



STATE OF INDIANA
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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

July 7, 2023

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, 2021 to June 30, 2022. 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, 2022 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 School Closure 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.

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
State Examiner

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

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

Report on the Audit of the Financial Statements

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rural Community Schools, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Community Schools, Inc.'s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Rural Community Schools, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Community Schools, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter Regarding School Closure

As discussed in Note 2, subsequent to the year ended June 30, 2022, the School's Board of Directors voted to cease operations of the School effective June 30, 2023. There is no assurance that the school will be able to meet its financial obligations. Our opinion is not modified with respect to this matter.



CliftonLarsonAllen LLP

Indianapolis, Indiana
March 23, 2023

**RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021**

ASSETS	2022	2021
CURRENT ASSETS		
Cash	\$ 366,102	\$ 270,185
Grants Receivable	65,214	5,149
Total Current Assets	431,316	275,334
PROPERTY AND EQUIPMENT		
Leasehold Improvements	173,197	173,197
Furniture and Equipment	347,036	334,136
Textbooks and Library Books	79,430	79,430
Less: Accumulated Depreciation	(456,188)	(438,274)
Property and Equipment, Net	143,475	148,489
Total Assets	\$ 574,791	\$ 423,823
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 60,029	\$ 64,611
LONG-TERM LIABILITIES		
Loan Payable Under Paycheck Protection Program	-	176,100
NET ASSETS WITHOUT DONOR RESTRICTIONS	514,762	183,112
Total Liabilities and Net Assets	\$ 574,791	\$ 423,823

See accompanying Notes to Financial Statements.

RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
REVENUE AND SUPPORT		
State Education Support	\$ 1,015,983	\$ 752,806
Gain on Extinguishment of Debt	176,100	162,500
Grant Revenue	549,784	289,751
Student Fees	2,853	1,340
Extracurricular Activities Revenue	23,358	14,238
Contributions	95,250	2,207
Other Income	19,155	3,945
Total Revenue and Support	1,882,483	1,226,787
EXPENSES		
Program Services	1,108,399	926,785
Management and General	442,434	354,316
Total Expenses	1,550,833	1,281,101
CHANGE IN NET ASSETS	331,650	(54,314)
Net Assets - Beginning of Year	183,112	237,426
NET ASSETS - END OF YEAR	\$ 514,762	\$ 183,112

See accompanying Notes to Financial Statements.

**RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2022 AND 2021**

	2022			2021		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and Wages	\$ 602,284	\$ 220,990	\$ 823,274	\$ 477,796	\$ 190,135	\$ 667,931
Employee Benefits	96,753	63,999	160,752	134,497	48,130	182,627
Staff Development	12,729	-	12,729	7,424	-	7,424
Professional Services	60,473	6,674	67,147	62,185	5,089	67,274
Textbooks and Education Materials	29,613	-	29,613	12,212	-	12,212
Authorizer Oversight Fees	-	24,101	24,101	-	19,308	19,308
Food Costs	58,859	-	58,859	41,642	-	41,642
Transportation	29,592	1,276	30,868	30,287	1,734	32,021
Equipment and Rentals	-	-	-	-	28,210	28,210
Classroom, Kitchen, and Office Supplies	15,605	2,192	17,797	5,894	8,368	14,262
Extracurricular Activities	40,747	-	40,747	19,546	-	19,546
Occupancy	141,453	4,299	145,752	107,148	4,251	111,399
Depreciation	17,914	-	17,914	27,164	-	27,164
Insurance	-	27,376	27,376	-	27,978	27,978
Advertising	-	65,876	65,876	-	16,358	16,358
Other	2,377	25,651	28,028	990	4,755	5,745
Total Functional Expenses	<u>\$ 1,108,399</u>	<u>\$ 442,434</u>	<u>\$ 1,550,833</u>	<u>\$ 926,785</u>	<u>\$ 354,316</u>	<u>\$ 1,281,101</u>

See accompanying Notes to Financial Statements.

