



STATE OF INDIANA
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February 17, 2016

Charter School Board
Friends of Canaan, Inc. d/b/a
Canaan Community Academy
8775 N. Canaan Main Street
Canaan, IN 47224

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 Friends of Canaan, Inc. d/b/a Canaan Community Academy, 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 Friends of Canaan, Inc. d/b/a Canaan Community Academy 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

FRIENDS OF CANAAN, INC.
d/b/a
CANAAN COMMUNITY ACADEMY

Financial Statements

June 30, 2015 and 2014



FRIENDS OF CANAAN, INC.
d/b/a
CANAAN COMMUNITY ACADEMY

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Friends of Canaan, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **Friends of Canaan, Inc. d/b/a Canaan Community Academy**, which comprise the statements of financial position as of June 30, 2015 and 2014, 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 **Friends of Canaan, 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.

Danovan P.C.

Indianapolis, IN
January 8, 2016

FRIENDS OF CANAAN, INC.
d/b/a
CANAAN COMMUNITY ACADEMY

Statements of Financial Position

	June 30	
Assets	2015	2014
Current assets:		
Cash	\$ 198,209	122,397
Grants receivable	2,235	13,146
Prepaid expenses	4,266	1,509
Total current assets	204,710	137,052
Property and equipment:		
Textbooks	76,408	38,758
Equipment	253,789	201,726
Less: accumulated depreciation	(169,957)	(71,814)
Property and equipment, net	160,240	168,670
	\$ 364,950	305,722
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 48,511	42,074
Current portion of long-term debt	42,271	40,483
Refundable advances	18,482	10,000
Total current liabilities	109,264	92,557
Long-term debt, less current portion	67,275	112,314
Total liabilities	176,539	204,871
Unrestricted net assets	188,411	100,851
	\$ 364,950	305,722

See accompanying notes to financial statements.

FRIENDS OF CANAAN, INC.
d/b/a
CANAAN COMMUNITY ACADEMY

Statements of Activities

	<u>Year Ended June 30</u>	
	<u>2015</u>	<u>2014</u>
<u>Revenue and Support</u>		
State education support	\$ 756,598	769,618
Grant revenue	271,202	339,095
Student fees	30,862	28,402
Contributions	725	26,572
Other	6,282	13,252
Total revenue and support	<u>1,065,669</u>	<u>1,176,939</u>
 <u>Expenses</u>		
Program services	768,918	820,296
Management and general	209,191	246,972
Total expenses	<u>978,109</u>	<u>1,067,268</u>
 Increase in net assets	87,560	109,671
 Net assets (deficiency), beginning of year	<u>100,851</u>	<u>(8,820)</u>
 Net assets, end of year	<u>\$ 188,411</u>	<u>100,851</u>

See accompanying notes to financial statements.

FRIENDS OF CANAAN, INC.
d/b/a
CANAAN COMMUNITY ACADEMY

Statements of Cash Flows

	Year Ended June 30	
	2015	2014
<u>Operating Activities</u>		
Change in net assets	\$ 87,560	109,671
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	98,143	59,468
Non-cash contributions	-	(15,000)
Change in:		
Grants receivable	10,911	92,690
Prepaid expenses	(2,757)	1,935
Accounts payable and accrued expenses	6,437	(70,501)
Refundable advances	8,482	10,000
Net cash provided by operating activities	<u>208,776</u>	<u>188,263</u>
<u>Investing Activities</u>		
Acquisition of property and equipment	(89,713)	(128,632)
Net cash used by investing activities	<u>(89,713)</u>	<u>(128,632)</u>
<u>Financing Activities</u>		
Proceeds from long-term debt	-	60,000
Principal repayments of long-term debt	(43,251)	(7,203)
Net cash provided (used) by financing activities	<u>(43,251)</u>	<u>52,797</u>
Net increase in cash	75,812	112,428
Cash, beginning of year	<u>122,397</u>	<u>9,969</u>
Cash, end of year	<u>\$ 198,209</u>	<u>122,397</u>
Supplemental disclosures:		
Cash paid for interest expense	\$ 5,780	6,401

See accompanying notes to financial statements.

FRIENDS OF CANAAN, INC.
d/b/a
CANAAN COMMUNITY ACADEMY

Notes to Financial Statements

June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

General

Friends of Canaan, Inc. d/b/a Canaan Community Academy (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 is sponsored by Ball State University.

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.

Accounts Receivable

Accounts receivable relate primarily to activities funded under federal 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.

