



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B43489

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 13, 2014

Charter School Board
Rock Creek Community Academy, Inc.
11525 Highway 31
Sellersburg, IN 47172

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 Rock Creek Community Academy, 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 Rock Creek Community Academy, 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

ROCK CREEK COMMUNITY ACADEMY, INC.

Financial Statements

June 30, 2013 and 2012

ROCK CREEK COMMUNITY ACADEMY, INC.

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6-14
Other Reports	15

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Rock Creek Community Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **Rock Creek Community Academy, 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 Rock Creek Community Academy, 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.

Raymond J. Hancock

Indianapolis, IN
March 6, 2014

ROCK CREEK COMMUNITY ACADEMY, INC.

Statements of Financial Position

<u>Assets</u>	June 30	
	2013	2012
Current assets:		
Cash and cash equivalents	\$ 518,589	543,353
Accounts receivable:		
State education support	-	1,148,386
Grants	-	103,202
Prepaid expenses	14,655	26,974
Total current assets	533,244	1,821,915
Property and equipment:		
Textbooks	224,037	168,897
Leasehold improvements	399,224	273,016
Furniture and equipment	425,476	298,392
Less: accumulated depreciation	(323,214)	(142,326)
Property and equipment, net	725,523	597,979
	\$ 1,258,767	2,419,894
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 214,437	391,765
Current portion of long-term debt	28,267	25,583
Deferred revenue	114,999	105,500
Total current liabilities	357,703	522,848
Accrued interest on Common School Fund loans	-	43,993
Long-term debt	84,283	1,195,501
Total liabilities	441,986	1,762,342
Unrestricted net assets	816,781	657,552
	\$ 1,258,767	2,419,894

See accompanying notes to financial statements.

ROCK CREEK COMMUNITY ACADEMY, INC.

Statements of Activities

	<u>Year Ended June 30</u>	
	<u>2013</u>	<u>2012</u>
<u>Revenue and Support</u>		
State education support	\$ 2,380,110	\$ 2,296,773
Grant revenue	517,236	439,502
Student fees	245,383	301,107
Contributions	25,225	17,885
Fundraising	84,202	56,218
Other	-	5,795
Total revenue and support	<u>3,252,156</u>	<u>3,117,280</u>
 <u>Expenses</u>		
Program services:		
Educational instruction	2,122,208	1,910,228
Education support	462,075	425,326
Administrative	488,423	595,770
Total expenses	<u>3,072,706</u>	<u>2,931,324</u>
 Increase in net assets before non-operating expense	179,450	185,956
 <u>Non-Operating Expense</u>		
Loss due to changes in legislative funding	<u>(20,221)</u>	<u>-</u>
 Increase in net assets	159,229	185,956
 Net assets, beginning of year	<u>657,552</u>	<u>471,596</u>
 Net assets, end of year	<u><u>\$ 816,781</u></u>	<u><u>657,552</u></u>

See accompanying notes to financial statements.

ROCK CREEK COMMUNITY ACADEMY, INC.

Statements of Cash Flows

	Year Ended June 30	
	2013	2012
<u>Operating Activities</u>		
Change in net assets	\$ 159,229	185,956
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Loss due to changes in legislative funding	20,221	-
Depreciation	180,888	101,820
Change in:		
Accounts receivable	61,105	(89,172)
Prepaid expenses	12,319	861
Accounts payable and accrued expenses	(134,010)	190,204
Refundable advances	-	(1,250)
Deferred revenue	9,499	5,388
Net cash provided by operating activities	<u>309,251</u>	<u>393,807</u>
 <u>Investing Activities</u>		
Purchase of property and equipment	(308,431)	(343,298)
Net cash used by investing activities	<u>(308,431)</u>	<u>(343,298)</u>
 <u>Financing Activities</u>		
Principal repayments of long-term debt	(25,584)	(11,867)
Net cash used by financing activities	<u>(25,584)</u>	<u>(11,867)</u>
 Net increase (decrease) in cash	(24,764)	38,642
 Cash and cash equivalents, beginning of year	<u>543,353</u>	<u>504,711</u>
 Cash and cash equivalents, end of year	<u>\$ 518,589</u>	<u>543,353</u>
 Supplementary information:		
Cash payments for interest expense	\$ 12,775	7,333
 Non-cash investing and financing activities:		
Assets obtained under debt obligation	\$ -	150,000

See accompanying notes to financial statements.

ROCK CREEK COMMUNITY ACADEMY, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

General

Rock Creek Community Academy, 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 is 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 primarily 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 is 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 the 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 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.

ROCK CREEK COMMUNITY ACADEMY, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income

Rock Creek Community Academy, 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 and 2011 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, minor replacement costs and equipment purchases with a unit cost of less than \$1,000 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:

Textbooks	5 years
Leasehold improvements.....	6-8 years
Furniture and equipment	3-5 years

ROCK CREEK COMMUNITY ACADEMY, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Fundraising Activity

During 2013 and 2012, a related parent teacher organization (the “Organization”) performed various fundraising functions in support of the School. The Organization was originally formed as RCCA PTS, Inc. on March 1, 2011, but operated under the School’s tax identification number. The Organization voluntarily dissolved in February 2012 and reincorporated on March 15, 2012 as Rock Creek Extracurricular Organization, Inc. with its own tax identification number. Prior to becoming a separate legal entity, the Organization had revenues and expenses in 2012 of \$22,873 and \$32,428, respectively. This activity is not included in the accompanying financial statements.

Reclassifications

Certain figures for 2012 that were previously reported have been reclassified for comparative purposes.

