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November 20, 2019

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


We have reviewed the audit report of Rural Community Schools, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. 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, 2019 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 the audit report in accordance with 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 audited Financial Statements and Supplemental Audit Report are filed 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, 2019 and 2018



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# 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. (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, 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 the School as of June 30, 2019 and 2018 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.

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

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As discussed in Note 2 to the financial statements, the School experienced significant decreases in enrollment for the 2018-2019 and 2019-2020 school years. The decrease in enrollment significantly reduces revenue and raises substantial doubt about the School's ability to continue as a going concern. Management's plans regarding this matter are also described in Note 2. The 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 dark ink that reads "DONOVAN". The letters are cursive and slightly slanted to the right.

Indianapolis, Indiana  
November 13, 2019

**RURAL COMMUNITY SCHOOLS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2019 and 2018**

|                                               | <u>2019</u>              | <u>2018</u>              |
|-----------------------------------------------|--------------------------|--------------------------|
| <b>ASSETS</b>                                 |                          |                          |
| <b>CURRENT ASSETS</b>                         |                          |                          |
| Cash                                          | \$ 461,425               | \$ 631,631               |
| Grants receivable                             | <u>9,900</u>             | <u>68,039</u>            |
| <i>Total current assets</i>                   | <u>471,325</u>           | <u>699,670</u>           |
| <b>PROPERTY AND EQUIPMENT</b>                 |                          |                          |
| Leasehold improvements                        | 173,197                  | 170,297                  |
| Furniture and equipment                       | 334,136                  | 315,379                  |
| Textbooks and library books                   | 79,430                   | 79,430                   |
| Less: accumulated depreciation                | <u>(376,063)</u>         | <u>(339,006)</u>         |
| <i>Property and equipment, net</i>            | <u>210,700</u>           | <u>226,100</u>           |
| <b>TOTAL ASSETS</b>                           | <u><u>\$ 682,025</u></u> | <u><u>\$ 925,770</u></u> |
| <b>LIABILITIES AND NET ASSETS</b>             |                          |                          |
| <b>CURRENT LIABILITIES</b>                    |                          |                          |
| Accounts payable and accrued expenses         | \$ 54,131                | \$ 68,775                |
| <b>NET ASSETS, WITHOUT DONOR RESTRICTIONS</b> | <u>627,894</u>           | <u>856,995</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>       | <u><u>\$ 682,025</u></u> | <u><u>\$ 925,770</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, 2019 and 2018**

|                                      | <u>2019</u>       | <u>2018</u>       |
|--------------------------------------|-------------------|-------------------|
| <b>REVENUE AND SUPPORT</b>           |                   |                   |
| State education support              | \$ 998,223        | \$ 1,365,830      |
| Grant revenue                        | 282,910           | 352,366           |
| Student fees                         | 22,010            | 40,091            |
| Extracurricular activities revenue   | 34,744            | 37,065            |
| Contributions                        | 3,177             | 3,227             |
| Other income                         | 20,321            | 1,949             |
|                                      | <u>1,361,385</u>  | <u>1,800,528</u>  |
| <i>Total revenue and support</i>     |                   |                   |
| <b>EXPENSES</b>                      |                   |                   |
| Program services                     | 1,214,427         | 1,373,685         |
| Management and general               | 376,059           | 312,047           |
|                                      | <u>1,590,486</u>  | <u>1,685,732</u>  |
| <i>Total expenses</i>                |                   |                   |
| <b>CHANGE IN NET ASSETS</b>          | (229,101)         | 114,796           |
| <b>NET ASSETS, BEGINNING OF YEAR</b> | <u>856,995</u>    | <u>742,199</u>    |
| <b>NET ASSETS, END OF YEAR</b>       | <u>\$ 627,894</u> | <u>\$ 856,995</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, 2019 and 2018**

|                                         | <u>2019</u>             |                               |                     | <u>2018</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>        |
| Salaries and wages                      | \$ 589,157              | \$ 188,829                    | \$ 777,986          | \$ 727,574              | \$ 161,551                    | \$ 889,125          |
| Employee benefits                       | 174,457                 | 48,262                        | 222,719             | 196,711                 | 41,564                        | 238,275             |
| Staff development                       | 14,704                  | -                             | 14,704              | 6,328                   | -                             | 6,328               |
| Professional services                   | 101,452                 | 55,835                        | 157,287             | 60,028                  | 5,586                         | 65,614              |
| Textbooks and education materials       | 23,846                  | -                             | 23,846              | 7,017                   | -                             | 7,017               |
| Authorizer oversight fees               | -                       | 20,873                        | 20,873              | -                       | 27,841                        | 27,841              |
| Food costs                              | 68,152                  | -                             | 68,152              | 80,106                  | -                             | 80,106              |
| Transportation                          | 21,727                  | 216                           | 21,943              | 31,841                  | 1,459                         | 33,300              |
| Equipment and rentals                   | 14,755                  | 10,072                        | 24,827              | 27,641                  | 23,036                        | 50,677              |
| Classroom, kitchen, and office supplies | 17,354                  | 7,638                         | 24,992              | 29,990                  | 15,580                        | 45,570              |
| Extracurricular activities              | 27,246                  | -                             | 27,246              | 43,428                  | -                             | 43,428              |
| Occupancy                               | 115,346                 | 3,197                         | 118,543             | 118,399                 | 3,615                         | 122,014             |
| Depreciation                            | 37,057                  | -                             | 37,057              | 43,626                  | -                             | 43,626              |
| Insurance                               | -                       | 15,272                        | 15,272              | -                       | 18,713                        | 18,713              |
| Advertising                             | -                       | 6,049                         | 6,049               | -                       | 3,235                         | 3,235               |
| Other                                   | 9,174                   | 19,816                        | 28,990              | 996                     | 9,867                         | 10,863              |
| <i>Total functional expenses</i>        | <u>\$ 1,214,427</u>     | <u>\$ 376,059</u>             | <u>\$ 1,590,486</u> | <u>\$ 1,373,685</u>     | <u>\$ 312,047</u>             | <u>\$ 1,685,732</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, 2019 and 2018**

