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November 19, 2018


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

We have reviewed the report prepared by Rock Creek Community Academy, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2017 to June 30, 2018. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Rock Creek Community Academy, Inc. as of June 30, 2018 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.

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


Paul D. Joyce, CPA
State Examiner

ROCK CREEK COMMUNITY ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2018 and 2017



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Donovan CPAs

Independent Auditors' 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, 2018 and 2017, 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.

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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, 2018 and 2017, and the changes in its net assets, functional expenses, and 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 letter "D" is large and stylized, with a long horizontal stroke that extends to the left and loops back under the "O". The remaining letters "ONOVAN" are written in a cursive, slightly slanted style.

Indianapolis, Indiana
November 1, 2018

ROCK CREEK COMMUNITY ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,030,522	\$ 1,002,012
Grants receivable	3,562	10,700
Prepaid expenses	<u>51,030</u>	<u>54,457</u>
<i>Total current assets</i>	<u>1,085,114</u>	<u>1,067,169</u>
SECURITY DEPOSIT	<u>4,000</u>	<u>4,000</u>
PROPERTY AND EQUIPMENT		
Construction in progress		
Land	1,196,153	-
Construction and other costs	661,826	-
Leasehold improvements	555,013	555,013
Furniture and equipment	592,022	586,602
Textbooks	402,513	358,464
Less: accumulated depreciation	<u>(1,389,085)</u>	<u>(1,218,746)</u>
<i>Property and equipment, net</i>	<u>2,018,442</u>	<u>281,333</u>
TOTAL ASSETS	<u>\$ 3,107,556</u>	<u>\$ 1,352,502</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	\$ 1,456,441	\$ -
Accounts payable and accrued expenses	352,233	270,752
Construction costs payable	186,150	-
Deferred revenue	126,361	116,304
Refundable advances	<u>-</u>	<u>1,333</u>
<i>Total current liabilities</i>	<u>2,121,185</u>	<u>388,389</u>
NET ASSETS		
Unrestricted		
Undesignated	547,981	649,430
Invested in property and equipment, net of line of credit and construction costs payable	<u>375,851</u>	<u>281,333</u>
<i>Total unrestricted</i>	923,832	930,763
Temporarily restricted	<u>62,539</u>	<u>33,350</u>
<i>Total net assets</i>	<u>986,371</u>	<u>964,113</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,107,556</u>	<u>\$ 1,352,502</u>

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

ROCK CREEK COMMUNITY ACADEMY, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>			<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT						
State education support	\$ 3,040,013	\$ -	\$ 3,040,013	\$ 3,150,312	\$ -	\$ 3,150,312
Grant revenue	511,887	-	511,887	514,131	-	514,131
Student fees	180,662	94,722	275,384	252,046	49,286	301,332
Contributions	6,980	1,380	8,360	15,950	3,950	19,900
Fundraising income	48,789	38,347	87,136	33,271	68,153	101,424
Net assets released from restrictions	105,260	(105,260)	-	134,613	(134,613)	-
<i>Total revenue and support</i>	<u>3,893,591</u>	<u>29,189</u>	<u>3,922,780</u>	<u>4,100,323</u>	<u>(13,224)</u>	<u>4,087,099</u>
EXPENSES						
Program services	3,453,031	-	3,453,031	3,403,741	-	3,403,741
Management and general	620,141	-	620,141	637,130	-	637,130
<i>Total expenses</i>	<u>4,073,172</u>	<u>-</u>	<u>4,073,172</u>	<u>4,040,871</u>	<u>-</u>	<u>4,040,871</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(179,581)	29,189	(150,392)	59,452	(13,224)	46,228
In-kind donation of land	193,000	-	193,000	-	-	-
Loss due to irrecoverable earnest money for land	(20,350)	-	(20,350)	-	-	-
CHANGE IN NET ASSETS	(6,931)	29,189	22,258	59,452	(13,224)	46,228
NET ASSETS, BEGINNING OF YEAR	<u>930,763</u>	<u>33,350</u>	<u>964,113</u>	<u>871,311</u>	<u>46,574</u>	<u>917,885</u>
NET ASSETS, END OF YEAR	<u>\$ 923,832</u>	<u>\$ 62,539</u>	<u>\$ 986,371</u>	<u>\$ 930,763</u>	<u>\$ 33,350</u>	<u>\$ 964,113</u>

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

ROCK CREEK COMMUNITY ACADEMY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2018 and 2017

