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March 28, 2014

Charter School Board
Damar Charter School, Inc. d/b/a
Damar Charter Academy
6067 Decatur Boulevard
Indianapolis, IN 46241

We have reviewed the Financial Statements and Independent Auditors' Report prepared by BKD, LLP, 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 Damar Charter School, Inc. d/b/a Damar Charter 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.

We call your attention to the finding in the report. Page 25 contains one current audit finding. Management's response is on page 25.

In addition to the report presented herein, a Supplemental Audit Report for Damar Charter School, Inc. d/b/a Damar Charter 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.

State Board of Accounts

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

Auditor's Report and Financial Statements

June 30, 2013 and 2012

Damar Charter School, Inc.
d/b/a Damar Charter Academy
June 30, 2013 and 2012

Contents

BKD LLP
CPAs & Advisors

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Independent Auditor's Report on Financial Statements and Supplementary Information

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

Report on the Financial Statements

We have audited the accompanying financial statements of Damar Charter School, Inc. d/b/a Damar Charter Academy (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. In addition, our audit of the financial statements as of and for the year ended June 30, 2013 was audited in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 Academy'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 Academy'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 Damar Charter School, Inc. d/b/a Damar Charter 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of activities by fund and schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, listed in the table of contents, are presented for purposes of additional analysis and are 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2013, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Damar Charter School, Inc.'s internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
December 30, 2013

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Statements of Financial Position
June 30, 2013 and 2012

Assets

	2013	2012
Cash	$ 307,811	$ 75,719
Tuition and other receivables, net of allowance - 2013: $1,119,312	1,966	941,625
Grants receivable	95,139	134,958
Property and equipment, net	481,929	198,659
Total assets	$ 886,845	$ 1,350,961

Liabilities and Net Assets

	2013	2012
Liabilities		
Accounts payable - Damar Services, Inc.	$ 317,285	$ 233,876
Accrued expenses	-	10,916
Note payable - Damar Services, Inc.	148,786	-
Common school loan	-	494,865
Total liabilities	466,071	739,657
Net Assets		
Unrestricted	382,757	570,026
Temporarily restricted	38,017	41,278
Total net assets	420,774	611,304
Total liabilities and net assets	$ 886,845	$ 1,350,961

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Statements of Activities
Years Ended June 30, 2013 and 2012

	2013		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Contributions	$ 10,500	$ -	$ 10,500
Grants	476,804	-	476,804
State basic grant (tuition support)	2,247,981	-	2,247,981
Other revenue	77,870	-	77,870
Net assets released from restrictions	3,261	(3,261)	-
Total revenues, gains and other support	2,816,416	(3,261)	2,813,155
Expenses			
Salaries and wages	1,114,976	-	1,114,976
Employee benefits	209,769	-	209,769
Payroll taxes	81,035	-	81,035
Professional services	249,890	-	249,890
Office supplies	3,704	-	3,704
Occupancy	414,149	-	414,149
Conference and meetings	52,968	-	52,968
Depreciation	86,385	-	86,385
Insurance	12,188	-	12,188
Educational supplies	51,719	-	51,719
Student transportation	40,000	-	40,000
Miscellaneous and other	93,367	-	93,367
Total expenses	2,410,150	-	2,410,150
Change in Net Assets Before Other Changes	406,266	(3,261)	403,005
Other Changes			
Debt forgiveness and bad debt write-off	(593,535)	-	(593,535)
Change in Net Assets	(187,269)	(3,261)	(190,530)
Net Assets, Beginning of Year	570,026	41,278	611,304
Net Assets, End of Year	$ 382,757	$ 38,017	$ 420,774

2012		
Unrestricted	Temporarily Restricted	Total
$ 5,500	$ 250,000	$ 255,500
529,426	-	529,426
1,881,781	-	1,881,781
10,220	-	10,220
208,722	(208,722)	-
2,635,649	41,278	2,676,927
970,918	-	970,918
206,977	-	206,977
64,817	-	64,817
176,554	-	176,554
7,531	-	7,531
300,240	-	300,240
29,083	-	29,083
32,649	-	32,649
7,848	-	7,848
60,832	-	60,832
71,029	-	71,029
39,569	-	39,569
1,968,047	-	1,968,047
667,602	41,278	708,880
-	-	-
667,602	41,278	708,880
(97,576)	-	(97,576)
$ 570,026	$ 41,278	$ 611,304

