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STATE OF INDIANA

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September 20, 2016

Charter School Board
New Community School
1904 Elmwood Avenue
Lafayette, IN 47904

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan P.C., Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the New Community School, as of June 30, 2015, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Audit Report for the New Community School, 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

Paul D. Joyce, CPA
State Examiner

THE NEW COMMUNITY SCHOOL, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2015 and 2014

DONOVAN
CPAs | ADVISORS

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Independent Auditors' Report

The Board of Directors
The New Community School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The New Community School, Inc., which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net 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 auditor considers 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 The New Community School, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

Donovan

Indianapolis, Indiana
September 8, 2016

THE NEW COMMUNITY SCHOOL, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash	$ 8,495	$ 3,469
Grants receivable	26,154	6,671
Prepaid expenses	20,000	107,075
Total current assets	54,649	117,215
PROPERTY AND EQUIPMENT		
Land	764,600	764,600
Building	4,274,312	4,274,312
Building improvements	262,482	249,824
Furniture and equipment	450,160	440,143
Textbooks	42,475	23,232
Less: accumulated depreciation	(685,597)	(483,779)
Property and equipment, net	5,108,432	5,268,332
OTHER ASSETS		
Cash restricted for facility improvements	45,389	45,389
TOTAL ASSETS	$ 5,208,470	$ 5,430,936
LIABILITIES AND NET DEFICIENCY		
CURRENT LIABILITIES		
Current portion of capital lease obligations	$ 143,524	$ 131,023
Line of credit	197,727	198,184
Accounts payable	53,296	112,683
Accrued expenses	37,895	73,872
Deferred rental income	-	6,990
Total current liabilities	432,442	522,752
LONG-TERM LIABILITIES		
Capital lease obligations, net of current portion	4,817,158	4,960,682
Total liabilities	5,249,600	5,483,434
NET DEFICIENCY		
Unrestricted	(41,130)	(52,498)
TOTAL LIABILITIES AND NET DEFICIENCY	$ 5,208,470	$ 5,430,936

THE NEW COMMUNITY SCHOOL, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIENCY)

For the Years Ended June 30, 2015 and 2014

	2015	2014
REVENUE AND SUPPORT		
State education support	$ 1,556,483	$ 1,344,273
Grant revenue	114,058	153,962
Student fees	40,037	43,126
Contributions	116,945	103,255
Bond interest credit income	341,400	341,400
Interest income	184	191
Rental income	17,990	22,094
Other income	1,564	1,548
Total revenue and support	2,188,661	2,009,849
EXPENSES		
Program services	1,857,194	1,963,560
Management and general	320,099	275,900
Total expenses	2,177,293	2,239,460
CHANGE IN NET ASSETS	11,368	(229,611)
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	(52,498)	177,113
NET DEFICIENCY, END OF YEAR	$ (41,130)	$ (52,498)

See independent auditors' report and accompanying notes to the financial statements

THE NEW COMMUNITY SCHOOL, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2015 and 2014

	2015			2014		
	Program Services	Management and General	Total	Program Services	Management and General	Total
FUNCTIONAL EXPENSES						
Salaries and wages	$ 771,219	$ 150,951	$ 922,170	$ 810,907	$ 104,379	$ 915,286
Employee benefits	225,143	40,264	265,407	257,039	28,260	285,299
Staff development	11,968	-	11,968	12,595	-	12,595
Professional services	81,617	44,255	125,872	75,523	41,080	116,603
Repairs and maintenance	37,750	-	37,750	31,690	-	31,690
Authorizer oversight fees	-	28,386	28,386	-	27,837	27,837
Food costs	14,572	-	14,572	6,372	-	6,372
Equipment	7,577	-	7,577	7,796	-	7,796
Classroom, kitchen, and office supplies	21,326	13,011	34,337	42,967	23,959	66,926
Occupancy	77,207	-	77,207	98,125	-	98,125
Depreciation	201,818	-	201,818	192,140	-	192,140
Interest	406,752	11,391	418,143	428,207	12,575	440,782
Insurance	-	25,227	25,227	-	21,126	21,126
Other	245	6,614	6,859	199	16,684	16,883
Total functional expenses	$ 1,857,194	$ 320,099	$ 2,177,293	$ 1,963,560	$ 275,900	$ 2,239,460

See independent auditors' report and accompanying notes to the financial statements

THE NEW COMMUNITY SCHOOL, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2015 and 2014