	2018			2017		
	<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	\$ 1,585,832	\$ 317,959	\$ 1,903,791	\$ 1,544,350	\$ 325,972	\$ 1,870,322
Employee benefits	401,087	66,269	467,356	369,696	66,296	435,992
Staff development	2,539	-	2,539	31,682	-	31,682
Professional services	435,781	70,489	506,270	409,592	75,586	485,178
Repairs and maintenance	51,205	5,109	56,314	39,244	-	39,244
Authorizer oversight fees	-	73,084	73,084	-	75,709	75,709
Food costs	51,803	-	51,803	53,322	-	53,322
Equipment	48,160	-	48,160	50,983	-	50,983
Classroom, kitchen, and office supplies	240,763	7,967	248,730	219,502	19,031	238,533
Occupancy	340,118	-	340,118	373,898	-	373,898
Depreciation	170,339	-	170,339	195,803	-	195,803
Field trips	45,011	-	45,011	53,840	-	53,840
Interest	-	-	-	-	661	661
Insurance	-	32,799	32,799	-	34,574	34,574
Advertising	-	29,286	29,286	-	18,342	18,342
Other	80,393	17,179	97,572	61,829	20,959	82,788
<i>Total functional expenses</i>	<u>\$ 3,453,031</u>	<u>\$ 620,141</u>	<u>\$ 4,073,172</u>	<u>\$ 3,403,741</u>	<u>\$ 637,130</u>	<u>\$ 4,040,871</u>

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

ROCK CREEK COMMUNITY ACADEMY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 22,258	\$ 46,228
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	170,339	195,803
In-kind donation of land	(193,000)	-
Change in certain assets and liabilities:		
Grants receivable	7,138	27,529
Accounts receivable	-	3,858
Prepaid expenses	3,427	(19,496)
Accounts payable and accrued expenses	81,481	34,422
Deferred revenue	10,057	(10,906)
Refundable advances	(1,333)	1,333
	<u>100,367</u>	<u>278,771</u>
<i>Net cash provided by operating activities</i>		
INVESTING ACTIVITIES		
Purchases of property and equipment	(49,469)	(61,857)
Payments for construction in progress	(1,478,829)	-
	<u>(1,528,298)</u>	<u>(61,857)</u>
<i>Net cash used in investing activities</i>		
FINANCING ACTIVITIES		
Principal repayments of note payable	-	(18,567)
Proceeds from line of credit	1,456,441	-
	<u>1,456,441</u>	<u>(18,567)</u>
<i>Net cash provided by (used in) investing activities</i>		
NET CHANGE IN CASH	28,510	198,347
CASH, BEGINNING OF YEAR	<u>1,002,012</u>	<u>803,665</u>
CASH, END OF YEAR	<u>\$ 1,030,522</u>	<u>\$ 1,002,012</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ -	\$ 661
NON CASH TRANSACTIONS		
In-kind donation of land	193,000	-
Construction costs in liabilities	186,150	

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

ROCK CREEK COMMUNITY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 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. The School, located in Sellersburg, Indiana, provided educational instruction to approximately 460 students in grades kindergarten to twelve during the 2017-2018 academic year.

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 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.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of assets as follows:

- Unrestricted net assets, which represent net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.
- Temporarily restricted net assets, which represent net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time.

Contributions and Fees – The School receives resources from participation fees and fundraising events that support certain school activities. These receipts are reported as restricted support in that they are received with stipulations that limit their use. When a donor restriction expires, that is, when the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions.

ROCK CREEK COMMUNITY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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, 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:

Leasehold improvements	5 to 8 years
Furniture and equipment	3 to 5 years
Textbooks	5 years

Construction in Progress – Construction in progress represents expenditures incurred for construction and development of the new school building and are carried at cost. Cost includes land, related acquisition expenses, development/construction costs and other direct expenditures.

Borrowing Costs – Cost of borrowings acquired generally or specifically to finance the construction or development of the School properties are capitalized to the carrying costs pertaining to such properties.

Deferred Revenue – Deferred revenue consists of student fees and textbook rentals received as part of the enrollment process for the subsequent academic school year.

Taxes on Income – Rock Creek Community Academy, Inc. has received a determination from the U.S. Internal Revenue Service 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, 2018 and 2017, 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 2014 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 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.

ROCK CREEK COMMUNITY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 2 - LINE OF CREDIT

During June 2018, the School entered into a line of credit arrangement with PNC Bank. The line of credit is secured by substantially all assets of the School. Interest on the line of credit is charged at LIBOR plus 2.50% (a total of 4.60% at June 30, 2018). The line of credit matures in December 2018. The balance of the line of credit at June 30, 2018 was \$1,456,441. See Note 10 for management's plan to refinance the line of credit with a bond offering.

NOTE 3 - 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 \$1,333. There were no refundable advances at June 30, 2018.

