



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B42620

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September 18, 2013

Charter School Board
The Bloomington Project School, Inc.
349 South Walnut Street
Bloomington, IN 47401

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2010 to June 30, 2012. 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 Bloomington Project School, Inc., as of June 30, 2011 and 2012, and the results of its operations for the periods then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Pages 22 through 24 contain two audit findings. Attachment A contains management's response.

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

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

State Board of Accounts

THE BLOOMINGTON PROJECT SCHOOL, INC.

Financial Statements and Federal Single Audit Report

June 30, 2012 and 2011

THE BLOOMINGTON PROJECT SCHOOL, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Bloomington Project School, Inc.

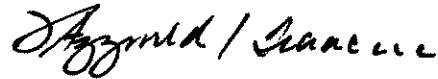
We have audited the accompanying statement of financial position of **The Bloomington Project School, Inc.** as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of The Bloomington Project School, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bloomington Project School, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2013 on our consideration of The Bloomington Project School, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Indianapolis, IN
June 19, 2013

THE BLOOMINGTON PROJECT SCHOOL, INC.

Statements of Financial Position

	June 30	
Assets	2012	2011
Current assets:		
Cash	\$ 29,513	95,912
Accounts receivable:		
State tuition support	795,608	695,212
Grants	14,677	-
Contributions	-	17,846
Advance to affiliate	-	35,000
Prepaid expenses	25,105	23,093
Total current assets	864,903	867,063
Security deposit	10,000	10,000
Property and equipment:		
Leasehold improvements	2,211,963	2,211,267
Furniture and equipment	454,701	322,559
Textbooks	77,316	63,574
	2,743,980	2,597,400
Less accumulated depreciation	(396,764)	(213,475)
Property and equipment, net	2,347,216	2,383,925
	\$ 3,222,119	3,260,988
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 137,615	199,436
Note payable	4,000	70,000
Current portion of long-term debt	91,323	84,505
Refundable advances	5,017	53,495
Total current liabilities	237,955	407,436
Accrued interest on Common School Fund loans	41,108	21,557
Deferred rent	70,875	81,000
Long-term debt	2,730,184	2,723,322
Total liabilities	3,080,122	3,233,315
Net assets:		
Temporarily restricted net assets	12,000	-
Unrestricted net assets	129,997	27,673
Total net assets	141,997	27,673
	\$ 3,222,119	3,260,988

See accompanying notes to financial statements.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Statements of Activities

Revenue, Gains and Support	Year Ended June 30, 2012			Year Ended June 30, 2011		
	Unrestricted	Temporarily Restricted		Unrestricted	Temporarily Restricted	
		Total	Total		Total	Total
State education support	\$ 1,591,282	-	1,591,282	1,390,893	-	1,390,893
Grant revenue	725,611	-	725,611	339,761	-	339,761
Student fees	39,846	-	39,846	22,092	-	22,092
Contributions	52,197	52,345	104,542	59,011	66,172	125,183
Other income	5,345	-	5,345	93,427	-	93,427
Net assets released from restriction	40,345	(40,345)	-	66,172	(66,172)	-
Total revenue, gains and support	<u>2,454,626</u>	<u>12,000</u>	<u>2,466,626</u>	<u>1,971,356</u>	<u>-</u>	<u>1,971,356</u>
<u>Expenses</u>						
Program services:						
Educational instruction	1,442,636	-	1,442,636	1,334,937	-	1,334,937
Education support	246,114	-	246,114	260,076	-	260,076
Administrative	663,552	-	663,552	630,449	-	630,449
Total expenses	<u>2,352,302</u>	<u>-</u>	<u>2,352,302</u>	<u>2,225,462</u>	<u>-</u>	<u>2,225,462</u>
Increase (decrease) in net assets	102,324	12,000	114,324	(254,106)	-	(254,106)
Net assets, beginning of year	<u>27,673</u>	<u>-</u>	<u>27,673</u>	<u>281,779</u>	<u>-</u>	<u>281,779</u>
Net assets, end of year	<u>\$ 129,997</u>	<u>12,000</u>	<u>141,997</u>	<u>27,673</u>	<u>-</u>	<u>27,673</u>

