B44620

# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER


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 22, 2014

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

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Sikich, LLP, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. 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, Inc., as of June 30, 2013, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Pages 26 through 28 contain three current audit findings. Management's response is also on Pages 26 through 28.

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

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

# Paramount School of Excellence, Inc.

Financial Statements
With Supplemental Information

For the Years Ended
June 30, 2013 and 2012

Sikich®

# TABLE OF CONTENTS

Sikich®

317.842.4466 // www.sikich.com

8555 N. River Rd., Suite 300
Indianapolis, Indiana 46240

Certified Public Accountants & Advisors
*Members of American Institute of Certified Public Accountants*

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Paramount School of Excellence, Inc.
Indianapolis, Indiana:

## Report on the Financial Statements

We have audited the accompanying financial statements of Paramount School of Excellence, Inc., (an Indiana non-profit organization) which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits 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 audits 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 School of Excellence, Inc. as of June 30, 2013 and 2012 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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 October 10, 2014, on our consideration of Paramount School of Excellence, Inc.'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 School of Excellence, Inc.'s internal control over financial reporting and compliance.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
October 10, 2014

# PARAMOUNT SCHOOL OF EXCELLENCE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

## ASSETS

| | 2013 | 2012 (Restated) |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 1,157,393 | $ 1,140,462 |
| Grants receivable | 106,894 | 214,040 |
| State support receivable, net of allowance of $1,769,810 and $0, respectively | - | 1,516,146 |
| Prepaid expenses | 50,573 | 19,011 |
| Total Current Assets | 1,314,860 | 2,889,659 |
| **PROPERTY AND EQUIPMENT:** | | |
| Books and educational materials | 173,315 | 129,231 |
| Furniture and equipment | 476,745 | 381,046 |
| Computer hardware | 417,547 | 314,577 |
| Computer software | 106,157 | 89,453 |
| Leasehold improvements | - | 1,351,296 |
| Land | 936,500 | - |
| Building | 4,943,536 | - |
| Less: accumulated depreciation | (912,889) | (619,587) |
| Total Property and Equipment, net | 6,140,911 | 1,646,016 |
| **OTHER ASSETS:** | | |
| Lease deposit | - | 50,000 |
| **TOTAL ASSETS** | $ 7,455,771 | $ 4,585,675 |

See accompanying notes to the financial statements.

# PARAMOUNT SCHOOL OF EXCELLENCE, INC.
STATEMENTS OF FINANCIAL POSITION
(Continued)
JUNE 30, 2013 and 2012

## LIABILITIES AND NET ASSETS

| | 2013 | 2012 (Restated) |
|---|---|---|
| **CURRENT LIABILITIES:** | | |
| Accounts payable | $ 142,866 | $ 263,240 |
| Current portion of loan payable | 138,151 | 143,111 |
| Accrued payroll | 34,772 | 36,357 |
| Total Current Liabilities | 315,789 | 442,708 |
| **LONG TERM LIABILITIES:** | | |
| Accrued interest - Common School Loans | - | 29,145 |
| Common School Loans | - | 1,645,113 |
| Loan payable, net of current portion | 4,311,849 | 1,020,141 |
| Total Long Term Liabilities | 4,311,849 | 2,694,399 |
| Total Liabilities | 4,627,638 | 3,137,107 |
| **NET ASSETS:** | | |
| Unrestricted | 2,750,948 | 1,366,177 |
| Temporary restricted | 77,185 | 82,391 |
| Total Net Assets | 2,828,133 | 1,448,568 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 7,455,771 | $ 4,585,675 |

See accompanying notes to the financial statements.

