



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

B51372

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](http://www.in.gov/sboa)

November 26, 2018


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, 2017 to June 30, 2018. 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, 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 Rural Community Schools, 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

**RURAL COMMUNITY SCHOOLS, INC.**

FINANCIAL STATEMENTS  
Together with Independent Auditors' Report

For the Years Ended June 30, 2018 and 2017



## TABLE OF CONTENTS

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT</b> .....	1 - 2
<b>FINANCIAL STATEMENTS</b>	
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
<b>OTHER REPORT</b> .....	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, 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.

---

**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, 2018 and 2017 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 dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent initial "D".

Indianapolis, Indiana  
November 13, 2018

**RURAL COMMUNITY SCHOOLS, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 631,631	\$ 558,248
Grants receivable	<u>68,039</u>	<u>16,264</u>
<i>Total current assets</i>	<u>699,670</u>	<u>574,512</u>
<b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	170,297	145,820
Furniture and equipment	315,379	315,379
Textbooks and library books	79,430	70,625
Less: accumulated depreciation	<u>(339,006)</u>	<u>(295,380)</u>
<i>Property and equipment, net</i>	<u>226,100</u>	<u>236,444</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 925,770</u></u>	<u><u>\$ 810,956</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 68,775	\$ 65,892
Refundable advances	<u>-</u>	<u>2,865</u>
<i>Total current liabilities</i>	<u>68,775</u>	<u>68,757</u>
<b>NET ASSETS, UNRESTRICTED</b>		
Undesignated	630,895	505,755
Invested in property and equipment	<u>226,100</u>	<u>236,444</u>
<i>Total net assets, unrestricted</i>	<u>856,995</u>	<u>742,199</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 925,770</u></u>	<u><u>\$ 810,956</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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 1,365,830	\$ 1,298,986
Grant revenue	352,366	308,713
Student fees	40,091	37,369
Extracurricular activities revenue	37,065	33,353
Contributions	3,227	9,068
Other income	1,949	9,956
	<u>1,800,528</u>	<u>1,697,445</u>
<i>Total revenue and support</i>		
<b>EXPENSES</b>		
Program services	1,373,685	1,353,139
Management and general	312,047	275,407
	<u>1,685,732</u>	<u>1,628,546</u>
<i>Total expenses</i>		
<b>CHANGE IN NET ASSETS</b>	114,796	68,899
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>742,199</u>	<u>673,300</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 856,995</u>	<u>\$ 742,199</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, 2018 and 2017**

	<u>2018</u>			<u>2017</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>
<b>FUNCTIONAL EXPENSES</b>						
Salaries and wages	\$ 727,574	\$ 161,551	\$ 889,125	\$ 777,171	\$ 136,841	\$ 914,012
Employee benefits	196,711	41,564	238,275	181,896	36,948	218,844
Staff development	6,328	-	6,328	10,574	-	10,574
Professional services	60,028	5,586	65,614	41,838	4,656	46,494
Textbooks and education materials	7,017	-	7,017	5,622	-	5,622
Authorizer oversight fees	-	27,841	27,841	-	25,872	25,872
Food costs	80,106	-	80,106	77,667	-	77,667
Transportation	31,841	1,459	33,300	25,949	387	26,336
Equipment and rentals	27,641	23,036	50,677	22,602	19,951	42,553
Classroom, kitchen, and office supplies	29,990	15,580	45,570	20,347	15,689	36,036
Extracurricular activities	43,428	-	43,428	37,948	-	37,948
Occupancy	118,399	3,615	122,014	101,291	4,144	105,435
Depreciation	43,626	-	43,626	49,690	-	49,690
Insurance	-	18,713	18,713	-	17,918	17,918
Advertising	-	3,235	3,235	-	4,481	4,481
Other	996	9,867	10,863	544	8,520	9,064
	<u>996</u>	<u>9,867</u>	<u>10,863</u>	<u>544</u>	<u>8,520</u>	<u>9,064</u>
<i>Total functional expenses</i>	<u>\$ 1,373,685</u>	<u>\$ 312,047</u>	<u>\$ 1,685,732</u>	<u>\$ 1,353,139</u>	<u>\$ 275,407</u>	<u>\$ 1,628,546</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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 114,796	\$ 68,899
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	43,626	49,690
Change in certain assets and liabilities:		
Grants receivable	(51,775)	(13,652)
Accounts payable and accrued expenses	2,883	9,942
Refundable advances	<u>(2,865)</u>	<u>2,865</u>
 <i>Net cash provided by operating activities</i>	 106,665	 117,744
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(33,282)</u>	<u>(69,170)</u>
<b>NET CHANGE IN CASH</b>	73,383	48,574
<b>CASH, BEGINNING OF YEAR</b>	<u>558,248</u>	<u>509,674</u>
<b>CASH, END OF YEAR</b>	<u>\$ 631,631</u>	<u>\$ 558,248</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, 2018 and 2017**

**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, 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.

**RURAL COMMUNITY SCHOOLS, 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 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

Subsequent Events – The School evaluated subsequent events through November 13, 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 - 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, 2018.

**NOTE 3 - LEASES**

The School leases its facility under an operating lease that 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. Rent expense for the years ended June 30, 2018 and 2017 was \$21,774 and \$19,951, respectively.

**NOTE 4 - 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 \$27,841 and \$25,872 for the years ended June 30, 2018 and 2017, respectively. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

**RURAL COMMUNITY SCHOOLS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

**NOTE 5 - 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, 2017 (the latest year reported), TRF was more than 80% funded.

Retirement plan expense was \$67,502 and \$66,483 for the years ended June 30, 2018 and 2017, respectively.

**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, 2018 and 2017, 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 services and management and general expenses.

**RURAL COMMUNITY SCHOOLS, INC.**  
**OTHER REPORT**  
**For the Year Ended June 30, 2018**

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*.