See accompanying notes to financial statements.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Statements of Cash Flows

	Year Ended June 30	
	2012	2011
<u>Operating Activities</u>		
Change in net assets	\$ 114,324	(254,106)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	183,289	152,336
Write-off of advance to affiliate	50,000	-
Change in:		
Accounts receivable	(97,227)	(132,522)
Prepaid expenses	(2,012)	(6,910)
Accounts payable and accrued expenses	(52,395)	81,026
Refundable advances	(48,478)	(106,350)
Net cash provided (used) by operating activities	147,501	(266,526)
 <u>Investing Activities</u>		
Advance to affiliate	(15,000)	(35,000)
Purchases of property and equipment	(146,580)	(1,700,739)
Net cash used by investing activities	(161,580)	(1,735,739)
 <u>Financing Activities</u>		
Principal repayments of long-term debt	(84,505)	(433,894)
Repayments of short-term financing	(170,000)	-
Proceeds from short-term financing	104,000	70,000
Proceeds from Common School Fund loans	98,185	79,108
Proceeds from long-term debt obligations	-	2,160,000
Net cash provided (used) by financing activities	(52,320)	1,875,214
 Net decrease in cash	(66,399)	(127,051)
 Cash, beginning of year	95,912	222,963
 Cash, end of year	\$ 29,513	95,912
 Supplementary information:		
Cash payments for interest expense	\$ 130,032	107,041

See accompanying notes to financial statements.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(1) Summary of Significant Accounting Policies

General

The Bloomington Project School, 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 Ball State University. The School commenced operations with the 2010 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 generally come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in equal monthly installments in January through December following the start of the school year. Revenue is recognized in the school year in which 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 amount of costs and expenses at the time they are incurred.

Accounts Receivable

Accounts receivable relate primarily to activities funded under grants 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.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Contributions Received

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The School 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, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Taxes on Income

The Bloomington Project School, 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 years ended June 30, 2012 and 2011, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional 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. The tax years ending 2011 and 2010 are open to audit for both federal and state purposes.

THE BLOOMINGTON PROJECT SCHOOL, 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, minor replacement costs, and equipment purchases with a unit cost of less than \$500 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:

Leasehold improvements	28 to 29 years
Furniture and equipment	3 to 5 years
Textbooks	4 years

Subsequent Events

The School evaluated subsequent events through June 19, 2013, 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.

(2) Accounts Receivable

Accounts receivable from the State of Indiana for education support reflect the following amounts as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Tuition support	\$656,419	558,584
Special education grant	112,566	97,266
Prime Time grant.....	<u>26,623</u>	<u>39,362</u>
	<u>\$795,608</u>	<u>695,212</u>

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(2) Accounts Receivable, Continued

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students. The payment schedule is determined by state law with tuition payable in equal monthly installments by the State of Indiana in the calendar year following the start of the school year. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 5).

(3) Leases

The School leases its school facility under an operating lease. The lease expires June 30, 2019 and requires annual rent payments of \$88,125. The School has the option to renew the lease for four additional five-year periods. The School also rents certain items of office equipment under operating leases. Expense under operating leases for the years ended June 30, 2012 and 2011 was \$93,552 and \$49,985, respectively. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows:

<u>Year Ending June 30:</u>	
2013	\$93,387
2014	90,763
2015	89,451
2016	88,788
2017	88,125
Thereafter	176,250

(4) Note Payable

The School obtained short-term financing from The School Project Foundation to fund cash needs. The loan is unsecured, non-interest bearing, and repayable as cash resources become available.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(5) Long-Term Debt

Long-term debt at June 30, 2012 and 2011 was comprised of:

	<u>2012</u>	<u>2011</u>
Note payable to Indiana Finance Authority	\$ 878,082	960,035
Note payable to IFF	1,160,000	1,160,000
Note payable to Bloomington Urban Enterprise Association.....	18,208	20,760
Notes payable to Indiana Common School Fund.....	<u>765,217</u>	<u>667,032</u>
	2,821,507	2,807,827
Less current maturities	<u>(91,323)</u>	<u>(84,505)</u>
	<u>\$2,730,184</u>	<u>2,723,322</u>

The note payable to Indiana Finance Authority is payable in monthly installments of \$33,775, including interest at 5.5% per annum. The loan was funded through the sale of Qualified School Construction Bonds, which provide for the interest to be subsidized by the federal government. The loan is unsecured.

