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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

October 14, 2015

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, 2013 to June 30, 2014. 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, 2014, 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, 2014 and 2013

THE BLOOMINGTON PROJECT SCHOOL, INC.

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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, 2014 and 2013 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.

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, 2014 and 2013 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.

A handwritten signature in black ink, appearing to read "Raymond Isaac LLC".

Indianapolis, IN
June 18, 2015

THE BLOOMINGTON PROJECT SCHOOL, INC.

Statements of Financial Position

| Assets | June 30 | |
|---------------------------------------|---------------------|------------------|
| | 2014 | 2013 |
| Current assets: | | |
| Cash | \$ 183,954 | 194,699 |
| Grants receivable | 10,422 | 12,929 |
| Prepaid expenses | 7,344 | 27,467 |
| Total current assets | <u>201,720</u> | <u>235,095</u> |
| Security deposit | 10,000 | 10,000 |
| Property and equipment: | | |
| Leasehold improvements | 2,222,431 | 2,222,431 |
| Furniture and equipment | 478,591 | 478,591 |
| Textbooks | 77,316 | 77,316 |
| Less: accumulated depreciation | (818,167) | (640,723) |
| Property and equipment, net | <u>1,960,171</u> | <u>2,137,615</u> |
| | <u>\$ 2,171,891</u> | <u>2,382,710</u> |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 194,047 | 129,382 |
| Current portion of long-term debt | 102,245 | 96,153 |
| Refundable advances | 2,399 | 4,624 |
| Total current liabilities | <u>298,691</u> | <u>230,159</u> |
| Deferred rent payable | 50,625 | 60,750 |
| Long-term debt | 1,767,148 | 1,868,467 |
| Total liabilities | <u>2,116,464</u> | <u>2,159,376</u> |
| Net assets (deficiency): | | |
| Unrestricted | (5,498) | 100,672 |
| Temporarily restricted | 60,925 | 122,662 |
| Total net assets | <u>55,427</u> | <u>223,334</u> |
| | <u>\$ 2,171,891</u> | <u>2,382,710</u> |

See accompanying notes to financial statements.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Statements of Activities

| | Year Ended June 30, 2014 | | | Year Ended June 30, 2013 | | |
|--|--------------------------|---------------------------|------------------|--------------------------|---------------------------|------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| <u>Revenue and Support</u> | | | | | | |
| State education support | \$ 1,646,684 | - | 1,646,684 | \$ 1,602,295 | - | 1,602,295 |
| Grant revenue | 214,225 | - | 214,225 | 387,109 | - | 387,109 |
| Student fees | 40,843 | - | 40,843 | 63,291 | - | 63,291 |
| Contributions | 191,159 | - | 191,159 | 105,867 | 200,268 | 306,135 |
| Fundraising | 40,209 | - | 40,209 | 48,675 | - | 48,675 |
| Other income | 55,743 | - | 55,743 | 24,401 | - | 24,401 |
| Net assets released from restriction | 61,737 | (61,737) | - | 89,606 | (89,606) | - |
| Total revenue and support | <u>2,250,600</u> | <u>(61,737)</u> | <u>2,188,863</u> | <u>2,321,244</u> | <u>110,662</u> | <u>2,431,906</u> |
| <u>Expenses</u> | | | | | | |
| Program services | 1,788,165 | - | 1,788,165 | 1,804,119 | - | 1,804,119 |
| Management and general | 568,605 | - | 568,605 | 592,182 | - | 592,182 |
| Total expenses | <u>2,356,770</u> | <u>-</u> | <u>2,356,770</u> | <u>2,396,301</u> | <u>-</u> | <u>2,396,301</u> |
| Change in net assets from operations | (106,170) | (61,737) | (167,907) | (75,057) | 110,662 | 35,605 |
| <u>Non-Operating Activity</u> | | | | | | |
| Gain due to changes in legislative funding | - | - | - | 35,013 | - | 35,013 |
| Change in net assets | (106,170) | (61,737) | (167,907) | (40,044) | 110,662 | 70,618 |
| Net assets, beginning of year | <u>100,672</u> | <u>122,662</u> | <u>223,334</u> | <u>140,716</u> | <u>12,000</u> | <u>152,716</u> |
| Net assets, end of year | <u>\$ (5,498)</u> | <u>60,925</u> | <u>55,427</u> | <u>\$ 100,672</u> | <u>122,662</u> | <u>223,334</u> |

See accompanying notes to financial statements.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Statements of Cash Flows

| | <u>Year Ended June 30</u> | |
|---|---------------------------|-----------------|
| | <u>2014</u> | <u>2013</u> |
| <u>Operating Activities</u> | | |
| Change in net assets | \$ (167,907) | 70,618 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 177,443 | 243,959 |
| Gain due to changes in legislative funding | - | (35,013) |
| Change in: | | |
| Grants receivable | 2,507 | (4,565) |
| Prepaid expenses | 20,123 | (2,362) |
| Accounts payable and accrued expenses | 54,541 | 12,251 |
| Refundable advances | (2,225) | (393) |
| Net cash provided by operating activities | <u>84,482</u> | <u>284,495</u> |
| <u>Investing Activities</u> | | |
| Purchases of property and equipment | - | (34,358) |
| Net cash used by investing activities | <u>-</u> | <u>(34,358)</u> |
| <u>Financing Activities</u> | | |
| Principal repayments of long-term debt | (95,227) | (91,670) |
| Repayments of short-term financing | - | (4,000) |
| Net cash used by financing activities | <u>(95,227)</u> | <u>(95,670)</u> |
| Net increase (decrease) in cash | (10,745) | 154,467 |
| Cash, beginning of year | <u>194,699</u> | <u>40,232</u> |
| Cash, end of year | <u>\$ 183,954</u> | <u>194,699</u> |
| Supplementary information: | | |
| Cash payments for interest expense | \$ 118,779 | 116,118 |

See accompanying notes to financial statements.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

June 30, 2014 and 2013

(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 monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the 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.

