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March 11, 2020


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

We have reviewed the audit report of Paramount Schools of Excellence, Inc. which was opined upon by Blue & Co., LLC, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. Per the *Report of Independent Auditors* the financial statements included in the report present fairly the financial condition of Paramount Schools of Excellence, Inc. as of June 30, 2019 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Blue & Co., LLC prepared the audit report in accordance with guidelines established by the State Board of Accounts.

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

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


Paul D. Joyce, CPA
State Examiner



FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2019 AND 2018

CPAs / ADVISORS



PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

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JUNE 30, 2019 AND 2018

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of Paramount Schools of Excellence, Inc. (Paramount), a nonprofit organization, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, 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, 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paramount as of June 30, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective July 1, 2018, Paramount adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 17 and 18 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 on page 19, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis 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 audits 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, 2020, on our consideration of Paramount's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paramount's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
January 28, 2020

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current assets		
Cash	\$ 2,384,055	\$ 2,027,165
Accounts receivable, net	168,083	111,226
Prepaid expenses	74,716	33,532
Total current assets	2,626,854	2,171,923
Investments - restricted by debt instrument	528,184	518,591
Property and equipment		
Land and improvements	999,001	999,001
Building and improvements	9,451,049	8,977,027
Equipment	1,814,141	1,690,291
Software and educational materials	531,560	445,437
	12,795,751	12,111,756
Less accumulated depreciation	2,990,254	2,715,464
Property and equipment, net	9,805,497	9,396,292
Total assets	<u>\$ 12,960,535</u>	<u>\$ 12,086,806</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 91,000	\$ 122,805
Accrued salaries, wages and related liabilities	503,646	346,418
Deferred revenue	25,162	-0-
Current portion of long-term debt	183,762	178,899
Current portion of capital leases	46,510	46,510
Total current liabilities	850,080	694,632
Long-term liabilities		
Long-term debt, less current portion	4,967,321	5,139,588
Capital leases, less current portion	46,514	93,025
Total liabilities	5,863,915	5,927,245
Net assets - without donor restrictions	7,096,620	6,159,561
Total liabilities and net assets	<u>\$ 12,960,535</u>	<u>\$ 12,086,806</u>

See accompanying notes to the financial statements.

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Revenues and support		
State support	\$ 7,620,030	\$ 6,264,291
Federal support	2,120,299	1,746,297
Contributions and donations	572,560	80,707
Other revenues and support	29,886	156,397
Investment return, net	15,925	7,717
Net assets released from donor restrictions	-0-	37,498
Total revenues and support	<u>10,358,700</u>	<u>8,292,907</u>
Program and supporting service expenses		
Salaries and wages	4,853,629	3,604,105
Employee benefits	1,334,385	1,064,132
Professional services	1,044,363	643,497
Advertising	46,786	17,829
Depreciation	381,179	343,280
Occupancy	459,755	298,864
Supplies	661,632	640,774
Insurance	46,199	36,750
Interest	221,533	205,797
Other	372,180	260,118
Total program and supporting service expenses	<u>9,421,641</u>	<u>7,115,146</u>
Change in net assets without donor restrictions	937,059	1,177,761
Net assets with donor restrictions		
Net assets released from donor restrictions	-0-	(37,498)
Change in net assets	937,059	1,140,263
Net assets		
Beginning of year	<u>6,159,561</u>	<u>5,019,298</u>
End of year	<u>\$ 7,096,620</u>	<u>\$ 6,159,561</u>

See accompanying notes to the financial statements.

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating activities		
Change in net assets	\$ 937,059	\$ 1,140,263
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	381,179	343,280
Amortization of debt issuance costs	11,060	11,060
Loss on disposal of property and equipment	-0-	3,949
Changes in operating assets and liabilities		
Accounts receivable	(56,857)	(43,957)
Prepaid expenses	(41,184)	(16,935)
Other assets	-0-	1,000
Accounts payable and accrued expenses	(31,805)	33,271
Accrued salaries, wages and other liabilities	157,228	(109,481)
Deferred revenue	25,162	-0-
Net cash flows from operating activities	1,381,842	1,362,450
Investing activities		
Property and equipment additions	(790,384)	(177,908)
Proceeds received on disposal of property and equipment	-0-	13,000
Purchase of investments	(9,593)	(6,017)
Net cash flows from investing activities	(799,977)	(170,925)
Financing activities		
Payments on long-term debt	(178,464)	(180,944)
Payments on capital lease obligations	(46,511)	(32,727)
Net cash flows from financing activities	(224,975)	(213,671)
Change in cash	356,890	977,854
Cash		
Beginning of year	2,027,165	1,049,311
End of year	\$ 2,384,055	\$ 2,027,165
Supplemental cash flows information		
Cash paid for interest	\$ 210,473	\$ 194,737
Property and equipment included in accounts payable	\$ -0-	\$ 29,297
Equipment purchased through capital lease	\$ -0-	\$ 139,535