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Change in net assets	$ (190,530)	$ 708,880
Items not requiring (providing) cash		
Depreciation	86,385	32,649
Proceeds from contributions restricted for acquisition of long-lived assets	-	(221,000)
Forgiveness of common school loan	(494,865)	-
Provision for bad debts	1,119,312	-
Changes in		
Accounts receivable	(179,653)	(941,625)
Grants receivable	39,819	(134,958)
Accounts payable	83,409	136,300
Accrued expenses	(10,916)	10,916
Net cash provided by (used in) operating activities	452,961	(408,838)
Investing Activity - purchase of property and equipment	(369,655)	(231,308)
Financing Activities		
Borrowing under common school loan	-	494,865
Proceeds from note payable	148,786	-
Proceeds from contributions restricted for acquisition of long-lived assets	-	221,000
Net cash provided by financing activities	148,786	715,865
Increase in Cash	232,092	75,719
Cash, Beginning of Year	75,719	-
Cash, End of Year	$ 307,811	$ 75,719

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 12^{th} 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.

Cash

At June 30, 2013, the Academy's cash accounts exceed federally insured limits by approximately $58,000.

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. During 2013, the State forgave all Common School Loans that were initially issued. Contemporaneous with this, the State of Indiana began paying tuition support on a current basis instead of in arrears with regard to enrollment growth so the funding matches the expenses. With this change in methodology of the payments from the State of Indiana, they have indicated that the payments are now for current expenses and are no longer paid in arrears. Past due receivables are determined based on contractual terms. The Academy does not accrue interest on any of its accounts receivable.

At June 30, 2013, the State of Indiana forgave the Common School Loan and accordingly, the Academy reduced the corresponding basic tuition grant receivable. However, the State of Indiana made no provision to reimburse for the special education portion of the receivable. The State has acknowledged that the special education receivable is owed, but does not have a funding solution outside of an Indiana General Assembly approval. As a result, the Academy reduced the remaining tuition grant receivable to zero.

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.

The allowance for doubtful accounts was $1,119,312 and $0 at June 30, 2013 and 2012, respectively, to recognize the State of Indiana may not pay the portion of 2013 tuition support that is due to the Academy.

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:

	Years
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 it fair value. No asset impairment was recognized during the years ended June 30, 2013 and 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 Auditor's Report, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

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, 2013, have been recorded as receivables. The following grant commitment extends beyond June 30, 2013:

Grant	Term	Grant Amount	Earned as of June 30, 2013	Funding Available
Department of Education - Planning and Implementation Grant	8/18/12 - 8/17/13	$ 147,312	$ 80,000	$ 67,312

Note 3: Property and Equipment

Property and equipment at June 30 consists of:

	2013	2012
Equipment	$ 439,590	$ 130,304
Computers	122,754	74,591
Software	38,619	26,413
	600,963	231,308
Less accumulated depreciation and amortization	(119,034)	(32,649)
	$ 481,929	$ 198,659

Note 4: Common School Loan

The Academy issued a 20 year unsecured note payable to the Indiana Common School Fund, bearing interest at 4%. As noted in Note 1, the Common School Loan represents a funding source for the tuition receivable. This note was 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 was $494,865. During 2013, the State of Indiana forgave all outstanding loan balances plus accrued interest. A gain was recognized in 2013 for $525,777, which represented the outstanding principal balance plus all accrued interest.

Note 5: Note Payable

The Academy has a note payable to Damar Services, Inc. that was issued in 2013 to cover costs of relocating to a new facility. At June 30, 2013, the balance of the note was $148,786. The note bears interest of 2%. The note is due and payable on the earlier of June 30, 2018 or on demand, which may be made by Damar Services, Inc. at any time. Payments on the note are due annually at June 30 in the amount of $25,000 beginning on June 30, 2014 and continuing on each successive June 30 thereafter until the maturity date of which the remaining unpaid principal and accrued interest are due. The note is secured by substantially all assets of the Academy.

Note 6: 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:

	2013	2012
Assistive classroom technologies	$ 26,000	$ 26,000
Computer and related equipment	4,936	4,936
Classroom furniture	5,000	5,000
Assessments	1,021	4,282
Curriculum	1,060	1,060
	$ 38,017	$ 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 expensed incurred for the Walton Family Foundation Grant.

	2013	2012
Assistive classroom technologies	$ -	$ 30,000
Computer and related equipment	-	155,064
Assessments	3,261	4,718
Curriculum	-	18,940
	$ 3,261	$ 208,722

Note 7: Operating Leases

Rent and Lease Expense

In 2011, the Academy entered into a lease agreement with Damar Services. Under this lease agreement, the Academy was to pay Damar Services $200,000 annually. The lease was for approximately 16,000 square feet and the rent calculated to an effective lease per square foot of approximately $12.50.