# PARAMOUNT SCHOOL OF EXCELLENCE, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2013

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **REVENUES AND SUPPORT:** | | | |
| School lunch program | $ 10,642 | $ - | $ 10,642 |
| Student fees | 6,462 | - | 6,462 |
| Contributions and donations | 9,116 | 7,649 | 16,765 |
| Grant revenue | 1,596,548 | - | 1,596,548 |
| State support | 3,539,204 | - | 3,539,204 |
| Interest income | 1,665 | - | 1,665 |
| In-kind contributions | 10,800 | - | 10,800 |
| Other revenue | 22,321 | - | 22,321 |
| Net assets released from restrictions by satisfaction of temporary restrictions | 12,855 | (12,855) | - |
| Total Revenues and Support | 5,209,613 | (5,206) | 5,204,407 |
| **PROGRAM AND SUPPORTING SERVICE EXPENSES:** | | | |
| Program services | 3,308,958 | - | 3,308,958 |
| Supporting services: | | | |
| General and administrative | 795,624 | - | 795,624 |
| Total Expenses | 4,104,582 | - | 4,104,582 |
| **NET OPERATING REVENUE:** | 1,105,031 | (5,206) | 1,099,825 |
| **NON-OPERATING REVENUE:** | | | |
| Gain due to changes in legislative funding | 279,740 | - | 279,740 |
| **CHANGE IN NET ASSETS** | 1,384,771 | (5,206) | 1,379,565 |
| **NET ASSETS,** beginning of year | 1,366,177 | 82,391 | 1,448,568 |
| **NET ASSETS,** end of year | $ 2,750,948 | $ 77,185 | $ 2,828,133 |

See accompanying notes to the financial statements.

# PARAMOUNT SCHOOL OF EXCELLENCE, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012
(Restated)

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **REVENUES AND SUPPORT:** | | | |
| School lunch program | $ 3,844 | $ - | $ 3,844 |
| Student fees | 4,058 | - | 4,058 |
| Contributions and donations | 20,633 | - | 20,633 |
| Grant revenue | 1,632,629 | 28,637 | 1,661,266 |
| State support | 3,032,292 | - | 3,032,292 |
| Overpayments and reimbursements | 2,449 | - | 2,449 |
| Interest income | 1,594 | - | 1,594 |
| Other revenue | 6,252 | - | 6,252 |
| Net assets released from restrictions by satisfaction of temporary restrictions | 64,494 | (64,494) | - |
| Total Revenues and Support | 4,768,245 | (35,857) | 4,732,388 |
| **PROGRAM AND SUPPORTING SERVICE EXPENSES:** | | | |
| Program services | 2,987,352 | - | 2,987,352 |
| Supporting Services: | | | |
| General and administrative | 1,029,207 | - | 1,029,207 |
| Total Expenses | 4,016,559 | - | 4,016,559 |
| **CHANGE IN NET ASSETS** | 751,686 | (35,857) | 715,829 |
| **NET ASSETS,** beginning of year | | | |
| As previously reported | 657,532 | 118,248 | 775,780 |
| Prior period adjustment for the removal of a capital lease | (43,041) | - | (43,041) |
| **NET ASSETS,** beginning of year | | | |
| As restated | 614,491 | 118,248 | 732,739 |
| **NET ASSETS,** end of year | $ 1,366,177 | $ 82,391 | $ 1,448,568 |

See accompanying notes to the financial statements.

# PARAMOUNT SCHOOL OF EXCELLENCE, INC.
STATEMENTS OF CASH FLOWS
JUNE 30, 2013 AND 2012

| | 2013 | 2012 (Restated) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Change in net assets | $ 1,379,565 | $ 715,829 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 293,303 | 479,520 |
| Net gain due to changes in legislation | (279,740) | - |
| Donation of property and equipment | (10,800) | - |
| (Increase) decrease in: | | |
| Grants receivable | 107,146 | (531,019) |
| State support receivable | (253,664) | - |
| Prepaid expense | (31,562) | 50,416 |
| Lease deposit | 50,000 | |
| Increase (decrease) in: | | |
| Accounts payable | (120,374) | 194,767 |
| Accrued interest | (29,145) | 29,145 |
| Accrued payroll | (1,585) | 13,153 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 1,103,144 | 951,811 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchases of property and equipment | (4,777,398) | (1,540,084) |
| **NET CASH USED BY INVESTING ACTIVITIES** | (4,777,398) | (1,540,084) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Long-term debt borrowings | 4,854,437 | 1,575,403 |
| Long-term debt repayments | (1,163,252) | (185,790) |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | 3,691,185 | 1,389,613 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 16,931 | 801,340 |
| **CASH AND CASH EQUIVALENTS** - beginning of year | 1,140,462 | 339,122 |
| **CASH AND CASH EQUIVALENTS** - end of year | $ 1,157,393 | $ 1,140,462 |
| **SUPPLEMENTAL DISCLOSURES** | | |
| Interest paid | $ 160,663 | $ 106,648 |

