



STATE OF INDIANA
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January 13, 2014

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, 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 Rural Community Schools, 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 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, 2013 and 2012

RURAL COMMUNITY SCHOOLS, INC.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Rural Community Schools, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **Rural Community Schools, Inc.**, which comprise the statements of financial position as of 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.

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 Rural Community Schools, 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.

Agustin Isaac

Indianapolis, IN
December 13, 2013

RURAL COMMUNITY SCHOOLS, INC.

Statements of Financial Position

	June 30	
Assets	2013	2012
Current assets:		
Cash	\$ 250,156	281,674
Accounts receivable:		
State education support	-	454,738
Grants	34,595	41,448
Total current assets	284,751	777,860
Property and equipment:		
Leasehold improvements	72,453	72,453
Furniture and equipment	389,667	358,902
Textbooks and library books	102,058	86,556
Less: accumulated depreciation	(354,970)	(315,220)
Property and equipment, net	209,208	202,691
	\$ 493,959	980,551
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 56,239	84,884
Total current liabilities	56,239	84,884
Accrued interest on Common School Fund loans	-	54,116
Long-term debt	-	398,310
Total liabilities	56,239	537,310
Unrestricted net assets	437,720	443,241
	\$ 493,959	980,551

See accompanying notes to financial statements.

RURAL COMMUNITY SCHOOLS, INC.

Statements of Activities

<u>Revenue, Gains and Support</u>	Year Ended June 30	
	2013	2012
State education support	\$ 864,512	909,273
Grant revenue	222,066	199,176
Student fees	28,623	28,163
Extra curricular revenue	18,631	13,882
Contributions	6,170	1,674
Interest income	-	142
Other income	2,525	63,246
Total revenue, gains and support	1,142,527	1,215,556
<u>Expenses</u>		
Program services:		
Educational instruction	775,473	749,902
Education support	192,388	170,228
Administrative	216,449	232,210
Total expenses	1,184,310	1,152,340
Change in net assets before non-operating revenue	(41,783)	63,216
<u>Non-Operating Revenue</u>		
Gain due to changes in legislative funding	36,262	-
Change in net assets	(5,521)	63,216
Net assets, beginning of year	443,241	380,025
Net assets, end of year	\$ 437,720	443,241

See accompanying notes to financial statements.

RURAL COMMUNITY SCHOOLS, INC.

Statements of Cash Flows

	Year Ended June 30	
	2013	2012
<u>Operating Activities</u>		
Change in net assets	\$ (5,521)	63,216
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain due to changes in legislative funding	(36,262)	-
Depreciation	39,750	30,429
Change in:		
Accounts receivable	29,495	(49,016)
Accounts payable and accrued expenses	(12,713)	21,862
Net cash provided by operating activities	<u>14,749</u>	<u>66,491</u>
<u>Investing Activities</u>		
Purchases of property and equipment	(46,267)	(73,362)
Net cash used by investing activities	<u>(46,267)</u>	<u>(73,362)</u>
<u>Financing Activities</u>		
Principal repayments of long-term debt		(1,027)
Net cash used by financing activities	<u>-</u>	<u>(1,027)</u>
Net decrease in cash	(31,518)	(7,898)
Cash, beginning of year	<u>281,674</u>	<u>289,572</u>
Cash, end of year	<u>\$ 250,156</u>	<u>281,674</u>

See accompanying notes to financial statements.

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

June 30, 2013 and 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 and sponsored by Ball State University. The School serves approximately 130 students in grades kindergarten through eight.

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 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 amounts of cost 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.

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 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 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.

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 December 13, 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) 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 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.

The effect of these legislative amendments has 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.....	\$398,310
Repayment of accrued interest on Common School Fund loans.	<u>70,048</u>
	468,358
Elimination of School funding	<u>(432,096)</u>
	<u>\$ 36,262</u>

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

(3) Accounts Receivable

Accounts receivable for education support as of June 30, 2012 represented 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 is indexed to the poverty data of the enrolled students and other factors. The payment schedule is likewise determined by state law with tuition support payable in equal monthly installments 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, 2012 represented four separate loans from the Indiana Common School Fund. The loans required semi-annual payments of principal and interest over periods of 10 and 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 loans and all accrued interest were repaid with funding appropriated from the State of Indiana general fund (see Note 2).

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

(5) Leases

The School leases its facility and certain items of 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, 2013 for noncancelable operating leases with initial lease terms in excess of one year consist of payments totaling \$1,290 due in fiscal year 2014.

Rent expense for the years ended June 30, 2013 and 2012 was \$10,893 and \$9,073, 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 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 10% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense under both plans was \$52,249 and \$49,306 for the years ended June 30, 2013 and 2012, 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 received. Expense under this charter agreement was \$10,229 and \$22,144 for the years ended June 30, 2013 and 2012. The charter remains in effect until June 30, 2016, and is renewable thereafter by mutual consent.

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

(8) 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, 2013 and 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

(9) 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:

	<u>2013</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$520,875	15,177	116,167
Employee benefits	147,850	4,308	22,070
Staff development.....	6,550	-	-
Professional services	26,474	8,920	4,670
Textbooks and educational materials	6,095	-	-
Authorizer oversight fee.....	-	-	10,229
Food costs.....	-	53,009	-
Transportation	-	24,630	593
Equipment and rentals.....	11,771	-	4,893
Classroom, kitchen and office supplies.....	6,776	6,242	12,739
Occupancy	7,383	64,847	1,129
Depreciation	39,750	-	-
Interest	-	-	15,933
Insurance	-	-	18,614
Advertising	-	-	3,021
Extra-curricular activities.....	-	15,255	-
Other	<u>1,949</u>	<u>-</u>	<u>6,391</u>
	<u>\$775,473</u>	<u>192,388</u>	<u>216,449</u>

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

(9) Functional Expense Reporting Continued

	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, 2013

The report presented herein was 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*.