In November 2012, 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 2013 and 2012 was $40,000 and $70,000, respectively. The Academy also rents certain equipment from Damar Services which totaled $15,000 for 2013 and 2012.

The office equipment and vehicle leases are annual leases. Rental expense included in the statements of activities was $209,628 and $286,029 for 2013 and 2012, respectively.

Future minimum lease payments for the office space at June 30, 2013 is:

2014	$	169,204
2015		177,469
2016		189,970
2017		205,340
2018 and thereafter		70,154
	$	812,137

Note 8: 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. In 2013 and 2012, the Academy paid $100,000 and $25,000, respectively, to Damar Services under this agreement. This amount paid under the agreement increases by $11,000 each year to $133,000 in 2016 and remains at that level for the remainder of the service agreement period. The agreement continues through the termination or expiration of the Academy, unless otherwise cancelled under the contract terms.

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:

	2013	2012
Building rent	$ 150,000	$ 200,000
Vehicle lease	40,000	70,000
Cleaning services	39,000	48,000
Management agreement	100,000	25,000
Utilities	16,235	20,732
Other equipment leases	15,000	15,000
Ground maintenance	1,836	2,400
Security	2,448	2,400
Trash removal	1,836	2,400
	$ 366,355	$ 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 years ended June 30, 2013 and 2012 was $2,300,848 and $1,924,537, respectively.

At June 30, 2013 and 2012, the Academy had accounts payable totaling $317,285 and $233,876, respectively, and a note payable of $148,786 at June 30, 2013 owed to Damar Services.

Note 9: Functional Expenses

Expenses by functional classifications are as follows:

	2013	2012
Program services	$ 2,205,224	$ 1,769,192
Management and general	204,926	198,855
	$ 2,410,150	$ 1,968,047

Note 10: 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 80% and 70% of revenue was received in 2013 and 2012, respectively, 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.

In addition to serving as the Academy's educational management organization (EMO), Damar Services, Inc. provides a significant number of students and staff to the school. Recently, Damar Services, Inc. has experienced a decline in census which may ultimately have an adverse effect on the Academy's enrollment, operation and revenue streams.

Supplementary Information

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Statement of Activities by Fund
Year Ended June 30, 2013

	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	$ 500	$ -	$ -	$ -	$ 10,000	$ -	$ -	$ -	$ 10,500
Grants	-	-	-	-	-	69,901	149,840	257,063	476,804
State basic grant	2,247,981	-	-	-	-	-	-	-	2,247,981
Other revenue	1,766	64,908	11,196	-	-	-	-	-	77,870
Transfers to (from) other funds	35,837	-	-	(29,829)	-	44,083	(49,677)	(414)	-
Total revenues, gains and other support	2,286,084	64,908	11,196	(29,829)	10,000	113,984	100,163	256,649	2,813,155
Expenses									
Salaries and wages	996,450	-	-	-	-	53,526	65,000	-	1,114,976
Employee benefits	209,769	-	-	-	-	-	-	-	209,769
Payroll taxes	77,860	-	-	-	-	3,175	-	-	81,035
Professional services	214,537	-	-	-	-	-	32,663	2,690	249,890
Office supplies	3,704	-	-	-	-	-	-	-	3,704
Occupancy	359,774	-	-	-	-	-	-	54,375	414,149
Conference and meetings	37,272	-	-	-	-	9,700	-	5,996	52,968
Depreciation	86,385	-	-	-	-	-	-	-	86,385
Insurance	12,188	-	-	-	-	-	-	-	12,188
Educational supplies	1,629	-	-	3,261	-	-	-	46,829	51,719
Student transportation	40,000	-	-	-	-	-	-	-	40,000
Miscellaneous and other	24,623	68,744	-	-	-	-	-	-	93,367
Total expenses	2,064,191	68,744	-	3,261	-	66,401	97,663	109,890	2,410,150
Change in Net Assets Before Other Changes	221,893	(3,836)	11,196	(33,090)	10,000	47,583	2,500	146,759	403,005
Other Changes									
Debt forgiveness and bad debt write-off	(593,535)	-	-	-	-	-	-	-	(593,535)
Change in Net Assets	(371,642)	(3,836)	11,196	(33,090)	10,000	47,583	2,500	146,759	(190,530)
Net Assets, Beginning of Year	610,624	680	-	-	-	-	-	-	611,304
Net Assets, End of Year	$ 238,982	$ (3,156)	$ 11,196	$ (33,090)	$ 10,000	$ 47,583	$ 2,500	$ 146,759	$ 420,774