See accompanying notes to the financial statements.

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Paramount Schools of Excellence, Inc. (Paramount) is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. Paramount operates public charter schools established under Indiana Code 20-24 and is sponsored by the Mayor's Office of the City of Indianapolis. Paramount provides educational instruction to students in grades kindergarten through eighth grade. Paramount operated in three locations throughout central Indiana during 2019.

Basis of Accounting

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

Use of Estimates

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

Cash

Paramount maintains its cash in accounts, which at times, may exceed federally insured limits. Paramount has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

Accounts receivable represent the uncollected portion of funds from amounts awarded to Paramount. Accounts receivable are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2019 and 2018, respectively, based on management's estimate of the amount of receivables that will be collected.

Prepaid Expenses

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

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Investments – Restricted by Debt Instrument

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

Property, Equipment and Depreciation

Property and equipment are recorded at cost, or if donated, at fair market value at date of donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Maintenance repairs and minor renewals are expenses as incurred. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss for the period is recognized. Depreciation is provided over the estimated useful life of each class of depreciable asset, ranging from 3-40 years, and is computed on using the straight-line method. Depreciation expense was approximately \$381,000 and \$343,000 for 2019 and 2018, respectively.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized over the term of the respective debt. The costs incurred in issuing the debt are classified with long-term debt, as a deduction, and are amortized over the respective term of the debt.

Contributions

Unconditional promises to give cash and other assets to Paramount are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Paramount reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Net assets with donor restrictions are those that are restricted as to time or purpose. When the restriction expires, the net assets are reclassified to net assets without donor restrictions and are reported in the statement of activities and changes in net assets as net assets released from donor restrictions. Absent any donor-imposed restrictions, gifts of cash and other assets are recorded as net assets without donor restrictions.

Donated Services

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

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Net Assets Classifications

Net assets, support, revenues, gains, and losses are classified based on the absence or existence of donor restrictions. Accordingly, the net assets of Paramount are classified and reported as follows:

- Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use.
- Net assets with donor restrictions: Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations or specific purposes.

State and Federal Support

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

Paramount derives a significant portion of its revenue from state and federal funding programs (approximately 96% and 98% in 2019 and 2018, respectively). The receipt of future revenues by Paramount is subject to among other factors, state and federal policies affecting education, economic conditions, and other conditions which are impossible to predict.

Advertising

Paramount uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising expense totaled approximately \$47,000 and \$18,000 during 2019 and 2018, respectively, and is included within operating expenses within the statements of activities and changes in net assets.

Income Taxes

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

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Paramount and recognize a tax liability if Paramount has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by Paramount, and has concluded that as of June 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. Paramount is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Paramount filed its federal and state income tax returns for periods through June 30, 2018. The income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Reclassification

Certain 2018 amounts in the financial statements have been reclassified to conform to the 2019 presentation. Any reclassifications had no impact on previously reported net assets or change in net assets.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about Paramount's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued.

Subsequent Events

Paramount has evaluated events or transactions occurring subsequent to the statement of financial position date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued which is January 28, 2020.

Recently Issued Accounting Standards

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

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which Paramount is not required to adopt until its year ending June 30, 2022, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. Finally, ASU 2018-08 amends the "simultaneous release accounting policy" to allow a not-for-profit entity to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. Paramount will be required to adopt this new standard in the year ending June 30, 2020.

