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November 17, 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, 2013 to June 30, 2014. 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, 2014, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the Emphasis of Matter Regarding Going Concern paragraph included in the Independent Auditor's Report and further detailed in Note 7.

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, 2014 and 2013*

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

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## 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, 2014 and 2013, 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.

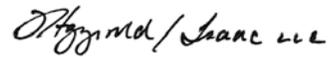
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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, 2014 and 2013, 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.

### **Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As discussed in Note 7 to the financial statements, the School has incurred losses from operations and has a deficiency in net assets as of June 30, 2014, which raises substantial doubt about its ability to continue as a going concern. Management's intentions with respect to this matter are also described in Note 7. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.



Indianapolis, IN  
August 28, 2014

CAROUSEL FAMILY SERVICES, INC.

d/b/a

VERITAS ACADEMY

Statements of Financial Position

<u>Assets</u>	June 30	
	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 19,333	69,168
Grants receivable	17,637	3,644
Total current assets	<u>36,970</u>	<u>72,812</u>
Property and equipment:		
Leasehold improvements	11,205	11,205
Furniture and equipment	37,419	30,205
Textbooks	31,285	31,285
Less: accumulated depreciation	(52,064)	(35,355)
Property and equipment, net	<u>27,845</u>	<u>37,340</u>
	<u>\$ 64,815</u>	<u>110,152</u>
 <u>Liabilities and Net Assets</u>		
Accounts payable and accrued expenses	\$ 200,483	105,296
Deferred revenue	-	7,490
Refundable advances	9,805	1,469
Total current liabilities	<u>210,288</u>	<u>114,255</u>
Unrestricted net assets (deficiency)	<u>(145,473)</u>	<u>(4,103)</u>
	<u>\$ 64,815</u>	<u>110,152</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>2014</u>	<u>2013</u>
<u>Revenue and Support</u>		
State education support	\$ 814,970	792,504
Grant revenue	99,590	231,546
Student fees	23,962	32,039
Contributions	17,614	6,760
Other income	7,233	5,968
Total revenue and support	<u>963,369</u>	<u>1,068,817</u>
<u>Expenses</u>		
Program services	866,704	868,704
Management and general	238,035	211,130
Total expenses	<u>1,104,739</u>	<u>1,079,834</u>
Decrease in net assets before non-operating expense	(141,370)	(11,017)
<u>Non-Operating Expense</u>		
Loss due to changes in legislative funding	-	(273,531)
Decrease in net assets	(141,370)	(284,548)
Net assets, beginning of year	<u>(4,103)</u>	<u>280,445</u>
Net assets (deficiency), end of year	<u>\$ (145,473)</u>	<u>(4,103)</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>2014</u>	<u>2013</u>
<u>Operating Activities</u>		
Decrease in net assets	\$ (141,370)	(284,548)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Loss due to changes in legislative funding	-	273,531
Donation of long-lived assets	(13,200)	-
Loss due to involuntary conversion of assets	2,910	-
Depreciation	21,537	16,842
Change in:		
Accounts receivable	(13,993)	(73,722)
Prepaid expense	-	200
Accounts payable and accrued expenses	95,187	(31,450)
Deferred revenue	(7,490)	(3,079)
Refundable advances	8,336	(4,403)
Net cash used by operating activities	<u>(48,083)</u>	<u>(106,629)</u>
<u>Investing Activities</u>		
Purchases of property and equipment	(1,752)	(3,063)
Net cash used by investing activities	<u>(1,752)</u>	<u>(3,063)</u>
<u>Financing Activities</u>		
Proceeds from Common School Fund loans	-	91,170
Repayments on Common School Fund loans	-	(11,248)
Net cash provided (used) by financing activities	<u>-</u>	<u>79,922</u>
Net decrease in cash	(49,835)	(29,770)
Cash, beginning of year	<u>69,168</u>	<u>98,938</u>
Cash, end of year	<u>\$ 19,333</u>	<u>69,168</u>
Supplemental disclosures:		
Cash payments for interest expense	\$ -	1,774

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2014 and 2013

(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 monthly installments in July through June coinciding with the academic 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, 2014 and 2013, 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 2013, 2012, and 2011 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 August 28, 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 is 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 was suspended.

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 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.  
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Notes to Financial Statements

(3) 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, 2014 and 2013 was \$78,520 and \$82,221, respectively. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows:

<u>Year Ending June 30:</u>	
2015 .....	\$5,398
2016 .....	5,398
2017 .....	5,398
2018 .....	5,398

(4) 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, 2014 and 2013, the School had refundable grant advances in excess of expenditures of \$9,805 and \$1,469.

(5) 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 cost-sharing 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, 2014 and 2013, 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 \$66,319 and \$61,405 for the years ended June 30, 2014 and 2013, respectively.

CAROUSEL FAMILY SERVICES, INC.  
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VERITAS ACADEMY

Notes to Financial Statements

(6) 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 received. Expense under this charter agreement was \$16,208 and \$10,815 for the years ended June 30, 2014 and 2013, respectively. The charter remains in effect until June 30, 2018, and is renewable thereafter by mutual consent.

(7) Going Concern Consideration

As reflected in the accompanying financial statements, the School incurred a significant loss for year ended June 30, 2014, and had a deficiency in net assets of \$145,473 as of that date. In addition to losses from operations, the School has been negatively affected by the 2013 changes in legislative funding which reduced its net assets by of \$273,531 (see Note 2). These factors raise substantial doubt about the School's ability to continue as a going concern. Management has taken steps to reduce personnel, control operating costs, and operate within its approved budget. Marketing and promotional strategies designed to increase enrollment, and related funding, have also been successful. Through these efforts management projects that the School will be able to produce positive cash flow of \$24,000 in the 2015 fiscal year. The ability of the School to continue as a going concern is dependent upon the success of this plan and the continued support of its creditors. The accompanying financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

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

Notes to Financial Statements

(8) 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, 2014 and 2013, 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.  
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Notes to Financial Statements

(9) Functional Expense Reporting

The costs of providing the educational instruction have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated between program and management and general activities. Following is a summary of expenses comprising each program and service for the years ended June 30, 2014 and 2013:

	2014	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages .....	\$517,151	99,499
Employee benefits.....	109,686	19,680
Professional services .....	22,285	65,280
Staff development .....	7,260	276
Authorizer oversight fee .....	-	16,208
Food costs .....	5,727	-
Equipment .....	9,591	-
Classroom, kitchen and office supplies .....	20,955	1,940
Occupancy.....	145,591	-
Depreciation.....	21,537	-
Insurance .....	-	22,075
Other .....	<u>6,921</u>	<u>13,077</u>
	<u>\$866,704</u>	<u>238,035</u>

CAROUSEL FAMILY SERVICES, INC.  
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VERITAS ACADEMY

Notes to Financial Statements

(9) Functional Expense Reporting, Continued

	2013	
	Program Services	Management and General
Salaries and wages .....	\$505,604	86,033
Employee benefits.....	106,015	16,932
Professional services.....	21,322	53,566
Staff development.....	11,578	589
Authorizer oversight fee .....	-	10,815
Food costs .....	6,765	-
Equipment.....	6,381	-
Classroom, kitchen and office supplies .....	30,261	11,220
Occupancy.....	163,599	-
Depreciation.....	16,842	-
Interest .....	-	4,180
Insurance .....	-	18,453
Other .....	<u>337</u>	<u>9,342</u>
	<u>\$868,704</u>	<u>211,130</u>

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

Other Reports

Year Ended June 30, 2014

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*.