



STATE OF INDIANA
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January 8, 2016

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, 2013 to June 30, 2014. 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, 2014, 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.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

THE NEW COMMUNITY SCHOOL, INC.

Financial Statements

June 30, 2014 and 2013

THE NEW COMMUNITY SCHOOL, INC.

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INDEPENDENT AUDITOR'S 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, 2014 and 2013, and the related statements of activities 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.

Auditor's 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 auditor's 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, 2014 and 2013, 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.

Handwritten signature in cursive script, appearing to read "Raymond J. Hancock".

Indianapolis, IN
August 24, 2015

THE NEW COMMUNITY SCHOOL, INC.

Statements of Financial Position

	June 30	
Assets	2014	2013
Current assets:		
Cash	\$ 3,469	6,583
Grants receivable	6,671	29,286
Prepaid rent	107,075	250,000
Total current assets	117,215	285,869
Cash restricted for facility improvements	45,389	212,130
Prepaid rent	-	107,075
Property and equipment:		
Land	764,600	764,600
Building	4,274,312	4,274,312
Building improvements	249,824	77,971
Furniture and equipment	440,143	266,713
Textbooks	23,232	23,232
Less: accumulated depreciation	(483,779)	(291,639)
Property and equipment, net	5,268,332	5,115,189
	\$ 5,430,936	5,720,263
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 186,555	94,485
Note payable	198,184	197,623
Deferred rental income	6,990	-
Current portion of capital lease liability	131,023	159,337
Total current liabilities	522,752	451,445
Capital lease liability	4,960,682	5,091,705
Total liabilities	5,483,434	5,543,150
Unrestricted net assets (deficiency)	(52,498)	177,113
	\$ 5,430,936	5,720,263

See accompanying notes to financial statements.

THE NEW COMMUNITY SCHOOL, INC.

Statements of Activities

	Year Ended June 30	
	2014	2013
<u>Revenue and Support</u>		
State education support	\$ 1,344,273	1,248,549
Grant revenue	153,962	174,233
Student fees	43,126	49,581
Contributions	444,655	105,553
Interest income	191	502
Rental income	22,094	-
Other income	1,548	2,445
Total revenue and support	<u>2,009,849</u>	<u>1,580,863</u>
<u>Expenses</u>		
Program services	1,963,560	1,371,629
Management and general	275,900	355,308
Total expenses	<u>2,239,460</u>	<u>1,726,937</u>
Change in net assets before non-operating activity	(229,611)	(146,074)
<u>Non-Operating Activity</u>		
Loss due to changes in legislative funding	-	(8,326)
Change in net assets	(229,611)	(154,400)
Net assets, beginning of year	<u>177,113</u>	<u>331,513</u>
Net assets (deficiency), end of year	<u>\$ (52,498)</u>	<u>177,113</u>

See accompanying notes to financial statements.

THE NEW COMMUNITY SCHOOL, INC.

Statements of Cash Flows

	Year Ended June 30	
	2014	2013
<u>Operating Activities</u>		
Change in net assets	\$ (229,611)	(154,400)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Loss due to changes in legislative funding	-	8,326
Depreciation	192,140	52,311
Change in:		
Accounts receivable	22,615	70,225
Prepaid expenses	250,000	47
Accounts payable and accrued expenses	92,070	(6,599)
Deferred rental income	6,990	-
Net cash provided (used) by operating activities	<u>334,204</u>	<u>(30,090)</u>
<u>Investing Activities</u>		
Purchases of property and equipment	(178,542)	(27,772)
Net cash used by investing activities	<u>(178,542)</u>	<u>(27,772)</u>
<u>Financing Activities</u>		
Principal reduction of capital lease liability	(159,337)	-
Net borrowings/repayments under line of credit	561	2,724
Net cash provided (used) by financing activities	<u>(158,776)</u>	<u>2,724</u>
Net decrease in cash	(3,114)	(55,138)
Cash, beginning of year	<u>6,583</u>	<u>61,721</u>
Cash, end of year	<u>\$ 3,469</u>	<u>6,583</u>
Supplemental disclosures:		
Cash paid for interest expense	\$ 12,575	14,812
Property acquired under capital lease	-	5,251,042
Property acquired with restricted cash reserve	166,741	-

See accompanying notes to financial statements.

