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December 9, 2016

Charter School Board
The New Community School
1904 Elmwood Ave
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, 2015 to June 30, 2016. 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, 2016, 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, 2016 and 2015



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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, 2016 and 2015, and the related statements of activities and change 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 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 The New Community School, Inc. as of June 30, 2016 and 2015, and the changes in its net deficiency, its functional expenses, and its cash flows for the years 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 the School will continue as a going concern. As discussed in Note 2 to the financial statements, the School has incurred losses from operations and has a deficiency in net assets as of June 30, 2016, which raises substantial doubt about its ability to continue as a going concern. The accompanying 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.

Emphasis of Matter Regarding Restatement

As discussed in Note 10 to the financial statements, the 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, stylized initial "D".

Indianapolis, Indiana
December 6, 2016

THE NEW COMMUNITY SCHOOL, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ - | \$ 8,495 |
| Grants receivable | 4,231 | 26,154 |
| Prepaid expenses | - | 20,000 |
| | <hr/> | <hr/> |
| <i>Total current assets</i> | 4,231 | 54,649 |
| | <hr/> | <hr/> |
| PROPERTY AND EQUIPMENT | | |
| Land | 764,600 | 764,600 |
| Building | 4,274,312 | 4,274,312 |
| Building improvements | 267,606 | 262,482 |
| Furniture and equipment | 453,660 | 450,160 |
| Textbooks | 31,771 | 42,475 |
| Less: accumulated depreciation | (881,711) | (685,597) |
| | <hr/> | <hr/> |
| <i>Property and equipment, net</i> | 4,910,238 | 5,108,432 |
| | <hr/> | <hr/> |
| OTHER ASSETS | | |
| Cash restricted for facility improvements | - | 45,389 |
| | <hr/> | <hr/> |
| TOTAL ASSETS | <u>\$ 4,914,469</u> | <u>\$ 5,208,470</u> |
| | | |
| LIABILITIES AND NET DEFICIENCY | | |
| CURRENT LIABILITIES | | |
| Current portion of capital lease obligations | \$ 202,600 | \$ 228,024 |
| Current portion of note payable | 14,253 | - |
| Line of credit | 194,731 | 197,727 |
| Accounts payable | 72,563 | 53,296 |
| Accrued expenses | 51,315 | 37,895 |
| Refundable advances | 1,570 | - |
| | <hr/> | <hr/> |
| <i>Total current liabilities</i> | 537,032 | 516,942 |
| LONG-TERM LIABILITIES | | |
| Capital lease obligations, net of current portion | 4,661,498 | 4,817,158 |
| Note payable, net of current portion | 270,812 | - |
| | <hr/> | <hr/> |
| <i>Total liabilities</i> | 5,469,342 | 5,334,100 |
| NET DEFICIENCY | | |
| Unrestricted | (554,873) | (125,630) |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES AND NET DEFICIENCY | <u>\$ 4,914,469</u> | <u>\$ 5,208,470</u> |

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

THE NEW COMMUNITY SCHOOL, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET DEFICIENCY
For the Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|
| REVENUE AND SUPPORT | | |
| State education support | \$ 1,303,807 | \$ 1,556,483 |
| Grant revenue | 128,958 | 114,058 |
| Student fees | 24,401 | 40,037 |
| Contributions | 19,444 | 116,945 |
| Bond interest credit income | 341,400 | 341,400 |
| Interest income | 65 | 184 |
| Rental income | - | 17,990 |
| Other income | 1,487 | 1,564 |
| | <u>1,819,562</u> | <u>2,188,661</u> |
| <i>Total revenue and support</i> | | |
| EXPENSES | | |
| Program services | 1,853,421 | 1,941,694 |
| Management and general | 395,384 | 320,099 |
| | <u>2,248,805</u> | <u>2,261,793</u> |
| <i>Total expenses</i> | | |
| CHANGE IN NET DEFICIENCY | (429,243) | (73,132) |
| NET DEFICIENCY, BEGINNING OF YEAR | <u>(125,630)</u> | <u>(52,498)</u> |
| NET DEFICIENCY, END OF YEAR | <u><u>\$ (554,873)</u></u> | <u><u>\$ (125,630)</u></u> |