See accompanying notes to the financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations -*** Paramount School of Excellence, Inc. (the "School") was incorporated on July 15, 2009, under the laws of the State of Indiana and commenced operations in September 2010. The School offers a world-class education to each child built on a foundation of knowledge and wisdom, each child will maximize their potential against measurable standards, developing the skills necessary to become successful and productive citizens in a global society. Developing compassion and understanding, students will learn to respect their environment, themselves and one another. Paramount School of Excellence will serve a high needs' population in Grades K-8 using an integrated, humanities and research based curricula, and will develop a network of existing programs, services and resources to broaden the reach of choices to all schools, students and families. The School's primary source of revenue and support are grants from the Indiana Department of Education.

***Basis of Accounting -*** The financial statements of the School have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses when the obligation is incurred.

***Basis of Presentation -*** As required by Financial Statement Presentation Disclosure topic of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

***Net Assets -*** The financial statements report amounts separately by class of net assets:

> ***Unrestricted net assets -*** Unrestricted amounts are those currently available for use in the School's activities.
>
> ***Temporarily restricted net assets -*** Temporarily restricted expendable amounts are those which are restricted by donors for specific purposes or the passage of time. As of June 30, 2013 and 2012, the School had $77,185 and $82,391 of temporarily restricted net assets.
>
> ***Permanently restricted net assets -*** Net assets subject to donor-imposed stipulations require that they be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on the related investments for general or specific purposes. As of June 30, 2013 and 2012, the School had no permanently restricted net assets.

***Cash and Cash Equivalents -*** For purposes of the statement of cash flows, the School considers all investments purchased with an original maturity of three months or less to be cash equivalents.

***Grants Receivable -*** Grants receivable represent the uncollected portion of funds from grants earned by the School.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant receivables are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2013 and 2012, 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.

***State Support Receivable –*** Tuition support is determined by state law and is dependent upon geographic location of the school. The tuition is also indexed to the poverty data of the enrolled students and other factors. The payment schedule is likewise determined by state law. Tuition support is payable in equal monthly installments in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, tuition support will be paid currently in monthly installments that coincide with the School's fiscal year.

State support receivables are reported net of an allowance for doubtful accounts. As of June 30, 2013 and 2012, the allowance for doubtful accounts was $1,769,810 and $0, respectively. This allowance is based upon management's estimate using the expected amount of receivables that will be collected due to the change in legislative funding (See Note 3).

***Property and Equipment -*** 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 in excess of $1,000 cost, or fair value if contributed. 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 for the School was $293,303 and $479,520 for the years ended June 30, 2013 and 2012.

***Impairment of Long-lived Assets -*** The School evaluates long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. Management has determined that no impairment existed for the years ended June 30, 2013 and 2012.

***Contributed Materials and Services -*** Contributed services are recognized as contributions in accordance with Contributions Disclosure Topic of FASB ASC, 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 financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School received $10,800 and $0 of in-kind contributions during the years ended June 30, 2013 and 2012. The contributions in 2013 related to four parcels of land that were gifted to the School.

Volunteers also provide program services throughout the year that are not recognized as contributions in the financial statements since they do not meet the recognition criteria under Contributions Disclosure Topic of FASB ASC. These services include volunteering at events, picking up donations, and various clerical work.

***Revenue Recognition –*** Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School received an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the state of Indiana is based on enrollment, and paid in equal monthly installment in January through December following the start of the academic school year. Revenue is recognized in the year in which the education services are rendered. See Note 3 regarding legislative changes affecting revenue recognition.

A portion of the School's revenue is based on cost reimbursement grants. Accordingly, the School recognizes revenue under the grants in the amounts of costs and expenses at the time they are incurred. The School reports grants of cash and other assets as restricted support if they are 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.

***Functional Expense Allocation -*** The costs of providing the various programs and other activities have been summarized in the statement of activities. 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 expenses that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the School.

***Estimates -*** Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could vary from the estimates that were used.

***Advertising -*** The School expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2013 and 2012 were $3,552 and $2,257.