Grants Receivable

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

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 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, 2014 and 2013, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

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

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..... | 30 years |
| Furniture and equipment | 3 to 5 years |
| Textbooks | 4 years |

Subsequent Events

The School evaluated subsequent events through June 18, 2015, 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, charter school funding is 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 was eliminated.

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 applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(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..... | <u>71,717</u> |
| | 836,934 |
| Elimination of school funding..... | <u>(801,921)</u> |
| | <u>\$ 35,013</u> |

(3) Long-Term Debt

Long-term debt at June 30, 2014 and 2013 was comprised of:

| | <u>2014</u> | <u>2013</u> |
|--|--------------------|------------------|
| Note payable to Indiana Finance Authority | \$ 696,476 | 789,130 |
| Note payable to IFF..... | 1,160,000 | 1,160,000 |
| Note payable to Bloomington Urban Enterprise Association..... | <u>12,917</u> | <u>15,490</u> |
| | 1,869,393 | 1,964,620 |
| Less current maturities | <u>(102,245)</u> | <u>(96,153)</u> |
| | <u>\$1,767,148</u> | <u>1,868,467</u> |

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 provides for the interest to be subsidized by the federal government. The loan is subordinate to the obligation to IFF.

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 BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(3) Long-Term Debt, Continued

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.

Principal maturities of long-term debt are as follows:

Year Ending June 30:

| | |
|------------------|--------------------|
| 2015 | \$ 102,245 |
| 2016 | 74,252 |
| 2017 | 45,426 |
| 2018 | 1,207,874 |
| 2019 | 50,461 |
| Thereafter | <u>389,135</u> |
| | <u>\$1,869,393</u> |

(4) 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, 2014 and 2013 was \$95,923 and \$90,751, 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:

| | |
|------------|----------|
| 2015 | \$94,611 |
| 2016 | 93,948 |
| 2017 | 93,006 |
| 2018 | 92,950 |
| 2019 | 88,125 |

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(5) 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, 2014 and 2013, the School had refundable grant advances in excess of expenditures of \$2,399 and \$4,624, respectively.

(6) 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 cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 8.75% of compensation for other employees of PERF. Substantially all full-time employees are eligible to participate. In lieu of TRF, teaching faculty can elect benefits under a 403(b) plan, where the School contributes 7.5% of compensation. Retirement plan expense was \$69,257 and \$69,263 for the years ended June 30, 2014 and 2013, respectively.

(7) 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 \$34,953 and \$19,864 for the years ended June 30, 2014 and 2013, respectively. The charter remains in effect until June 30, 2016, and is renewable thereafter by mutual consent.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(8) 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, 2014, substantially all of the receivable balance was due from the State of Indiana.

(9) 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. Temporarily restricted net assets of \$60,925 and \$122,662 were available for staff compensation as of June 30, 2014 and 2013, respectively.

(10) Accounting Correction

In 2014, it was determined that the financial activity of the School's extra-curricular activity account was not being reported on the School's financial statements. The account was recorded as a separate fund even though the resources and expenditures related to School activities. The School corrected this error by restating previously issued financial statements. Net assets as of July 1, 2012 have been increased by \$10,719 and the change in net assets for the year ended June 30, 2013 has been increased by \$19,951 to reflect this correction.

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(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 between program and management services. Following is a summary of expenses comprising each program and service for the years ended June 30, 2014 and 2013:

| | <u>2014</u> | |
|---|-----------------------------|-----------------------------------|
| | <u>Program Services</u> | <u>Management and General</u> |
| Salaries and wages..... | \$ 947,758 | 272,144 |
| Employee benefits | 266,925 | 31,828 |
| Staff development and recruitment | 13,730 | - |
| Professional services | 50,824 | 80,298 |
| Repairs and maintenance..... | 11,052 | - |
| Authorizer oversight fees | - | 34,953 |
| Food costs..... | 60,794 | - |
| Transportation | 35,000 | - |
| Equipment | 12,900 | - |
| Operational supplies | 25,845 | 6,137 |
| Occupancy | 133,072 | - |
| Depreciation | 177,443 | - |
| Interest | - | 118,779 |
| Insurance | - | 16,660 |
| Other | <u>52,822</u> | <u>7,806</u> |
| | <u>\$1,788,165</u> | <u>568,605</u> |

THE BLOOMINGTON PROJECT SCHOOL, INC.

Notes to Financial Statements

(11) Functional Expense Reporting, Continued

| | 2013 | |
|---|-----------------------------|-----------------------------------|
| | <u>Program Services</u> | <u>Management and General</u> |
| Salaries and wages..... | \$ 921,171 | 272,078 |
| Employee benefits | 230,420 | 64,127 |
| Staff development and recruitment | 6,878 | - |
| Professional services | 67,813 | 54,910 |
| Repairs and maintenance..... | 8,032 | - |
| Authorizer oversight fees | - | 19,864 |
| Food costs..... | 75,314 | - |
| Transportation | 47,600 | - |
| Equipment | 12,335 | - |
| Operational supplies | 32,104 | 6,708 |
| Occupancy | 114,104 | - |
| Depreciation | 243,959 | - |
| Interest | - | 146,727 |
| Insurance | - | 24,813 |
| Other | <u>44,389</u> | <u>2,955</u> |
| | <u>\$1,804,119</u> | <u>592,182</u> |

THE BLOOMINGTON PROJECT SCHOOL, INC.

Other Reports

Year Ended June 30, 2014

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*.