The note payable to IFF requires interest only to be paid monthly at a rate of 6.5% per annum, with the principal balance due at the maturity date of August 15, 2017. The note is secured by a leasehold mortgage, and furniture and fixtures.

The note payable to Bloomington Urban Enterprise Association is payable in monthly installments of \$208, with the unpaid balance due on August 1, 2019. The note is unsecured and non-interest bearing.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(5) Long-Term Debt, Continued

The notes payable to the Indiana Common School Fund represent three notes, each of which require semi-annual payments of principal and interest over a period of 20 years, with interest at 4% per annum. In 2011, the Indiana Common School Fund granted a moratorium on loan payments. Payments are scheduled to commence on July 1, 2013. The notes mature on January 1, 2033 and are secured by unpaid tuition support distributions (see Note 2).

Principal maturities of long-term debt are as follows:

<u>Year Ended June 30:</u>	
2013	\$ 91,323
2014	134,414
2015	139,507
2016	112,513
2017	83,687
Thereafter	<u>2,260,063</u>
	<u>\$2,821,507</u>

(6) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2012 and 2011, the School had refundable grant advances in excess of expenditures of \$5,017 and \$53,495, respectively.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(7) Retirement Plans

The School offers retirement benefits to school employees provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 7.25% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. As an alternative to TRF, teaching faculty can elect benefits under a 403(b) plan, where the School contributes 7.5% of compensation. Retirement plan expense under all plans was \$74,871 and \$49,524 for the years ended June 30, 2012 and 2011, respectively.

(8) Commitments

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Payments under this charter agreement were \$35,280 and \$38,840 for the years ended June 30, 2012 and 2011, respectively. The charter remains in effect until June 30, 2016, and is renewable thereafter by mutual consent.

(9) Risks and Uncertainties

The School provides educational instruction services to families residing in Monroe 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, 2012, substantially all of the receivable balance was due from the State of Indiana.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(10) Restricted Net Assets

The School received contributions restricted for use in supporting compensation for certain staff positions and for enhancement of the student lunch program. At June 30, 2012, temporarily restricted net assets of \$12,000 were available to support the student lunch program.

(11) 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 among the programs and services benefited. Following is a summary of expenses comprising each program and service for the years ended June 30, 2012 and 2011:

	<u>2012</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$ 832,520	31,688	278,311
Employee benefits	271,709	2,424	53,774
Staff development.....	18,301	-	-
Professional services	23,902	17,632	54,165
Repairs and maintenance	-	8,560	-
Authorizer oversight fee.....	-	-	35,280
Food costs.....	-	91,054	-
Transportation	-	39,988	-
Equipment	10,042	-	-
Operational supplies	15,109	15,884	14,492
Occupancy	87,764	29,528	-
Depreciation	183,289	-	-
Interest.....	-	-	149,583
Insurance	-	-	20,317
Other	-	9,356	57,630
	<u>\$1,442,636</u>	<u>246,114</u>	<u>663,552</u>

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(11) Functional Expense Reporting, Continued

	<u>2011</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$ 787,441	-	248,175
Employee benefits	216,916	-	57,683
Staff development.....	28,039	-	-
Professional services	107	62,777	113,849
Repairs and maintenance	-	7,751	-
Authorizer oversight fee.....	-	-	38,840
Food costs.....	-	69,439	-
Transportation	-	66,554	-
Equipment	21,570	-	-
Operational supplies.....	47,528	20,330	12,554
Occupancy	81,000	32,893	-
Depreciation	152,336	-	-
Interest.....	-	-	107,040
Insurance	-	-	16,620
Other	-	332	35,688
	<u>\$1,334,937</u>	<u>260,076</u>	<u>630,449</u>

THE BLOOMINGTON PROJECT SCHOOL, INC.

