



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B50470

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 19, 2018

Charter School Board
The New Community School, Inc.
1904 Elmwood Ave.
Lafayette, IN 47904


We have reviewed the report prepared by The New Community School, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of The New Community School, Inc. as of June 30, 2017 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 Going Concern paragraph included in the Independent Auditors' Report and further detailed in Note 2.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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, CPA
State Examiner

THE NEW COMMUNITY SCHOOL, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Deficiency	4
Statements of Functional Expenses.....	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 11
 OTHER REPORT	 12



Donovan CPAs

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, 2017 and 2016, 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.

www.cpadonovan.com

Westside Office | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Northside Office | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

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, 2017 and 2016, and the change 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 New Community School, Inc. (the "Corporation") will continue as a going concern. As discussed in Note 2 to the financial statements, the Board of Directors elected to cease operations of the school effective December 2016. Although the legal entity operating the school has not yet been dissolved, all general school operations have ceased. This raises substantial doubt about the Corporation's 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.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent 'D'.

Indianapolis, Indiana
May 11, 2018

THE NEW COMMUNITY SCHOOL, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Grants receivable	\$ -	\$ 4,231
PROPERTY AND EQUIPMENT		
Land	321,600	764,600
Building	4,274,312	4,274,312
Building improvements	267,606	267,606
Furniture and equipment	348,127	453,660
Textbooks	31,771	31,771
Less: accumulated depreciation	(994,742)	(881,711)
<i>Property and equipment, net</i>	<u>4,248,674</u>	<u>4,910,238</u>
TOTAL ASSETS	<u><u>\$ 4,248,674</u></u>	<u><u>\$ 4,914,469</u></u>
LIABILITIES AND NET DEFICIENCY		
CURRENT LIABILITIES		
Current portion of capital lease obligations	\$ -	\$ 202,600
Current portion of note payable	42,760	14,253
Line of credit	-	194,731
Accounts payable	36,688	72,563
Accrued expenses	-	51,315
Refundable advances	1,570	1,570
Funds expended in excess of cash balance	9,175	-
<i>Total current liabilities</i>	90,193	537,032
LONG-TERM LIABILITIES		
Capital lease obligations, net of current portion	4,291,930	4,661,498
Note payable, net of current portion	242,305	270,812
<i>Total liabilities</i>	4,624,428	5,469,342
NET DEFICIENCY		
Unrestricted	<u>(375,754)</u>	<u>(554,873)</u>
TOTAL LIABILITIES AND NET DEFICIENCY	<u><u>\$ 4,248,674</u></u>	<u><u>\$ 4,914,469</u></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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State education support	\$ 484,409	\$ 1,303,807
Grant revenue	19,936	128,958
Student fees	5,292	24,401
Contributions	1,587	19,444
Bond interest credit income	341,400	341,400
Forgiveness of debt	202,332	-
Gain from sale of capital lease property	221,950	-
Other income	820	1,552
	<u>1,277,726</u>	<u>1,819,562</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	956,556	1,853,421
Management and general	142,051	395,384
	<u>1,098,607</u>	<u>2,248,805</u>
<i>Total expenses</i>		
CHANGE IN NET DEFICIENCY	179,119	(429,243)
NET DEFICIENCY, BEGINNING OF YEAR	<u>(554,873)</u>	<u>(125,630)</u>
NET DEFICIENCY, END OF YEAR	<u><u>\$ (375,754)</u></u>	<u><u>\$ (554,873)</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, 2017 and 2016

	<u>2017</u>			<u>2016</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	\$ 210,784	\$ 56,500	\$ 267,284	\$ 732,677	\$ 188,029	\$ 920,706
Employee benefits	45,262	14,712	59,974	181,206	47,997	229,203
Staff development	-	-	-	13,933	-	13,933
Professional services	10,992	30,338	41,330	51,257	37,064	88,321
Repairs and maintenance	8,574	-	8,574	22,925	-	22,925
Authorizer oversight fees	-	-	-	-	30,740	30,740
Food costs	1,651	-	1,651	11,747	-	11,747
Equipment	440	-	440	22,078	-	22,078
Classroom, kitchen, and office supplies	2,638	3,553	6,191	24,189	17,610	41,799
Occupancy	22,630	-	22,630	61,436	-	61,436
Depreciation	193,615	-	193,615	196,115	-	196,115
Interest	435,021	12,781	447,802	534,658	15,188	549,846
Insurance	-	13,808	13,808	-	24,293	24,293
Loss on disposal of property and equipment	24,949	-	24,949	-	-	-
Other	-	10,359	10,359	1,200	34,463	35,663
<i>Total functional expenses</i>	<u>\$ 956,556</u>	<u>\$ 142,051</u>	<u>\$ 1,098,607</u>	<u>\$ 1,853,421</u>	<u>\$ 395,384</u>	<u>\$ 2,248,805</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net deficiency	\$ 179,119	\$ (429,243)
Adjustments to reconcile change in net deficiency to net cash used in operating activities:		
Depreciation	193,615	196,115
Loss on disposal of property and equipment	24,949	-
Forgiveness of debt	(202,332)	-
Gain on sale of capital lease property	(221,950)	
Changes in certain assets and liabilities:		
Grants receivable	4,231	21,922
Prepaid expenses	-	20,000
Accounts payable	(35,875)	29,971
Accrued expenses	41,467	13,420
Refundable advances	-	1,570
Funds expended in excess of cash balance	9,175	-
	<u>(7,601)</u>	<u>(146,245)</u>
<i>Net cash used in operating activities</i>		
	<u>(7,601)</u>	<u>(146,245)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	-	(8,624)
Cash released for facility improvements	-	45,389
	<u>-</u>	<u>45,389</u>
<i>Net cash provided by investing activities</i>		
	<u>-</u>	<u>36,765</u>
FINANCING ACTIVITIES		
Principal payments of capital lease obligations	-	(181,084)
Proceeds from note payable	-	285,065
Net proceeds (repayments) under line of credit	7,601	(2,996)
	<u>7,601</u>	<u>(2,996)</u>
<i>Net cash provided by financing activities</i>		
	<u>7,601</u>	<u>100,985</u>
NET CHANGE IN CASH	-	(8,495)
CASH, BEGINNING OF YEAR	-	8,495
	<u>-</u>	<u>8,495</u>
CASH, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 106,402	\$ 208,446
Sale of capital lease property by lessor:		
Reduction of capital lease obligations	572,168	-
Reduction of accrued interest due to lessor	92,782	-

