



STATE OF INDIANA
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March 8, 2013

Charter School Board
Rural Community Schools, Inc.
2385 North State Road 63
Sullivan, IN 47882

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2011 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 Rural Community Schools, Inc., as of June 30, 2012, 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 Rural Community Schools, 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

RURAL COMMUNITY SCHOOLS, INC.

Financial Statements

June 30, 2012

RURAL COMMUNITY SCHOOLS, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Rural Community Schools, Inc.

We have audited the accompanying statement of financial position of **Rural Community Schools, Inc.** as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Rural Community Schools, Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides 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 Rural Community Schools, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



January 31, 2013

RURAL COMMUNITY SCHOOLS, INC.

Statement of Financial Position

<u>Assets</u>	<u>June 30, 2012</u>
Current assets:	
Cash	\$ 281,674
Accounts receivable:	
State education support	454,738
Grants	41,448
Total current assets	<u>777,860</u>
Property and equipment:	
Leasehold improvements	72,453
Furniture and equipment	358,902
Textbooks and library books	86,556
Total property and equipment	<u>517,911</u>
Less: accumulated depreciation	(315,220)
Property and equipment, net	<u>202,691</u>
	<u>\$ 980,551</u>
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 84,884
Total current liabilities	<u>84,884</u>
Accrued interest on Common School Fund loans	54,116
Long-term debt	398,310
Total liabilities	<u>537,310</u>
Unrestricted net assets	<u>443,241</u>
	<u>\$ 980,551</u>

See accompanying notes to financial statements.

RURAL COMMUNITY SCHOOLS, INC.

Statement of Activities

	Year Ended June 30, 2012
<u>Revenue, Gains and Support</u>	
State education support	\$ 909,273
Grant revenue	199,176
Student fees	28,163
Extra curricular revenue	13,882
Contributions	1,674
Interest income	142
Other income	63,246
Total revenue, gains and support	<u>1,215,556</u>
<u>Expenses</u>	
Program services:	
Educational instruction	749,902
Education support	170,228
Administrative	232,210
Total expenses	<u>1,152,340</u>
Increase in net assets	63,216
Net assets, beginning of year	<u>380,025</u>
Net assets, end of year	<u>\$ 443,241</u>

See accompanying notes to financial statements.

RURAL COMMUNITY SCHOOLS, INC.

Statement of Cash Flows

	Year Ended June 30, 2012
<u>Operating Activities</u>	
Change in net assets	\$ 63,216
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	30,429
Change in:	
Accounts receivable	(49,016)
Accounts payable and accrued expenses	21,862
Net cash provided by operating activities	<u>66,491</u>
<u>Investing Activities</u>	
Purchases of property and equipment	<u>(73,362)</u>
Net cash used by investing activities	<u>(73,362)</u>
<u>Financing Activities</u>	
Principal repayments of long-term debt	<u>(1,027)</u>
Net cash used by financing activities	<u>(1,027)</u>
Net decrease in cash	(7,898)
Cash, beginning of year	<u>289,572</u>
Cash, end of year	<u>\$ 281,674</u>

See accompanying notes to financial statements.

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

General

Rural Community Schools, Inc. d/b/a Rural Community Academy (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 20-24-3-1 and sponsored by Ball State University. The School commenced operations with the 2005 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.

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.

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Contributions

Contributions received 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Taxes on Income

Rural Community Schools, 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 year ended June 30, 2012, 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, 2010, and 2009 are open to audit for both federal and state purposes.

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 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 - 40 years
Furniture and equipment	5 to 10 years
Textbooks and library books	5 years

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through January 31, 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 for education support as of June 30, 2012 represent amounts due from the State of Indiana relating to the following sources:

Tuition support	\$364,220
Special education grant	74,172
Prime Time grant.....	<u>16,346</u>
	<u>\$454,738</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school and indexed for poverty data of the enrolled students. 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 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 3).

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

(3) Long-Term Debt

Long-term debt at June 30, 2012 represents four loans from the Indiana Common School Fund. The loans require semi-annual payments of principal and interest over periods of 10 and 20 years, with interest at 4% per annum. In 2011, the Indiana Common School Fund granted a second moratorium on loan payments. Payments will commence again on July 1, 2013. The last note matures on January 1, 2033. The notes are secured by unpaid tuition support distributions (see Note 2).

Principal maturities under the loan agreement are as follows:

Year Ended June 30:

2013	\$ -
2014	41,645
2015	41,645
2016	41,645
2017	41,645
Thereafter	<u>231,730</u>
	<u>\$398,310</u>

(4) Leases

The School leases its facility and office equipment under operating leases. The facility lease is an annually renewable lease that provides for monthly rental payments of \$500. The School is also responsible for the cost of utilities and maintenance. Future minimum lease obligations as of June 30, 2012 for noncancelable operating leases with initial lease terms in excess of one year are as follows:

Year Ending June 30:

2013	\$1,548
2014	1,290

Rent expense for the year ended June 30, 2012 was \$9,073.

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

(5) 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 Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 15% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense under both plans was \$49,306 for the year ended June 30, 2012.

(6) 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 \$22,144 for the year ended June 30, 2012. The charter remains in effect until June 30, 2016, and is renewable thereafter by mutual consent.

(7) 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, 2012, substantially all of the receivable balance was due from the State of Indiana. In addition, deposits maintained at Regions Bank frequently exceed the FDIC insurance limit.

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

(8) 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/or service for the year ended June 30, 2012:

	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Admini- strative</u>
Salaries and wages.....	\$515,199	5,363	109,002
Employee benefits	135,002	1,364	32,458
Staff development.....	6,168	-	-
Professional services	17,565	4,269	5,460
Textbooks and educational materials	7,472	-	-
Authorizer oversight fee	-	-	22,144
Food costs.....	-	49,145	-
Transportation	-	26,534	916
Equipment and rentals	13,174	-	6,015
Classroom, kitchen and office supplies.....	13,055	8,789	12,036
Occupancy	9,615	64,817	1,722
Depreciation	30,429	-	-
Interest	-	-	15,939
Insurance	-	-	17,464
Advertising	-	-	2,698
Extra-curricular activities	-	9,947	-
Other	<u>2,223</u>	<u>-</u>	<u>6,356</u>
	<u>\$749,902</u>	<u>170,228</u>	<u>232,210</u>

RURAL COMMUNITY SCHOOLS, INC.

Other Reports

Year Ended June 30, 2012

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*.