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April 28, 2016

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 Donovan P.C., Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Paramount School of Excellence, Inc., as of June 30, 2015, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Pages 20 through 25 contain three current audit findings. Management's response is also on page 30.

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 and Federal Single Audit Report

June 30, 2015 and 2014

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Paramount School of Excellence, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **Paramount School of Excellence, Inc.**, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities 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. 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 School of Excellence, Inc.** as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the 2014 financial statements have been restated to correct a misstatement that affects net assets reported on the 2015 financial statements. Our opinion is not modified with respect to this matter.

Other Matters

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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 January 28, 2016, 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.



Indianapolis, IN
February 23, 2016

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Statement of Financial Position

<u>Assets</u>	<u>June 30, 2015</u>
Current assets:	
Cash	\$ 1,064,052
Accounts receivable:	
Grants	175,096
Other	17,780
Prepaid expenses	49,810
Total current assets	<u>1,306,738</u>
Cash restricted by debt instrument	504,077
Property and equipment:	
Land	936,500
Land improvements	62,501
Buildings and improvements	5,496,362
Furniture and equipment	1,319,800
Textbooks	198,275
Construction in progress	190,349
Less: accumulated depreciation	<u>(1,748,202)</u>
Property and equipment, net	<u>6,455,585</u>
	<u>\$ 8,266,400</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 372,139
Current portion of long-term debt	162,729
Deferred revenue	17,500
Total current liabilities	<u>552,368</u>
Long-term debt	<u>3,993,453</u>
Total liabilities	<u>4,545,821</u>
Net assets:	
Unrestricted	3,698,544
Temporarily restricted	22,035
	<u>3,720,579</u>
	<u>\$ 8,266,400</u>

See accompanying notes to financial statements.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Statement of Activities

	Year Ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total
<u>Revenue and Support</u>			
State education support	\$ 4,357,970	-	4,357,970
Grant revenue	1,595,791	-	1,595,791
Student fees	2,108	-	2,108
Contributions	42,851	-	42,851
Interest income	4,128	-	4,128
Other income	8,533	-	8,533
Net assets released from restrictions	13,018	(13,018)	-
Total revenue and support	<u>6,024,399</u>	<u>(13,018)</u>	<u>6,011,381</u>
 <u>Expenses</u>			
Program services	4,345,485	-	4,345,485
Management and general	1,386,563	-	1,386,563
Total expenses	<u>5,732,048</u>	<u>-</u>	<u>5,732,048</u>
 Increase (decrease) in net assets	292,351	(13,018)	279,333
 Net assets, beginning of year	<u>3,406,193</u>	<u>35,053</u>	<u>3,441,246</u>
 Net assets, end of year	<u>\$ 3,698,544</u>	<u>22,035</u>	<u>3,720,579</u>

See accompanying notes to financial statements.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Statement of Cash Flows

	Year Ended June 30, 2015
<u>Operating Activities</u>	
Change in net assets	\$ 279,333
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	422,008
Change in:	
Accounts receivable	(40,984)
Prepaid expenses	(2,731)
Accounts payable and accrued expenses	111,162
Deferred revenue	17,500
Net cash provided by operating activities	<u>786,288</u>
<u>Investing Activities</u>	
Purchases of property and equipment	(351,932)
Proceeds from sale of equipment	4,998
Additional investment in certificate of deposit	(3,266)
Net cash used by investing activities	<u>(350,200)</u>
<u>Financing Activities</u>	
Principal repayment of long-term debt	(157,047)
Net cash used by financing activities	<u>(157,047)</u>
Net increase in cash	279,041
Cash, beginning of year	<u>785,011</u>
Cash, end of year	<u><u>\$ 1,064,052</u></u>
Supplemental disclosures:	
Cash payments for interest expense	\$ 161,981

See accompanying notes to financial statements.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

General

Paramount School of Excellence, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24 and sponsored by the Mayor's Office of the City of Indianapolis. The School provided educational instruction to approximately 620 students in grades kindergarten through eight during the 2014-15 academic school year.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student similar to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred.

Accounts Receivable

Accounts receivable relate primarily to activities funded under federal grant programs and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Financial Statement Presentation

The School reports its financial position and activities according to two classes of assets as follows:

- Unrestricted net assets, which represent net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.
- Temporarily restricted net assets, which represent net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time.

