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December 28, 2017

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

We have reviewed the report prepared by Carousel Family Services, Inc. d/b/a Veritas Academy and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Carousel Family Services, Inc. d/b/a Veritas Academy Schools as of June 30, 2017 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 Auditors' Report and further detailed in Note 2.

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
Paul D. Joyce, CPA
State Examiner

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

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016



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Donovan CPAs

Independent Auditors' 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 (the "School"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets (deficiency), 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 Carousel Family Services, Inc. d/b/a Veritas Academy as of June 30, 2017 and 2016, and the changes in its net assets, its functional expenses, 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 that the School will continue as a going concern. As discussed in Note 2 to the financial statements, the School's charter to operate as a public charter school was not renewed by the School's sponsor. The inability to operate as a public charter school and obtain state financial support raises substantial doubt about the School's ability to continue as a going concern. Management's plans regarding this matter are also described in Note 2. The 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.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent initial "D".

Indianapolis, Indiana
December 8, 2017

CAROUSEL FAMILY SERVICES, INC.
d/b/a VERITAS ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 319,770	\$ 106,725
Grants receivable	44,561	22,290
Prepaid expenses	<u>6,431</u>	<u>7,606</u>
<i>Total current assets</i>	<u>370,762</u>	<u>136,621</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	29,230	11,205
Furniture and equipment	105,991	76,353
Textbooks	42,172	42,172
Less: accumulated depreciation	<u>(115,240)</u>	<u>(93,875)</u>
<i>Property and equipment, net</i>	<u>62,153</u>	<u>35,855</u>
TOTAL ASSETS	<u><u>\$ 432,915</u></u>	<u><u>\$ 172,476</u></u>
LIABILITIES AND NET ASSETS (DEFICIENCY)		
CURRENT LIABILITIES		
Current portion of note payable	\$ -	\$ 8,000
Accounts payable and accrued expenses	18,200	133,212
Refundable advances	<u>5,007</u>	<u>-</u>
<i>Total current liabilities</i>	23,207	141,212
NOTE PAYABLE, NET OF CURRENT PORTION	<u>759,451</u>	<u>-</u>
<i>Total liabilities</i>	782,658	141,212
UNRESTRICTED NET ASSETS (DEFICIENCY)	<u>(349,743)</u>	<u>31,264</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	<u><u>\$ 432,915</u></u>	<u><u>\$ 172,476</u></u>

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

CAROUSEL FAMILY SERVICES, INC.
d/b/a VERITAS ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State education support	\$ 573,769	\$ 888,675
Grant revenue	171,948	203,409
Student fees	6,521	14,832
Contributions	-	6,860
Other income	8,434	12,009
	<hr/>	<hr/>
<i>Total revenue and support</i>	760,672	1,125,785
	<hr/>	<hr/>
EXPENSES		
Program services	766,947	693,772
Management and general	374,732	257,409
	<hr/>	<hr/>
<i>Total expenses</i>	1,141,679	951,181
	<hr/>	<hr/>
CHANGE IN NET ASSETS	(381,007)	174,604
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<hr/> 31,264	<hr/> (143,340)
NET ASSETS (DEFICIENCY), END OF YEAR	<hr/> <u>\$ (349,743)</u>	<hr/> <u>\$ 31,264</u>

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

CAROUSEL FAMILY SERVICES, INC.
d/b/a VERITAS ACADEMY
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>			<u>2016</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	\$ 453,809	\$ 219,904	\$ 673,713	\$ 418,377	\$ 125,110	\$ 543,487
Employee benefits	86,261	38,262	124,523	72,003	23,733	95,736
Staff development	33,845	631	34,476	10,484	740	11,224
Professional services	8,895	48,320	57,215	7,842	51,041	58,883
Authorizer oversight fees	-	12,593	12,593	-	18,299	18,299
Food costs	3,782	-	3,782	718	-	718
Equipment	53,884	-	53,884	19,062	-	19,062
Classroom and office supplies	15,145	3,805	18,950	19,321	2,902	22,223
Occupancy	87,315	-	87,315	123,213	-	123,213
Depreciation	21,365	-	21,365	21,830	-	21,830
Insurance	-	28,539	28,539	-	26,360	26,360
Other	2,646	22,678	25,324	922	9,224	10,146
<i>Total functional expenses</i>	<u>\$ 766,947</u>	<u>\$ 374,732</u>	<u>\$ 1,141,679</u>	<u>\$ 693,772</u>	<u>\$ 257,409</u>	<u>\$ 951,181</u>

