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February 19, 2021

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 CliftonLarsonAllen LLP, Independent Public Accountants, for the period July 1, 2019 to June 30, 2020. 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, 2020 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, CliftonLarsonAllen LLP 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
YEARS ENDED JUNE 30, 2020 AND 2019



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**RURAL COMMUNITY SCHOOLS, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Community Schools, Inc.
Sullivan, Indiana

We have audited the accompanying financial statements of Rural Community Schools, Inc., which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

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, 2020, and the changes in its net assets, functional expenses, and cash flows for the year 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 that the entity will continue as a going concern. As discussed in Note 2 to the financial statements, the School has experienced significant decreases in enrollment for the 2018-2019, 2019-2020, and 2020-2021 school years. The decrease in enrollment significantly reduces revenue and accordingly, the School has stated that substantial doubt exists about the entity's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plan regarding these matters also are 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.

Other Matter

The 2019 financial statements of Rural Community Schools, Inc. were audited by other auditors whose report dated November 13, 2019 expressed an unmodified opinion on those statements.



CliftonLarsonAllen LLP

Indianapolis, Indiana
December 29, 2020

RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash	\$ 221,859	\$ 461,425
Grants Receivable	55,208	9,900
Total Current Assets	277,067	471,325
PROPERTY AND EQUIPMENT		
Leasehold Improvements	173,197	173,197
Furniture and Equipment	334,136	334,136
Textbooks and Library Books	79,430	79,430
Less: Accumulated Depreciation	(411,110)	(376,063)
Property and Equipment, Net	175,653	210,700
Total Assets	\$ 452,720	\$ 682,025
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 52,794	\$ 54,131
Total Current Liabilities	52,794	54,131
LONG TERM LIABILITIES		
Loan Payable Under Paycheck Protection Program,	162,500	-
Total Long-Term Liabilities	162,500	-
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Total Liabilities and Net Assets	\$ 452,720	\$ 682,025

See accompanying Notes to Financial Statements.

RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
REVENUE AND SUPPORT		
State Education Support	\$ 742,340	\$ 998,223
Grant Revenue	269,449	282,910
Student Fees	1,546	22,010
Extracurricular Activities Revenue	18,350	34,744
Contributions	53	3,177
Other Income	2,329	20,321
Total Revenue and Support	1,034,067	1,361,385
EXPENSES		
Program Services	1,080,586	1,214,427
Management and General	343,949	376,059
Total Expenses	1,424,535	1,590,486
CHANGE IN NET ASSETS	(390,468)	(229,101)
Net Assets - Beginning of Year	627,894	856,995
NET ASSETS - END OF YEAR	\$ 237,426	\$ 627,894

See accompanying Notes to Financial Statements.

RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and Wages	\$ 555,961	\$ 197,675	\$ 753,636	\$ 589,157	\$ 188,829	\$ 777,986
Employee Benefits	161,400	55,300	216,700	174,457	48,262	222,719
Staff Development	759	-	759	14,704	-	14,704
Professional Services	61,571	6,360	67,931	101,452	55,835	157,287
Textbooks and Education Materials	3,096	-	3,096	23,846	-	23,846
Authorizer Oversight Fees	-	18,391	18,391	-	20,873	20,873
Food Costs	42,004	-	42,004	68,152	-	68,152
Transportation	40,464	740	41,204	21,727	216	21,943
Equipment and Rentals	5,837	10,164	16,001	14,755	10,072	24,827
Classroom, Kitchen, and Office Supplies	22,608	6,561	29,169	17,354	7,638	24,992
Extracurricular Activities	22,686	-	22,686	27,246	-	27,246
Occupancy	128,073	4,116	132,189	115,346	3,197	118,543
Depreciation	35,047	-	35,047	37,057	-	37,057
Insurance	-	22,470	22,470	-	15,272	15,272
Advertising	-	17,762	17,762	-	6,049	6,049
Other	1,080	4,410	5,490	9,174	19,816	28,990
Total Functional Expenses	<u>\$ 1,080,586</u>	<u>\$ 343,949</u>	<u>\$ 1,424,535</u>	<u>\$ 1,214,427</u>	<u>\$ 376,059</u>	<u>\$ 1,590,486</u>

See accompanying Notes to Financial Statements.

**RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (390,468)	\$ (229,101)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Used by Operating Activities:		
Depreciation	35,047	37,057
Changes in Operating Assets and Liabilities:		
Grants Receivable	(45,308)	58,139
Accounts Payable and Accrued Expenses	(1,337)	(14,644)
Net Cash Used by Operating Activities	<u>(402,066)</u>	<u>(148,549)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	<u>-</u>	<u>(21,657)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Loan Payable Under Paycheck Protection Program	<u>162,500</u>	<u>-</u>
NET CHANGE IN CASH	(239,566)	(170,206)
Cash - Beginning of Year	<u>461,425</u>	<u>631,631</u>
CASH - END OF YEAR	<u><u>\$ 221,859</u></u>	<u><u>\$ 461,425</u></u>

See accompanying Notes to Financial Statements.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Rural Community Academy (the School or RCA) is a public benefit nonprofit 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 students in grades kindergarten through eight, serving approximately 95 students during the 2019-2020 School year and approximately 135 students in the 2018-2019 School year. The student count is 97 for the 2020-2021 School year.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Cash and Cash Equivalents

Cash consists of cash held in bank 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, 2020 and 2019.