Taxes on Income

Paramount School of Excellence, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the year ended June 30, 2015, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2011 are open to audit for both federal and state purposes.

Subsequent Events

The School evaluated subsequent events through January 28, 2016, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required. See Note 6 for a description of subsequent events affecting the financial statements.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs and minor replacement costs are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows

Buildings and improvements.....	40 years
Furniture and equipment	3-5 years
Textbooks	5 years

(2) Accounting Correction

In 2015, the School determined that expenses incurred in the 2014 fiscal year relating to the obligation for employee compensation had not been recorded, resulting in an understatement of expenses in the 2014 fiscal year. In addition, revenue under certain grant programs was not recorded in relation to costs incurred, resulting in an understatement of revenue in the 2014 fiscal year. The School has corrected these errors by restating the previous year's financial statements. The effect of this correction has been to increase revenue over expenses for the year ended June 30, 2014 and net assets as of June 30, 2014 by \$6,481.

(3) Long-Term Debt

Long-term debt at June 30, 2015 was comprised of a mortgage loan payable to The National Bank of Indianapolis. The loan carries and interest rate equal to the lender's prime rate plus .5%, and is secured by a first mortgage on substantially all business assets, consisting of land, building, equipment, and fixtures. The School has also pledged a certificate of deposit approximating \$500,000 as additional collateral. The loan is payable in monthly installments of principal and interest sufficient to fully amortize the loan over a 20-year term, but is due in July 2018. Monthly payments were \$26,528 as of June 30, 2015.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Notes to Financial Statements

(3) Long-Term Debt, Continued

Principal maturities of long-term debt as of June 30, 2015 are as follows:

<u>Year Ended June 30:</u>	
2016	\$ 162,729
2017	169,429
2018	175,984
2019	<u>3,648,040</u>
	<u>\$4,156,182</u>

(4) Leases

The School leases equipment and modular classrooms under operating leases. Total lease expense for the year-ended June 30, 2015 was \$53,503. Following is a schedule of future minimum lease obligations as of June 30, 2015:

<u>Year Ended June 30:</u>	
2016	\$43,098
2017	1,342

(5) Retirement Plans

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel are provided by the Indiana State Teachers' Retirement Fund ("TRF"), which is a cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plan, the School contributed 7.5% of compensation for eligible teaching faculty to TRF. Should the School elect to withdraw from TRF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2014 (the latest year reported), TRF was more than 80% funded. A copy of the complete annual report for the year ended June 30, 2014 can be obtained at:

www.in.gov/inprs/files/2014INPRSCAFRBook_Web.pdf

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Notes to Financial Statements

(5) Retirement Plans, Continued

School personnel, including teaching personnel, are eligible to participate in a School-sponsored Section 403(b) defined contribution retirement plan. Participants are able to make elective contributions to the plan. Annually, the School may elect to make a discretionary contribution, which can be a uniform percentage of compensation or a uniform dollar amount.

Expense under both retirement plans was \$177,512 for the year ended June 30, 2015.

(6) Grant Settlement

The audit for the year ended June 30, 2015 disclosed questioned costs under the federal Title I, Grants to Local Educational Agencies program in the amount of \$39,731. The questioned costs relate to the nature and allowability of the costs for the purpose of the grant. Subsequent to June 30, 2015, the School communicated this matter to the Indiana Department of Education, and repaid the amount in question. A liability relating to this settlement has been recorded in the accompanying financial statements as of June 30, 2015.