***Income Taxes -*** The School is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The School is not considered to be a private foundation.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accordingly, no provision for income taxes has been reflected in the School's financial statements.

The School has adopted the provisions of Uncertain Tax Positions Disclosure Topics of FASB ASC, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has not been met. This guidance also addresses de-recognition, classification, interest and penalties, disclosure, and transition. 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 2010 are open, by statute, for review by authorities. However, at present there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the School currently files or has filed.

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

The School places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. There was $907,393 and $890,462 in excess of FDIC insured limits at June 30, 2013 and 2012, respectively.

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

Operating Funds from the Indiana Department of Education amounted to 68% and 64% of the School's support and revenue for the years ended June 30, 2013 and 2012. 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 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 and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

***Reclassifications –*** Certain amounts in the prior-year financial statements have been reclassified in order to be comparable with the current year presentation. State support receivable and state support revenue has been separated from grants receivable and grant revenue due to the change in legislative funding. These reclassifications have no effect on the previously reported change in net assets.

## NOTE 2 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

***Education -*** The School offers elementary and middle school education, special education, and instructional staff training programs. The School's curriculum includes Core Knowledge™, a collaborative and seamless education program, has been aligned to meet the Indiana State Academic Standards for students in Grades K-8. The School partnered with a National Core Knowledge consultant to develop thematic, project-based approach that integrated content across all subject areas and maximized the use of technology. Core Knowledge™ is designed to be the basis of the School's curriculum, providing a solid, shared, specific, and sequenced foundation for learning. Core Knowledge content serves as a resource for teachers and a foundation from which to develop future units that align with the Core Knowledge™ Sequence. The School also uses Imagine It Reading and Everyday Math, along with additional extensions to provide a comprehensive platform of instructional approaches that are implemented-augmented through the use of technology. Intervention and enrichment of reading and math content occur through the use of Accelerated Reader and Accelerated Math (along with Star Reading and Star Math). These resources use a cohesive combination of progress monitoring and technology to provide a platform of balanced intervention.

## NOTE 3 – LEGISLATIVE FUNDING CHANGES

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, prior to July 1, 2013, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered.

Effective July 1, 2013, school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will no longer be paid.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has received forgiveness of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a net gain due to changes in legislative funding and is comprised of the following:

| | |
|---|---|
| Forgiveness of Common School Fund loans | $ 2,049,550 |
| Allowance for doubtful accounts related to changes in legislative funding | (1,769,810) |
| Net gain due to changes in legislation | $ 279,740 |

## NOTE 4 – GRANTS RECEIVABLE

Grants receivable for the years ended June 30, 2013 and 2012 represented amounts due from the Indiana Department of Education relating to the following sources:

| | 2013 | 2012 |
|---|---|---|
| Special Education | $ 10,077 | $ 8,319 |
| Title I | 18,283 | 15,215 |
| Title II | 78,534 | - |
| Implemenation | - | 190,506 |
| | $ 106,894 | $ 214,040 |

## NOTE 5 - OPERATING LEASES

During 2012, the School entered into a four year lease with CSDC Paramount, LLC for educational facilities located at 3020 E. Nowland Avenue, Indianapolis, Indiana. The lease required monthly payments ranging from $27,856 to $29,561. In June of 2013, the School elected to purchase the building, ending the lease. During the years ended June 30, 2013 and 2012, $343,045 and $345,027 was expensed for educational facility rent, respectively.

The School also leases two copiers from Braden Business Systems, Inc. The lease expired in July of 2013. The School also leases furniture from Kingsbridge, which expired in February 2014. During the years ended June 30, 2013 and 2012 $127,735 and $120,671 was expensed, respectively.

The future minimum rental payments required under the operating leases for the years subsequent to June 30, 2013 are as follows:

| Year | Amount |
|---|---|
| 2014 | $ 34,983 |

## NOTE 6 - PENSION PLAN

The School's faculty and certain administrative employees are participants in a 403(b) defined contribution retirement plan. There was a total 403(b) employer contribution of $71,741 and $119 in the years ended June 30, 2013 and 2012, respectively.

