

Damar Charter School, Inc.
d/b/a Damar Charter Academy

Accountants' Report and Financial Statements

June 30, 2012

Damar Charter School, Inc.
d/b/a Damar Charter Academy
June 30, 2012

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Damar Charter School, Inc.
d/b/a Damar Charter Academy
Indianapolis, Indiana

We have audited the accompanying statement of financial position of Damar School, Inc. d/b/a Damar Charter Academy (Academy) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Damar Charter School, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The statement of activities by fund listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

February 25, 2013

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Statement of Financial Position
June 30, 2012

Assets

	2012
Cash	\$ 75,719
Tuition and other receivables	941,625
Grants receivable	134,958
Property and equipment, net	198,659
Total assets	\$ 1,350,961

Liabilities and Net Assets

Liabilities

Accounts payable - Damar Services, Inc.	\$ 233,876
Accrued expenses	10,916
Common school loan	494,865
Total liabilities	739,657

Net Assets

Unrestricted	570,026
Temporarily restricted	41,278
Total net assets	611,304
Total liabilities and net assets	\$ 1,350,961

Damar Charter School, Inc.
d/b/a Damar Charter Academy

Statement of Activities
Year Ended June 30, 2012

	2012		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Contributions	\$ 5,500	\$ 250,000	\$ 255,500
Grants	529,426	-	529,426
State basic grant (tuition support)	1,881,781	-	1,881,781
Other revenue	10,220	-	10,220
Net assets released from restrictions	208,722	(208,722)	-
Total revenues, gains and other support	<u>2,635,649</u>	<u>41,278</u>	<u>2,676,927</u>
Expenses			
Salaries and wages	1,009,091	-	1,009,091
Employee benefits	168,804	-	168,804
Payroll taxes	64,817	-	64,817
Professional services	176,498	-	176,498
Office supplies	7,531	-	7,531
Occupancy	300,240	-	300,240
Conference and meetings	29,047	-	29,047
Depreciation	32,649	-	32,649
Insurance	7,848	-	7,848
Educational supplies	60,924	-	60,924
Student transportation	71,029	-	71,029
Miscellaneous and other	39,569	-	39,569
Total expenses	<u>1,968,047</u>	<u>-</u>	<u>1,968,047</u>
Change in Net Assets	667,602	41,278	708,880
Net Assets, Beginning of Year	<u>(97,576)</u>	<u>-</u>	<u>(97,576)</u>
Net Assets, End of Year	<u>\$ 570,026</u>	<u>\$ 41,278</u>	<u>\$ 611,304</u>

Damar Charter School, Inc.
d/b/a Damar Charter Academy

Statement of Cash Flows
Year Ended June 30, 2012

	2012
Operating Activities	
Change in net assets	\$ 708,880
Items not requiring cash	
Depreciation	32,649
Proceeds from contributions restricted for acquisition of long-lived assets	(221,000)
Changes in	
Accounts receivable	(941,625)
Grants receivable	(134,958)
Accounts payable	136,300
Accrued expenses	10,916
Net cash used in operating activities	(408,838)
 Investing Activity - purchase of property and equipment	 (231,308)
 Financing Activities	
Borrowing under common school loan	494,865
Proceeds from contributions restricted for acquisition of long-lived assets	221,000
Net cash provided by financing activities	715,865
 Increase in Cash	 75,719
 Cash, Beginning of Year	 -
 Cash, End of Year	 \$ 75,719

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Notes to Financial Statements
June 30, 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

On August 16, 2011, the Damar Charter School, Inc. d/b/a Damar Charter Academy (Academy) signed an agreement with The Mayor of Indianapolis to begin operations as a public charter school. The first day of school was August 17, 2011. The mission of the Academy is to provide students with autism and other developmental and intellectual challenges the opportunity to achieve to their highest academic potential while developing practical behavioral, communication and daily living skills toward improved community integration and success. The Academy utilizes best practice and research informed teaching and support strategies tailored specifically to each student as developed and reflected in an individual education plan.

Although open to all Indiana students, this Kindergarten through 12th grade public school predominantly has children with developmental disabilities or learning disabilities enrolled as students. The student population is a mix of Damar Service's residential clients and non-resident students. The Academy was formed as a 501(c)(3) under the Internal Revenue Service code.

Damar Services, Inc. functions as the Academy's education management organization (EMO) under a management services agreement dated August 16, 2011 and which is coterminous with the Academy's charter. In addition to the contractual services provided under the EMO agreement, Damar Services voluntarily provides up to 20 additional staff every school day which facilitates additional support in the Academy's classrooms and increases the staff to student ratios. The additional staff provided by Damar Services is critical to the success of the Academy.

The Academy is governed by an independent board of directors whose members include five elected directors, two Damar Services, Inc. board of directors and two Damar Services, Inc. (Damar Services) staff directors.

The Academy's revenues and other support are derived principally from tuition support from the State of Indiana. This revenue is based upon a formula from the Department of Education for the number of students enrolled in the Academy. Additionally, the Academy receives grants and contributions from donors for the support of its activities.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Notes to Financial Statements
June 30, 2012

Cash

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At June 30, 2012, the Academy's noninterest-bearing cash accounts did not exceed federally insured limits.