(7) Risks and Uncertainties

The School provides educational 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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2015, substantially all of the receivable balance was due from the State of Indiana. In addition, deposits are maintained at The National Bank of Indianapolis and are insured up to the FDIC insurance limit.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Notes to Financial Statements

(8) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated between program and management services. Following is a summary of expenses comprising each program and service for the year ended June 30, 2015:

	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$1,840,371	876,146
Employee benefits	520,893	226,237
Professional services	343,837	167,350
Staff development.....	13,358	-
Textbooks	57,096	-
Transportation	27,651	293
Equipment	227,599	-
Food service	387,574	-
Classroom, kitchen and office supplies...	133,875	22,942
Repairs and maintenance.....	39,822	-
Occupancy	132,779	33,991
Depreciation	422,008	-
Interest	160,921	-
Insurance	15,389	17,756
Other	<u>22,312</u>	<u>41,848</u>
	<u>\$4,345,485</u>	<u>1,386,563</u>

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 144,430
National School Lunch Program	10.555		288,773
Total for cluster			<u>433,203</u>
Total for federal grantor agency			<u>433,203</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010		600,019
Special Education Cluster			
Special Education - Grants to States	84.027	14215-551-PN01	125,241
Twenty-first Century Community Learning Centers	84.287	A58-5-15DL-0130	272,000
Improving Teacher Quality State Grants	84.367		55,195
Total for federal grantor agency			<u>1,052,455</u>
Total federal awards expended			<u>\$ 1,485,658</u>

See accompanying Independent Auditor's Report.
See accompanying notes to this schedule.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Paramount School of Excellence, Inc. (the “School”) under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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*

The Board of Directors
Paramount School of Excellence, Inc.

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.** (the "School"), which comprise the statement of financial position as of June 30, 2015, 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 February 23, 2016.

Internal Control Over Financial Reporting

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

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 weakness or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding No. 2015-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as Findings No. 2015-002 and 2015-003.

Management's Response to Findings

The School's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The School'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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Indianapolis, IN
February 23, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Directors
Paramount School of Excellence, Inc.

Report on Compliance for Each Major Federal Program

We have audited **Paramount School of Excellence, Inc.'s** (the "School") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2015. The School'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 the School'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 the School'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 the School's compliance.

Basis for Qualified Opinion on Title I, Grants to Local Educational Agencies

As described in the accompanying schedule of findings and questioned costs as Findings No. 2015-002 and No. 2015-003, the School did not comply with the requirements regarding fiscal management and reporting for CFDA 84.010 Title I, Grants to Local Educational Agencies. Compliance with such requirements is necessary, in our opinion, for the School to meet its obligations under the grant.

Qualified Opinion on Title I, Grants to Local Educational Agencies

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Title I, Grants to Local Educational Agencies program for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The School's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The School'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 the School'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 the School'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 identified certain deficiencies in the internal control over compliance as described in the accompanying schedule of findings and questioned costs as Findings No. 2015-002 and 2015-003 that we consider to be material weaknesses.

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.



Indianapolis, IN
February 23, 2016

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
▪ Material weaknesses:	Yes
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
Noncompliance noted which is material to financial statements:	No

Federal Awards

Internal control over major programs:	
▪ Material weaknesses:	Yes
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
Type of auditor's report issued on compliance for major program:	Qualified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	Yes

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

I. Summary of Auditor's Results, Continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A Cluster Grants to Local Educational Agencies
84.027	Special Education Cluster Special Education – Grants to States

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee: No

II. Financial Statement Findings

MATERIAL WEAKNESS

FINDING NO. 2015-001 FINANCIAL ACCOUNTING

Condition

Through our 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.

Criteria

OMB Circular A-133, Subpart C, §____.300 states in part:

“The auditee shall...

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs...

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

II. Financial Statement Findings, Continued

- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310....”

Cause

The changeover in contracted accounting personnel during the fiscal year created uncertainty regarding the accounting for certain significant events.

Effect

The failure to properly account for certain significant events resulted in an overstatement of revenues over expenses for fiscal year 2015.

Context

The accounting errors understated revenues over expenses by approximately \$98,000.

Recommendation

Procedures should 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.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs

FINDING NO. 2015-002 GRANT MANAGEMENT

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Program: Title I, Grants to Local Educational Agencies
CFDA Number: 84.010
Award Year: FY 2013-14

Questioned
Costs

Condition

We noted the following issues with regard to reimbursement claims for the Title I program:

1. Claims were submitted for amounts in excess of program expenditures.
2. Certain costs reported for the grant program were not specifically identified during the grant period.
3. Certain costs claimed for reimbursement were incurred outside of the grant period.

Criteria

OMB Circular A-110, §__.21(b) states, in part:

“(b) Recipients’ financial management systems shall provide for the following:

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in Section ____.52. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for its reports on the basis on an analysis of the documentation on hand.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs, Continued

Questioned
Costs

(2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest...