|                                                                                                          | <u>2019</u>                 | <u>2018</u>                 |
|----------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| <b>OPERATING ACTIVITIES</b>                                                                              |                             |                             |
| Change in net assets                                                                                     | \$ (229,101)                | \$ 114,796                  |
| Adjustments to reconcile change in net assets to<br>net cash provided by (used in) operating activities: |                             |                             |
| Depreciation                                                                                             | 37,057                      | 43,626                      |
| Change in certain assets and liabilities:                                                                |                             |                             |
| Grants receivable                                                                                        | 58,139                      | (51,775)                    |
| Accounts payable and accrued expenses                                                                    | (14,644)                    | 2,883                       |
| Refundable advances                                                                                      | -                           | (2,865)                     |
|                                                                                                          | <u>                    </u> | <u>                    </u> |
| <i>Net cash provided by (used in) operating activities</i>                                               | (148,549)                   | 106,665                     |
| <b>INVESTING ACTIVITIES</b>                                                                              |                             |                             |
| Purchases of property and equipment                                                                      | <u>(21,657)</u>             | <u>(33,282)</u>             |
| <b>NET CHANGE IN CASH</b>                                                                                | (170,206)                   | 73,383                      |
| <b>CASH, BEGINNING OF YEAR</b>                                                                           | <u>631,631</u>              | <u>558,248</u>              |
| <b>CASH, END OF YEAR</b>                                                                                 | <u>\$ 461,425</u>           | <u>\$ 631,631</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, 2019 and 2018**

**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 provided educational instruction to students in grades kindergarten through eight, serving approximately 125 students during the 2018-2019 school year and approximately 175 students in the 2017-2018 school year. The student count is 95 for the 2019-2020 school year.

Financial Statement Presentation – Effective with the June 30, 2019 year end, the School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding liquidity of financial assets. ASU 2016-14 must be applied on a retrospective basis, therefore the net assets as of and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14.

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.

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.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2019 and 2018.

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.

**RURAL COMMUNITY SCHOOLS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

**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        |

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, 2019 and 2018, 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 2015 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 13, 2019, 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 CONSIDERATION**

Student enrollment declined from approximately 175 during the 2017-2018 school year to 95 students enrolled as of September 2019. During the year ended June 30, 2019, expenses exceeded revenues by approximately \$230,000. While the School has approximately \$471,000 of financial assets as of June 30, 2019, the decrease in revenue from the decline in enrollment raises substantial doubt about the School's ability to continue as a going concern beyond twelve months of the date of the accompanying audit report.

**RURAL COMMUNITY SCHOOLS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

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

*Management's Response*

“The School’s management and Board of Directors are working to cut spending wherever possible outside of the fixed costs of operations. While we should not outspend what we have in the bank, we recognize that it is unlikely that we can sustain another school year at current enrollment. Meanwhile, we understand that we are still rebuilding a program that must be fixed to increase enrollment in the future.

Step one was to slightly raise teacher wages. The small increase in salaries have helped us to hire quality teachers and retain the qualified teachers that we did have. The amount spent on the salary increase that we would have saved without raises, would not have kept us financially viable any longer than we already are. However, the benefit of reworking a program with quality teachers will pay off in the coming years.

The next step is a large marketing campaign to help encourage new enrollment. This will include TV ads throughout the year, radio ads, a billboard, social media campaigns, and print ads. We believe that this will result in an increased enrollment for the 2020-2021 school year. A marketing strategy will be presented and approved at the November 2019 Board meeting and work will begin immediately on the campaign.

We are also considering adding bus stops to encourage more enrollment as we know there are families that want to attend the School but are unable due to transportation restrictions. We are looking at our current fleet of three older buses to measure the feasibility of adding our spare bus into a full time route.

These actions and the constant monitoring of our budget to look for new ways to cut costs, even after enrollment numbers rise, will help us to stay financially viable into the future.”

The accompanying financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

**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. Under the terms of the facilities lease, the School is responsible for the cost of utilities and maintenance. The School also leases a copier on a short-term contract. Rent expense for the years ended June 30, 2019 and 2018 was \$21,319 and \$21,774, respectively.

**RURAL COMMUNITY SCHOOLS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

**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 \$20,873 and \$27,841 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2021 and is renewable thereafter by mutual consent.

**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, 2018 (the latest year reported), TRF and PERF were approximately 80% funded.

Retirement plan expense was \$59,415 and \$67,502 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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. Cash balances exceeded FDIC insured limits at various times during the year.

**RURAL COMMUNITY SCHOOLS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

**NOTE 7 - LIQUIDITY**

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The School's financial assets include cash and grants receivable. Financial assets at June 30, 2019 total \$471,325, all of which are available to meet cash needs for general expenditures within one year.

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**NOTE 8 - 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. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

**RURAL COMMUNITY SCHOOLS, INC.**  
**OTHER REPORT**  
**For the Year Ended June 30, 2019**

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*.