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

June 30, 2014 and 2013

(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 220 students in grades kindergarten through seven.

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.

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

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 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 years ended June 30, 2014 and 2013, 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 2011 are open to audit for both federal and state purposes.

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

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 August 24, 2015, 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.

(2) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in monthly installments in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, charter school funding is paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 was eliminated.

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(2) Legislative Funding Changes, Continued

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a loss due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans.....	\$ 549,621
Repayment of accrued interest on Common School Fund loans....	<u>66,809</u>
	616,430
Elimination of School funding	<u>(624,756)</u>
	\$ <u>(8,326)</u>

(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 commenced on July 1, 2013 when the School took possession of the building.

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 was completed. These preliminary costs are recorded as prepaid rent in the accompanying statement of financial position. As of June 30, 2014 and 2013, the balances of prepaid rent were \$107,075 and \$357,075, respectively.

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, 2014 and 2013, the balances outstanding under the line of credit were \$198,184 and \$197,623, respectively.

(5) Leases

In the year ended June 30, 2013, the School leased its facilities under operating leases, whose terms ranged from 44 to 60 months. Under the leases, the School was responsible for monthly rental payments, which escalated each year, as well as its share of utilities and insurance. Rent expense for the year ended June 30, 2013 was \$162,676. The School had the right to terminate each of the leases in the event that the School acquired another facility. As a result of the construction of a new facility (see Note 3), the School terminated those leases effective June 30, 2013.

The School entered into an agreement with NCS Properties LLC to lease a building under a capital lease effective July 1, 2013. The lease requires monthly rental payments of \$49,283, which are to be subsidized by the federal government in the amount of \$28,450 per month. The rental obligation is subject to increase in the event of an increase in market interest rates. At June 30, 2014, the recorded cost and accumulated depreciation relating to the building was recorded at \$5,038,912 and \$142,777, 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, 2014:

Year Ended June 30:

2015	\$ 591,400
2016	591,400
2017	591,400
2018	591,400
2019	591,400
Thereafter	<u>7,096,800</u>
Total minimum lease payments.....	10,053,800
Less: amount representing interest.....	<u>(4,962,095)</u>
	<u>\$5,091,705</u>

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(6) 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 8.0% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$81,594 and \$85,933 for the years ended June 30, 2014 and 2013, respectively.

(7) 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 \$27,837 and \$16,982 for the years ended June 30, 2014 and 2013, respectively. The charter remains in effect until June 30, 2017, and is renewable thereafter by mutual consent.

(8) 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, 2014 and 2013, substantially all of the receivable balance was due from the State of Indiana.

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(9) 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 between program and management services. Following is a summary of expenses comprising each program and/or service for the years ended June 30, 2014 and 2013:

	<u>2014</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$ 810,907	104,379
Employee benefits	257,039	28,260
Staff development.....	12,595	-
Professional services	75,523	41,080
Authorizer oversight fee	-	27,837
Food costs.....	6,372	-
Repairs and Maintenance	31,690	-
Equipment rental	7,796	-
Classroom, kitchen and office supplies.....	42,967	23,959
Occupancy	98,125	-
Depreciation	192,140	-
Interest	428,207	12,575
Insurance	-	21,126
Other	<u>199</u>	<u>16,684</u>
	<u>\$1,963,560</u>	<u>275,900</u>

THE NEW COMMUNITY SCHOOL, INC.

Notes to Financial Statements

(9) Functional Expense Reporting, Continued

	<u>2013</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$ 784,331	159,714
Employee benefits	242,730	49,748
Staff development.....	9,964	-
Professional services	22,408	38,472
Authorizer oversight fee.....	-	16,982
Food costs.....	400	-
Repairs and Maintenance	20,636	-
Equipment	8,407	-
Classroom, kitchen and office supplies.....	32,763	16,970
Occupancy	197,404	-
Depreciation	52,311	-
Interest	-	39,152
Insurance	-	16,180
Other	<u>275</u>	<u>18,090</u>
	<u>\$1,371,629</u>	<u>355,308</u>

(13) 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 5). 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. As of June 30, 2014, the unpaid bond obligation approximated \$3,500,000.

THE NEW COMMUNITY SCHOOL, INC.

Other Reports

Year Ended June 30, 2014

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*.