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May 13, 2014

Charter School Board  
Carousel Family Services, Inc. d/b/a  
Veritas Academy  
530 E. Ireland Road, Building B  
South Bend, IN 46614

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. 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 Carousel Family Services, Inc. d/b/a Veritas Academy, as of June 30, 2013, 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 Carousel Family Services, Inc. d/b/a Veritas 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

**CAROUSEL FAMILY SERVICES, INC.**

**d/b/a**

**VERITAS ACADEMY**

*Financial Statements*

*June 30, 2013 and 2012*

CAROUSEL FAMILY SERVICES, INC.

d/b/a

VERITAS ACADEMY

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6-13
Other Reports	14

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Carousel Family Services, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **Carousel Family Services, Inc. d/b/a/ Veritas Academy**, which comprise the statements of financial position as of June 30, 2013 and 2012, 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 Carousel Family Services, Inc. d/b/a Veritas Academy as of June 30, 2013 and 2012, 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.

Handwritten signature in black ink, appearing to read "Raymond J. Hancock".

Indianapolis, IN  
February 21, 2014

CAROUSEL FAMILY SERVICES, INC.

d/b/a  
VERITAS ACADEMY

Statements of Financial Position

Assets	June 30	
	2013	2012
Current assets:		
Cash	\$ 69,168	98,938
Accounts receivable:		
State tuition support	-	320,036
Grants	3,644	6,106
Prepaid expense	-	200
Total current assets	<u>72,812</u>	<u>425,280</u>
Property and equipment:		
Leasehold improvements	11,205	11,205
Furniture and equipment	30,205	28,072
Textbooks	31,285	30,355
Less: accumulated depreciation	<u>(35,355)</u>	<u>(18,513)</u>
Property and equipment, net	<u>37,340</u>	<u>51,119</u>
	<u>\$ 110,152</u>	<u>476,399</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 105,296	139,152
Current portion of long-term debt	-	8,969
Deferred revenue	7,490	10,569
Refundable advances	1,469	5,872
Total current liabilities	<u>114,255</u>	<u>164,562</u>
Long-term debt	-	31,392
Total liabilities	<u>114,255</u>	<u>195,954</u>
Unrestricted net assets (deficiency)	<u>(4,103)</u>	<u>280,445</u>
	<u>\$ 110,152</u>	<u>476,399</u>

See accompanying notes to financial statements.

CAROUSEL FAMILY SERVICES, INC.

d/b/a

VERITAS ACADEMY

Statements of Activities

	<u>Year Ended June 30</u>	
	<u>2013</u>	<u>2012</u>
<u>Revenue and Support</u>		
State education support	\$ 792,504	640,120
Grant revenue	231,546	222,437
Student fees	32,039	25,172
Contributions	6,760	9,628
Other income	5,968	12,385
Total revenue and support	<u>1,068,817</u>	<u>909,742</u>
<u>Expenses</u>		
Program services:		
Educational instruction	799,514	918,757
Education support	69,190	71,754
Administrative	211,130	266,479
Total expenses	<u>1,079,834</u>	<u>1,256,990</u>
Decrease in net assets before non-operating expense	(11,017)	(347,248)
<u>Non-Operating Expense</u>		
Loss due to changes in legislative funding	<u>(273,531)</u>	<u>-</u>
Decrease in net assets	(284,548)	(347,248)
Net assets, beginning of year	<u>280,445</u>	<u>627,693</u>
Net assets (deficiency), end of year	<u>\$ (4,103)</u>	<u>280,445</u>

See accompanying notes to financial statements.

CAROUSEL FAMILY SERVICES, INC.

d/b/a

VERITAS ACADEMY

Statements of Cash Flows

	<u>Year Ended June 30</u>	
	<u>2013</u>	<u>2012</u>
<u>Operating Activities</u>		
Decrease in net assets	\$ (284,548)	(347,248)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Loss due to changes in legislative funding	273,531	-
Depreciation	16,842	17,544
Change in:		
Accounts receivable	(73,722)	169,556
Prepaid expense	200	21,830
Accounts payable and accrued expenses	(31,450)	15,659
Deferred revenue	(3,079)	-
Refundable advances	(4,403)	(18,871)
Net cash used by operating activities	<u>(106,629)</u>	<u>(141,530)</u>
<u>Investing Activities</u>		
Purchases of property and equipment	<u>(3,063)</u>	<u>(35,881)</u>
Net cash used by investing activities	<u>(3,063)</u>	<u>(35,881)</u>
<u>Financing Activities</u>		
Proceeds from Common School Fund loans	91,170	-
Repayments on Common School Fund loans	<u>(11,248)</u>	<u>(8,969)</u>
Net cash provided (used) by financing activities	<u>79,922</u>	<u>(8,969)</u>
Net decrease in cash	(29,770)	(186,380)
Cash, beginning of year	<u>98,938</u>	<u>285,318</u>
Cash, end of year	<u>\$ 69,168</u>	<u>98,938</u>
Supplemental disclosures:		
Cash payments for interest expense	\$ 1,774	1,884

See accompanying notes to financial statements.

CAROUSEL FAMILY SERVICES, INC.  
d/b/a  
VERITAS ACADEMY

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

General

Carousel Family Services, Inc. d/b/a Veritas 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.

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 is paid in equal monthly installments in January through December following the start of the school year. Revenue is recognized in the year in which the 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 amounts of costs and expenses at the time they are incurred.