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.

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

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB Accounting Standards Codification (ASC) 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable the financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. No cumulative-effect adjustments in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact the School's reported historical revenue. The early implementation of the standard did not significantly impact the School's financial statements.

In June 2018, FASB issued ASU 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and made. The amendments to this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The financial statements reflect the application of ASU 2018-08 beginning July 1, 2019. The new guidance does not require prior period results to be restated. The implementation of this standard did not significantly impact the School's financial statements.

Revenue Recognition

Revenues primarily come from conditional 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. Amounts received prior to incurring qualifying expenditures are reported as deferred revenues in the statement of financial position. As of June 30, 2020, the School does not have any conditional grants that have not been recognized as revenue in the statement of activities because conditions have not been met.

Revenue from student fees is recognized when the control of the promised good or service is transferred to the student, in an amount that reflects the consideration expected to be entitled in exchange for those goods or services.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Contribution Revenue

The School receives income from grants and contributions 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 or time restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and change in net assets as net assets released from restrictions.

Taxes on Income

The School is a nonprofit corporation, exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(3).

The School is subject to unrelated business income tax on any activities unrelated to its tax-exempt purpose, of which the Organization had none for the years ended June 30, 2020 and 2019. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The U.S. federal and state income tax returns of the Organization are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

Subsequent Events

The School evaluated subsequent events through December 29, 2020, 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 135 during the 2018-2019 School year to 97 students enrolled as of September 2020. During the year ended June 30, 2020, expenses exceeded revenues by approximately \$390,000. While the School has approximately \$277,067 of financial assets as of June 30, 2020, the decrease in revenue from the decline in enrollment raises substantial doubt about the School's ability to continue as a going concern beyond 12 months of the date of the accompanying audit report.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 GOING CONCERN CONSIDERATION (CONTINUED)

Management's Response

In response to the ongoing concern noted in the 2018-19 by Donovan CPA and the 2019-20 audit by CliftonLarsonAllen LLP, we recognize that the majority of our income comes from the Basic Grant and is driven by enrollment. RCA experienced a steep decline in enrollment in the 2018-19 school year resulting in a large cash deficit. Though budgets have been trimmed and staff has been cut we will still face a deficit at the end of the 2020-21 school year that will not allow us enough funds to operate for another school year.

Currently, RCA is operating off of a budget based on a student count of 97. The approximate break-even number of students is 120 to be able to operate at a full staff. In the last several months RCA has ramped up its marketing strategies to attract new students. Though the pandemic worked against us in marketing events that were scheduled last year and had to be cancelled, we have new avenues that we have been pursuing to help increase enrollment, and as this is being typed we are in conversations with another family that has two students that plan to start after semester break.

Our open enrollment period is the month of March. In part by reaching out to the pre-schools in our county we hope to gain another large enrollment in the Kindergarten class. Because our 8th grade class, which graduates out of the school is only 4 students, we should easily make up for the loss of that class. If we have an enrollment of just 15 students in kindergarten that will put next year's enrollment close to 110, and of course our hope is always to gain in other classrooms as well. 2019-20's enrollment was 95, and this year we are at 97, so though slowly, we are trending in the right direction.

There is no misunderstanding that without increased enrollment, RCA will cease to operate. We cannot continue at our current student count, and have only survived this long because of the reserves that were built up prior to 2018, and thanks to a PPP loan during the pandemic. However, we will continue to work on increasing enrollment, and searching for other avenues of income until we are unable to fund another school year.

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, 2020 and 2019 was \$22,164 and \$21,319, respectively.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 \$18,391 and \$20,873 for the years ended June 30, 2020 and 2019, respectively. The charter remains in effect until June 30, 2021 and is renewable thereafter by mutual consent.

NOTE 5 PAYROLL PROTECTION PROGRAM LOAN

On May 1, 2020, the Organization received a loan from First Financial Bank in the amount of \$162,500 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the "PPP Loan"). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over eighteen months, deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the Organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. To the extent that all or part of the PPP Loan is not forgiven, the Organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in December 2020, principal and interest payments will be required through the maturity date in May 2022.

On November 20, 2020, the School was notified that the PPP Loan in the amount of \$162,500 has been forgiven and will be recorded accordingly in the year ended June 30, 2021.

NOTE 6 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.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 RETIREMENT PLANS (CONTINUED)

Retirement plan expense was \$62,953 and \$59,415 for the years ended June 30, 2020 and 2019, respectively.

NOTE 7 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 World Health Organization declared the spread of COVID-19 a worldwide pandemic. The COVID-19 pandemic is having significant effects on domestic and global markets, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2021 operations and financial results, including but not limited to, more extensive virtual school attendance, loss of revenues, and declines in enrollment. Management believes the organization is taking actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

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, 2020 and 2019, 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 Federal Deposit Insurance Corporation (FDIC) insurance limit. Cash balances exceeded FDIC insured limits at various times during the year.

NOTE 8 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, 2020 total \$277,067, 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.

**RURAL COMMUNITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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 changes 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
JUNE 30, 2020**

The reports presented herein were 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*.