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 Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee

## NOTE 6 - PENSION PLAN (Continued)

retirement system, which provides retirement benefits to plan members and beneficiaries. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. 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. Retirement plan expense for PERF and TRF was, $64,416, and $113,701 for June 30, 2013 and 2012, respectively.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

## NOTE 7 - LONG-TERM DEBT ACTIVITY

Long-term debt included the following at June 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in July 1, 2031 (a) | $ - | $ 806,354 |
| Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in July 1, 2033 (a) | - | 563,356 |
| Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in July 1, 2033 (a) | - | 275,403 |
| Loan Payable in semi - annual installments, including interest computed at 5%, Through maturity in June 21, 2016 | - | 1,163,252 |
| Loan Payable in monthly installments, including interest computed at 3.75%, Through matruity in June 28, 2018. | 4,450,000 | - |
| Less: current maturities | (138,151) | (143,111) |
| Total Long-term Debt | $ 4,311,849 | $ 2,665,254 |

(a) The state of Indiana advanced funds from the Common School Fund to assist the School during its initial years of operations. Under the terms of the agreements with the State of Indiana, the School agreed to repay these loans through deductions from the School's share of State Tuition Support. In 2011, the Indiana Common School Fund granted a second moratorium on loan payments. The School has received forgiveness of its indebtedness under these obligations as of June 30, 2013.

## NOTE 7 - LONG-TERM DEBT ACTIVITY (Continued)

At June 30, 2013 and 2012, the debt service requirements of loans payable were as follows:

| Year | Total Principal |
|---|---|
| 2014 | $ 138,151 |
| 2015 | 156,720 |
| 2016 | 162,798 |
| 2017 | 169,112 |
| 2018- and there after | 3,823,219 |
| | $ 4,450,000 |

Total interest during the years ended June 30, 2013 and 2012 was $160,663 and $106,648.

## NOTE 8 – COMMITMENTS AND CONTINGENCIES

The School has entered into an agreement for the renovation of their educational facility. The estimated costs for the renovation are $349,902.

## NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purposes:

| | 2013 | 2012 |
|---|---|---|
| Programs | $ 77,185 | $ 82,391 |
| | $ 77,185 | $ 82,391 |

During June 30, 2013 and 2012, 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.

| | 2013 | 2012 |
|---|---|---|
| Programs | $ 12,855 | $ 26,433 |
| Operations | - | 38,061 |
| | $ 12,855 | $ 64,494 |

## NOTE 10 – PRIOR PERIOD ADJUSTMENT AND RESTATEMENT

*Prior period adjustment*

During 2013, the School discovered that an operating lease had incorrectly been classified as a capital lease. This resulted in total assets being overstated by $236,727 and total liabilities being overstated by $193,686 in fiscal year 2011, with a net asset effect of a $43,041 overstatement. The accompanying financial statements properly reflect the reclassification of the capital lease.

| | |
|---|---|
| Net assets, June 30, 2012, as previously reported | $ 775,780 |
| Prior period adjustment: reclassification of capital lease | (43,041) |
| Net assets, June 30, 2012, as restated | $ 732,739 |

*Restatement*

During 2013, the School discovered that an operating lease had incorrectly been classified as a capital lease. As a result, the School has restated the 2012 statement of activities and changes in net assets and statement of financial position

Restatements to the financial statements for the year ended June 30, 2012 are as follows:

| | |
|---|---|
| Statement of activities effect: | |
| Change in net assets as previously reported | $ 750,260 |
| Removal of depreciation expense | 51,650 |
| Capital lease principal payment as an operating lease expense | (86,081) |
| Change in net assets as restated | $ 715,829 |
| Financial position effect: | |
| Decrease in net property and equipment | $ (185,078) |
| Decrease in liabilities | 107,606 |
| Net effect on unrestricted net assets | $ (77,472) |

## NOTE 11 - SUBSEQUENT EVENT

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through October 10, 2014, the date the financial statements were available to be issued.

