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February 13, 2024

Charter School Board
Rural Community Schools, Inc.
Sullivan County, Indiana

We have reviewed the audit report of Rural Community Schools, Inc. which was opined upon by CliftonLarsonAllen LLP, Independent Public Accountants, for the period July 1, 2022 to June 30, 2023. Because of the significance of the matter described in the Basis for Adverse Opinion section, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United State of America, the financial position of the School as of June 30, 2023, or the results of its activities and changes in net assets or its cash flows for the year the ended. The Independent Auditor's Report may be found on pages 1 through 3 of the report.

We call your attention to the Basis for Adverse Opinion paragraph included in the Independent Auditors' Report and further detailed in Note 2.

In our opinion, CliftonLarsonAllen LLP prepared the audit report in accordance with guidelines established by the State Board of Accounts.

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

The report is filed with this letter in our office as a matter of public record.

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
State Examiner

RURAL COMMUNITY SCHOOLS, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022



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**RURAL COMMUNITY SCHOOLS, INC.
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YEARS ENDED JUNE 30, 2023 AND 2022**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Community Schools, Inc.
Sullivan, Indiana

Report on the Audit of the Financial Statements

Adverse Opinion – For the Year Ended June 30, 2023

We have audited the accompanying financial statements of Rural Community Schools, Inc. (the School), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion section of our report, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United State of America, the financial position of the School as of June, 30, 2023, or the results of its activities and changes in net assets or its cash flows for the year the ended.

Basis for Adverse Opinion

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to a going concern. However, as more fully described in Note 2 to the financial statements, on February 28, 2023, the School's Board of Directors approved rescinding its charter renewal application and approved closure of the School at the end of the 2022-2023 school year and the School's liquidation became imminent as of that date. When liquidation is imminent, accounting principles generally accepted in the United States of America require that assets be measured at the estimated amounts of cash or other consideration expected to be received during dissolution and liabilities measured at their estimated settlement amounts. Additionally, the School has elected not to adopt Accounting Standards Update (ASU) Topic 842: Leases, as required by generally accepted accounting principles as described in Note 3 to the financial statements. Quantification of the principal effects of these departures from U.S. generally accepted accounting principles on the financial statements is not practicable.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Opinion – For the Year Ended June 30, 2022

We have audited the accompanying financial statements of the School, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2022, and the results of its operations and changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rural Community Schools, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

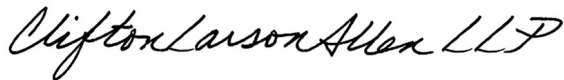
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Board of Directors
Rural Community Schools, Inc.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Indianapolis, Indiana
January 24, 2024

**RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022**

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash	\$ 173,986	\$ 366,102
Grants Receivable	11,177	65,214
Total Current Assets	185,163	431,316
PROPERTY AND EQUIPMENT		
Leasehold Improvements	-	173,197
Furniture and Equipment	-	347,036
Textbooks and Library Books	-	79,430
Less: Accumulated Depreciation	-	(456,188)
Property and Equipment, Net	-	143,475
Total Assets	\$ 185,163	\$ 574,791
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 7,403	\$ 60,029
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Total Liabilities and Net Assets	\$ 185,163	\$ 574,791

See accompanying Notes to Financial Statements.

RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
REVENUE AND SUPPORT		
State Education Support	\$ 757,141	\$ 1,015,983
Gain on Extinguishment of Debt	-	176,100
Grant Revenue	466,050	568,939
Student Fees	114	2,853
Extracurricular Activities Revenue	22,167	23,358
Contributions	-	95,250
Total Revenue and Support	1,245,472	1,882,483
EXPENSES		
Program Services	1,072,849	1,108,399
Management and General	509,625	442,434
Total Expenses	1,582,474	1,550,833
CHANGE IN NET ASSETS	(337,002)	331,650
Net Assets - Beginning of Year	514,762	183,112
NET ASSETS - END OF YEAR	\$ 177,760	\$ 514,762

See accompanying Notes to Financial Statements.

**RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023			2022		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and Wages	\$ 637,950	\$ 185,803	\$ 823,753	\$ 602,284	\$ 220,990	\$ 823,274
Employee Benefits	89,442	49,366	138,808	96,753	63,999	160,752
Staff Development	6,070	-	6,070	12,729	-	12,729
Professional Services	61,423	7,483	68,906	60,473	6,674	67,147
Textbooks and Education Materials	29,876	-	29,876	29,613	-	29,613
Authorizer Oversight Fees	-	21,833	21,833	-	24,101	24,101
Food Costs	48,263	-	48,263	58,859	-	58,859
Transportation	39,292	1,275	40,567	29,592	1,276	30,868
Equipment and Rentals	-	11,426	11,426	-	-	-
Classroom, Kitchen, and Office Supplies	4,755	5,306	10,061	15,605	2,192	17,797
Extracurricular Activities	-	-	-	40,747	-	40,747
Occupancy	113,770	5,115	118,885	141,453	4,299	145,752
Depreciation	17,914	-	17,914	17,914	-	17,914
Insurance	-	31,808	31,808	-	27,376	27,376
Advertising	-	839	839	-	65,876	65,876
Impairment on PPE	-	125,561	125,561	-	-	-
Other	24,094	63,810	87,904	2,377	25,651	28,028
Total Functional Expenses	<u>\$ 1,072,849</u>	<u>\$ 509,625</u>	<u>\$ 1,582,474</u>	<u>\$ 1,108,399</u>	<u>\$ 442,434</u>	<u>\$ 1,550,833</u>

See accompanying Notes to Financial Statements.

RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (337,002)	\$ 331,650
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	17,914	17,914
Impairment on Property and Equipment	125,561	-
Gain on Extinguishment of Debt	-	(176,100)
Changes in Operating Assets and Liabilities:		
Grants Receivable	54,037	(60,065)
Accounts Payable and Accrued Expenses	(52,626)	(4,582)
Net Cash Provided (Used) by Operating Activities	(192,116)	108,817
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	-	(12,900)
NET CHANGE IN CASH	(192,116)	95,917
Cash - Beginning of Year	366,102	270,185
CASH - END OF YEAR	\$ 173,986	\$ 366,102

See accompanying Notes to Financial Statements.

**RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Rural Community Academy (the School or RCA) is a public benefit nonprofit organization incorporated under the laws of the state of Indiana. The School operates a public charter school established under Indiana Code 20-24 and is sponsored by Ball State University. The School provides educational instruction to students in grades kindergarten through eight, serving approximately 87 students during the 2022-2023 School year and approximately 118 students in the 2021-2022 School year.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Cash and Cash Equivalents

Cash consists of cash held in the bank and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2023 and 2022.

Grants Receivable

Grants receivable relate primarily to activities funded under federal 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.

Property and Equipment

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

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

Leasehold Improvements	15 to 40 Years
Furniture and Equipment	5 to 10 Years
Textbooks and Library Books	5 Years

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

On an ongoing basis, the Corporation reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may be overstated. The Corporation recognizes impairment losses if the undiscounted cash flows expected to be generated are less than the carrying value of the related asset. If impaired, the assets are adjusted to fair value based on the undiscounted cash flows. During the year ended June 30, 2023, the School recognized \$125,561 of impairment loss.

Revenue Recognition

Revenues primarily come from conditional 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 the educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Therefore, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred. Amounts received prior to incurring qualifying expenditures are reported as deferred revenues in the statement of financial position. As of June 30, 2023 and 2022, the School does not have any conditional grants that have not been recognized as revenue in the statement of activities because conditions have not been met.

Revenue from student fees is recognized when the control of the promised good or service is transferred to the student, in an amount that reflects the consideration expected to be entitled in exchange for those goods or services.