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, 2016 and 2015

| | <u>2016</u> | | | <u>2015</u> | | |
|---|-----------------------------|-----------------------------------|---------------------|-----------------------------|-----------------------------------|---------------------|
| | <u>Program Services</u> | <u>Management and General</u> | <u>Total</u> | <u>Program Services</u> | <u>Management and General</u> | <u>Total</u> |
| FUNCTIONAL EXPENSES | | | | | | |
| Salaries and wages | \$ 732,677 | \$ 188,029 | \$ 920,706 | \$ 771,219 | \$ 150,951 | \$ 922,170 |
| Employee benefits | 181,206 | 47,997 | 229,203 | 225,143 | 40,264 | 265,407 |
| Staff development | 13,933 | - | 13,933 | 11,968 | - | 11,968 |
| Professional services | 51,257 | 37,064 | 88,321 | 81,617 | 44,255 | 125,872 |
| Repairs and maintenance | 22,925 | - | 22,925 | 37,750 | - | 37,750 |
| Authorizer oversight fees | - | 30,740 | 30,740 | - | 28,386 | 28,386 |
| Food costs | 11,747 | - | 11,747 | 14,572 | - | 14,572 |
| Equipment | 22,078 | - | 22,078 | 7,577 | - | 7,577 |
| Classroom, kitchen, and office supplies | 24,189 | 17,610 | 41,799 | 21,326 | 13,011 | 34,337 |
| Occupancy | 61,436 | - | 61,436 | 77,207 | - | 77,207 |
| Depreciation | 196,115 | - | 196,115 | 201,818 | - | 201,818 |
| Interest | 534,658 | 15,188 | 549,846 | 491,252 | 11,391 | 502,643 |
| Insurance | - | 24,293 | 24,293 | - | 25,227 | 25,227 |
| Other | 1,200 | 34,463 | 35,663 | 245 | 6,614 | 6,859 |
| <i>Total functional expenses</i> | <u>\$ 1,853,421</u> | <u>\$ 395,384</u> | <u>\$ 2,248,805</u> | <u>\$ 1,941,694</u> | <u>\$ 320,099</u> | <u>\$ 2,261,793</u> |

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, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|------------------|-----------------|
| OPERATING ACTIVITIES | | |
| Change in net deficiency | \$ (429,243) | \$ (73,132) |
| Adjustments to reconcile change in net deficiency to net cash provided by (used in) operating activities: | | |
| Depreciation | 196,115 | 201,818 |
| Changes in certain assets and liabilities: | | |
| Grants receivable | 21,922 | (19,483) |
| Prepaid expenses | 20,000 | 87,075 |
| Accounts payable | 29,971 | (59,387) |
| Accrued expenses | 13,420 | (35,977) |
| Refundable advances | 1,570 | (6,990) |
| | <u>(146,245)</u> | <u>93,924</u> |
| <i>Net cash provided by (used in) operating activities</i> | | |
| INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (8,624) | (41,918) |
| Cash released for facility improvements | 45,389 | - |
| | <u>36,765</u> | <u>(41,918)</u> |
| <i>Net cash provided by (used in) investing activities</i> | | |
| FINANCING ACTIVITIES | | |
| Principal payments of capital lease obligations | (181,084) | (46,523) |
| Proceeds from note payable | 285,065 | - |
| Net repayments under line of credit | (2,996) | (457) |
| | <u>100,985</u> | <u>(46,980)</u> |
| <i>Net cash provided by (used in) financing activities</i> | | |
| NET CHANGE IN CASH | (8,495) | 5,026 |
| CASH, BEGINNING OF YEAR | <u>8,495</u> | <u>3,469</u> |
| CASH, END OF YEAR | <u>\$ -</u> | <u>\$ 8,495</u> |
| SUPPLEMENTAL INFORMATION | | |
| Cash paid for interest | \$ 208,446 | \$ 161,243 |

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

THE NEW COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

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 210 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 were fully utilized during 2016.