# PARAMOUNT SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

| | Program Service Expenses | | | Supporting Services | | |
|---|---|---|---|---|---|---|
| | Grants | Academics | Total Program Services | Management and General | Fundraising | Total Expenses |
| Salaries and benefits | $ 576,916 | $ 1,213,478 | $ 1,790,394 | $ 357,204 | $ - | $ 2,147,598 |
| Professional services | 107,702 | 107,579 | 215,281 | 22,809 | - | 238,090 |
| Information technology | 8,499 | 38,908 | 47,407 | 9,727 | - | 57,134 |
| Accounting services | - | - | - | 93,619 | - | 93,619 |
| Legal services | - | - | - | 5,711 | - | 5,711 |
| Cleaning services | - | 51,226 | 51,226 | 12,806 | - | 64,032 |
| Security services | - | 7,086 | 7,086 | 1,772 | - | 8,858 |
| Utilities & services | - | 76,522 | 76,522 | 19,130 | - | 95,652 |
| Course materials/supplies | 43 | 75,365 | 75,408 | 68,756 | - | 144,164 |
| Nutritional support | - | 250,923 | 250,923 | - | - | 250,923 |
| Travel and entertainment | - | 139 | 139 | 2,224 | - | 2,363 |
| Vehicle/transportation expense | - | 5,240 | 5,240 | - | - | 5,240 |
| Rent and facilities | 211,720 | 124,830 | 336,550 | 31,207 | - | 367,757 |
| Depreciation and amortization | - | 234,642 | 234,642 | 58,661 | - | 293,303 |
| Interest expense | 2,155 | 123,418 | 125,573 | 35,090 | - | 160,663 |
| Insurance | - | - | - | 27,952 | - | 27,952 |
| Advertising expenses | 400 | - | 400 | 3,152 | - | 3,552 |
| Equipment lease | - | 91,484 | 91,484 | 11,539 | - | 103,023 |
| Small equipment purchases | 683 | - | 683 | 15,625 | - | 16,308 |
| Miscellaneous | - | - | - | 18,640 | - | 18,640 |
| | $ 908,118 | $ 2,400,840 | $ 3,308,958 | $ 795,624 | $ - | $ 4,104,582 |

See accompanying notes to the financial statements.

**PARAMOUNT SCHOOL OF EXCELLENCE, INC.**
SCHEDULE OF FUNCTIONAL EXPENSES
(Restated)
YEAR ENDED JUNE 30, 2012

| | Program Service Expenses | | | Supporting Services | | |
|---|---|---|---|---|---|---|
| | Grants | Academics | Total Program Services | Management and General | Fundraing | Total Expenses |
| Salaries and benefits | $ 354,373 | $ 1,156,771 | $ 1,511,144 | $ 374,459 | $ - | $ 1,885,603 |
| Professional services | 79,524 | 63,103 | 142,627 | 24,077 | - | 166,704 |
| Information technology | - | - | - | 85,257 | - | 85,257 |
| Accounting services | - | - | - | 74,819 | - | 74,819 |
| Legal Services | - | - | - | 17,258 | - | 17,258 |
| Cleaning services | - | 47,894 | 47,894 | 11,974 | - | 59,868 |
| Security services | - | 5,507 | 5,507 | 1,377 | - | 6,884 |
| Utilities & services | - | 91,314 | 91,314 | 22,829 | - | 114,143 |
| Course materials/supplies | 48,737 | (33,224) | 15,513 | 72,275 | - | 87,788 |
| Nutritional support | - | 323,142 | 323,142 | - | - | 323,142 |
| Travel and entertainment | - | - | - | 6,440 | - | 6,440 |
| Vehicle/transportation expense | - | 3,036 | 3,036 | 60 | - | 3,096 |
| Rent and facilities | - | 290,142 | 290,142 | 72,536 | - | 362,678 |
| Depreciation and amortization | - | 383,618 | 383,618 | 95,902 | - | 479,520 |
| Interest expense | - | 81,931 | 81,931 | 24,717 | - | 106,648 |
| Insurance | - | - | - | 23,726 | - | 23,726 |
| Advertising expenses | - | - | - | 2,257 | - | 2,257 |
| Equipment lease | - | 91,484 | 91,484 | 11,539 | - | 103,023 |
| Small equipment purchases | - | - | - | 37,270 | - | 37,270 |
| Miscellaneous | - | - | - | 70,435 | - | 70,435 |
| | $ 482,634 | $ 2,504,718 | $ 2,987,352 | $ 1,029,207 | $ - | $ 4,016,559 |

See accompanying notes to the financial statements.