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

2. CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2018, Paramount adopted the FASB's ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in the financial statements and notes about its liquidity, financial performance and cash flows. Paramount has adjusted the presentation of its 2019 financial statements herein and retrospectively restated the prior year financial statements. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 8), and disclosures related to the functional allocation of expenses were expanded (Note 7). There was no significant impact to the statements of cash flows as a result of adopting this ASU.

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

The impact of the adoption of ASU No. 2016-14 on the Paramount's net assets are as follows:

	June 30, 2018		
	Previously Reported	Adjustments	Currently Reported
Statement of financial position			
Net assets			
Unrestricted	\$ 6,159,561	\$ (6,159,561)	\$ -0-
Without donor restrictions	-0-	6,159,561	6,159,561
Total net assets	<u>\$ 6,159,561</u>	<u>\$ -0-</u>	<u>\$ 6,159,561</u>
Statement of activities and changes in net assets			
Change in net assets			
Unrestricted	\$ 1,177,761	\$ (1,177,761)	\$ -0-
Temporarily restricted	(37,498)	37,498	-0-
Without donor restrictions	-0-	1,177,761	1,177,761
With donor restrictions	-0-	(37,498)	(37,498)
Change in net assets	<u>\$ 1,140,263</u>	<u>\$ -0-</u>	<u>\$ 1,140,263</u>

3. LONG-TERM DEBT

Long-term debt as of June 30, 2019 and 2018 is summarized as follows:

	2019	2018
Indiana Finance Authority Educational Facilities Revenue Bonds Payable, Series 2015, maturing in December 2041, fixed interest rate of 4.06% as of June 30, 2019, principal payments due in monthly installments ranging from \$10,600 to \$27,500 plus interest, secured by property and a certificate of deposit with a total net book value of approximately \$7,947,000 and \$8,579,000 as of June 30, 2019 and 2018, respectively.	<u>\$ 4,849,054</u>	<u>\$ 4,977,518</u>
Loan payable to Indiana Common School Fund and the State Board of Education, maturing in July 2026, fixed interest rate of 1.0%, semi-annual principal and interest payments ranging from \$25,000 to \$30,000 plus interest, secured by property with a net book value of approximately \$375,000 and \$425,000 as of June 30, 2019 and 2018, respectively.	<u>375,000</u>	<u>425,000</u>
	5,224,054	5,402,518
Less unamortized debt issuance costs	(72,971)	(84,031)
Less current portion	<u>(183,762)</u>	<u>(178,899)</u>
	<u>\$ 4,967,321</u>	<u>\$ 5,139,588</u>

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

In December 2015, the Indiana Finance Authority (IFA) issued the IFA Educational Facilities Revenue Bonds Series 2015 (Series 2015 Bonds) in the amount of \$5,175,000. Also in December 2015, Paramount, IFA and National Bank of Indianapolis (NBI) entered into a Bond Purchase Agreement whereby NBI purchased from IFA all the Series 2015 Bonds in a private placement. The interest rate on the Series 2015 Bonds was variable at the prime rate less .78% through the completion of the renovation and expansion phase which was December 2016. Once the renovation and expansion phase was complete, the interest rate, based on the tax-exempt rate, became fixed at 3.39% through December 2021. Effective on January 1, 2018, as a result of the Tax Cuts and Jobs Act of 2017 and the reduction of the corporate tax rate from 35% to 21%, the fixed interest rate on the tax-exempt Series 2015 Bonds was adjusted to 4.06%. This adjusted fixed rate will be in effect through December 2021. The fixed interest rate will be adjusted after 2021 for another 5-year period based on the tax-exempt borrowing rate at that time. The fixed interest rate will be adjusted every 5 years through the Series 2015 Bonds maturity date of 2041. Additionally, NBI has agreed to hold the Series 2015 Bonds through the maturity date in 2041.

In December 2015, the Indiana Common School Fund and the State Board of Education issued a \$500,000 loan to Paramount. This agreement requires semi-annual principal payments to be made as reductions of Paramount's distributive share of the State Tuition Support. The interest rate is fixed at 1% for duration of the agreement. The loan payable matures in July 2026.