(6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.”

Cause

Certain claims submitted were based on various forms of financial analysis, rather than expenditure data obtained directly from the accounting records.

Effect

The failure to properly account for and report grant expenditures resulted in reimbursement for costs that were not allowable or that could not be supported.

Context

Costs reported outside of the provisions in the grant agreement are not allowable.

\$39,731

Recommendation

We recommend that the School 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.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs, Continued

FINDING NO. 2015-003 FINANCIAL REPORTING

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Program: Title I, Grants to Local Educational Agencies
CFDA Number: 84.010
Award Year: FY 2013-14

Questioned
Costs

Condition

For a number of expense categories on the Annual Expenditure Report for the period July 1, 2013 to September 30, 2014, the expenditures reported reflected budgeted figures rather than expenditure data per the accounting records.

Criteria

OMB Circular A-110, §__.21(b) states, in part:

“(b) Recipients’ financial management systems shall provide for the following:

(1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in Section __.52. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for its reports on the basis on an analysis of the documentation on hand.”

Cause

The data on the Annual Expenditure Report were based on various forms of financial analysis, rather than directly from the accounting records.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

III. Federal Award Findings and Questioned Costs, Continued

	<u>Questioned Costs</u>
<p><u>Effect</u> The Annual Expenditure Report for the grant period July 1, 2013 to September 30, 2014 did not represent actual expenditures for the reporting period.</p>	
<p><u>Context</u> The Annual Expenditure Report may provide misleading information to the awarding agency.</p>	\$ <u>-0-</u>
<p><u>Recommendation</u> We recommend that the School implement a process to account for expenditures under federal grant programs in a manner that facilitates the preparation of accurate financial reports.</p>	
<p><u>Views of Responsible Officials and Planned Corrective Action</u> See attached letter of response from School officials.</p>	

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2015

SIGNIFICANT DEFICIENCY

FINDING 2014-001
REPORTING REQUIREMENTS

Condition

During the 2014 audit, it was noted that the audit of the School's financial statements and compliance with major program requirements for the 2013 fiscal year was not completed within the time frame required by OMB Circular A-133.

Recommendation

The auditor made no formal recommendation because the School corrected the matter by contracting for the completion of the audit.

Current Status

No further action is required. The School was in compliance for the 2014 fiscal year.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

Other Reports

Year Ended June 30, 2015

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

Supplemental Audit Report of Paramount School of Excellence, Inc.

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



Paramount School of Excellence

3020 Nowland Avenue, Indianapolis, IN 46201

March 4, 2016

Fitzgerald | Isaac LLC
9245 N. Meridian Street, Suite 302
Indianapolis, IN 46260

Paramount School of Excellence will take the following action to address the FY2015 audit comments:

1. Finding No. 2015-001. In a continued strive for excellence in the maintenance of internal control procedures PSOE has hired a Controller to oversee contracted accounting personnel during the fiscal year. PSOE Controller reviews the general ledger and provides formal internal review to leadership assure accounts are properly reconciled to reflect all significant transactions.
2. Finding No. 2015-002. For SY14-15 bookkeeping personnel were contracted to manage grants on behalf of the school. It was brought to the attention to school personnel that grant reimbursements were not being filed appropriately. Therefore, school personnel filed grant reimbursements based upon records generated by the contracted bookkeeping personnel. Unfortunately, the changeover in contracted bookkeeping personnel during the fiscal year led to appropriate year-to-date information not being available when determining grant expenditures. For SY15-16 PSOE manages all grants. Therefore we reconcile each reimbursement request to actual expenditure receipts and then ask the contracted bookkeeping personnel to re-class the appropriate expenditures to the appropriate grant fund.
3. Finding No. 2015-003. By implementing the grants management process mentioned above, PSOE will be able to generate accurate year-to-date expenditure data for use on various forms or financial analysis.

Sincerely,



Paramount School of Excellence Management
Thomas Reddicks, Executive Director
Shawna Ping, Director of Operations

***Inspire learning through an unparalleled academic approach.
Transform communities by changing lives.***

www.paramountindy.org 317.775.6660