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STATE OF INDIANA

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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

May 23, 2014

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, 2012 to June 30, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of The Bloomington Project School, Inc., as of June 30, 2013, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

THE BLOOMINGTON PROJECT SCHOOL, INC.

Financial Statements

June 30, 2013 and 2012

Fitzgerald Isaac LLC
Certified Public Accountants

THE BLOOMINGTON PROJECT SCHOOL, INC.

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Fitzgerald Isaac LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Bloomington Project School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **The Bloomington Project School, Inc**., which comprise of statements of financial position as June 30, 2013 and 2012 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

Member of American Institute of Certified Public Accountants

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bloomington Project School, Inc. as of June 30, 2013 and 2012 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fitzgerald / Isaac LLC

Indianapolis, IN
April 24, 2014

THE BLOOMINGTON PROJECT SCHOOL, INC.

Statements of Financial Position

	June 30	
Assets	2013	2012
Current assets:		
Cash	$ 164,029	29,513
Accounts receivable:		
State tuition support	-	795,608
Grants	12,929	14,677
Prepaid expenses	27,467	25,105
Total current assets	204,425	864,903
Security deposit	10,000	10,000
Property and equipment:		
Leasehold improvements	2,222,431	2,211,963
Furniture and equipment	478,591	454,701
Textbooks	77,316	77,316
Less: accumulated depreciation	(640,723)	(396,764)
Property and equipment, net	2,137,615	2,347,216
	$ 2,352,040	3,222,119
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 129,382	137,615
Note payable	-	4,000
Current portion of long-term debt	96,153	91,323
Refundable advances	4,624	5,017
Total current liabilities	230,159	237,955
Accrued interest on Common School Fund loans	-	41,108
Deferred rent	60,750	70,875
Long-term debt	1,868,467	2,730,184
Total liabilities	2,159,376	3,080,122
Net assets:		
Unrestricted net assets	70,002	129,997
Temporarily restricted net assets	122,662	12,000
Total net assets	192,664	141,997
	$ 2,352,040	3,222,119

See accompanying notes to financial statements.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Statements of Activities

Revenue and Support	Year Ended June 30, 2013 Unrestricted	Year Ended June 30, 2013 Temporarily Restricted	Year Ended June 30, 2013 Total	Year Ended June 30, 2012 Unrestricted	Year Ended June 30, 2012 Temporarily Restricted	Year Ended June 30, 2012 Total
State education support	$ 1,602,295	-	1,602,295	1,591,282	-	1,591,282
Grant revenue	387,109	-	387,109	725,611	-	725,611
Student fees	63,291	-	63,291	39,846	-	39,846
Contributions	105,867	200,268	306,135	52,197	52,345	104,542
Other income	24,401	-	24,401	5,345	-	5,345
Net assets released from restriction	89,606	(89,606)	-	40,345	(40,345)	-
Total revenue and support	2,272,569	110,662	2,383,231	2,454,626	12,000	2,466,626
Expenses						
Program services:						
Educational instruction	1,479,207	-	1,479,207	1,442,636	-	1,442,636
Education support	296,188	-	296,188	246,114	-	246,114
Administrative	592,182	-	592,182	663,552	-	663,552
Total expenses	2,367,577	-	2,367,577	2,352,302	-	2,352,302
Change in net assets from operations	(95,008)	110,662	15,654	102,324	12,000	114,324
Non-Operating Activity						
Gain due to changes in legislative funding	35,013	-	35,013	-	-	-
Change in net assets	(59,995)	110,662	50,667	102,324	12,000	114,324
Net assets, beginning of year	129,997	12,000	141,997	27,673	-	27,673
Net assets, end of year	$ 70,002	122,662	192,664	129,997	12,000	141,997

See accompanying notes to financial statements.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Statements of Cash Flows

	Year Ended June 30	
Operating Activities	2013	2012
Change in net assets	$ 50,667	114,324
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	243,959	183,289
Write-off of advance to affiliate	-	50,000
Gain due to changes in legislative funding	(35,013)	-
Change in:		
Accounts receivable	(4,565)	(97,227)
Prepaid expenses	(2,362)	(2,012)
Accounts payable and accrued expenses	12,251	(52,395)
Refundable advances	(393)	(48,478)
Net cash provided by operating activities	264,544	147,501
Investing Activities		
Advance to affiliate	-	(15,000)
Purchases of property and equipment	(34,358)	(146,580)
Net cash used by investing activities	(34,358)	(161,580)
Financing Activities		
Principal repayments of long-term debt	(91,670)	(84,505)
Repayments of short-term financing	(4,000)	(170,000)
Proceeds from short-term financing	-	104,000
Proceeds from Common School Fund loans	-	98,185
Net cash used by financing activities	(95,670)	(52,320)
Net increase (decrease) in cash	134,516	(66,399)
Cash, beginning of year	29,513	95,912
Cash, end of year	$ 164,029	29,513
Supplementary information:		
Cash payments for interest expense	$ 116,118	130,032

See accompanying notes to financial statements.

