



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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May 22, 2013

Charter School Board
The New Community School, Inc.
710 North Street
Lafayette, IN 47901

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2011 to June 30, 2012. 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, Inc., as of June 30, 2012, 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, Inc. 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.

State Board of Accounts

THE NEW COMMUNITY SCHOOL, INC.

Financial Statements

June 30, 2012

Fitzgerald | Isaac LLC
Certified Public Accountants

THE NEW COMMUNITY SCHOOL, INC.

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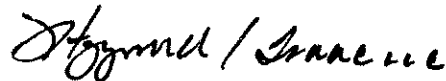
INDEPENDENT AUDITORS' REPORT

The Board of Directors
The New Community School, Inc.

We have audited the accompanying statement of financial position of **The New Community School, Inc.** as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



March 25, 2013

THE NEW COMMUNITY SCHOOL, INC.

Statement of Financial Position

<u>Assets</u>	<u>June 30, 2012</u>
Current assets:	
Cash	\$ 61,721
State tuition support receivable	701,289
Prepaid expense	47
Total current assets	<u>763,057</u>
Prepaid rent	357,075
Property and equipment:	
Leasehold improvements	75,895
Furniture and equipment	242,918
Textbooks	21,330
	<u>340,143</u>
Less: accumulated depreciation	(239,328)
Property and equipment, net	<u>100,815</u>
	<u>\$ 1,220,947</u>
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 125,425
Note payable	194,899
Total current liabilities	<u>320,324</u>
Accrued interest on Common School Fund loans	44,814
Long-term debt	547,275
Total liabilities	<u>912,413</u>
Unrestricted net assets	<u>308,534</u>
	<u>\$ 1,220,947</u>

See accompanying notes to financial statements.

THE NEW COMMUNITY SCHOOL, INC.

Statement of Activities

	Year Ended June 30, 2012
<u>Revenue, Gains and Support</u>	
State education support	\$ 1,401,826
Grant revenue	162,777
Student fees	53,347
Contributions	44,407
Interest income	353
Other income	5,449
Total revenue, gains and support	<u>1,668,159</u>
<u>Expenses</u>	
Program services:	
Educational instruction	1,195,058
Education support	90,249
Administrative	330,341
Total expenses	<u>1,615,648</u>
Increase in net assets	52,511
Net assets, beginning of year	<u>256,023</u>
Net assets, end of year	<u>\$ 308,534</u>

See accompanying notes to financial statements.

THE NEW COMMUNITY SCHOOL, INC.

Statement of Cash Flows

	Year Ended June 30, 2012
<u>Operating Activities</u>	
Change in net assets	\$ 52,511
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	44,916
Change in:	
Accounts receivable	(83,596)
Prepaid expenses	(89,124)
Accounts payable and accrued expenses	33,620
Net cash used by operating activities	<u>(41,673)</u>
<u>Investing Activities</u>	
Purchases of property and equipment	(37,392)
Net cash used by investing activities	<u>(37,392)</u>
<u>Financing Activities</u>	
Principal repayments of debt obligation	(173,002)
Proceeds from Common School Fund loan	94,566
Borrowings under line of credit, net of repayments	194,899
Net cash provided by financing activities	<u>116,463</u>
Net increase in cash	37,398
Cash, beginning of year	<u>24,323</u>
Cash, end of year	<u>\$ 61,721</u>
Supplemental disclosures:	
Cash paid for interest	\$ 9,828

See accompanying notes to financial statements.

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

June 30, 2012

(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 20-24-3-1 and sponsored by Ball State University. The School commenced operations with the 2003-04 school year.

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 public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in equal monthly installments in January through December following the start of the school year. Revenue is recognized in the school 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.

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.

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income

The New Community School, 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 year ended June 30, 2012, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional 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. The tax years ending 2011, 2010, and 2009 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:

Leasehold improvements	5 years
Furniture and equipment	3 to 5 years
Textbooks	4 years

Subsequent Events

The School evaluated subsequent events through March 25, 2013, 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.

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(2) Accounts Receivable

Accounts receivable from the State of Indiana for education support reflect the following amounts as of June 30, 2012:

Tuition support	\$629,826
Special education grant	69,729
Prime Time grant.....	<u>1,734</u>
	<u>\$701,289</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students. The payment schedule is determined by state law with tuition payable in equal monthly installments in the calendar year following the start of the school year. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 5).