Paramount has agreed to certain covenants, which, among other things, limit additional indebtedness and guarantees and require Paramount to maintain specific financial ratios. Management believes they are in compliance with the covenants as of June 30, 2019 and 2018. Aggregate future maturities for long-term debt obligations for the years succeeding June 30, 2019 are as follows:

Year Ending June 30,	
2020	\$ 183,762
2021	189,917
2022	195,787
2023	201,902
2024	207,797
Thereafter	<u>4,244,889</u>
	<u>\$ 5,224,054</u>

In 2019, Paramount placed into service equipment entered into under a capital lease agreement. The capital lease runs through July 2021 with a fixed interest rate of 4.00% with annual payments of principal and interest of approximately \$49,300. As of June 30, 2019, the cost of the equipment was \$140,000 with accumulated depreciation of \$44,000.

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Future payments on the capital lease for the years succeeding June 30, 2019 are as follows:

Year Ending	
<u>June 30,</u>	
2020	\$ 49,321
2021	<u>49,321</u>
	98,642
Less interest	<u>(5,618)</u>
Obligations under capital leases	<u>\$ 93,024</u>

4. PENSION PLANS

403(b) Plan

Paramount's eligible faculty and administrative staff are participants in a 403(b) tax deferred annuity retirement plan (the Plan). Paramount may make a discretionary matching contribution on participant deferrals and may make a discretionary profit sharing contribution to the Plan. Paramount's contribution to the Plan, net of forfeitures, was approximately \$323,000 and \$245,000 during 2019 and 2018, respectively.

Indiana Public Retirement System

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

TRF is a defined benefit pension plan. TRF is also a cost-sharing multiple employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The plan is recorded as a multiemployer plan, which was established by the State of Indiana. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate. Indiana Code (IC 5-10.2) governs, through the INPRS Board, most requirements of the system, and give Paramount authority to contribute to the plan. The retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus interest credited to the member's account. Paramount's required contribution rate is 7.5%. Paramount may elect to make additional contributions on behalf of the member. Retirement plan contributions for TRF were approximately \$288,000 and \$306,000 for 2019 and 2018, respectively. The plan is not governed by the Employee Retirement Income Security Act of 1974 and is not required to file a Federal Form 5500, Annual Return/Report of Employee Benefit Plan. There were no surcharges imposed and there is no expiration date of the plan included in state statutes. Upon withdrawing from TRF, Paramount, would be obligated for its proportionate share of the plan's unfunded vested benefits. Paramount has no intention of withdrawing from the plan. A complete copy of the annual report for the year ended June 30, 2018 can be obtained at www.in.gov/inprs.

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

5. RISKS AND UNCERTAINTIES

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

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

6. COMMITMENTS AND CONTINGENCIES

Operating Leases

Paramount leases certain equipment and space for classrooms and administrative purposes under operating leases expiring at various times through June 2024. Total lease expense for 2019 and 2018 was approximately \$253,000 and \$70,000, respectively, and has been included in occupancy expense in the statements of activities and changes in net assets.

Future minimum lease payments for operating leases are as follows:

Year Ending June 30,		
2020	\$	433,559
2021		40,476
2022		20,520
2023		17,955
2024		10,260
	\$	<u>522,770</u>

During August 2019, Paramount entered into a new lease agreement for its Englewood location at approximately \$21,000 per month. The lease expires June 2020 and is renewable for one one-year term or month-to-month for a term not to exceed twelve months.

Litigation

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

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

7. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing program and supporting services have been summarized on a natural basis in the statements of activities and changes in net assets and have been summarized on a functional basis below. Certain costs have been allocated among education services and management and general categories based on an estimate of time spent by Paramount's personnel. These expenses include salaries and wages and employee benefits. Other expenses require allocation on a reasonable basis that is consistently applied based on the ratio of salaries and wages and employee benefits charged to the category to total salaries and wages and employee benefits. The other expenses that are allocated include professional services, advertising, depreciation, occupancy, supplies, insurance, interest, and other. Although the methods used were appropriate, alternative methods may provide different results. Fundraising costs were not significant in 2019 and 2018. Paramount incurred the following education services as well as management and general expenses for 2019 and 2018:

	2019		
	Education Services	Management and General	Total Expenses
Salaries and wages	\$ 3,882,903	\$ 970,726	\$ 4,853,629
Employee benefits	1,067,508	266,877	1,334,385
Professional services	835,490	208,873	1,044,363
Advertising	37,429	9,357	46,786
Depreciation	304,943	76,236	381,179
Occupancy	367,804	91,951	459,755
Supplies	529,306	132,326	661,632
Insurance	36,959	9,240	46,199
Interest	177,226	44,307	221,533
Other	297,744	74,436	372,180
	<u>\$ 7,537,312</u>	<u>\$ 1,884,329</u>	<u>\$ 9,421,641</u>

	2018		
	Education Services	Management and General	Total Expenses
Salaries and wages	\$ 2,883,284	\$ 720,821	\$ 3,604,105
Employee benefits	851,306	212,826	1,064,132
Professional services	514,798	128,699	643,497
Advertising	14,263	3,566	17,829
Depreciation	274,624	68,656	343,280
Occupancy	239,091	59,773	298,864
Supplies	512,619	128,155	640,774
Insurance	29,400	7,350	36,750
Interest	164,638	41,159	205,797
Other	208,094	52,024	260,118
	<u>\$ 5,692,117</u>	<u>\$ 1,423,029</u>	<u>\$ 7,115,146</u>

PARAMOUNT SCHOOLS OF EXCELLENCE, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

8. LIQUIDITY AND AVAILABILITY OF RESOURCES

Paramount has approximately \$2,552,000 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure consisting of cash of approximately \$2,384,000 and accounts receivable of approximately \$168,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. Accounts receivable are subject to implied time restrictions, but are expected to be collected within one year. Paramount has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

SUPPLEMENTARY INFORMATION

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF FINANCIAL POSITION – SCHOOL LEVEL
JUNE 30, 2019

	Brookside	Community Heights	Englewood	Eliminations	Total
ASSETS					
Current assets					
Cash	\$ 1,929,310	\$ 454,745	\$ -0-	\$ -0-	\$ 2,384,055
Accounts receivable, net	1,462,595	59,297	14,953	(1,368,762)	168,083
Prepaid expenses	74,716	-0-	-0-	-0-	74,716
Total current assets	3,466,621	514,042	14,953	(1,368,762)	2,626,854
Investments - restricted by debt instrument	528,184	-0-	-0-	-0-	528,184
Property and equipment					
Land and improvements	999,001	-0-	-0-	-0-	999,001
Building and improvements	9,083,568	349,971	17,510	-0-	9,451,049
Equipment	1,719,425	94,716	-0-	-0-	1,814,141
Software and educational materials	496,728	29,874	4,958	-0-	531,560
	12,298,722	474,561	22,468	-0-	12,795,751
Less accumulated depreciation	2,959,628	30,427	199	-0-	2,990,254
Property and equipment, net	9,339,094	444,134	22,269	-0-	9,805,497
Total assets	\$ 13,333,899	\$ 958,176	\$ 37,222	\$ (1,368,762)	\$ 12,960,535
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable and accrued expenses	\$ 88,873	\$ 1,258,176	\$ 112,713	\$ (1,368,762)	\$ 91,000
Accrued salaries, wages and related liabilities	503,348	-0-	298	-0-	503,646
Deferred revenue	25,162	-0-	-0-	-0-	25,162
Current portion of long-term debt	183,762	-0-	-0-	-0-	183,762
Current portion of capital leases	46,510	-0-	-0-	-0-	46,510
Total current liabilities	847,655	1,258,176	113,011	(1,368,762)	850,080
Long-term liabilities					
Long-term debt, less current portion	4,967,321	-0-	-0-	-0-	4,967,321
Capital leases, less current portion	46,514	-0-	-0-	-0-	46,514
Total liabilities	5,861,490	1,258,176	113,011	(1,368,762)	5,863,915
Net assets without donor restrictions	7,472,409	(300,000)	(75,789)	-0-	7,096,620
Total liabilities and net assets	\$ 13,333,899	\$ 958,176	\$ 37,222	\$ (1,368,762)	\$ 12,960,535

See report of independent auditors on pages 1 and 2.