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

CAROUSEL FAMILY SERVICES, INC.
d/b/a VERITAS ACADEMY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (381,007)	\$ 174,604
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	21,365	21,830
Changes in certain assets and liabilities:		
Grants receivable	(22,271)	(13,645)
Prepaid expenses	1,175	(7,220)
Accounts payable and accrued expenses	(115,012)	(50,265)
Refundable advances	5,007	(11,347)
	<u> </u>	<u> </u>
<i>Net cash provided by (used in) operating activities</i>	<u>(490,743)</u>	<u>113,957</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(47,663)</u>	<u>(13,123)</u>
FINANCING ACTIVITIES		
Proceeds from note payable	799,422	-
Principal repayment of notes payable	<u>(47,971)</u>	<u>(12,000)</u>
	<u> </u>	<u> </u>
<i>Net cash provided by (used in) financing activities</i>	<u>751,451</u>	<u>(12,000)</u>
NET CHANGE IN CASH	213,045	88,834
CASH, BEGINNING OF YEAR	<u>106,725</u>	<u>17,891</u>
CASH, END OF YEAR	<u><u>\$ 319,770</u></u>	<u><u>\$ 106,725</u></u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 657	\$ -

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

CAROUSEL FAMILY SERVICES, INC.
d/b/a VERITAS ACADEMY
OTHER REPORT
For the Year Ended June 30, 2017

NOTE 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. Through June 30, 2017, the School operated a public charter school established under Indiana Code 20-24 and was sponsored by Ball State University.

Ball State University revoked the School's charter effective June 30, 2017. As such, the School ceased normal operations as a charter school as of that date (See Note 2).

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 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.

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.

Taxes on Income – Carousel Family Services, 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, 2017 and 2016, 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 ending after 2013 are open to audit for both federal and state purposes.

CAROUSEL FAMILY SERVICES, INC.
d/b/a VERITAS ACADEMY
OTHER REPORT
For the Year Ended June 30, 2017

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	15 years
Furniture and equipment	3 to 5 years
Textbooks	4 years

Subsequent Events – The School evaluated subsequent events through December 8, 2017, 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 – GOING CONCERN CONSIDERATIONS

In 2017, the School received notification from its charter sponsor, Ball State University, that the sponsor would revoke the School's charter effective June 30, 2017. With the loss of the charter, funding from the State of Indiana also ceased as of June 30, 2017. Funding from the State of Indiana comprises substantially all of the School's revenue. The School is investigating other charter sponsors with the intention of reopening. The School did not reopen for the 2017/2018 school year. The loss of the School's charter, along with the absence of an identifiable alternative source of funding, raises substantial doubt about the School's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

NOTE 3 – LEASES

The School leases its school facility under an operating lease. The facility lease is renewable annually. Expense under the operating lease for the years ended June 30, 2017 and 2016 was \$44,210 and \$78,000, respectively.

CAROUSEL FAMILY SERVICES, INC.
d/b/a VERITAS ACADEMY
OTHER REPORT
For the Year Ended June 30, 2017

NOTE 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, 2017 the School had refundable grant advances in excess of expenditures of \$5,007. No such refundable advances existed as of June 30, 2016.

NOTE 5 – NOTES PAYABLE

During 2017, the School obtained a \$799,422 note payable from the State Board of Education. The note payable is the result of the Common School Funds Charter and Innovation School Advance Program. This note is secured by the School's future tuition support payments on the School's basic grant. The note is payable at a rate of \$39,971, semi-annually (January 1 and July 1) plus interest at 1.00%. Due to the School's charter sponsor revoking its charter effective June 30, 2017, the School is no longer receiving basic grant payments and repayment of this note payable has ceased. As of the date of these financial statements, it is unclear when or if repayment on this loan will continue. If the School is unable to obtain a new charter sponsor and ceases all operations, upon liquidation the loan will be forgiven.

As of June 30, 2016, the School had a note payable due to DeLage Landen Financial Services, Inc. The note was non-interest bearing, was payable in monthly installments of \$1,000 through February 2017, and was secured by the equipment financed through the note. The balance of the note at June 30, 2016 was \$8,000, and it was repaid in full in 2017.

NOTE 6 – RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits 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 determined annually by the INPRS Board. Under the plans, the School contributed 7.5% of compensation for eligible teaching faculty to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2016 (the latest year reported), both TRF and PERF were more than 80% funded. Total retirement plan expense was \$71,048 and \$54,076 for the years ended June 30, 2017 and 2016, respectively.

CAROUSEL FAMILY SERVICES, INC.
d/b/a VERITAS ACADEMY
OTHER REPORT
For the Year Ended June 30, 2017

NOTE 7 – COMMITMENTS

The School operated under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercised certain oversight responsibilities. Under this charter, the School had 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 \$12,593 and \$18,299 for the years ended June 30, 2017 and 2016, respectively. The charter was revoked effective June 30, 2017.

NOTE 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, 2017 and 2016, substantially all of the accounts receivable balance was due from the State of Indiana. All cash deposits are maintained at 1st Source Bank and are secured by FDIC insurance up to the legal limit.

NOTE 9 – FUNCTIONAL EXPENSE REPORTING

The costs of providing 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.