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March 14, 2018

Charter School Board  
Northern Rush County Schools, Inc.  
d/b/a Mays Community Academy  
929 South Street  
Mays, IN 46155


We have reviewed the report prepared by Northern Rush County Schools, Inc. d/b/a Mays Community Academy 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 Northern Rush County Schools, Inc. d/b/a Mays Community Academy 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.

We call your attention to the Emphasis of Matter Regarding Going Concern paragraph included in the Independent Auditors' Report and further detailed in Note 2.

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.

In addition to the report presented herein, a Supplemental Audit Report for Northern Rush County Schools, Inc. d/b/a Mays Community Academy, 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, CPA  
State Examiner

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**  
**d/b/a MAYS COMMUNITY ACADEMY**

FINANCIAL STATEMENTS  
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016



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# Donovan CPAs

## *Independent Auditors' Report*

The Board of Directors  
Northern Rush County Schools, Incorporated

We have audited the accompanying financial statements of Northern Rush County Schools, Incorporated d/b/a Mays Community Academy, 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 (deficiency), 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.

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Rush County Schools, Incorporated d/b/a Mays Community Academy as of June 30, 2017 and 2016, and the changes in its net assets (deficiency), functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter Regarding Going Concern**

As described in Note 2 to the financial statements, the School has experienced financial difficulties during the fiscal years ended June 30, 2017 and 2016. These factors include recurring losses net of an in-kind property donation, negative cash flows from operations, maximum borrowings on two lines of credit, significant decreases in cash and increases in current liabilities, and necessary short-term borrowings and repayments of notes payable from members of the community to meet cash flow needs. These factors combined raise substantial doubt about the School's ability to continue as a going concern. Further details pertaining to these financial difficulties as well as management's intentions with respect to this matter are also described in Note 2. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

DONOVAN

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

Indianapolis, Indiana  
February 1, 2018

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**  
**d/b/a MAYS COMMUNITY ACADEMY**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 9,925	\$ 124,516
Grants receivable	<u>14,614</u>	<u>16,216</u>
<i>Total current assets</i>	<u>24,539</u>	<u>140,732</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	88,400	88,400
Building and improvements	512,642	509,075
Furniture and equipment	204,198	153,344
Software and textbooks	79,684	65,018
Vehicles	5,000	5,000
Less: accumulated depreciation	<u>(102,005)</u>	<u>(69,534)</u>
<i>Property and equipment, net</i>	<u>787,919</u>	<u>751,303</u>
<b>Other Assets</b>		
Security Deposit	<u>3,900</u>	<u>3,900</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 816,358</u></u>	<u><u>\$ 895,935</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Lines of credit	\$ 150,000	\$ -
Current portion of long-term notes payable	42,500	132,157
Accounts payable and accrued expenses	155,322	65,615
Refundable advance	<u>29,475</u>	<u>-</u>
<i>Total current liabilities</i>	377,297	197,772
<b>LONG-TERM NOTES PAYABLE, NET OF CURRENT PORTION</b>	<u>361,250</u>	<u>403,750</u>
<i>Total liabilities</i>	738,547	601,522
<b>UNRESTRICTED NET ASSETS</b>	<u>77,811</u>	<u>294,413</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 816,358</u></u>	<u><u>\$ 895,935</u></u>

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

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**  
**d/b/a MAYS COMMUNITY ACADEMY**  
**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIENCY)**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 1,206,207	\$ 697,545
Grant revenue	283,373	383,547
Student fees	42,498	41,398
Contributions:		
Property donation	-	595,500
Other contributions	14,640	1,874
Other income	39,638	1,137
	<u>1,586,356</u>	<u>1,721,001</u>
<i>Total revenue and support</i>		
	<u>1,586,356</u>	<u>1,721,001</u>
<b>EXPENSES</b>		
Program services	1,301,574	972,493
Management and general	501,384	451,341
	<u>1,802,958</u>	<u>1,423,834</u>
<i>Total expenses</i>		
	<u>1,802,958</u>	<u>1,423,834</u>
<b>CHANGE IN NET ASSETS</b>	(216,602)	297,167
<b>NET ASSETS (DEFICIENCY), BEGINNING OF YEAR</b>	<u>294,413</u>	<u>(2,754)</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 77,811</u></u>	<u><u>\$ 294,413</u></u>

