developing procedures to promote consistent application of financial review and oversight to ensure key accounts are properly recorded and reported in the financial statements and to identify differences on a timely basis.

<u>2016-003 - Material weakness related to the application of property capitalization policies and classification of leases</u>.

Condition: Management did not properly apply the capitalization policy to purchases to ensure they were properly capitalized and depreciated and to consider leases for determination of classification between operating and capital.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting.

Cause: The cause of this deficiency relates to inconsistent application of controls and review processes to ensure financial transactions are properly recorded and reported in the financial statements.

Effect: Potential material misstatements in the financial statements due to error or fraud could occur and not be prevented or detected and corrected in a timely manner.

Recommendation: We recommend management implement controls to ensure capitalization policies are consistently applied so purchases are capitalized and depreciated and leases are considered for proper classification as operating or capital.

Views of Responsible Officials and Planned Corrective Action: Management concurs with audit finding 2016-003. Paramount is developing procedures to promote consistent application of the property capitalization policy and capital lease determination tools.

Section III – Findings and questioned costs related to Federal awards

2016-004 – Material weakness related to reporting

Federal agency – U.S. Department of Education
Federal program – Title I, Grants to Local Educational Agencies
CFDA# -84.010
Grant identification # -S010A150014
Grant award period – FY 2014-2015
Compliance requirement – reporting

Condition: Reports for this program were not consistently reviewed and approved by management.

Criteria: Management is responsible for establishing and maintaining effective internal control over compliance for reporting for the Title I, Grants to Local Educational Agencies Program.

Cause: Management did not consistently apply review and approval procedures to the reporting for this program.

Effect: The reports for this program could contain errors that would not be detected and corrected on a timely basis.

Context: The 10 Title I Reimbursement Forms submitted during 2016 were not reviewed and approved by management.

Questioned costs - $--

Recommendation: We recommend that management implement processes to ensure reporting items are consistently reviewed and approved.

Views of Responsible Officials and Planned Corrective Action: Management concurs with audit finding 2016-004. Paramount is developing procedures to promote consistent review and approval of reporting documents.

2016-005 – Significant deficiency related to eligibility

Federal agency – U.S. Department of Education
Federal program – Title I, Grants to Local Educational Agencies
CFDA# -84.010
Grant identification # -S010A150014
Grant award period – FY 2014-2015
Compliance requirement – eligibility

Condition: Review procedures were not consistently applied to ensure proper classification of eligibility.

Criteria: Management is responsible for establishing and maintaining effective internal control over compliance for eligibility for the Title I, Grants to Local Educational Agencies Program.

Cause: The cause of this deficiency relates to inconsistent application of review procedures to ensure proper classification for purposes of eligibility.

Effect: Two items tested were not properly classified for purposes of eligibility.

Context: Of the 40 sample items tested, 2 were not properly classified for purposes of eligibility. Our sample was statistically valid.

Questioned costs - $--

Recommendation: We recommend that management implement processes to promote consistent review of information to ensure proper classification for purposes of eligibility.

Views of Responsible Officials and Planned Corrective Action: Management concurs with audit finding 2016-005. Management plans to implement processes to promote consistent review of information to ensure proper classification for purposes of eligibility.

Section IV – Summary schedule of prior audit findings

2015-001 - Material weakness related to financial accounting.

Condition: Throughout the 2015 audit, various misstatements were identified that resulted in an overstatement of operating results for the 2015 fiscal year. Accounts affected included the liability for accrued compensation, grant revenues, and capital expenditures.

Recommendation: The 2015 auditor recommended that procedures be implemented to assure that general ledger accounts are supported by accurate and timely account reconciliations. Financial reports should also be subject to formal internal review to assure that they properly reflect all significant transactions.

Current status: Similar findings were noted in the current year audit.

2015-002 - Material weakness related to Grant Management

Condition: Throughout the 2015 audit, issues were noted with regard to reimbursement claims for the Title I program including, claims submitted for amounts in excess of program expenditures, certain costs reported for the grant program not specifically identified during the grant period, and certain costs claimed for reimbursement incurred outside of the grant period.

Recommendation: The 2015 auditor recommended that Paramount implement a process to determine the nature and classification of costs at the time that the expenditures occur, and confirm that the costs meet the established budget criteria of the grant. Such accounting records should provide the basis for all reimbursement claims.

Current status: No similar findings were noted during the current year audit.

2015-003 – Material weakness related to reporting

Condition: For a number of expense categories on the Annual Expenditure Report for fiscal 2013-2014, the expenditures reported reflected budgeted figures rather than expenditure data per the accounting records.

Recommendation: The 2015 auditor recommended that Paramount implement a process to account for expenditures under federal grant programs in a manner that facilitates the preparation of accurate reports.

Current status: No similar findings were noted during the current year audit.

OTHER REPORTS
YEAR ENDED JUNE 30, 2016

The reports presented herein were prepared in addition to another official report prepared for Paramount as listed below:

Paramount School of Excellence, Inc.
Supplemental Audit Report

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 Guidelines Manual for Indiana Charter Schools*.