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November 13, 2018

Charter School Board
Friends of Canaan, Inc.
d/b/a Canaan Community Academy
8775 N. Canaan Main Street
Madison, IN 47250

We have reviewed the report prepared by Friends of Canaan, Inc. d/b/a Canaan Community Academy and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2017 to June 30, 2018. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Friends of Canaan, Inc. d/b/a Canaan Community Academy as of June 30, 2018 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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.

The report is filed with this letter in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

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

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2018 and 2017



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Donovan CPAs

Independent Auditors' 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, 2018 and 2017, 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 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.

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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. d/b/a Canaan Community Academy as of June 30, 2018 and 2017, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The letters are cursive and slightly slanted to the right.

October 29, 2018
Indianapolis, Indiana

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 180,409	\$ 158,950
Grants receivable	14,262	1,553
Prepaid expenses	18,405	20,450
<i>Total current assets</i>	<u>213,076</u>	<u>180,953</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	5,646	-
Furniture and equipment	272,151	269,805
Textbooks	87,548	87,548
Vehicles	12,300	12,300
Less: accumulated depreciation	(349,577)	(326,643)
<i>Property and equipment, net</i>	<u>28,068</u>	<u>43,010</u>
TOTAL ASSETS	<u>\$ 241,144</u>	<u>\$ 223,963</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of note payable	\$ 4,459	\$ 12,956
Accounts payable and accrued expenses	53,063	63,825
Refundable advances	15,598	14,198
<i>Total current liabilities</i>	<u>73,120</u>	<u>90,979</u>
LONG-TERM LIABILITIES		
Note payable, net of current portion	<u>-</u>	<u>4,459</u>
<i>Total liabilities</i>	<u>73,120</u>	<u>95,438</u>
UNRESTRICTED NET ASSETS	<u>168,024</u>	<u>128,525</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 241,144</u>	<u>\$ 223,963</u>

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

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUE AND SUPPORT		
State education support	\$ 767,584	\$ 619,547
Grant revenue	210,804	135,480
Student fees	23,970	25,178
Contributions	27,279	25,066
Other income	17,929	22,320
	<u>1,047,566</u>	<u>827,591</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	802,529	747,083
Management and general	205,538	162,429
	<u>1,008,067</u>	<u>909,512</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	39,499	(81,921)
NET ASSETS, BEGINNING OF YEAR	<u>128,525</u>	<u>210,446</u>
NET ASSETS, END OF YEAR	<u>\$ 168,024</u>	<u>\$ 128,525</u>

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

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>			<u>2017</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	\$ 458,709	\$ 83,347	\$ 542,056	\$ 429,253	\$ 43,572	\$ 472,825
Employee benefits	98,341	21,185	119,526	79,311	12,485	91,796
Professional services	63,491	44,955	108,446	61,341	57,134	118,475
Depreciation	22,934	-	22,934	65,776	-	65,776
Contracted transportation services	146	-	146	465	-	465
Classroom, kitchen, and office supplies	31,354	7,017	38,371	28,900	6,685	35,585
Food costs	29,414	-	29,414	23,957	-	23,957
Insurance	-	19,237	19,237	-	20,917	20,917
Occupancy	20,362	-	20,362	18,948	-	18,948
Authorizer oversight fees	-	16,294	16,294	-	13,356	13,356
Equipment	14,768	-	14,768	6,282	-	6,282
Property rental and maintenance	28,652	-	28,652	16,092	-	16,092
Staff development	22,995	-	22,995	11,040	-	11,040
Interest	-	559	559	-	2,018	2,018
Other	11,363	12,944	24,307	5,718	6,262	11,980
<i>Total functional expenses</i>	<u>\$ 802,529</u>	<u>\$ 205,538</u>	<u>\$ 1,008,067</u>	<u>\$ 747,083</u>	<u>\$ 162,429</u>	<u>\$ 909,512</u>

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

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 39,499	\$ (81,921)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	22,934	65,776
Changes in certain assets and liabilities:		
Grants receivable	(12,709)	2,237
Prepaid expenses	2,045	(17,543)
Accounts payable and accrued expenses	(10,762)	20,254
Refundable advances	1,400	4,440
	42,407	(6,757)
<i>Net cash provided by (used in) operating activities</i>		
INVESTING ACTIVITIES		
Purchases of property and equipment	(7,992)	(13,128)
FINANCING ACTIVITIES		
Principal repayments of note payable	(12,956)	(47,029)
NET CHANGE IN CASH	21,459	(66,914)
CASH, BEGINNING OF YEAR	158,950	225,864
CASH, END OF YEAR	\$ 180,409	\$ 158,950
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 559	\$ 2,018

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

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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. Enrollment during the 2017-2018 school year was 103 students in grades kindergarten through six. The School 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.

Grants Receivable – Grants 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.

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.

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:

Leasehold improvements	40 years
Furniture and equipment	3 - 4 years
Textbooks	4 years
Vehicles	5 years

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – Friends of Canaan, Inc. has received a determination from the U.S. Internal Revenue Service 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, 2018 and 2017, 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 ended after 2014 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 October 29, 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 - DONATED FACILITIES

The School leases its facility under an operating lease with Shelby Township. Shelby Township is providing a donation to the School by allowing it to occupy the government-owned building for an annual lease payment of \$1. Even though reporting donated facilities as items of revenue and expense is called for in certain circumstances, the Internal Revenue Service does not permit the inclusion of those amounts on the Form 990. The fair market value of in-kind contributions has not been determined for the years ended June 30, 2018 and 2017, and the fair market value of the premises are not reported in the accompanying financial statements. The School is responsible for all repairs, maintenance, utilities, and insurance. The lease term ends in March 2023.

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 each employee's salary for all full-time employees to the 401(a) plan. Retirement plan expense, net of forfeitures, was \$28,165 and \$21,064 for the years ended June 30, 2018 and 2017, respectively.

FRIENDS OF CANAAN, INC.
d/b/a CANAAN COMMUNITY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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, 2022, and is renewable thereafter by mutual consent. Payments under this agreement were \$16,294 and \$13,356 for the years ended June 30, 2018 and 2017, respectively.

NOTE 5 - NOTE PAYABLE

Note payable consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Note payable to IFF, payable \$1,125 monthly including interest at 4.75% per annum, maturing in October 2018, secured by property and equipment	\$ <u>4,459</u>	\$ <u>17,415</u>
Less: current portion	<u>(4,459)</u>	<u>(12,956)</u>
Long-term portion	\$ <u><u>-</u></u>	\$ <u><u>4,459</u></u>

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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2018 and 2017, 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 and change in net assets. Accordingly, certain expenses have been allocated between program services and management and general expenses.