Tuition Receivable

The tuition receivable balance primarily represents the unpaid amounts due from the State of Indiana for tuition support. Due to the nature of the timing of receipts from the State, the tuition payments received will be in arrears. Should the Academy cease to exist, the State may withhold a portion of the tuition revenue to pay-off any unpaid principal and accrued interest on the Common School Loan. Past due receivables are determined based on contractual terms. The Academy does not accrue interest on any of its accounts receivable.

The allowance for doubtful accounts is determined by management based on the Academy's historical losses, specific customer circumstances and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have failed. No allowance was deemed necessary at June 30, 2012.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. The Academy provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

	<u>Years</u>
Equipment	3 - 5
Computers	3 - 5
Software	3 - 5

Long-Lived Asset Impairment

The Academy evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended June 30, 2012.

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Notes to Financial Statements
June 30, 2012

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Academy has been limited by donors to a specific time period or purpose.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Government Grants

Support funded by grants is recognized as the Academy performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The Academy is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Academy is subject to federal income tax on any unrelated business taxable income. As the Academy was incorporated July 2010, all of its tax returns are subject to U.S. federal, state, and local or non-U.S. income tax examinations by tax authorities.

Functional Allocation of Expenses

Certain costs have been allocated among the program, general based on the actual expenditures and cost allocations estimated by the Academy's personnel.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Damar Charter School, Inc.
d/b/a Damar Charter Academy

Notes to Financial Statements
June 30, 2012

Note 2: Grant Commitments

The Academy receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of the Academy are prepared on the accrual basis, all earned portions of the grants not yet received as of June 30, 2012, have been recorded as receivables. The following grant commitment extends beyond June 30, 2012:

Grant	Term	Grant Amount	Earned as of June 30, 2012	Funding Available
Department of Education - Planning and Implementation Grant	2/28/11 - 8/17/12	\$ 234,000	\$ 99,000	\$ 135,000

Note 3: Property and Equipment

Property and equipment at June 30 consists of:

	<u>2012</u>
Equipment	\$ 130,304
Computers	74,591
Software	<u>26,413</u>
	231,308
Less accumulated depreciation and amortization	<u>(32,649)</u>
	<u>\$ 198,659</u>

Note 4: Common School Loan

The Academy has a 20 year unsecured note payable to the Indiana Common School Fund. The note bears interest at 4%. As noted in Note 1, the Common School Loan represents a funding source for the tuition receivable. This note is scheduled to be paid off by two semi-annual principal reductions from the Academy's State basic grant distributions of \$12,372 (\$24,744 annually) beginning July 1, 2013 and ending January 1, 2033, however, the Indiana General Assembly has historically deferred repayment of this loan for an in-service school. The balance of the note as of June 30, 2012 is \$494,865.

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Notes to Financial Statements
June 30, 2012

Note 5: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets, which are attributable to the Walton Family Foundation Grant, at June 30 are available for the following purposes:

	2012
Assistive classroom technologies	\$ 26,000
Computer and related equipment	4,936
Classroom furniture	5,000
Assessments	4,282
Curriculum	1,060
	\$ 41,278

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. These releases are attributable to expenses incurred for the Walton Family Foundation Grant.

	2012
Assistive classroom technologies	\$ 30,000
Computer and related equipment	155,064
Assessments	4,718
Curriculum	18,940
	\$ 208,722

Note 6: Operating Leases

Rent and Lease Expense

The Academy leases building space from Damar Services. Under this lease agreement, the Academy pays Damar Services \$200,000 annually. The lease is for approximately 16,000 square feet and the rent calculates to an effective lease per square foot of approximately \$12.50.

Damar Charter School, Inc.
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Notes to Financial Statements
June 30, 2012

Subsequent to year end, the Academy leased approximately 20,000 square feet of new space from Damar Services to replace the previous 16,000 square feet. The initial term of this lease is set to expire on June 30, 2018 and the rent calculates to an effective lease per square foot of approximately \$9.76.

Additionally, the Academy utilizes vehicles, which are leased or owned by Damar Services. Under this arrangement, Damar Services charges the Academy a predetermined amount each year. The amount charged to the Academy for 2012 was \$70,000. The Academy also rents certain equipment from Damar Services which totaled \$15,000 for 2012.

The office equipment and vehicle leases are annual leases. Rental expense included in the statement of activities was \$286,029 for 2012.

Future minimum lease payments for the office space at June 30 is:

2013	\$ 200,000
2014	200,000
2015	200,000
2016	200,000
2017 and thereafter	400,000
	\$ 1,200,000

Note 7: Management Services Agreement

On August 16, 2011, the Academy and Damar Services signed a Charter School Service Contract. In effect, this contract authorizes Damar Services to provide all educational services to the Academy to include curriculum, instruction, employees, physical facilities, financial and all other facets required to run a public school. In a separate agreement on the same date, the Academy leases space on the Damar Service’s campus for school buildings. Damar Services assumes responsibility for the administration, operation and performance of the Academy, including all administrative services reasonably necessary for the operation of a charter school, as set forth in the Charter School Service Contract. Termination clauses for both the Academy and Damar Services are included in the contract.

