



STATE OF INDIANA
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B46060

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

March 30, 2016

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 Donovan P.C., Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. 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, 2015, 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.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

RURAL COMMUNITY SCHOOLS, INC.

Financial Statements

June 30, 2015 and 2014



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, 2015 and 2014, 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, 2015 and 2014, 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.

Donovan P.C.

Indianapolis, IN
February 22, 2016

RURAL COMMUNITY SCHOOLS, INC.

Statements of Financial Position

<u>Assets</u>	June 30	
	2015	2014
Current assets:		
Cash	\$ 390,323	259,256
Grants receivable	5,937	26,670
Total current assets	396,260	285,926
Property and equipment:		
Leasehold improvements	89,399	89,399
Furniture and equipment	257,925	410,363
Textbooks and library books	53,604	109,804
Less: accumulated depreciation	(202,918)	(396,224)
Property and equipment, net	198,010	213,342
	\$ 594,270	499,268
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 61,110	59,568
Total current liabilities	61,110	59,568
Unrestricted net assets	533,160	439,700
	\$ 594,270	499,268

See accompanying notes to financial statements.

RURAL COMMUNITY SCHOOLS, INC.

Statements of Activities

	Year Ended June 30	
	2015	2014
<u>Revenue and Support</u>		
State education support	\$ 1,073,957	974,132
Grant revenue	194,437	176,320
Student fees	29,611	26,001
Extra-curricular activities revenue	29,590	29,295
Contributions	14,825	5,756
Other income	8,942	11,407
Total revenue and support	<u>1,351,362</u>	<u>1,222,911</u>
<u>Expenses</u>		
Program services	1,060,495	1,017,353
Management and general	197,407	203,578
Total expenses	<u>1,257,902</u>	<u>1,220,931</u>
Change in net assets	93,460	1,980
Net assets, beginning of year	<u>439,700</u>	<u>437,720</u>
Net assets, end of year	<u>\$ 533,160</u>	<u>439,700</u>

See accompanying notes to financial statements.

RURAL COMMUNITY SCHOOLS, INC.

Statements of Cash Flows

	Year Ended June 30	
	2015	2014
<u>Operating Activities</u>		
Change in net assets	\$ 93,460	1,980
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on disposal of assets	3,118	-
Depreciation	48,644	41,254
Change in:		
Grants receivable	20,733	7,925
Accounts payable and accrued expenses	1,542	3,329
Net cash provided by operating activities	<u>167,497</u>	<u>54,488</u>
<u>Investing Activities</u>		
Purchases of property and equipment	(36,430)	(45,388)
Net cash used by investing activities	<u>(36,430)</u>	<u>(45,388)</u>
Net increase in cash	131,067	9,100
Cash, beginning of year	<u>259,256</u>	<u>250,156</u>
Cash, end of year	<u>\$ 390,323</u>	<u>259,256</u>

See accompanying notes to financial statements.

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

June 30, 2015 and 2014

(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 provides educational instruction to approximately 150 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 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.

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, 2015 and 2014, 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.

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 to 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 February 22, 2016, 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) Leases

The School leases its facility and certain items of office equipment under operating leases. The facility lease is renewable annually and provides for monthly rental payments of \$500. The School is also responsible for the cost of utilities and maintenance, which approximates \$2,750 monthly. Future minimum lease obligations as of June 30, 2015 for noncancelable operating leases with initial lease terms in excess of one year consist of payments totaling \$2,667 per year through 2019.

Rent expense for the years ended June 30, 2015 and 2014 was \$11,299 and \$7,548, respectively.

(3) 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 \$20,579 and \$15,991 for the years ended June 30, 2015 and 2014. The charter remains in effect until June 30, 2016, and is renewable thereafter by mutual consent.

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

(4) Retirement Plans

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits 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 7.5% of compensation for eligible teaching faculty to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2014 (the latest year reported), both TRF and PERF were more than 80% funded. A copy of the complete annual report for the year ended June 30, 2014 can be obtained at:

www.in.gov/inprs/files/2014INPRSCAFRBook_Web.pdf

Retirement plan expense was \$40,328 and \$43,492 for the years ended June 30, 2015 and 2014, respectively.

(5) 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, 2015 and 2014, 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

(6) 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 between program and management services. Following is a summary of expenses comprising each program and service for the years ended June 30, 2015 and 2014:

	<u>2015</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$ 592,258	93,919
Employee benefits	146,607	23,044
Staff development.....	4,271	-
Professional services	54,724	8,160
Textbooks and educational materials	7,998	-
Authorizer oversight fee	-	20,579
Food costs	69,494	-
Transportation	23,285	779
Equipment and rentals	13,562	13,031
Classroom, kitchen and office supplies	15,955	10,154
Occupancy	52,575	986
Depreciation	48,644	-
Insurance	-	16,045
Advertising	-	4,308
Extra-curricular activities	25,943	-
Loss on disposal of assets.....	3,118	-
Other	<u>2,061</u>	<u>6,402</u>
	<u>\$1,060,495</u>	<u>197,407</u>

RURAL COMMUNITY SCHOOLS, INC.

Notes to Financial Statements

(6) Functional Expense Reporting Continued

	2014	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$ 545,343	106,238
Employee benefits	159,589	26,620
Staff development.....	4,169	-
Professional services	32,791	6,353
Textbooks and educational materials	15,002	-
Authorizer oversight fee	-	15,991
Food costs	56,766	-
Transportation	28,555	482
Equipment and rentals	14,223	12,166
Classroom, kitchen and office supplies	15,213	8,183
Occupancy	75,003	1,023
Depreciation	41,254	-
Insurance	-	15,676
Advertising	-	3,096
Extra-curricular activities	28,768	-
Other	<u>677</u>	<u>7,750</u>
	<u>\$1,017,353</u>	<u>203,578</u>

RURAL COMMUNITY SCHOOLS, INC.

Other Reports

Year Ended June 30, 2015

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*.