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December 26, 2019


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 audit report of Friends of Canaan, Inc. d/b/a Canaan Community Academy which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. 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, 2019 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 the audit report in accordance with guidelines established by the State Board of Accounts.

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 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, 2019 and 2018



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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, 2019 and 2018, 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, 2019 and 2018, 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.

December 12, 2019  
Indianapolis, Indiana

**FRIENDS OF CANAAN, INC.**  
**d/b/a CANAAN COMMUNITY ACADEMY**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 289,439	\$ 180,409
Grants receivable	14,058	14,262
Prepaid expenses	78	18,405
<i>Total current assets</i>	<u>303,575</u>	<u>213,076</u>
<b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	7,027	5,646
Furniture and equipment	277,969	272,151
Textbooks	87,548	87,548
Vehicles	95,480	12,300
Less: accumulated depreciation	(362,379)	(349,577)
<i>Property and equipment, net</i>	<u>105,645</u>	<u>28,068</u>
<b>TOTAL ASSETS</b>	<u>\$ 409,220</u>	<u>\$ 241,144</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 13,917	\$ 4,459
Accounts payable and accrued expenses	82,245	53,063
Refundable advances	815	15,598
<i>Total current liabilities</i>	<u>96,977</u>	<u>73,120</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	<u>64,583</u>	<u>-</u>
<i>Total liabilities</i>	<u>161,560</u>	<u>73,120</u>
<b>NET ASSETS, WITHOUT DONOR RESTRICTIONS</b>	<u>247,660</u>	<u>168,024</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 409,220</u>	<u>\$ 241,144</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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 933,988	\$ 767,584
Grant revenue	303,099	210,804
Student fees	7,968	23,970
Contributions	8,238	27,279
Other income	50,746	17,929
	<u>1,304,039</u>	<u>1,047,566</u>
<i>Total revenue and support</i>		
<b>EXPENSES</b>		
Program services	942,596	802,529
Management and general	281,807	205,538
	<u>1,224,403</u>	<u>1,008,067</u>
<i>Total expenses</i>		
<b>CHANGE IN NET ASSETS</b>	79,636	39,499
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>168,024</u>	<u>128,525</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 247,660</u>	<u>\$ 168,024</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, 2019 and 2018**

	<u>2019</u>			<u>2018</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>
Salaries and wages	\$ 544,689	\$ 133,695	\$ 678,384	\$ 458,709	\$ 83,347	\$ 542,056
Employee benefits	126,740	29,709	156,449	98,341	21,185	119,526
Professional services	121,465	41,939	163,404	63,491	44,955	108,446
Classroom, kitchen, and office supplies	38,308	22,270	60,578	31,354	7,017	38,371
Food costs	29,127	-	29,127	29,414	-	29,414
Occupancy	22,667	-	22,667	20,362	-	20,362
Property rental and maintenance	20,635	-	20,635	28,652	-	28,652
Authorizer oversight fees	-	19,909	19,909	-	16,294	16,294
Insurance	-	18,897	18,897	-	19,237	19,237
Depreciation	12,802	-	12,802	22,934	-	22,934
Equipment	9,682	-	9,682	14,768	-	14,768
Staff development	6,934	-	6,934	22,995	-	22,995
Contracted transportation services	980	-	980	146	-	146
Interest	-	44	44	-	559	559
Other	8,567	15,344	23,911	11,363	12,944	24,307
<i>Total functional expenses</i>	<u>\$ 942,596</u>	<u>\$ 281,807</u>	<u>\$ 1,224,403</u>	<u>\$ 802,529</u>	<u>\$ 205,538</u>	<u>\$ 1,008,067</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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 79,636	\$ 39,499
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,802	22,934
Changes in certain assets and liabilities:		
Grants receivable	204	(12,709)
Prepaid expenses	18,327	2,045
Accounts payable and accrued expenses	29,182	(10,762)
Refundable advances	<u>(14,783)</u>	<u>1,400</u>
 <i>Net cash provided by operating activities</i>	 125,368	 42,407
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(11,879)	(7,992)
<b>FINANCING ACTIVITIES</b>		
Principal repayments of note payable	<u>(4,459)</u>	<u>(12,956)</u>
<b>NET CHANGE IN CASH</b>	109,030	21,459
<b>CASH, BEGINNING OF YEAR</b>	<u>180,409</u>	<u>158,950</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 289,439</u></u>	<u><u>\$ 180,409</u></u>
 <b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 980	\$ 146
Buses financed with a long-term note payable	78,500	-

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, 2019 and 2018**

**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. Enrollment during the 2018-2019 school year was approximately 120 students in grades kindergarten through six.

Financial Statement Presentation – Effective with the June 30, 2019 year end, the School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding the liquidity of financial assets. ASU 2016-14 must be applied on a retrospective basis. Net assets as of June 30, 2019 and 2018 were without donor restrictions.

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 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.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2019 and 2018.

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.

**FRIENDS OF CANAAN, INC.**  
**d/b/a CANAAN COMMUNITY ACADEMY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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 - 10 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, 2019 and 2018, 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 2015 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 12, 2019, 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, 2019 and 2018, 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.

**FRIENDS OF CANAAN, INC.**  
**d/b/a CANAAN COMMUNITY ACADEMY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

**NOTE 3 - NOTES PAYABLE**

Notes payable consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Note payable to IFF, payable \$1,125 monthly including interest at 4.75% per annum, matured in October 2018, secured by property and equipment	\$ -	\$ 4,459
 Note payable to German American Bank, payable \$1,521 monthly including interest at 6.00% per annum, maturing in June 2024, secured by two buses	 <u>78,500</u>	 <u>-</u>
Less: current portion	<u>(13,917)</u>	<u>(4,459)</u>
Long-term portion	\$ <u>64,583</u>	\$ <u>-</u>

Principal maturities of notes payable are as follows for the years ending June 30:

2020	\$ 13,917
2021	14,776
2022	15,687
2023	16,655
2024	17,465

**NOTE 4 - RETIREMENT PLAN**

The School offers retirement benefits to its employees through both 403(b) and 401(a) defined contribution retirement plans. 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 \$37,015 and \$28,165 for the years ended June 30, 2019 and 2018, respectively.

**NOTE 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, 2022 and is renewable thereafter by mutual consent. Payments under this agreement were \$19,909 and \$16,294 for the years ended June 30, 2019 and 2018, respectively.

**FRIENDS OF CANAAN, INC.**  
**d/b/a CANAAN COMMUNITY ACADEMY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

**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, 2019 and 2018, substantially all of the accounts receivable balance was due from the State of Indiana.

**NOTE 7 - LIQUIDITY**

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The School's financial assets include cash and grants receivable. Financial assets at June 30, 2019 total \$303,497, all of which are available to meet cash needs for general expenditures within a year.

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**NOTE 8 - 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. Management of the School has categorized expenses as program service or management and general according to the underlying nature of the expense. As such, no allocations of specific transactions between these categories was required.

**FRIENDS OF CANAAN, INC.**  
**d/b/a CANAAN COMMUNITY ACADEMY**  
**OTHER REPORT**  
**For the Year Ended June 30, 2019**

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*.