**RURAL COMMUNITY SCHOOLS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 331,650	\$ (54,314)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	17,914	27,164
Gain on Extinguishment of Debt	(176,100)	(162,500)
Changes in Operating Assets and Liabilities:		
Grants Receivable	(60,065)	50,059
Accounts Payable and Accrued Expenses	(4,582)	11,817
Net Cash Provided (Used) by Operating Activities	108,817	(127,774)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(12,900)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Loan Payable Under Paycheck Protection Program	-	176,100
NET CHANGE IN CASH	95,917	48,326
Cash - Beginning of Year	270,185	221,859
CASH - END OF YEAR	\$ 366,102	\$ 270,185

See accompanying Notes to Financial Statements.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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 118 students during the 2021-2022 School year and approximately 97 students in the 2020-2021 School year. The student count is 87 for the 2022-2023 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 the 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, 2022 and 2021.

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 THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

On an ongoing basis, the Corporation reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may be overstated. The Corporation recognizes impairment losses if the undiscounted cash flows expected to be generated are less than the carrying value of the related asset. If impaired, the assets are adjusted to fair value based on the undiscounted cash flows.

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, 2022 and 2021, 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.

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. There were no grants or contributions received with restriction in the years ended June 30, 2022 and 2021.

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 School had none for the years ended June 30, 2022 and 2021. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxes on Income (Continued)

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 School has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed the tax positions taken by the School, and has concluded that as of June 30, 2022, 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 School are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

Recent Accounting Pronouncements

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standard. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the School's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2021. Early adoption is permitted.

Subsequent Events

The School evaluated subsequent events through March 23, 2023, 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

As of September 2022, the School saw a large decrease in student enrollment from February 2022. The enrollment decreased 31% from 127 students to 87 students, thus causing lost revenue for Fiscal Year 2023 of an estimated amount of \$26,667 a month (\$320,000 annually). During the year ended June 30, 2022, revenue exceeded expenses by approximately \$331,000. While the School has approximately \$431,000 of financial assets as of June 30, 2022, saw increased enrollment for the 2021-2022 School year, and was able to replenish cash reserves, it does not alleviate substantial doubt about the School's ability to continue as a going concern beyond 12 months of the date of the accompanying audit report.

Management's Response

RCA financial viability is based on student enrollment. We have been aware that with decreased enrollment, RCA does not receive enough funding to allow for continued operation into the future unless enrollment is brought up. With the current trend in enrollment and projections for the next year, we have withdrawn the School's application for charter renewal and elected to close the School effective June 30, 2023.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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, 2022 and 2021 was \$24,346 and \$23,366, 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 \$24,101 and \$19,308 for the years ended June 30, 2022 and 2021, respectively. The charter was extended one year until June 30, 2023 and is renewable thereafter by mutual consent.

NOTE 5 PAYROLL PROTECTION PROGRAM LOAN

The School had a Loan of \$176,100 from First Financial Bank at June 30, 2021 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The PPP Loans bear interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of five 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 School 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 School will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in December 2021, principal and interest payments will be required through the maturity date in February 2026.

On October 5, 2021 and November 20, 2020, the School was notified that the PPP Loans in the amounts of \$176,100 and \$162,500, respectively were forgiven and recorded as a gain on extinguishment of debt in the accompanying statements of activities and changes in net assets.

The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from the potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the School's financial position.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 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 7.25% of compensation for eligible teaching personnel to TRF and 11.25% 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, 2021 (the latest year reported), TRF and PERF were approximately 95% and 83% funded, respectively.

Retirement plan expense was \$59,849 and \$48,947 for the years ended June 30, 2022 and 2021, 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 still having significant effects on domestic and global markets, businesses, and communities. Specific to the School, COVID-19 has impacted various parts of its operations and financial results, including but not limited to, more extensive virtual School attendance, declines in enrollment reducing student based revenue, and expanded grant revenue available. 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, 2022 and 2021, 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.

RURAL COMMUNITY SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 8 LIQUIDITY

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2022 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, 2022 and 2021 totaled \$431,316 and \$275,334, respectively, 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 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, 2022 AND 2021**

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*.



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