Sikich®

317.842.4466 // www.sikich.com

8555 N. River Rd., Suite 300
Indianapolis, Indiana 46240

Certified Public Accountants & Advisors
*Members of American Institute of Certified Public Accountants*

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

To the Board of Directors
of 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. (an Indiana nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Paramount School of Excellence, Inc.'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 School of Excellence, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Paramount School of Excellence, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, we identified certain deficiencies in internal control that we consider to be material weaknesses. This is related to the classification of an operating lease as a capital lease and the inclusion of the building's lease deposit in the valuation of the building.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Paramount School of Excellence, Inc.'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*.

**Paramount School of Excellence, Inc.'s Response to Findings**

Paramount School of Excellence, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Paramount School of Excellence, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
October 10, 2014

# PARAMOUNT SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Total Federal Expenditures |
|---|---|---|---|
| **U.S. DEPARTMENT OF AGRICULTURE** | | | |
| Passed through the Indiana Department of Education | | | |
| Child Nutrition Cluster | | | |
| National School Lunch Program | 10.555* | FY 2012-2013 | $ 202,759 |
| School Breakfast Program | 10.553* | FY 2012-2013 | 92,116 |
| Total for Child Nutrition Cluster | | | 294,875 |
| Fresh Fruits and Vegetables Program | 10.582 | FY 2012-2013 | 2,600 |
| Total for U.S. Department of Agriculture | | | 297,475 |
| **U.S. DEPARTMENT OF EDUCATION** | | | |
| Passed through the Indiana Department of Education | | | |
| Title I, Part A Cluster | | | |
| Title I Grants to Local Educational Agencies | 84.010* | FY 2011-2012 | 168,106 |
| | | FY 2012-2013 | 489,456 |
| Total for Title I, Part A Cluster | | | 657,562 |
| Special Education Cluster (IDEA) | | | |
| Special Education Grants to States | 84.027 | FY 2011-2013 | 15,581 |
| | | FY 2012-2014 | 91,314 |
| Total Special Education Cluster (IDEA) | | | 106,895 |
| Charter Schools | 84.282 | FY 2012-2013 | 211,720 |
| Improving Teacher Quality State Grants | 84.367 | FY 2010-2012 | 2,000 |
| | | FY 2011-2013 | 38,618 |
| | | FY 2012-2014 | 45,878 |
| Total for program | | | 86,496 |
| Total U.S. Department of Education | | | 1,062,673 |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS** | | | $ 1,360,148 |

* *Denotes a major program*

See accompanying notes to the Schedule of Expenditures of Federal Awards.

## NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Paramount School of Excellence, Inc. and is presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of $500,000 in any fiscal year unless by constitution or statute a less frequent audit is required.

## NOTE 2 – OTHER

There were no amounts provided to sub-recipients; there was no non-cash assistance; there was no federal insurance in effect; and there were no loans or loan guarantees with continuing compliance requirements.

Sikich®

317.842.4466 // www.sikich.com

8555 N. River Rd., Suite 300
Indianapolis, Indiana 46240

Certified Public Accountants & Advisors
*Members of American Institute of Certified Public Accountants*

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORTING ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Paramount School of Excellence, Inc.
Indianapolis, Indiana:

## Report on Compliance for Each Major Federal Program

We have audited Paramount School of Excellence, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of Paramount School of Excellence, Inc.'s major federal programs for the year ended June 30, 2013. Paramount School of Excellence, Inc.'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of Paramount School of Excellence, Inc.'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 School of Excellence, Inc.'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 School of Excellence, Inc.'s compliance.

***Opinion on Each Major Federal Program***

In our opinion, Paramount School of Excellence, Inc. 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, 2013.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-003. Our opinion on each major federal program is not modified with respect to these matters.

Paramount School of Excellence, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Paramount School of Excellence, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of Paramount School of Excellence, Inc. 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 School of Excellence, Inc.'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 OMB Circular A-133, 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 School of Excellence, Inc.'s internal control over compliance.

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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-003 that we consider to be significant deficiencies.

