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December 19, 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, 2017 to June 30, 2018. 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, 2018 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, 2018 and 2017



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets (Deficiency).....	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7 - 12
 OTHER REPORT	 13



Donovan CPAs

Independent Auditors' Report

The Board of Directors
Northern Rush County Schools, Incorporated

Report on the Financial Statements

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, 2018 and 2017 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, 2018 and 2017, 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 years ended June 30, 2018 and 2017. These factors include recurring losses, a large working capital deficiency, significant principal payments on notes payable due in the upcoming fiscal year, and necessary short-term financing 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 'D'.

Indianapolis, Indiana
December 17, 2018

NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 68,016	\$ 9,925
Grants receivable	-	14,614
<i>Total current assets</i>	<u>68,016</u>	<u>24,539</u>
PROPERTY AND EQUIPMENT		
Land	88,400	88,400
Building and improvements	512,642	512,642
Furniture and equipment	212,108	204,198
Software and textbooks	80,254	79,684
Vehicles	5,000	5,000
Less: accumulated depreciation	<u>(160,391)</u>	<u>(102,005)</u>
<i>Property and equipment, net</i>	<u>738,013</u>	<u>787,919</u>
OTHER ASSETS		
Security deposit	<u>3,900</u>	<u>3,900</u>
TOTAL ASSETS	<u><u>\$ 809,929</u></u>	<u><u>\$ 816,358</u></u>
LIABILITIES AND NET ASSETS (DEFICIENCY)		
CURRENT LIABILITIES		
Lines of credit	\$ -	\$ 150,000
Current portion of notes payable	180,958	42,500
Accounts payable and accrued expenses	201,566	155,322
Refundable advance	29,475	29,475
Short-term financing	<u>101,000</u>	<u>-</u>
<i>Total current liabilities</i>	512,999	377,297
NOTES PAYABLE, NET OF CURRENT PORTION	<u>318,750</u>	<u>361,250</u>
<i>Total liabilities</i>	<u>831,749</u>	<u>738,547</u>
NET ASSETS (DEFICIENCY), UNRESTRICTED		
Undesignated	(260,125)	(306,358)
Invested in property and equipment, net of notes payable	<u>238,305</u>	<u>384,169</u>
<i>Total net assets (deficiency), unrestricted</i>	<u>(21,820)</u>	<u>77,811</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	<u><u>\$ 809,929</u></u>	<u><u>\$ 816,358</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUE AND SUPPORT		
State education support	\$ 1,452,050	\$ 1,206,207
Grant revenue	326,072	283,373
Student fees	35,635	42,498
Contributions	54,930	14,640
Other income	<u>65,456</u>	<u>39,638</u>
<i>Total revenue and support</i>	<u>1,934,143</u>	<u>1,586,356</u>
EXPENSES		
Program services	1,546,962	1,301,574
Management and general	<u>486,812</u>	<u>501,384</u>
<i>Total expenses</i>	<u>2,033,774</u>	<u>1,802,958</u>
CHANGE IN NET ASSETS	(99,631)	(216,602)
NET ASSETS, BEGINNING OF YEAR	<u>77,811</u>	<u>294,413</u>
NET ASSETS (DEFICIENCY), END OF YEAR	<u>\$ (21,820)</u>	<u>\$ 77,811</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, 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	\$ 739,218	\$ 224,163	\$ 963,381	\$ 642,134	\$ 239,199	\$ 881,333
Employee benefits	240,990	48,066	289,056	187,124	57,083	244,207
Staff development	1,020	-	1,020	14,905	-	14,905
Professional services	47,426	96,900	144,326	53,748	92,827	146,575
Repairs and maintenance	-	37,237	37,237	-	31,209	31,209
Authorizer oversight fees	-	28,632	28,632	-	28,383	28,383
Food costs	83,023	-	83,023	44,563	-	44,563
Transportation	224,614	193	224,807	215,957	2,501	218,458
Information technology	32,056	-	32,056	12,664	-	12,664
Advertising	-	367	367	-	13,043	13,043
Classroom, kitchen, and office supplies	48,990	7,782	56,772	29,062	20,389	49,451
Occupancy	62,802	-	62,802	58,868	-	58,868
Depreciation	58,386	-	58,386	32,471	-	32,471
Interest	-	12,165	12,165	-	13,245	13,245
Insurance	2,619	-	2,619	2,500	-	2,500
Other	5,818	31,307	37,125	7,578	3,505	11,083
	<u>5,818</u>	<u>31,307</u>	<u>37,125</u>	<u>7,578</u>	<u>3,505</u>	<u>11,083</u>
<i>Total functional expenses</i>	<u>\$ 1,546,962</u>	<u>\$ 486,812</u>	<u>\$ 2,033,774</u>	<u>\$ 1,301,574</u>	<u>\$ 501,384</u>	<u>\$ 1,802,958</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (99,631)	\$ (216,602)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	58,386	32,471
Change in certain assets and liabilities:		
Grants receivable	14,614	1,602
Accounts payable and accrued expenses	46,244	89,707
Refundable advance	-	29,475
	<u>19,613</u>	<u>(63,347)</u>
<i>Net cash provided by (used in) operating activities</i>		
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(8,480)</u>	<u>(69,087)</u>
FINANCING ACTIVITIES		
Proceeds from short-term financing	559,000	219,000
Principal payments on short-term financing	(458,000)	(219,000)
Proceeds from (repayments of) lines of credit, net	(150,000)	150,000
Proceeds from notes payable	138,458	-
Repayments of notes payable	<u>(42,500)</u>	<u>(132,157)</u>
<i>Net cash provided by financing activities</i>	<u>46,958</u>	<u>17,843</u>
NET CHANGE IN CASH	58,091	(114,591)
CASH, BEGINNING OF YEAR	<u>9,925</u>	<u>124,516</u>
CASH, END OF YEAR	<u>\$ 68,016</u>	<u>\$ 9,925</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 12,165	\$ 13,245