Schedule of Expenditures of Federal Awards

Years Ended June 30, 2012 and 2011

<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>2012</u>	<u>2011</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 11,260	5,806
National School Lunch Program	10.555		<u>35,832</u>	<u>22,633</u>
Total for cluster			<u>47,092</u>	<u>28,439</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		53,515	78,896
ARRA--Grants to Local Educational Agencies	84.389		<u>5,830</u>	<u>21,170</u>
Total for cluster			<u>59,345</u>	<u>100,066</u>
ARRA--Special Education - Grants to States	84.391		43,473	-
Charter Schools Program	84.282		409,353	183,973
Improving Teacher Quality State Grants	84.367		4,374	3,250
Education Jobs Fund	84.410		<u>37,933</u>	-
Total federal awards expended			<u>\$ 601,570</u>	<u>315,728</u>

See accompanying Independent Auditors' Report.
See accompanying notes to this schedule.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to the Schedule of Expenditures of Federal Awards

Years Ended June 30, 2012 and 2011

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The Bloomington Project School, Inc. ("the School") under programs of the federal government for the years ended June 30, 2012 and 2011. 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.

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
The Bloomington Project School, Inc.

We have audited the financial statements of **The Bloomington Project School, Inc.** ("the School") as of and for the years ended June 30, 2012 and 2011 and have issued our report thereon dated June 19, 2013. 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.

Internal Control Over Financial Reporting

The management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

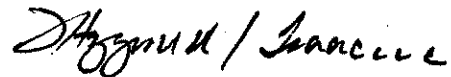
Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the School are free of 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*.

This report is intended for the information of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Indianapolis, IN
June 19, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
The Bloomington Project School, Inc.

Compliance

We have audited the compliance of **The Bloomington Project School, Inc.** ("the School") 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 years ended June 30, 2012 and 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

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. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2012 and 2011.

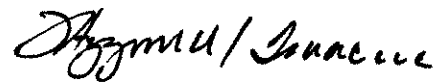
Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Indianapolis, IN
June 19, 2013

THE BLOOMINGTON PROJECT SCHOOL, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
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:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
Type of auditors' report issued on compliance for major program:	Unqualified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	No

THE BLOOMINGTON PROJECT SCHOOL, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

I. Summary of Auditors' Results, Continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.282	Charter Schools Program
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 WEAKNESSES

FINDING NO. 2012-1 RELATED ORGANIZATION

Condition

The School is related to School Project Foundation, Inc. (the "Foundation") in that both organizations have common board members. During the 2011 and 2012 fiscal years, the School executed a number of transactions with the Foundation, including loans, grants, loan repayments, and cash transfers. Due to the volume of transactions and the lack of documentation, the nature and purpose of the transactions was not clearly identifiable. In our audit, it was necessary to re-characterize a number of transactions within the accounting records.

Criteria

OMB Circular A-110, Section __.21 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.”

THE BLOOMINGTON PROJECT SCHOOL, INC.

Schedule of Findings and Questioned Costs

II. Financial Statement Findings, Continued

In addition, Chapter 10 of the Accounting and Uniform Compliance Guidelines for Indiana Charter Schools states:

“Charter schools shall have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management’s objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making.”

Cause

Transactions with School Project Foundation were occasionally characterized after the fact.

Effect

Failure to properly document each transaction could result in the misrepresentation of the financial statements.

Recommendations

We recommend that all transactions with the Foundation be structured in an arms-length manner. Any transfers of funds between the two organizations should be formally documented in a grant agreement, loan agreement, or service agreement, and approved by the board of directors.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Schedule of Findings and Questioned Costs

II. Financial Statement Findings, Continued

FINDING NO. 2012-2 INTERNAL COMMUNICATION

Condition

In fiscal years 2010 and 2011, the School undertook a construction project completed with financing in the amount of \$2,160,000. In our audit, we determined that amounts associated with the financing approximating \$360,000 were incorrectly recorded as capital assets, resulting in an overstatement of revenue.

Criteria

Chapter 10 of the Accounting and Uniform Compliance Guidelines for Indiana Charter Schools states:

“Charter schools shall have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management’s objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making.”