(3) Prepaid Rent

In 2012, the School committed to the construction of a building to become the school facility. Subsequent to June 30, 2012, the School executed an agreement with NCS Properties LLC (“Landlord”), whereby Landlord would assume 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. Under the agreement, the School will pay rent on the facility in the amount of approximately \$250,000 per year for 18 years. At the end of the lease term, the School has an option to purchase the building for \$1. The lease is scheduled to commence on July 1, 2013 when the School takes possession of the building. No amounts have been recorded with regard to this project as of June 30, 2012, except as mentioned below.

The School incurred preliminary costs associated with the building construction, including architectural and design work, earnest money, legal services, and certain construction costs. Landlord assumed the construction project and agreed to allow an offset of these costs against the rental obligation once the building is completed. These preliminary costs in the amount of \$357,075 are recorded as prepaid rent in the accompanying statement of financial position.

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(4) Notes Payable

The School has a \$200,000 line-of-credit with Regions Bank. The line of credit is due on demand and matures on March 26, 2015. 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, 2012, the balance outstanding under the line of credit was \$194,899.

(5) Long-Term Debt

Long-term debt at June 30, 2012 consisted of six notes payable to the Indiana Common School Fund, each of which requires semi-annual payments of principal and interest over a period of 20 years with interest at 4% per annum. In 2011, the Indiana Common School Fund granted a two-year moratorium on loan payments. Payments will commence on July 1, 2013. The last note matures January 1, 2033. These notes are secured by unpaid tuition support distributions (see Note 2).

Principal maturities of long-term debt are as follows:

<u>Year Ended June 30:</u>	
2013	\$ -
2014	27,680
2015	27,680
2016	27,680
2017	27,680
Thereafter	<u>436,555</u>
	<u>\$547,275</u>

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(6) Leases

The School leases its facilities under operating leases, whose terms range from 44 to 60 months. Under the leases, the School is responsible for monthly rental payments, which escalate each year, as well as its share of utilities and insurance. Rent expense for the year ended June 30, 2012 was \$168,035. The School has the right to terminate each of the leases in the event that the School acquires another facility. As a result of the construction of a new facility (see Note 3), the School is obligated only for minimum rental payments of \$119,919 for the fiscal year ended June 30, 2013.

(7) Retirement Plans

Retirement benefits for teaching personnel are provided under the Indiana State Teachers' Retirement Fund ("TRF"), which is a multiple-employer defined benefit retirement plan governed by the State of Indiana and administered by the Indiana Public Retirement System Board. Under the plan, the School contributes 9.68% of compensation for teaching faculty to TRF. Substantially all full-time teaching employees are eligible to participate. All non-teaching personnel are eligible for participation in the Indiana State Public Employees Retirement Fund ("PERF"), which is also governed by the State of Indiana and administered by the Indiana Public Retirement System Board. Under this plan, the School contributes 6.5% of compensation for the plan year to PERF. Retirement plan expense under both plans for the year ended June 30, 2012 was \$76,008.

(8) Commitments

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Expense under this charter agreement was \$31,726 for the year ended June 30, 2012. The charter remains in effect until June 30, 2014, and is renewable thereafter by mutual consent.

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(9) 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, 2012, substantially all of the receivable balance was due from the State of Indiana.

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(10) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and services benefited. Following is a summary of expenses comprising each program and/or service for the year ended June 30, 2012:

	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Admini- strative</u>
Salaries and wages.....	\$711,820	23,242	149,153
Employee benefits	224,319	1,778	42,822
Staff development.....	4,008	-	-
Professional services	17,808	1,765	26,630
Authorizer oversight fee.....	-	-	31,726
Food costs.....	-	809	-
Equipment rental	9,728	17,582	-
Classroom, kitchen and office supplies.....	14,149	5,101	19,026
Occupancy	168,035	39,972	-
Depreciation	44,916	-	-
Interest.....	-	-	30,445
Insurance	-	-	14,185
Other.....	<u>275</u>	<u>-</u>	<u>16,354</u>
	<u>\$1,195,058</u>	<u>90,249</u>	<u>330,341</u>

THE NEW COMMUNITY SCHOOL, INC.

Other Reports

Year Ended June 30, 2012

The reports presented herein were 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*.