(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.

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 other 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 academic 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.

(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 restriction.

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, 2013 and 2012, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2012, 2011 and 2010 are open to audit for both federal and state purposes.

(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	29 years
Furniture and equipment	3 to 5 years
Textbooks	4 years

Subsequent Events

The School evaluated subsequent events through April 24, 2014, 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) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July 2013 to December 2013 will no longer be paid.

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

(2) Legislative Funding Changes, Continued

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

Repayment of Common School Fund loans	$765,217
Repayment of accrued interest on Common School Fund loans	71,717
	836,934
Elimination of school funding	(801,921)
	$ 35,013

(3) Accounts Receivable

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

Tuition support	$656,419
Special education grant	112,566
Prime Time grant	26,623
	$795,608

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 and other factors. The payment schedule is determined by state law, with tuition support payable in equal monthly installments by the State of Indiana in the calendar year following the start of the academic school year. Effective July 1, 2013, tuition support will be paid in monthly installments that coincide with the School's fiscal year (see Note 2).

(4) Long-Term Debt

Long-term debt at June 30, 2013 and 2012 was comprised of:

	2013	2012
Note payable to Indiana Finance Authority	$ 789,130	878,082
Note payable to IFF	1,160,000	1,160,000
Note payable to Bloomington Urban Enterprise Association	15,490	18,208
Notes payable to Indiana Common School Fund	-	765,217
	1,964,620	2,821,507
Less current maturities	(96,153)	(91,323)
	$1,868,467	2,730,184

The note payable to Indiana Finance Authority is payable in quarterly 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 notes payable to the Indiana Common School Fund represented three notes, each of which required semi-annual payments of principal and interest over a period of 20 years, with interest at 4% per annum. In 2013 and 2012, the loans were under a moratorium on loan payments, but interest continued to accrue. In 2013, the outstanding balance of the loans and all accrued interest were repaid with funding appropriated from the State of Indiana general fund (see Note 2).

(4) Long-Term Debt, Continued

Principal maturities of long-term debt are as follows:

Year Ended June 30:	
2014	$ 96,153
2015	101,246
2016	74,252
2017	45,426
2018	1,207,874
Thereafter	439,669
	$1,964,620

(5) 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. In the initial stages of the lease, the School was allowed certain rent concessions and has, therefore, recorded a deferred credit to reflect the excess of rent expense over cash payments for that period of time. The School also rents certain items of office equipment under operating leases.

Expense under operating leases for the years ended June 30, 2013 and 2012 was $90,751 and $93,552, respectively. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows:

Year Ending June 30:	
2014	$91,098
2015	89,786
2016	89,123
2017	88,181
2018	88,125
Thereafter	88,125

(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, 2013 and 2012, the School had refundable grant advances in excess of expenditures of $4,624 and $5,017, respectively.

(7) Retirement Plans

Retirement benefits for School employees are 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 ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 7.25% of compensation for other employees of 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 was $69,263 and $74,871 for the years ended June 30, 2013 and 2012, 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 $19,864 and $35,280 for the years ended June 30, 2013 and 2012, 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, 2013, substantially all of the receivable balance was due from the State of Indiana.

(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. At June 30, 2013, temporarily restricted net assets of $122,662 were available for staff compensation.

(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, 2013 and 2012:

	2013		
	Educational Instruction	Education Support	Administrative
Salaries and wages	$ 844,730	76,441	272,078
Employee benefits	219,471	10,949	64,127
Staff development	6,878	-	-
Professional services	52,417	15,396	54,910
Repairs and maintenance	-	8,032	-
Authorizer oversight fess	-	-	19,864
Food costs	-	75,314	-
Transportation	-	47,600	-
Equipment	12,335	-	-
Operational supplies	18,917	13,187	6,708
Occupancy	80,500	33,604	-
Depreciation	243,959	-	-
Interest	-	-	146,727
Insurance	-	-	24,813
Other	-	15,665	2,955
	$1,479,207	296,188	592,182

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(11) Functional Expense Reporting, Continued

	2012		
	Educational Instruction	Education Support	Admini-strative
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 fess	-	-	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
	$1,442,636	246,114	663,552

THE BLOOMINGTON PROJECT SCHOOL, INC.

Other Reports

Year Ended June 30, 2013

The report presented herein was 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.*