Revenue Recognition

Revenues primarily 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 is 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.

FRIENDS OF CANAAN, INC.
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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:

Textbooks	4 years
Equipment	3 to 4 years

Taxes on Income

Friends of Canaan, 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, 2015 and 2014, 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.

FRIENDS OF CANAAN, INC.
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CANAAN COMMUNITY ACADEMY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Contributions

Contributions received 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 as support for future periods. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Subsequent Events

The School evaluated subsequent events through January 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.

(2) Leases

The School leases its facility under an operating lease with Shelby Township. The lease provides for an annual lease payment of \$1, but the School is responsible for all repairs, maintenance, utilities, and insurance. The lease term ends in February 2018.

(3) Retirement Plan

The School offers retirement benefits to its employees through both 403(b) and 401(a) defined contribution retirement plans provided by MetLife. The 403(b) plan is funded solely by employee contributions. The School contributes 7.5% of salary for all full-time employees to the 401(a) plan. The School had \$12,621 of forfeitures applied against expense in 2015. Retirement plan expense, net of forfeitures, was \$3,108 and \$30,633 for the years ended June 30, 2015 and 2014, respectively.

FRIENDS OF CANAAN, INC.
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Notes to Financial Statements

(4) Long-Term Debt

Long-term debt at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Note payable to IFF, payable \$1,125 monthly including interest at 4.75% per annum, maturing in October 2018, secured by all furniture, fixtures and equipment	\$ 41,558	52,797
Unsecured note payable to Elma Schafer, payable \$1,476 monthly including interest at 4.0% per annum, maturing in July 2017	33,994	50,000
Unsecured note payable to LaVonna Risk, payable \$1,476 monthly including interest at 4.0% per annum, maturing in July 2017	<u>33,994</u>	<u>50,000</u>
	<u>109,546</u>	<u>152,797</u>
Less: current portion.....	<u>(42,271)</u>	<u>(40,483)</u>
	<u>\$ 67,275</u>	<u>112,314</u>

The notes payable to Elma Schafer and LaVonna Risk were initially due in 2014, but were extended through July 1, 2017 with payments commencing in August 2014. Both notes are with persons related to a board member and to the former school leader.

Principal maturities of long-term debt are scheduled as follows:

Year Ending June 30:	
2016	\$ 42,271
2017	46,913
2018	15,897
2019	<u>4,515</u>
	<u>\$ 109,546</u>

FRIENDS OF CANAAN, INC.
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Notes to Financial Statements

(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 payments received. The charter remains in effect until June 30, 2017, and is renewable thereafter by mutual consent. Payments under this agreement were \$13,383 and \$14,793 for the years ended June 30, 2015 and 2014, respectively.

(6) Risks and Uncertainties

The School provides education services to families residing in Jefferson 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 accounts receivable balance was due from the State of Indiana.

FRIENDS OF CANAAN, INC.
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Notes to Financial Statements

(7) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated between program and management services. Following is a summary of expenses comprising each program and service for the years ended June 30, 2015 and 2014:

	2015	
	Program Services	Management and General
Salaries and wages.....	\$ 363,220	88,696
Employee benefits	66,871	9,345
Authorizer's fees	-	13,383
Books and supplies	23,295	1,922
Contracted transportation	81,900	-
Depreciation	98,143	-
Equipment	8,110	-
Food service expense.....	31,316	-
Insurance	-	32,334
Interest	-	5,780
Occupancy	26,484	-
Professional fees.....	53,626	46,865
Repairs and maintenance.....	4,384	-
Staff development.....	11,112	-
Other	457	10,866
	\$ 768,918	209,191

FRIENDS OF CANAAN, INC.
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Notes to Financial Statements

(7) Functional Expense Reporting, Continued

	2014	
	Program Services	Management and General
Salaries and wages.....	\$ 372,838	104,330
Employee benefits	103,681	22,936
Authorizer's fees	-	14,793
Books and supplies.....	24,286	6,332
Contracted transportation	77,350	-
Depreciation	59,468	-
Equipment	11,550	-
Food service expense.....	33,423	-
Insurance	-	28,025
Interest	-	6,401
Occupancy	24,155	-
Professional fees.....	53,493	51,867
Repairs and maintenance.....	54,277	-
Staff development.....	5,775	-
Other	-	12,288
	\$ <u>820,296</u>	<u>246,972</u>

FRIENDS OF CANAAN, INC.
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CANAAN COMMUNITY ACADEMY

Other Reports

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 Friends of Canaan, 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*.