The Academy and Damar Services have a management services agreement under which Damar Services provides management services for the Academy. For 2012, the Academy paid \$25,000 to Damar Services under this agreement. This amount paid under the agreement increases to \$100,000 in 2013 and then increases to \$133,000 in 2016. The agreement continues through the termination or expiration of the Academy, unless otherwise cancelled under the contract terms.

Damar Charter School, Inc.
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Notes to Financial Statements
June 30, 2012

Contracted Services Detail

As part of the management services agreement, Damar Services provides a number of contractual services and facilities to the Academy, which are noted below:

	2012
Building rent	\$ 200,000
Vehicle lease	70,000
Cleaning services	48,000
Management agreement	25,000
Utilities	20,732
Other equipment leases	15,000
Ground maintenance	2,400
Security	2,400
Trash removal	2,400
	\$ 385,932

Additionally, the Academy reimburses Damar Services for a variety of expenses which include but are not limited to all employee costs, insurance, supplies, transportation, professional services and other miscellaneous items. The school Superintendent is the only Academy employee and is uncompensated.

Total charges from Damar Services for contracted services and other operating expenses at the fiscal year ended June 30, 2012 was \$1,968,047.

At June 30, 2012, the Academy had accounts payable totaling \$233,876 owed to Damar Services.

Note 8: Functional Expenses

Expenses by functional classifications are as follows:

	2012
Program services	\$ 1,769,192
Management and general	198,855
	\$ 1,968,047

Damar Charter School, Inc.
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Notes to Financial Statements
June 30, 2012

Note 9: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Revenue, Grants and Other Support

Approximately 70% of revenue was received in 2012 from the State of Indiana under the State Basic Grant for tuition support. Additionally, one grant comprised 11% of total revenue and one contribution accounted for 98% of contribution revenue for the year ended June 30, 2012.

Current Economic Conditions

The current protracted economic decline continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of assets, declines in contributions and revenue, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Academy.

A significant decline in contribution revenue or other revenue sources could have an adverse impact on the Academy's future operating results. In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments that could negatively impact the Academy's ability to maintain sufficient liquidity.

Supplementary Information

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Statement of Activities by Fund
Year Ended June 30, 2012

	General Fund	Lunch Fund	Textbook Fund	Walton Foundation Grant	School Administration Fund	Title I Fund	Federal Special Ed Fund	Facilities Grant Fund	Total
Revenues, Gains and Other Support									
Contributions	\$ 4,300	\$ -	\$ -	\$ 250,000	\$ 1,200	\$ -	\$ -	\$ -	\$ 255,500
Grants	341,861	-	-	-	-	35,373	53,192	99,000	529,426
State basic grant	1,881,781	-	-	-	-	-	-	-	1,881,781
Other revenue	1,265	8,218	544	193	-	-	-	-	10,220
Transfers to (from) other funds	277,311	765	(544)	(216,884)	-	-	-	(60,648)	-
Total revenues, gains and other support	<u>2,506,518</u>	<u>8,983</u>	<u>-</u>	<u>33,309</u>	<u>1,200</u>	<u>35,373</u>	<u>53,192</u>	<u>38,352</u>	<u>2,676,927</u>
Expenses									
Salaries and wages	945,250	-	-	-	-	30,040	33,801	-	1,009,091
Employee benefits	168,804	-	-	-	-	-	-	-	168,804
Payroll taxes	64,817	-	-	-	-	-	-	-	64,817
Professional services	139,872	-	-	17,635	-	-	18,991	-	176,498
Office supplies	7,531	-	-	-	-	-	-	-	7,531
Occupancy	261,888	-	-	-	-	-	-	38,352	300,240
Conference and meetings	29,047	-	-	-	-	-	-	-	29,047
Depreciation	32,649	-	-	-	-	-	-	-	32,649
Insurance	7,848	-	-	-	-	-	-	-	7,848
Educational supplies	30,014	8,303	-	15,674	1,200	5,333	400	-	60,924
Student transportation	71,029	-	-	-	-	-	-	-	71,029
Miscellaneous and other	39,569	-	-	-	-	-	-	-	39,569
Total expenses	<u>1,798,318</u>	<u>8,303</u>	<u>-</u>	<u>33,309</u>	<u>1,200</u>	<u>35,373</u>	<u>53,192</u>	<u>38,352</u>	<u>1,968,047</u>
Change in Net Assets	708,200	680	-	-	-	-	-	-	708,880
Net Assets, Beginning of Year	<u>(97,576)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(97,576)</u>
Net Assets, End of Year	<u>\$ 610,624</u>	<u>\$ 680</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 611,304</u>

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Other Information
Year Ended June 30, 2012

The reports presented herein were prepared in addition to another report prepared for the Academy as listed below:

- Supplemental Report