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS – SCHOOL LEVEL
YEAR ENDED JUNE 30, 2019

	Community				Total
	Brookside	Heights	Englewood	Eliminations	
Revenues and support					
State support	\$ 6,739,928	\$ 880,102	\$ -0-	\$ -0-	\$ 7,620,030
Federal support	1,527,311	518,528	74,460	-0-	2,120,299
Contributions and donations	342,226	227,708	2,626	-0-	572,560
Other revenues and support	23,181	6,705	-0-	-0-	29,886
Investment return, net	14,478	1,447	-0-	-0-	15,925
Total revenues and support	8,647,124	1,634,490	77,086	-0-	10,358,700
Program and supporting service expenses					
Salaries and wages	3,812,796	968,939	71,894	-0-	4,853,629
Employee benefits	1,060,066	251,755	22,564	-0-	1,334,385
Professional services	713,619	282,581	48,163	-0-	1,044,363
Advertising	43,888	1,389	1,509	-0-	46,786
Depreciation	350,553	30,427	199	-0-	381,179
Occupancy	270,689	189,066	-0-	-0-	459,755
Supplies	552,317	108,448	867	-0-	661,632
Insurance	38,757	7,442	-0-	-0-	46,199
Interest	220,595	938	-0-	-0-	221,533
Other	270,996	93,505	7,679	-0-	372,180
Total program and supporting service expenses	7,334,276	1,934,490	152,875	-0-	9,421,641
Change in net assets	1,312,848	(300,000)	(75,789)	-0-	937,059
Net assets (deficit)					
Beginning of year	6,159,561	-0-	-0-	-0-	6,159,561
End of year	\$ 7,472,409	\$ (300,000)	\$ (75,789)	\$ -0-	\$ 7,096,620

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant ID Number	Expenditures
Major programs			
U.S. Department of Education (DOE) through Indiana Department of Education (IDOE) Title I Grants to Local Educational Agencies	84.010	S010A180014	\$ 699,956
Non-major programs			
U.S. Department of Agriculture through IDOE Child Nutrition Cluster			
School Breakfast Program	10.553	Not Available	216,390
National School Lunch Program	10.555	Not Available	414,440
Summer Food Service Program for Children	10.559	Not Available	<u>11,833</u>
Total for cluster			642,663
DOE - through IDOE - Special Education - Grants to States	84.027	18611-542-PN01	185,416
DOE - through IDOE - Expanding Opportunity through Quality Charter Schools Program	84.282	U282A170017	313,038
DOE - through IDOE - Twenty-First Century Community Learning Centers	84.287	26562	172,047
DOE - through IDOE - Improving Teacher Quality to State Grants	84.367	S367A180013	61,178
DOE - through IDOE - Student Support and Academic Enrichment Program	84.424	S424A180015	<u>46,001</u>
Total non-major programs			<u>1,420,343</u>
Total federal expenditures			<u>\$ 2,120,299</u>

Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of Paramount for the year ended June 30, 2019, and is presented on the accrual basis of accounting. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some of the amounts presented in this SEFA may differ from amounts presented in or used in the preparation of the basic financial statements. The basic financial statement classifications may include other financial activity for reporting purposes.

Summary of Significant Accounting Policies

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

Amounts Passed through to Subrecipients

Paramount did not pass through any federal awards to subrecipients during 2019. In addition, there were no federal awards expended in the form of non-cash assistance and there were no loan guarantees outstanding or extended during 2019.



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

Board of Directors
Paramount Schools 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 Schools of Excellence, Inc. (Paramount) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
January 28, 2020



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

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

Report on Compliance for Each Major Federal Program

We have audited Paramount Schools of Excellence, Inc.'s, (Paramount) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Paramount's major federal programs for the year ended June 30, 2019. Paramount's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, Paramount complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over their 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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

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

Blue & Co., LLC

Indianapolis, Indiana
January 28, 2020

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section I – Summary of Audit Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes none reported

Significant deficiency(ies) identified that are not considered to be material weakness(es) noted? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? yes none reported

Significant deficiency(ies) identified that are not considered to be material weakness(es) noted? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

Section II - Findings Related to Financial Statements Reported in Accordance With Government Auditing Standards:

No matters reported

Section III - Findings and Questioned Costs Relating to Federal Awards:

No matters reported

Section IV - Summary Schedule of Prior Audit Findings:

No matters reported

PARAMOUNT SCHOOL OF EXCELLENCE, INC.

OTHER REPORT
YEAR ENDED JUNE 30, 2019

The report presented herein was prepared in addition to another official report prepared for Paramount 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*.