NOTE 4 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets represent resources received from students and donors but not expended for the restricted purposes as of June 30, 2018 and 2017. Temporarily restricted net assets were available for the following purposes as of June 30:

	<u>2018</u>	<u>2017</u>
Fun run	\$ 21,536	\$ -
Character counts	16,536	8,783
Grade level funds	11,333	12,873
Other	<u>13,134</u>	<u>11,694</u>
<i>Total</i>	\$ <u>62,539</u>	\$ <u>33,350</u>

Net assets were released from donor restrictions by incurring expenses to satisfy the restricted purpose. The following purpose restrictions were accomplished during the years ended June 30:

	<u>2018</u>	<u>2017</u>
Fun run	\$ 893	\$ -
Character counts	21,898	34,666
Grade level funds	65,056	73,960
Other	<u>17,413</u>	<u>25,987</u>
<i>Total</i>	\$ <u>105,260</u>	\$ <u>134,613</u>

ROCK CREEK COMMUNITY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 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 2018 and 2017 was \$294,426 and \$302,453, respectively. Minimum future rental payments as of June 30, 2018 for all operating leases with noncancellable lease terms in excess of one year are as follows for the years ending June 30:

2019	\$	317,808
2020		205,288
2021		44,568

NOTE 6 - RETIREMENT PLAN

The School maintains a Section 403(b) defined contribution retirement plan with Mass Mutual 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 each participant's compensation for the plan year. Retirement plan expense for the years ended June 30, 2018 and 2017 was \$135,675 and \$134,537, respectively.

NOTE 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. The charter remains in effect until June 30, 2020 and is renewable thereafter by mutual consent. Payments under this charter agreement were \$73,084 and \$75,709 for the years ended June 30, 2018 and 2017, respectively.

NOTE 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, 2018, substantially all of the grants 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.

ROCK CREEK COMMUNITY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 9 - 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 expenses.

NOTE 10 - SUBSEQUENT EVENT

Pursuant to a Trust Indenture agreement dated September 1, 2018, Indiana Finance Authority (the "Issuer") agreed to issue Educational Facilities Revenue Bonds (Series 2018A Bonds and Series 2018B Bonds) for Rock Creek Community Academy Project to US Bank National Association (the "Trustee"). Educational Facilities Revenue Bonds (Series 2018A Bonds) will be issued in aggregate principal amount of \$14,450,000 and Taxable Educational Facilities Revenue Bonds (Series 2018B) will be issued in aggregate principal amount of \$200,000. Following are other relevant terms in relation to such agreement:

- a) The Series 2018A Bonds and Series 2018B Bonds will be issued in authorized denominations of \$100,000 and integral multiples of \$5,000 in excess thereof.
- b) The bonds will bear interest payable semi-annually on January 1 and July 1 of each year, commencing January 1, 2019, until maturity or earlier redemption. Interest rates on various bonds will be between the range of 5.10% and 6.375%.
- c) The Series 2018A Bonds maturing on or after July 1, 2029 are subject to optional redemption prior to the maturity on any date on and after July 1, 2028 at a price of par plus accrued interest to the redemption date. The Series 2018B Bonds are not subject to optional redemption prior to the maturity.
- d) The Series 2018A Bonds and Series 2018B Bonds are subject to mandatory sinking fund redemption in advance of their maturity at the price of par plus accrued interest to the redemption date.

Pursuant to the terms of the loan agreement dated September 1, 2018, the Issuer will loan the proceeds of the Series Bonds to the School for following purposes:

- a) To finance and refinance the acquisition, construction, and equipping of a new educational facility;
- b) To pay capitalized interest on the Series 2018 Bonds;
- c) To fund a reserve fund for Series 2018 Bonds; and
- d) To pay certain costs associated with the issuance of Series 2018 Bonds.

Pursuant to the Master Indenture dated September 1, 2018, the School will issue the Series 2018 Note to the Issuer to secure its obligations under the loan agreement. Such Series 2018 Note will be in principal amount equal to the aggregate principal amount of Series 2018 Bonds and such Series 2018 Note will be assigned by the Issuer to the Trustee. All payments by the School on the Series 2018 Note will be made to the Trustee and each payment will be made on or before the date when the corresponding payment is required to be made on the Series 2018 Bonds. The Series 2018 Note and all other notes and guarantees issued under the Master Indenture are special and limited obligations of the School and these are payable from the gross revenues and other properties pledged under the Master Indenture including right title and interest in the revenue fund.

ROCK CREEK COMMUNITY ACADEMY, INC.
OTHER REPORT
For the Year Ended June 30, 2018

The reports presented herein were 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*.