Grants and Contribution Revenue

The School receives income from grants and contributions that support certain School activities. These receipts are reported as restricted support in that they are received with stipulations that limit their use. When a donor restriction expires, that is, when the purpose or time restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and change in net assets as Net Assets Released from Restrictions. There were no grants or contributions received with restriction in the years ended June 30, 2023 and 2022.

Taxes on Income

The School is a nonprofit corporation, exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(3).

The School is subject to unrelated business income tax on any activities unrelated to its tax-exempt purpose, of which the School had none for the years ended June 30, 2023 and 2022. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxes on Income (Continued)

U.S. GAAP requires management to evaluate tax positions taken by the Organization and recognize a tax liability if the School has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed the tax positions taken by the School, and has concluded that as of June 30, 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The U.S. federal and state income tax returns of the School are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements in order to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

The School evaluated subsequent events through January 24, 2024, 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.

NOTE 2 GOING CONCERN

As of September 2022, the School saw a large decrease in student enrollment from February 2022. The enrollment decreased 31% from 118 students to 87 students, thus causing lost revenue for Fiscal Year 2023 of an estimated amount of \$26,667 a month (\$320,000 annually). While the School has approximately \$431,000 of financial assets as of June 30, 2022, it does not alleviate substantial doubt about the School's ability to continue as a going concern beyond 12 months of the date of the accompanying audit report given the significant decrease in enrollment, revenue, and no new revenue sources available for the year ended June 30, 2023.

Management's Response

RCA financial viability is based on student enrollment. We have been aware that with decreased enrollment, RCA does not receive enough funding to allow for continued operation into the future unless enrollment is brought up. With the current trend in enrollment and no new funding sources available, we have withdrawn the School's application for charter renewal and elected to close the School effective June 30, 2023.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 3 LEASES

Topic 842 – 2023

The School prepares the financial statements and related footnotes in conformity with U.S. GAAP. As a result of the School electing to close June 30, 2023 and the termination of all agreements at that time, we have departed from the requirements of Topic 842: Leases for these specific leases. The departure from Topic 842: Leases affects the measurement and recognition of the School's leases. During the year ended June 30, 2023, the School leased its facility and a copier under lease agreements, recognizing expense of \$23,426.

Topic 840 – 2022

The School leases its facility under an operating lease that is renewable annually and provides for monthly rental payments of \$1,000. Under the terms of the facilities lease, the School is responsible for the cost of utilities and maintenance. The School also leases a copier on a short-term contract. Rent expense for the years ended June 30, 2022 was \$24,346, respectively.

NOTE 4 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 received. Expense under this charter agreement was \$21,833 and \$24,101 for the years ended June 30, 2023 and 2022, respectively. The charter was extended one year through June 30, 2023 and was not renewed.

NOTE 5 RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel are provided by the Indiana State Teachers' Retirement Fund (TRF) 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 determined annually by the INPRS Board. Under the plans, the School contributed 7.25% of compensation for eligible teaching personnel to TRF and 11.25% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF and PERF. As of June 30, 2022 (the latest year reported), TRF and PERF were approximately 95% and 83% funded, respectively.

Retirement plan expense was \$56,221 and \$59,849 for the years ended June 30, 2023 and 2022, respectively.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 6 RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Sullivan 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, 2023 and 2022, substantially all of the receivable balance was due from the state of Indiana. Cash deposits are maintained at First Financial Bank and are insured up to the Federal Deposit Insurance Corporation (FDIC) insurance limit. Cash balances exceeded FDIC insured limits at various times during the year.

NOTE 7 LIQUIDITY

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2022 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The School's financial assets include cash and grants receivable. Financial assets at June 30, 2023 and 2022 totaled \$185,163 and \$431,316, respectively, all of which are available to meet cash needs for general expenditures within one year.

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 8 FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and changes in net assets. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

**RURAL COMMUNITY SCHOOLS, INC.
OTHER REPORT
JUNE 30, 2023 AND 2022**

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

Supplemental Audit Report of Rural Community Schools, 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*.



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