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	2,506,518	8,983	-	33,309	1,200	35,373	53,192	38,352	2,676,927
Expenses									
Salaries and wages	907,077	-	-	-	-	30,040	33,801	-	970,918
Employee benefits	206,977	-	-	-	-	-	-	-	206,977
Payroll taxes	64,817	-	-	-	-	-	-	-	64,817
Professional services	139,928	-	-	17,635	-	-	18,991	-	176,554
Office supplies	7,531	-	-	-	-	-	-	-	7,531
Occupancy	261,888	-	-	-	-	-	-	38,352	300,240
Conference and meetings	29,083	-	-	-	-	-	-	-	29,083
Depreciation	32,649	-	-	-	-	-	-	-	32,649
Insurance	7,848	-	-	-	-	-	-	-	7,848
Educational supplies	29,922	8,303	-	15,674	1,200	5,333	400	-	60,832
Student transportation	71,029	-	-	-	-	-	-	-	71,029
Miscellaneous and other	39,569	-	-	-	-	-	-	-	39,569
Total expenses	1,798,318	8,303	-	33,309	1,200	35,373	53,192	38,352	1,968,047
Change in Net Assets	708,200	680	-	-	-	-	-	-	708,880
Net Assets, Beginning of Year	(97,576)	-	-	-	-	-	-	-	(97,576)
Net Assets, End of Year	$ 610,624	$ 680	$ -	$ -	$ -	$ -	$ -	$ -	$ 611,304

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
Pass-through from the Indiana Department of Education:		
Child Nutrition Cluster		
School Breakfast Program	10.553	$ 2,033
National School Lunch Program	10.555	60,082
Total U.S. Department of Agriculture		62,115
U.S. Department of Education		
Pass-through from the Indiana Department of Education:		
Title I, Part A Cluster		
Title I Grants to Local Educational Agencies	84.010	69,901
Special Education Cluster (IDEA)		
Special Education Grants to States	84.027	149,840
Charter Schools - PCSP Planning and Implementation Grant	84.282	183,562
Charter Schools - Per Pupil Facilities Funding	84.282	54,375
		237,937
Total U.S. Department of Education		457,678
Total Expenditures of Federal Awards		$ 519,793

Notes to Schedule

1. This schedule includes the federal awards activity of Damar Charter School, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Damar Charter School, Inc. d/b/a Damar Charter Academy (Academy), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 30, 2013.

Internal Control Over Financial Reporting

Management of the Academy is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Academy's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-001 to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

The Academy's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Other Matters

We also noted certain matters that we reported to the Academy's management in a separate letter dated December 30, 2013.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness or the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
December 30, 2013

BKD LLP
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Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of Damar Charter School, Inc. d/b/a Damar Charter Academy (Academy) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Academy's management.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Academy's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the Academy complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
December 30, 2013

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Summary of Auditor's Results

1. The opinion expressed in the independent auditor's report was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☒ Yes	☐ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☐ Yes	☒ No

5. The opinion(s) expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards was (were):

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

7. The Academy's major programs were:

Cluster/Program	CFDA Number
Special Education Cluster (IDEA)	84.027
Charter Schools grants	84.282

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $300,000.

9. The Academy qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☐ Yes ☒ No

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

Findings Required to be Reported by *Government Auditing Standards*

Reference Number		Finding	Questioned Costs
2013-001	**Criteria or Specific Requirement:**	**Internal Control Over Financial Reporting**	None
	Condition:	The Academy issues financial statements on an annual basis. Certain audit adjustments were required in order to present materially accurate financial statements. These adjustments were not detected by management's internal control structure.	
	Context:	Timely and accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.	
	Cause:	Reconciliation and review of various accounts in the general ledger may not be adequate to support timely and accurate financial reporting.	
	Effect:	Potential material misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.	
	Recommendation:	We recommend that the Academy evaluate current accounting mechanisms in place for timely closing and reconciling of accounts to determine how they can be enhanced to minimize the potential for material error.	
	Views of Responsible Officials and Planned Corrective Action:	We concur. Management has evaluated and put in place current controls related to account reconciliation procedures/detection of adjustments. Audit adjustments determined to be material to the financial statements will be recorded timely.	

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

Reference Number	Summary of Finding	Status
	No matters are reportable.	

Other Information

Damar Charter School, Inc.
d/b/a Damar Charter Academy
Other Information
Year Ended June 30, 2013

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

- Supplemental Report