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, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – The New Community School, Inc. (the "Corporation") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The Corporation operated a public charter school (the "School") established under Indiana Code 20-24 and was sponsored by Ball State University through December 2016. The School, located in Lafayette, Indiana, provided educational instruction to approximately 210 students in grades kindergarten through eight. The Board of Directors elected to close the School effective December 2016.

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.

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 Corporation 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 Corporation would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2017 and 2016, 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, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income, Continued – Professional accounting standards require the Corporation 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 Corporation has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2013 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 Corporation evaluated subsequent events through May 11, 2018, 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

Effective December 2016, the Board of Directors voted to close the School simultaneously with the termination of its charter by Ball State University. Although the Corporation operating the School has not yet been dissolved, all general school operations have ceased. These factors raise substantial doubt about the Corporation's ability to continue as a going concern. The accompanying financial statements do not include any adjustments related to the closing of the School.

NOTE 3 - LINE OF CREDIT

The School had a \$200,000 line of credit with Regions Bank. The line of credit was due on demand and matured on October 1, 2016. Interest under the line of credit was payable at 2.3% above the lender's prime rate, but not less than 4.75%. The line of credit was secured by all inventory, accounts, equipment, general intangibles and fixtures. As of June 30, 2016, the balance outstanding under the line of credit was \$194,731. The line of credit was forgiven in June 2017 when the balance outstanding was \$202,332.

THE NEW COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 4 - NOTE PAYABLE

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. None of the required principal payments were made in 2017. Those payments have been included in the current portion of note payable balance on the statements of financial position. Principal maturities of the note payable are as follows for the years ending June 30:

2018	\$ 42,760
2019	28,507
2020	28,507
2021	28,507
2022	28,507
Thereafter	128,277

NOTE 5 - CAPITAL LEASE OBLIGATION

During 2012, the Corporation committed to the construction of a school facility. The Corporation executed an agreement with NCS Properties LLC (“Landlord”), whereby Landlord assumed the responsibility for construction in exchange for a lease commitment from the Corporation. To facilitate the construction and lease, the Corporation 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 Corporation has an option to purchase the building for \$1.

The lease requires annual rental payments of \$591,400. The Corporation receives an annual bond interest credit in the amount of approximately \$341,400; therefore the Corporation’s net annual cash obligation for rent is approximately \$250,000. Each year, the Corporation recognizes contribution income for the bond interest credit received. As of June 30, 2017, the Corporation was past due by 14 monthly payments. As of June 30, 2017, the recorded cost and accumulated depreciation related to the building was \$4,274,312 and \$569,908, respectively.

In March 2017, the Landlord sold a portion of the land not containing the building. In conjunction with the sale, the Landlord provided to the Corporation a credit against the capital lease obligations and accrued interest totaling \$664,950. The credit will be applied against the earliest future minimum lease payments, which has been reflected in the schedule on the following page.

THE NEW COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 5 - CAPITAL LEASE OBLIGATION, Continued

Following is a schedule of future minimum lease payments under the capital lease for the years ending June 30, and the present value of net minimum lease payments as of June 30, 2017:

	<u>Total Obligation</u>	<u>Annual Bond Interest Credit</u>	<u>Estimated Corporation Cash Requirement</u>
2018	\$ 341,400	\$ 341,400	\$ -
2019	473,391	341,400	131,991
2020	591,400	341,400	250,000
2021	591,400	341,400	250,000
2022	591,400	341,400	250,000
Thereafter	<u>5,322,600</u>	<u>3,072,600</u>	<u>2,250,000</u>
Total minimum lease payments	7,911,591	\$ <u>4,779,600</u>	\$ <u>3,131,991</u>
Less: amount representing interest	<u>(3,619,661)</u>		
	<u>\$ 4,291,930</u>		

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 \$13,609 and \$53,538 for the years ended June 30, 2017 and 2016, 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 \$6,334 and \$17,215 for the years ended June 30, 2017 and 2016, respectively.

NOTE 7 - COMMITMENTS

The School operated under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercised certain oversight responsibilities. Under this charter, the School had 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 for the year ended June 30, 2016. The charter was revoked effective with the closure of the School and no fees were charged for 2017.

THE NEW COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

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, 2017 and 2016, substantially all of the receivable balance was due from the State of Indiana.

NOTE 9 - CONTINGENCY

To enable the construction of a new school facility, the Corporation 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 Corporation executed an agreement with NCS Properties LLC whereby NCS Properties LLC would construct the facility and lease it to the Corporation (see Note 5). The Corporation 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 Corporation's obligation under the bond offering. In the event that the lease is terminated for any reason, the Corporation will continue to be liable to Keystone NCS LLC for the bond debt.

THE NEW COMMUNITY SCHOOL, INC.
OTHER REPORT
For the Year Ended June 30, 2017

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*.