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, 2018 and 2017

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 is sponsored by Ball State University and operates a public charter established under Indiana Code 20-24. The School served approximately 180 and 175 students during the years ended June 30, 2018 and 2017, respectively, in grades kindergarten through six. The School's enrollment increased to approximately 210 during the fall 2019 semester.

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 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.

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.

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, 2018 and 2017

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, 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. Since the School commenced operations in 2015, all tax years are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 17, 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 experienced financial difficulties during the years ended June 30, 2018 and 2017. The following factors raise substantial doubt about the School's ability to continue as a going concern:

- Expenses exceeded revenues by \$102,309 and \$216,602 for the years ended June 30, 2018 and 2017, respectively;
- Negative cash flows from operations of \$63,347 for the year ended June 30, 2017, and slightly positive cash flow from operations during the year ended June 30, 2018, due primarily to increases in accounts payable and accrued expenses;
- Negative working capital (current assets minus current liabilities) of \$447,661 as of June 30, 2018; and
- Borrowings and repayments of short-term financing notes payable from members of the community of \$559,000 and \$458,000, respectively, during the year ended June 30, 2018 necessary to meet the cash flow needs of the School.

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, 2018 and 2017

NOTE 2 - GOING CONCERN CONSIDERATIONS, Continued

Management is aware of the financial difficulties encountered during the years ended June 30, 2018 and 2017 and is actively working to ensure the long-term financial viability of the School. Management attributes much of its financial challenges to a growth and learning curve of an entity in the early stages of operations.

During the year ended June 30, 2018, the School received a five-year renewal of its charter from Ball State University. Student enrollment increased from approximately 180 during the 2017-2018 school year to 223 as of the date of this report.

The School has identified and utilized new funding sources including additional special education grants and food program grants as the School qualifies under the Community Eligibility Provision of the National School Lunch and School Breakfast Program during the 2018-2019 school year.

Management believes the measures it has taken to correct the financial difficulties documented herein are sufficient to allow the School to continue as a going concern for 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. The School had refundable grant advances in excess of expenditures of \$29,475 as of both June 30, 2018 and 2017.

NOTE 4 - LINES OF CREDIT

The School had two lines of credit with CentreBank. The first line of credit had a \$75,000 borrowing capacity and incurred interest at 4.0% per annum. The second line of credit had a \$75,000 borrowing capacity and incurred interest at 4.5% per annum. The total balance on both lines of credit as of June 30, 2017 was \$150,000. The lines of credit were converted to notes payable during the year ended June 30, 2018.

NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 5 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Two notes payable to CentreBank with substantially identical terms; payable in monthly installments of \$2,822 total including interest at 5.50% per annum, secured by all School assets. Any remaining unpaid portion is due upon maturity in January 2019.	\$ 138,458	\$ -
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.	361,250	403,750
	<u>499,708</u>	<u>403,750</u>
Less: current portion	<u>(180,958)</u>	<u>(42,500)</u>
Long-term portion	\$ <u>318,750</u>	\$ <u>361,250</u>

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

2019	\$ 180,958
2020	42,500
2021	42,500
2022	42,500
2023	42,500
Thereafter	<u>148,750</u>
	<u>\$ 499,708</u>

NOTE 6 - SHORT-TERM FINANCING

From time to time throughout the years ended June 30, 2018 and 2017, the School utilized short-term note payable financing from members of the community to meet cash flow needs. The average interest rate on the short-term notes payable was 8%. The School borrowed and repaid \$559,000 and \$458,000, respectively, during the year ended June 30, 2018 and paid \$977 in interest thereon. The School borrowed and repaid \$219,000 during the year ended June 30, 2017 and paid \$935 in interest thereon.

NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 7 - 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. For the year ended June 30, 2018 and 2017, the School contributed 7.5% of compensation for eligible teaching personnel to TRF and 11.2% for other 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 and PERF were more than 80% funded. The School's total retirement expense was \$51,732 and \$71,166 in 2018.

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 \$28,632 and \$28,383 for the years ended June 30, 2018 and 2017, respectively. The charter remains in effect until June 30, 2023 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. Expenses under this contract were \$31,666 and \$45,826 for the years ended June 30, 2018 and 2017, respectively.

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.

NORTHERN RUSH COUNTY SCHOOLS, INCORPORATED
d/b/a MAYS COMMUNITY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 9 - RISKS AND UNCERTAINTIES, Continued

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. There was not balance in accounts receivable subject to credit risk as of June 30, 2018. 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 expenses.

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