



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B49165

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

December 15, 2017

Charter School Board
Rural Community Schools, Inc.
2385 IN-63
Sullivan, IN 47882

We have reviewed the report prepared by Rural Community Schools, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Rural Community Schools, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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

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

RURAL COMMUNITY SCHOOLS, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets.....	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7 - 9
OTHER REPORT	10



Donovan CPAs

Independent Auditors' 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, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

Auditors' 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 auditors' 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 auditors consider 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.

www.cpadonovan.com

Westside Office | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Northside Office | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

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, 2017 and 2016 and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, looped initial "D".

Indianapolis, Indiana
November 21, 2017

RURAL COMMUNITY SCHOOLS, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 558,248	\$ 509,674
Grants receivable	<u>16,264</u>	<u>2,612</u>
<i>Total current assets</i>	<u>574,512</u>	<u>512,286</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	145,820	112,654
Furniture and equipment	315,379	283,424
Textbooks and library books	70,625	66,575
Less: accumulated depreciation	<u>(295,380)</u>	<u>(245,689)</u>
<i>Property and equipment, net</i>	<u>236,444</u>	<u>216,964</u>
TOTAL ASSETS	<u><u>\$ 810,956</u></u>	<u><u>\$ 729,250</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 65,892	\$ 55,950
Refundable advances	<u>2,865</u>	<u>-</u>
<i>Total current liabilities</i>	68,757	55,950
NET ASSETS, UNRESTRICTED	<u>742,199</u>	<u>673,300</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 810,956</u></u>	<u><u>\$ 729,250</u></u>

See independent auditors' report and accompanying notes to the financial statements

RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State education support	\$ 1,298,986	\$ 1,155,043
Grant revenue	308,713	292,600
Student fees	37,369	32,486
Extracurricular activities revenue	33,353	24,531
Contributions	9,068	39,856
Other income	9,956	5,222
	<u>1,697,445</u>	<u>1,549,738</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	1,353,139	1,186,649
Management and general	275,407	222,949
	<u>1,628,546</u>	<u>1,409,598</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS	68,899	140,140
NET ASSETS, BEGINNING OF YEAR	<u>673,300</u>	<u>533,160</u>
NET ASSETS, END OF YEAR	<u>\$ 742,199</u>	<u>\$ 673,300</u>

See independent auditors' report and accompanying notes to the financial statements

RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>			<u>2016</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 777,171	\$ 136,841	\$ 914,012	\$ 662,304	\$ 103,030	\$ 765,334
Employee benefits	181,896	36,948	218,844	159,477	28,079	187,556
Staff development	10,574	-	10,574	9,579	-	9,579
Professional services	41,838	4,656	46,494	46,913	7,112	54,025
Textbooks and education materials	5,622	-	5,622	8,111	-	8,111
Authorizer oversight fees	-	25,872	25,872	-	21,644	21,644
Food costs	77,667	-	77,667	77,121	-	77,121
Transportation	25,949	387	26,336	20,904	1,256	22,160
Equipment and rentals	22,602	19,951	42,553	17,715	16,135	33,850
Classroom, kitchen, and office supplies	20,347	15,689	36,036	20,902	14,067	34,969
Extracurricular activities	37,948	-	37,948	19,512	-	19,512
Occupancy	101,291	4,144	105,435	98,243	2,283	100,526
Depreciation	49,690	-	49,690	42,771	-	42,771
Insurance	-	17,918	17,918	-	16,398	16,398
Advertising	-	4,481	4,481	-	6,605	6,605
Other	544	8,520	9,064	3,097	6,340	9,437
<i>Total functional expenses</i>	<u>\$ 1,353,139</u>	<u>\$ 275,407</u>	<u>\$ 1,628,546</u>	<u>\$ 1,186,649</u>	<u>\$ 222,949</u>	<u>\$ 1,409,598</u>

See independent auditors' report and accompanying notes to the financial statements

RURAL COMMUNITY SCHOOLS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 68,899	\$ 140,140
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	49,690	42,771
Change in certain assets and liabilities:		
Grants receivable	(13,652)	3,325
Accounts payable and accrued expenses	9,942	(5,160)
Refundable advances	2,865	-
	<u>117,744</u>	<u>181,076</u>
<i>Net cash provided by operating activities</i>	117,744	181,076
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(69,170)</u>	<u>(61,725)</u>
NET CHANGE IN CASH	48,574	119,351
CASH, BEGINNING OF YEAR	<u>509,674</u>	<u>390,323</u>
CASH, END OF YEAR	<u>\$ 558,248</u>	<u>\$ 509,674</u>

See independent auditors' report and accompanying notes to the financial statements

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Rural Community Schools, 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. The School provides educational instruction to approximately 170 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 is 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 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.

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, 2017 and 2016, 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 2013 are open to audit for both federal and state purposes.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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
Textbook and library books	5 years

Prior Period Adjustment – Revenue and expenses for the year ended June 30, 2016 have both been adjusted by \$41,280 for a grant received and expended that was erroneously not recorded on the School's financial statements. This adjustment had no effect on net assets as of June 30, 2016.

Subsequent Events – The School evaluated subsequent events through November 21, 2017, 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 - REFUNDABLE ADVANCES

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2017 the School had refundable grant advances in excess of expenditures of \$2,865. No such refundable advances existed as of June 30, 2016.

NOTE 3 - 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 \$1,000. 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, 2017 for non-cancelable 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, 2017 and 2016 was \$19,951 and \$14,793, respectively.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 4 - 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 7.5% of compensation for eligible teaching personnel to TRF and 11.2% 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, 2016 (the latest year reported), TRF and PERF were more than 80% funded.

Retirement plan expense was \$66,483 and \$56,222 for the years ended June 30, 2017 and 2016, respectively.

NOTE 5 - 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 \$25,872 and \$21,644 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

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, 2017 and 2016, 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 FDIC insurance limit.

NOTE 7 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.

RURAL COMMUNITY SCHOOLS, INC.
OTHER REPORT
For the Year Ended June 30, 2017

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*.