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.

CAROUSEL FAMILY SERVICES, INC.  
d/b/a  
VERITAS ACADEMY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income

Carousel Family Services, 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, 2013 and 2012, 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. The tax years ending 2012, 2011, and 2010 are open to audit for both federal and state purposes.

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:

Leasehold improvements.....	15 years
Furniture and equipment .....	3 to 5 years
Textbooks .....	4 years

CAROUSEL FAMILY SERVICES, INC.  
d/b/a  
VERITAS ACADEMY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through February 21, 2014, 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) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in monthly installments in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, charter school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will no longer be paid.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a loss due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans.....	\$ 120,282
Repayment of accrued interest on Common School Fund loans....	<u>2,406</u>
	122,688
Elimination of School funding .....	<u>(396,219)</u>
	\$ <u>(273,531)</u>

CAROUSEL FAMILY SERVICES, INC.  
d/b/a  
VERITAS ACADEMY

Notes to Financial Statements

(3) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 represented amounts due relating to the following sources:

Tuition support .....	\$ 282,883
Special education grant .....	28,958
Prime Time grant.....	<u>8,195</u>
	\$ <u>320,036</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students and other factors. The payment schedule is likewise determined by state law with tuition support payable in equal monthly installments in the calendar year following the start of the academic school year. Effective July 1, 2013, tuition support will be paid in monthly installments that coincide with the School's fiscal year (see Note 2).

(4) Long-Term Debt

Long-term debt at June 30, 2012 represented a loan from the Indiana Common School Fund. A second loan from the Indiana Common School Fund was obtained in 2013. These loans required semi-annual payments of principal and interest over periods of 10 and 20 years with interest at 4% per annum. In 2013, the outstanding loans and all accrued interest were repaid with funding appropriated from the State of Indiana general fund (see Note 2).

CAROUSEL FAMILY SERVICES, INC.  
d/b/a  
VERITAS ACADEMY

Notes to Financial Statements

(5) Leases

The School leases its school facility as well as certain items of office equipment under operating leases. The facility lease is renewable annually. Expense under operating leases for the years ended June 30, 2013 and 2012 was \$82,221 and \$83,423, respectively. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows:

Year Ending June 30:

2014 .....	\$ 7,050
2015 .....	3,525

(6) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2013 and 2012, the School had refundable grant advances in excess of expenditures of \$1,469 and \$5,872.

(7) 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 multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. For the years ended June 30, 2013 and 2012, the School contributed 7.5% of compensation for teaching faculty to TRF and 8.75% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$61,405 and \$65,580 for the years ended June 30, 2013 and 2012, respectively.

CAROUSEL FAMILY SERVICES, INC.  
d/b/a  
VERITAS ACADEMY

Notes to Financial Statements

(8) 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 support. Expense under this charter agreement was \$10,815 and \$16,983 for the years ended June 30, 2013 and 2012, respectively. The charter remains in effect until June 30, 2018, and is renewable thereafter by mutual consent.

(9) Risks and Uncertainties

The School provides educational instruction services to families residing in St. Joseph 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, 2013 and 2012, substantially all of the accounts receivable balance was due from the State of Indiana. All cash deposits are maintained at 1<sup>st</sup> Source Bank and are secured by FDIC insurance up to the legal limit.

CAROUSEL FAMILY SERVICES, INC.  
d/b/a  
VERITAS ACADEMY

Notes to Financial Statements

(10) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and services benefited. Following is a summary of expenses comprising each program and service for the years ended June 30, 2013 and 2012:

	<u>2013</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages .....	\$462,080	43,524	86,033
Employee benefits.....	98,625	7,390	16,932
Professional services .....	18,673	2,649	53,566
Staff development .....	11,578	-	589
Authorizer oversight fee .....	-	-	10,815
Transportation .....	-	337	-
Food costs .....	-	6,765	-
Property rental.....	2,485	3,896	-
Classroom, kitchen and office supplies .....	25,632	4,629	11,220
Occupancy.....	163,599	-	-
Depreciation.....	16,842	-	-
Interest .....	-	-	4,180
Insurance .....	-	-	18,453
Other .....	<u>-</u>	<u>-</u>	<u>9,342</u>
	<u>\$799,514</u>	<u>69,190</u>	<u>211,130</u>

CAROUSEL FAMILY SERVICES, INC.  
d/b/a  
VERITAS ACADEMY

Notes to Financial Statements

(11) Functional Expense Reporting Continued

	<u>2012</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages .....	\$550,597	37,667	109,800
Employee benefits.....	116,671	5,317	18,915
Professional services.....	30,287	1,455	62,899
Staff development.....	21,234	-	575
Authorizer oversight fee .....	-	-	16,983
Transportation.....	-	5,405	-
Food costs .....	-	12,549	-
Property rental.....	4,997	3,457	-
Classroom, kitchen and office supplies .....	19,117	5,904	6,820
Occupancy.....	158,310	-	-
Depreciation.....	17,544	-	-
Interest .....	-	-	1,884
Insurance .....	-	-	37,405
Other .....	-	-	11,198
	<u>\$918,757</u>	<u>71,754</u>	<u>266,479</u>

CAROUSEL FAMILY SERVICES, INC.  
d/b/a  
VERITAS ACADEMY

Other Reports

Year Ended June 30, 2013

The report presented herein was prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of Carousel Family Services, Inc. d/b/a Veritas Academy

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*.