Cause

This error in accounting appears to be the result of poor communication between the School’s management, the bank escrow agent, and the School’s contracted accountants.

Effect

The lack of communication resulted in a misrepresentation of the financial statements.

Recommendations

We recommend that the contracted accountants be provided with complete copies of all contracts and transaction documents necessary to properly record the financial events.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Schedule of Findings and Questioned Costs

III. Federal Award Findings and Questioned Costs

No matters were reportable.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Summary Schedule of Prior Audit Findings

Years Ended June 30, 2012 and 2011

The School did not meet the requirements for an audit in accordance with OMB Circular A-133 in the previous audit of the period July 1, 2008 to June 30, 2010.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Other Reports

Years Ended June 30, 2012 and 2011

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

Supplemental Audit Report of The Bloomington Project School, Inc.

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

The Bloomington Project School
Response to Federal Audit 2011-2012

Please consider this plan of correction in relationship to the Material Weaknesses found in The Bloomington Project School Audit 2011-2012.

MATERIAL WEAKNESSES

FINDING NO. 2012-1 RELATED ORGANIZATION

Name of Federal Program or Cluster Charter Schools Program \$300,000 No Condition

The School is related to School Project Foundation, Inc. (the "Foundation") in that both organizations have common board members. During the 2011 and 2012 fiscal years, the School executed a number of transactions with the Foundation, including loans, grants, loan repayments, and cash transfers. Due to the volume of transactions and the lack of documentation, the nature and purpose of the transactions was not clearly identifiable. In our audit, it was necessary to re-characterize a number of transactions within the accounting records.

Criteria: The nature and purpose of all transactions should be clearly defined and documented.

Cause: Transactions with School Project Foundation were occasionally characterized after the fact.

Effect: Failure to properly document each transaction could result in the misrepresentation of the financial statements.

Recommendations: We recommend that all transactions with the Foundation be structured in an arms-length manner. Any transfers of funds between the two organizations should be formally documented in a grant agreement, loan agreement, or service agreement, and approved by the board of directors.

Plan of Correction:

- (1) All financial transactions that occur between the School Project Foundation and The Bloomington Project School will be formally documented through the appropriate agreement and invoices. All agreements will be approved for the School Project Foundation and Bloomington Project School Boards.*
- (2) Based on discussions and recommendations from Fitzgerald Isaac, Daniel Baron, the Director of The School Project Foundation and Amy Jackson, the Associate Director, will submit an application for a 501(C) 3, creating a legal separation of the School Project Foundation from The Bloomington Project School. The goal for submission is the end of 2013.*
- (3) Potential Board members for The School Project Foundation will be identified by October 31 and will be confirmed upon the approval of the 501(C)3.*

FINDING NO. 2012-2 INTERNAL COMMUNICATION
Condition

In fiscal years 2010 and 2011, the School undertook a construction project completed with financing in the amount of \$2,160,000. In our audit, we determined that amounts associated with the financing approximating \$360,000 were incorrectly recorded as capital assets, resulting in an overstatement of revenue.

Criteria: Open channels of communication between management and accounting personnel are necessary to assure accurate and reliable data.

Cause: This error in accounting appears to be the result of poor communication between the School's management, the bank escrow agent, and the School's contracted accountants.

Effect: The lack of communication resulted in a misrepresentation of the financial statements.

Recommendations: We recommend that the contracted accountants be provided with complete copies of all contracts and transaction documents necessary to properly record the financial events.

Plan of Correction:

Prior to August 2013, Bookkeeping Plus has served BPS for all accounting services. While the BPS Business Manager is responsible for submitting documents, Bookkeeping Plus is responsible for indicating documents that they needed and have not received. The Bloomington Project School leadership believes that we submitted all requested documents to the contracted accountants. We have recently switched to CSMCI and have made them aware of the prior concerns so that they will no repeat themselves.

All unintentional misrepresentations were a result of a very complex and complicated facilities project. While this was necessary to become a school, no project of this magnitude will be undertaken by The Bloomington Project School any time in the foreseeable future. If a future building project of any magnitude were to be pursued in the long term, professional resources for this type of project would be consulted and, if need be, contracted to prevent this type of issue in the future.