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August 25, 2016

Charter School Board
Canaan Community Academy
8775 N Canaan Main St
Madison, IN 47250

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan PC, 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 Canaan Community Academy, 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.

The Financial Statements and Independent Auditors' 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
Together with Independent Auditors' Report

June 30, 2016 and 2015

DONOVAN
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Independent Auditors' Report

The Board of Directors
Friends of Canaan, Inc.
P.O. Box 20
Canaan, IN 47224

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, 2016 and 2015, and the related statements of activities and change in net assets, 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 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.

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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, 2016 and 2015, 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.

DONOVAN

Donovan

August 15, 2016
Indianapolis, IN

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	$ 225,864	$ 198,209
Grants receivable	3,790	2,235
Prepaid expenses	2,907	4,266
Total current assets	232,561	204,710
PROPERTY AND EQUIPMENT		
Furniture and equipment	265,840	253,789
Textbooks	81,585	76,408
Vehicles	9,100	-
Less: accumulated depreciation	(260,867)	(169,957)
Property and equipment, net	95,658	160,240
TOTAL ASSETS	$ 328,219	$ 364,950
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 43,571	$ 48,511
Current portion of notes payable	47,027	42,271
Refundable advances	9,758	18,482
Total current liabilities	100,356	109,264
LONG-TERM LIABILITIES		
Notes payable, net of current portion	17,417	67,275
Total liabilities	117,773	176,539
UNRESTRICTED NET ASSETS	210,446	188,411
TOTAL LIABILITIES AND NET ASSETS	$ 328,219	$ 364,950

See independent auditors' report and accompanying notes to financial statements

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2016 and 2015

	2016	2015
REVENUE AND SUPPORT		
State education support	$ 755,753	$ 756,598
Grant revenue	156,128	271,202
Student fees	34,209	30,862
Contributions	9,440	725
Other income	25,519	6,282
Total revenue and support	981,049	1,065,669
EXPENSES		
Program services	802,484	768,918
Management and general	156,530	209,191
Total expenses	959,014	978,109
CHANGE IN NET ASSETS	22,035	87,560
NET ASSETS, BEGINNING OF YEAR	188,411	100,851
NET ASSETS, END OF YEAR	$ 210,446	$ 188,411

See independent auditors' report and accompanying notes to financial statements

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015

	2016			2015		
	Program Services	Management and General	Total	Program Services	Management and General	Total
FUNCTIONAL EXPENSES						
Salaries and wages	$ 383,588	$ 42,336	$ 425,924	$ 363,220	$ 88,696	$ 451,916
Employee benefits	82,337	9,698	92,035	66,871	9,345	76,216
Professional services	55,490	46,070	101,560	53,626	46,865	100,491
Depreciation	90,910	-	90,910	98,143	-	98,143
Transportation	82,895	-	82,895	81,900	-	81,900
Classroom, kitchen, and office supplies	30,629	5,122	35,751	23,295	1,922	25,217
Food costs	29,203	-	29,203	31,316	-	31,316
Insurance	-	29,172	29,172	-	32,334	32,334
Occupancy	21,467	-	21,467	26,484	-	26,484
Authorizer oversight fees	-	16,168	16,168	-	13,383	13,383
Equipment	6,029	-	6,029	8,110	-	8,110
Property rental and maintenance	4,923	-	4,923	4,384	-	4,384
Staff development	4,634	-	4,634	11,112	-	11,112
Interest	-	3,943	3,943	-	5,780	5,780
Travel	40	-	40	-	-	-
Other	10,339	4,021	14,360	457	10,866	11,323
Total functional expenses	$ 802,484	$ 156,530	$ 959,014	$ 768,918	$ 209,191	$ 978,109

See independent auditors' report and accompanying notes to financial statements

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
OPERATING ACTIVITIES		
Change in net assets	$ 22,035	$ 87,560
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	90,910	98,143
Changes in certain assets and liabilities:		
Grants receivable	(1,555)	10,911
Prepaid expenses	1,359	(2,757)
Accounts payable and accrued expenses	(4,940)	6,437
Refundable advances	(8,724)	8,482
Net cash provided by operating activities	99,085	208,776
INVESTING ACTIVITIES		
Purchases of property and equipment	(26,328)	(89,713)
FINANCING ACTIVITIES		
Principal repayments of notes payable	(45,102)	(43,251)
NET CHANGE IN CASH	27,655	75,812
CASH, BEGINNING OF YEAR	198,209	122,397
CASH, END OF YEAR	$ 225,864	$ 198,209
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 3,943	$ 5,780

See independent auditors' report and accompanying notes to financial statements

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 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.

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:

Furniture and equipment	3 - 4 years
Textbooks	4 years
Vehicles	5 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, 2016 and 2015, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

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.

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 August 15, 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 – 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.

NOTE 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 did not have any forfeitures in 2016. The School had $12,621 of forfeitures applied against expense in 2015. Retirement plan expense, net of forfeitures, was $19,991 and $3,108 for the years ended June 30, 2016 and 2015, respectively.

NOTE 4 – 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 $16,168 and $13,383 for the years ended June 30, 2016 and 2015, respectively.

NOTE 5 – NOTES PAYABLE

Notes payable at June 30, 2016 and 2015 consisted of the following:

	2016	2015
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	$ 29,772	$ 41,558
Unsecured note payable to Elma Schafer, payable $1,476 monthly including interest at 4.0% per annum, maturing in July 2017	17,336	33,994
Unsecured note payable to LaVonna Risk, payable $1,476 monthly including interest at 4.0% per annum, maturing in July 2017	17,336	33,994
	64,444	109,546
Less: current portion	(47,027)	(42,271)
Long-term portion	$ 17,417	$ 67,275

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 notes payable are scheduled as follows for the years ending June 30,

2017	$ 47,027
2018	12,956
2019	4,461
	$ 64,444

NOTE 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.

NOTE 6 – RISKS AND UNCERTAINTIES (Continued)

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 accounts receivable balance was due from the State of Indiana.

NOTE 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.