Grants Receivable – Grants 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, 2016 and 2015, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

THE NEW COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

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 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 December 6, 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 - GOING CONCERN / SCHOOL CLOSING

As reflected in the accompanying financial statements, the School incurred a significant loss for the year ended June 30, 2016, and had a substantial deficiency in net assets and no cash balance as of June 30, 2016. Also, as of June 30, 2016, the School was two months in arrears on its capital lease payments and as of October 1, 2016, the line of credit is in default. In addition, the School has experienced a significant decline in student enrollment for the 2016/2017 school year, which further impacts the School's funding. These factors raise substantial doubt about the School's ability to continue as a going concern. During November 2016, the Board of Directors made the decision to close the School at the end of the current semester. The accompanying financial statements do not include any adjustments related to the anticipated closing of the School.

NOTE 3 - 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. As of the date these financial statements were issued, the line of credit has not been renewed. 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, 2016 and 2015, the balance outstanding under the line of credit was \$194,731 and \$197,727, respectively.

THE NEW COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 4 - LONG-TERM DEBT

The school received a note payable from the Indiana Common School Fund in February of 2016 in the amount of \$285,065. The note is payable in semi-annual payments of principal and interest over a period of ten years, with interest at 1% per annum. Principal maturities of long-term debt are as follows for the year ending June 30:

| | |
|------------|-----------|
| 2017 | \$ 14,253 |
| 2018 | 28,507 |
| 2019 | 28,507 |
| 2020 | 28,507 |
| 2021 | 28,507 |
| Thereafter | 156,784 |

NOTE 5 - 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 or \$1.

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, 2016, the School was behind on two monthly payments. At June 30, 2016, the recorded cost and accumulated depreciation relating to the building was \$4,274,312 and \$418,829, 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, 2016:

| | <u>Total Obligation</u> | <u>Annual Bond Interest Credit</u> | <u>Estimated School Cash Requirement</u> |
|------------------------------------|-----------------------------|--|--|
| 2017 | \$ 633,067 | \$ 341,400 | \$ 291,667 |
| 2018 | 591,400 | 341,400 | 250,000 |
| 2019 | 591,400 | 341,400 | 250,000 |
| 2020 | 591,400 | 341,400 | 250,000 |
| 2021 | 591,400 | 341,400 | 250,000 |
| Thereafter | <u>5,914,000</u> | <u>3,414,000</u> | <u>2,500,000</u> |
| Total minimum lease payments | 8,912,667 | \$ <u>5,121,000</u> | \$ <u>3,791,667</u> |
| Less: amount representing interest | <u>(4,048,569)</u> | | |
| | <u>\$ 4,864,098</u> | | |

THE NEW COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 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 11% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense under these plans was \$53,538 and \$75,373 for the years ended June 30, 2016 and 2015, respectively.

Additionally, in 2016 the school began offering a 403(b) retirement plan to employees. The plan offers a 7% employer match. Retirement plan expense under this plan was \$17,215 for the year ended June 30, 2016.

NOTE 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 \$30,740 and \$28,386 for the years ended June 30, 2016 and 2015, respectively. The charter remains in effect until June 30, 2017, and is renewable thereafter by mutual consent.

NOTE 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, 2016 and 2015, substantially all of the receivable balance was due from the State of Indiana.

THE NEW COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 9 - 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.

NOTE 10 - PRIOR PERIOD ADJUSTMENT

At June 30, 2015, the School was behind on its capital lease obligation. The June 30, 2015 financial statements did not reflect this and interest expense was understated by \$84,500. Current portion of capital lease obligations and interest expense have been increased by \$84,500 as of June 30, 2015. Net assets (deficiency) has been decreased by \$84,500 as of June 30, 2015.

THE NEW COMMUNITY SCHOOL, INC.
OTHER REPORT
For the Year Ended June 30, 2016

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*.