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

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**  
**d/b/a MAYS COMMUNITY ACADEMY**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**For the Years Ended June 30, 2017 and 2016**

	2017			2016		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
<b>FUNCTIONAL EXPENSES</b>						
Salaries and wages	\$ 642,134	\$ 239,199	\$ 881,333	\$ 428,471	\$ 217,634	\$ 646,105
Employee benefits	187,124	57,083	244,207	126,380	34,840	161,220
Staff development	14,905	-	14,905	12,983	-	12,983
Professional services	53,748	92,827	146,575	27,768	108,320	136,088
Repairs and maintenance	-	31,209	31,209	-	32,916	32,916
Authorizer oversight fees	-	28,383	28,383	-	15,696	15,696
Food costs	44,563	-	44,563	48,977	-	48,977
Transportation	215,957	2,501	218,458	127,954	1,173	129,127
Information technology	12,664	-	12,664	26,552	-	26,552
Advertising	-	13,043	13,043	-	6,339	6,339
Classroom, kitchen, and office supplies	29,062	20,389	49,451	55,749	22,215	77,964
Occupancy	58,868	-	58,868	36,242	-	36,242
Depreciation	32,471	-	32,471	69,534	-	69,534
Interest	-	13,245	13,245	-	8,068	8,068
Insurance	2,500	-	2,500	5,776	-	5,776
Other	7,578	3,505	11,083	6,107	4,140	10,247
	<u>7,578</u>	<u>3,505</u>	<u>11,083</u>	<u>6,107</u>	<u>4,140</u>	<u>10,247</u>
<i>Total functional expenses</i>	<u>\$ 1,301,574</u>	<u>\$ 501,384</u>	<u>\$ 1,802,958</u>	<u>\$ 972,493</u>	<u>\$ 451,341</u>	<u>\$ 1,423,834</u>

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

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**  
**d/b/a MAYS COMMUNITY ACADEMY**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (216,602)	\$ 297,167
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributed property and equipment	-	(595,500)
Depreciation	32,471	69,534
Change in certain assets and liabilities:		
Grants receivable	1,602	(16,216)
Security Deposit	-	(3,900)
Accounts payable and accrued expenses	89,707	65,615
Refundable advance	<u>29,475</u>	<u>-</u>
 <i>Net cash used in operating activities</i>	 <u>(63,347)</u>	 <u>(183,300)</u>
 <b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(69,087)</u>	<u>(220,651)</u>
 <b>FINANCING ACTIVITIES</b>		
Proceeds from short-term notes payable	219,000	-
Principal payments on short-term notes payable	(219,000)	-
Proceeds from lines of credit	150,000	-
Proceeds from long-term notes payable	-	675,000
Principal payments on notes payable	<u>(132,157)</u>	<u>(189,093)</u>
 <i>Net cash provided by financing activities</i>	 <u>17,843</u>	 <u>485,907</u>
 <b>NET CHANGE IN CASH</b>	 (114,591)	 81,956
 <b>CASH, BEGINNING OF YEAR</b>	 <u>124,516</u>	 <u>42,560</u>
 <b>CASH, END OF YEAR</b>	 <u>\$ 9,925</u>	 <u>\$ 124,516</u>
 <b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 13,245	\$ 8,068

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

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**  
**d/b/a MAYS COMMUNITY ACADEMY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General – Northern Rush County Schools, Incorporated d/b/a Mays Community Academy (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School commenced operations as a public charter school on July 1, 2015 under Indiana Code 20-24. The School serves grades kindergarten through six and is sponsored by Ball State University. The School also operates a preschool on site.

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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

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 paid in monthly installments in July through June coinciding with 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. Therefore, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred.

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, minor replacement costs, and small equipment purchases 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:

Building and improvements	7 to 20 years
Furniture and equipment	5 to 7 years
Software and textbooks	3 to 5 years
Vehicles	5 years

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**  
**d/b/a MAYS COMMUNITY ACADEMY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Taxes on Income – Northern Rush County Schools, Incorporated 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.