Paramount School of Excellence, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Paramount School of Excellence, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
October 10, 2014

# PARAMOUNT SCHOOL OF EXCELLENCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

## SECTION I – SUMMARY OF AUDITORS' RESULTS

***Financial Statements:***

- Type of auditor's report issued: **unmodified**

*Internal control over financial reporting:*

- Material weakness(es) identified? __X__ Yes _____ No
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____ Yes __X__ No

*Compliance:*

- Noncompliance material to financial statements noted? _____ Yes __X__ No

***OMB Circular A-133:***

*Internal control over major programs:*

- Material weakness(es) identified? _____ Yes __X__ No
- Significant deficiencies identified that are not considered to be material weaknesses? __X__ Yes _____ No

*Compliance with requirements applicable to each major program:*

- Identification of major programs: **84.010 Title I, Part A Cluster**
  **10.555, 10.553 Child Nutrition Cluster**

- Dollar threshold used to distinguish between type A type B programs: **$ 300,000**
- Auditee qualified as low-risk auditee? _____ Yes __X__ No
- Type of auditors' report issued on compliance for major programs: **unmodified**
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? __X__ Yes _____ No

## SECTION II – FINANCIAL STATEMENTS FINDINGS

### 2013-001 – Prior Period Adjustment

*Condition*: During the audit, Sikich proposed material adjustments to correct the financial statements. Due to these corrections, total assets decreased by $236,728 and total liabilities decreased by $193,686 for the year ended June 30, 2011. Additionally, the amount of net assets as of July 1, 2011 was decreased by $43,041. The net effect on the change in net assets for the years ended June 30, 2013 and 2012 was a decrease of $34,433 and $34,430, respectively.

We consider this finding to be a material weakness in internal control over financial reporting.

**SECTION II – FINANCIAL STATEMENTS FINDINGS (Continued)**

**2013-001 – Prior Period Adjustment (Continued)**

*Criteria*: Organizations are responsible to maintain a system of internal control over the preparation of financial statements, including all required footnotes that are free from material errors and are in accordance with generally accepted accounting principles (GAAP).

*Cause*: The contracted bookkeeping service improperly classified an operating lease as a capital lease.

*Effect*: Financial statements were not accurately reported prior to recording proposed entries.

*Recommendation*: We recommended and management has made the proposed correcting journal entries as of June 30, 2013 and review current controls and procedures in place to reasonably ensure future financial statements are free of material misstatements.

*Management Corrective Action*: Effective immediately, the Director will review and modify controls and procedures to address significant deficiencies. Additionally, the school has changed bookkeeping vendors.

**2013-002 – Material Journal Entry**

*Condition*: During the audit, Sikich proposed a material adjustment to correct the financial statements for the year ended June 30, 2013. Due to this correction, the $50,000 lease deposit on the statement of financial position was not removed and the value of the building was understated by $50,000. There was no net asset effect to this journal entry.

We consider this finding to be a material weakness in internal control over financial reporting.

*Criteria*: The School's termination of lease specifically stated that the lease deposit should be included in the value of the building.

*Cause*: The contracted bookkeeping service did not include the building's lease deposit into the value of the building upon acquisition.

*Effect*: Financial statements were not accurately reported prior to recording proposed entries.

*Recommendation*: We recommended and management has made the proposed correcting journal entries as of June 30, 2013 and review current controls and procedures in place to reasonably ensure future financial statements are free of material misstatements.

*Management Corrective Action*: Effective immediately, the Director will review and modify controls and procedures to address significant deficiencies.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**2013-003 – Period of Availability**
**Circular A-133**
**U.S. Department of Agriculture**
**Child Nutrition Cluster**
**CFDA 10.555, 10.553**

*Condition*: During the audit, Sikich proposed an entry to correct an expense from the Child Nutrition Cluster (CFDA #10.555, 10.553) that was paid after the year end.

We consider this finding to be a significant deficiency in internal control over major programs.

*Criteria*: The compliance supplement for OMB Circular A-133 states that non-Federal entities may charge to the award only costs resulting from obligations incurred during the funding period.

*Cause*: The contracted bookkeeping service did not appropriately record accounts payable for the 2013 fiscal year.

*Effect*: The Schedule of Expenditures of Federal Awards was not accurately reported prior to recording proposed entries.

*Recommendation*: We recommended and management has made the proposed correcting journal entries as of June 30, 2013 and review current controls and procedures in place to reasonably ensure future financial statements are free of material misstatements.

*Management Corrective Action*: Effective immediately, the Director will review and modify controls and procedures to address significant deficiencies.