	2015	2014
OPERATING ACTIVITIES		
Change in net assets	$ 11,368	$ (229,611)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	201,818	192,140
Changes in certain assets and liabilities		
Grants receivable	(19,483)	22,615
Prepaid expenses	87,075	250,000
Accounts payable	(59,387)	99,762
Accrued expenses	(35,977)	(7,692)
Deferred rent payable	(6,990)	6,990
Net cash provided by operating activities	178,424	334,204
INVESTING ACTIVITIES		
Purchases of property and equipment	(41,918)	(178,542)
FINANCING ACTIVITIES		
Principal payments of capital lease obligations	(131,023)	(159,337)
Net borrowings (repayments) under line of credit	(457)	561
Net cash used in financing activities	(131,480)	(158,776)
NET CHANGE IN CASH	5,026	(3,114)
CASH, BEGINNING OF YEAR	3,469	6,583
CASH, END OF YEAR	$ 8,495	$ 3,469
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 11,391	$ 12,575
Property acquired with restricted cash reserve	-	166,741

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – The New Community School, 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 sponsored by Ball State University. The School, located in Lafayette, Indiana, provides educational instruction to approximately 225 students in grades kindergarten through eight.

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition – Revenues generally come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and 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.

Restricted Cash – Cash restricted for facility improvements represents resources available from the debt service reserve associated with the building project. These resources are available for use in making improvements to the school facility.

Accounts Receivable – Accounts receivable relate primarily to activities funded under grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Contributions – Contributions received and unconditional promises to give 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 for future periods. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Taxes on Income – The School 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, 2015 and 2014, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 2012 are open to audit for both federal and state purposes.

Property and Equipment – Purchases of these 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 equipment purchases with a unit cost of less than $1,000 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	30 years
Building improvements	5 years
Furniture and equipment	3 to 5 years
Textbooks	4 years

Subsequent Events – The School evaluated subsequent events through September 8, 2016, 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 - LINE OF CREDIT

The School has a $200,000 line of credit with Regions Bank. The line of credit is due on demand and matures on October 1, 2016. Interest under the line of credit is payable at 2.3% above the lender’s prime rate, but will not be less than 4.75%. The line of credit is secured by all inventory, accounts, equipment, general intangibles and fixtures. As of June 30, 2015 and 2014, the balance outstanding under the line of credit was $197,727 and $198,184, respectively.

NOTE 3 - CAPITAL LEASE OBLIGATION

During 2012, the School committed to the construction of a school facility. The School executed an agreement with NCS Properties LLC (“Landlord”), whereby Landlord assumed the responsibility for construction in exchange for a lease commitment from the School. To facilitate the construction and lease, the School obtained funding through a Qualified School Construction Bond authorized by the American Recovery & Reinvestment Act. At the end of the lease term (June 30, 2031), the School has an option to purchase the building for $1. The lease commenced on July 1, 2013 when the School took possession of the building.

NOTE 3 - CAPITAL LEASE OBLIGATION, Continued

The lease requires annual rental payments of $591,400. The School receives an annual bond interest credit in the amount of approximately $341,400; therefore the School's net annual cash obligation for rent is approximately $250,000. Each year, the School recognizes contribution income for the bond interest credit received. At June 30, 2015, the recorded cost and accumulated depreciation relating to the building was $4,274,312 and $284,954, respectively.

Following is a schedule of future minimum lease payments under the capital lease and the present value of net minimum lease payments as of June 30, 2015:

2016	$ 591,400
2017	591,400
2018	591,400
2019	591,400
2020	591,400
Thereafter	6,505,400
Total minimum lease payments	9,462,400
Less: amount representing interest	(4,501,718)
	$ 4,960,682

NOTE 4 - RETIREMENT PLANS

Retirement benefits for school employees 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. INPRS acts as a common administrative and investment agent for units of state and local government in Indiana. Contribution requirements are determined by the INPRS Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 11% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was $75,373 and $81,594 for the years ended June 30, 2015 and 2014, respectively.

NOTE 5 - 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 $28,386 and $27,837 for the years ended June 30, 2015 and 2014, respectively. The charter remains in effect until June 30, 2017, and is renewable thereafter by mutual consent.

NOTE 6 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Tippecanoe 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, 2015 and 2014, substantially all of the receivable balance was due from the State of Indiana.

NOTE 7 - CONTINGENCY

To enable the construction of a new school facility, the School obtained funding by means of a bond offering by the Indiana Finance Authority under the federal Qualified School Construction Bond program. The bonds were purchased by Keystone NCS LLC via a loan from Salin Bank and Trust Company. The School executed an agreement with NCS Properties LLC whereby NCS Properties LLC would construct the facility and lease it to the School (see Note 3). The School provided construction financing to NCS Properties LLC with proceeds from the bond offering. Keystone NCS LLC and NCS Properties LLC are related entities.

NCS Properties LLC has assigned its rights to the lease payments to Salin Bank and Trust Company for the benefit of Keystone NCS LLC. Such lease payments are intended to fulfill the School's obligation under the bond offering. In the event that the lease is terminated for any reason, the School will continue to be liable to Keystone NCS LLC for the bond debt.

THE NEW COMMUNITY SCHOOL, INC.
OTHER REPORTS
For the Year Ended June 30, 2015

The report presented herein was prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of The New Community School, 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*.