Subsequent Events – The School evaluated subsequent events through February 1, 2018, 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 - GOING CONCERN CONSIDERATIONS**

As reflected in the accompanying financial statements, the School has been experiencing financial difficulties during the fiscal years ended June 30, 2017 and 2016. The following factors raise substantial doubt about the School's ability to continue as a going concern:

- Excluding in-kind property donations, expenses exceeded revenues by \$216,602 and \$298,333 for fiscal years 2017 and 2016, respectively;
- Negative cash flow from operations totaled \$63,347 and \$183,300 for the fiscal years 2017 and 2016, respectively;
- During fiscal year 2017, the School borrowed the maximum of \$75,000 on each of its two lines of credit;
- As of June 30, 2017, current liabilities exceeded current assets by \$352,758, requiring funding from the 2017-2018 school year to be used to pay past expenses; and
- Funds totaling \$219,000 were borrowed from and repaid to members of the community during fiscal year 2017 to meet cash flow requirements.

The ability of the School to continue as a going concern is dependent upon the School increasing state education support revenue through increased enrollment, controlling its operating expenses, and improving its cash management processes. The accompanying financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**  
**d/b/a MAYS COMMUNITY ACADEMY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 2 - GOING CONCERN CONSIDERATIONS, Continued**

Management is aware of the financial difficulties experienced in fiscal years 2017 and 2016, and has taken measures to alleviate the causes. Such measures include increasing the student population approximately 150% since the School's inception, increasing funding for special education through more accurate and timely student counts, and cost reductions in its food program due to federal reimbursement for free and reduced lunches served. Management believes the steps it has taken to improve the School's financial position will allow it to continue as a going concern into the foreseeable future.

**NOTE 3 - REFUNDABLE ADVANCE**

The School has been awarded grants to provide educational instruction that 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 \$29,475.

**NOTE 4 - LINES OF CREDIT**

The School has two lines of credit with CentreBank. The first line of credit has a \$75,000 borrowing capacity, incurs interest at 4.0% per annum. The second line of credit has a \$75,000 borrowing capacity and incurs interest at 4.5% per annum. The balance on both lines of credit as of June 30, 2017 was \$150,000.

**NOTE 5 - LONG-TERM NOTES PAYABLE**

Long-term notes payable consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Note payable to CentreBank, payable in monthly installments of \$17,168 including interest at 3.75% per annum, through January 2017.	\$ -	\$ 110,907
Note payable to Indiana State Board of Education, payable \$21,250 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, maturing in July 2026.	403,750	425,000
	<u>403,750</u>	<u>535,907</u>
Less: current portion	<u>(42,500)</u>	<u>(132,157)</u>
Long-term portion	\$ <u>361,250</u>	\$ <u>403,750</u>

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**  
**d/b/a MAYS COMMUNITY ACADEMY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 5 - NOTES PAYABLE, Continued**

Principal maturities of long-term notes payable are as follows for the years ending June 30:

2018	\$	42,500
2019		42,500
2020		42,500
2021		42,500
2022		42,500
Thereafter		191,250
	\$	403,750

**NOTE 6 - SHORT TERM FINANCING**

From time to time throughout the year ended June 30, 2017, the School utilized short-term note payable financing from members of the community to meet cash flow needs. The School borrowed money at an average rate of 8%. The School borrowed and repaid \$219,000 in short-term financing, and paid \$935 in interest on these borrowings during the year.

**NOTE 7 - RETIREMENT PLANS**

During the fiscal year 2017, the School began to participate in 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. The School's total retirement expense was \$71,166 in 2017.

**NOTE 8 - 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 \$28,383 and \$15,696 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2018, and is renewable thereafter by mutual consent.

The School contracted with Indiana Charters LLC, a for-profit organization incorporated in the State of Indiana, to perform data management, financial, administrative, and general operational support services. Under the terms of the agreement, the School agreed to pay a total of \$131,500 through June 2017 for such services. The contract commenced in July 2015. Expenses under this contract were \$45,826 and \$81,498 for the years ended June 30, 2017 and 2016, respectively.

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**  
**d/b/a MAYS COMMUNITY ACADEMY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 9 - RISKS AND UNCERTAINTIES**

The School provides educational instruction services to families residing in Rush 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, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained primarily at CentreBank and MainSource Bank, and are insured up to the FDIC insurance limit.

**NOTE 10 - 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 services and management and general.

**NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED**  
**d/b/a MAYS COMMUNITY ACADEMY**  
**OTHER REPORT**  
**For the Year Ended June 30, 2017**

The reports presented herein were prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of Northern Rush County Schools, Incorporated  
d/b/a Mays Community Academy.

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*.