Subsequent Events

The School evaluated subsequent events through March 6, 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 to December 2013 will no longer be paid.

ROCK CREEK COMMUNITY ACADEMY, INC.

Notes to Financial Statements

(2) Legislative Funding Changes, Continued

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 loss due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans.....	\$1,082,951
Repayment of accrued interest on Common School Fund loans.....	<u>87,311</u>
	1,170,262
Elimination of School funding	<u>(1,190,483)</u>
	\$ <u>(20,221)</u>

(3) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 represented amounts due relating to the following sources:

Tuition support	\$ 1,045,021
Special education grant	79,585
Honors grant	1,800
Vocational education grant.....	10,165
Prime Time grant.....	<u>11,815</u>
	\$ <u>1,148,386</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).

ROCK CREEK COMMUNITY ACADEMY, INC.

Notes to Financial Statements

(4) Long-Term Debt

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

	<u>2013</u>	<u>2012</u>
Notes payable to Indiana		
Common School Fund.....	\$ -	1,082,951
Note payable to Mobilease		
Modular Space, Inc.....	<u>112,550</u>	<u>138,133</u>
	112,550	1,221,084
Less current portion.....	<u>(28,267)</u>	<u>(25,583)</u>
	<u>\$ 84,283</u>	<u>1,195,501</u>

Notes payable to the Indiana Common School Fund represented two 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).

The note payable to Mobilease Modular Space, Inc. represents an obligation for site improvements relating to the installation of modular classrooms. The note is payable in monthly installments of \$3,185, including interest at 10% per annum, through December 2016.

Principal maturities under the loan agreements are as follows:

<u>Year Ended June 30:</u>	
2014	\$ 28,267
2015	31,218
2016	34,478
2017	<u>18,587</u>
	<u>\$ 112,550</u>

ROCK CREEK COMMUNITY ACADEMY, INC.

Notes to Financial Statements

(5) Leases

The School leases its school facility, modular classrooms, and items of equipment under operating leases. Under the facility lease, the School is also responsible for repairs, maintenance, and utilities. Total expense under these operating leases for 2013 and 2012 was \$221,294 and \$149,987, respectively. Minimum future rental payments as of June 30, 2013 for all operating leases with initial, noncancellable lease terms in excess of one year are as follows:

Year ending June 30:

2014	\$ 215,496
2015	212,384
2016	86,160
2017	43,080

(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 received. The charter remains in effect until June 30, 2015, and is renewable thereafter by mutual consent. Payments under this charter agreement were \$31,658 and \$62,701 for the years ended June 30, 2013 and 2012, respectively.

(7) Retirement Plan

The School maintains a Section 403(b) retirement plan with Principal Financial Group for the benefit of its employees. Substantially all full-time employees are eligible to participate. Under the plan, the School contributes 7.5% of compensation for the plan year. Retirement plan expense for the years ended June 30, 2013 and 2012 was \$100,045 and \$84,539, respectively.

ROCK CREEK COMMUNITY ACADEMY, INC.

Notes to Financial Statements

(8) Risks and Uncertainties

The School provides educational instruction services to families residing in Clark 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 accounts receivable balance was due from the State of Indiana. Cash deposits are maintained at New Washington State Bank and normally exceed the FDIC insurance limit.

(9) Accounting Corrections

In 2013, it was discovered that the payroll liabilities relating to the remaining payments for teacher contracts in fiscal years 2011 and 2012 were incomplete. The liabilities did not include the final pay period of the contracts. In 2013, it was also discovered that all revenue for the School's 2011-2012 Facilities Grant was reported in the 2013 fiscal year, even though some of the expenditures were incurred in the 2012 fiscal year. As this is a cost reimbursement grant, revenue should be recognized as costs and expenses are incurred.

The effect of these corrections has been to decrease net assets as of July 1, 2011 by \$37,405, and to increase the change in net assets for the year ended June 30, 2012 by \$78,505.

ROCK CREEK COMMUNITY ACADEMY, 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 statements 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.....	\$ 1,083,577	148,449	209,008
Employee benefits	282,383	17,511	51,107
Professional services	168,614	102,180	81,852
Staff development and recruitment.....	20,180	-	237
Authorizer oversight fee.....	-	-	31,658
Food costs.....	-	45,082	-
Equipment	23,751	-	-
Repairs and maintenance.....	-	35,702	-
Classroom, kitchen and office supplies.....	41,638	99,604	13,688
Occupancy	255,788	-	-
Depreciation	180,888	-	-
Interest	-	-	56,093
Other	<u>65,389</u>	<u>13,547</u>	<u>44,780</u>
	<u>\$ 2,122,208</u>	<u>462,075</u>	<u>488,423</u>

ROCK CREEK COMMUNITY ACADEMY, INC.

Notes to Financial Statements

(9) Functional Expense Reporting, Continued

	<u>2012</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$1,026,580	87,462	216,100
Employee benefits	256,243	11,895	50,675
Professional services	184,640	147,188	71,555
Staff development and recruitment.....	39,891	-	1,135
Authorizer oversight fee	-	-	62,701
Food costs.....	-	47,009	-
Equipment	34,624	-	-
Repairs and maintenance.....	-	25,529	-
Classroom, kitchen and office supplies.....	56,863	102,945	36,054
Occupancy	209,417	-	-
Depreciation	101,820	-	-
Interest.....	-	-	50,651
Other	<u>150</u>	<u>3,298</u>	<u>106,899</u>
	<u>\$1,910,228</u>	<u>425,326</u>	<u>595,770</u>

ROCK CREEK COMMUNITY ACADEMY, 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 Rock Creek Community Academy, 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*.