

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
CHALLENGE FOUNDATION ACADEMY
MARION COUNTY, INDIANA
July 1, 2007 to June 30, 2009



FILED
03/25/2010

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Donna Birdsong	07-01-07 to 07-26-07
	Dr. Michelle Thompson	07-27-07 to 06-30-08
	Charlie Schlegel	07-01-08 to 11-03-08
	Evan Hawkins	11-04-08 to 06-30-10
Superintendent of School	Donna Birdsong	07-01-07 to 07-26-07
	Dr. Michelle Thompson	07-27-07 to 06-30-08
	Charlie Schlegel	07-01-08 to 06-30-10
President of the School Board	Darrell E. Zink	07-01-07 to 04-30-08
	Fred Scott	05-01-08 to 07-31-09
	Rose Mays	08-01-09 to 06-30-10



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CHALLENGE FOUNDATION ACADEMY, MARION COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Challenge Foundation Academy (School Corporation), as of and for the years ended June 30, 2008 and 2009, which collectively comprise the School Corporation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions 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 and 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 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 opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2008 and 2009, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated February 25, 2010, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedule of Funding Progress as listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

February 25, 2010



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CHALLENGE FOUNDATION ACADEMY, MARION COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Challenge Foundation Academy (School Corporation), as of and for the years ended June 30, 2008 and 2009, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated February 25, 2010. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation'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.

The School Corporation's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 25, 2010

CHALLENGE FOUNDATION ACADEMY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts		<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
Governmental activities:				
Instruction	\$ 1,396,678	\$ -	\$ 64,809	\$ (1,331,869)
Support services	818,190	16,563	163,575	(638,052)
Noninstructional services	157,628	-	-	(157,628)
Facilities acquisition and construction	503,931	-	-	(503,931)
Debt service	76,929	-	-	(76,929)
	<u>\$ 2,953,356</u>	<u>\$ 16,563</u>	<u>\$ 228,384</u>	<u>(2,708,409)</u>
General receipts:				
Property taxes				712,483
Other local sources				283,607
State aid				1,273,416
Bonds and loans				242,835
Grants and contributions not restricted to specific programs				469,969
Investment earnings				15,317
Total general receipts				<u>2,997,627</u>
Change in net assets				289,218
Net assets - beginning				<u>688,250</u>
Net assets - ending				<u>\$ 977,468</u>
 <u>Assets</u>				
Cash and investments				<u>\$ 977,468</u>
 <u>Net Assets</u>				
Unrestricted				<u>\$ 977,468</u>

The notes to the financial statements are an integral part of this statement.

CHALLENGE FOUNDATION ACADEMY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts		<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		Charges for Services	Operating Grants and Contributions	<u>Totals</u>
Governmental activities:				
Instruction	\$ 1,511,154	\$ -	\$ 90,933	\$ (1,420,221)
Support services	890,793	19,868	215,941	(654,984)
Noninstructional services	205,953	-	-	(205,953)
Facilities acquisition and construction	359,637	-	-	(359,637)
Debt service	96,986	-	-	(96,986)
	<u>\$ 3,064,523</u>	<u>\$ 19,868</u>	<u>\$ 306,874</u>	<u>(2,737,781)</u>
General receipts:				
Property taxes				373,531
Other local sources				105,119
State aid				1,762,664
Bonds and loans				341,990
Grants and contributions not restricted to specific programs				552,670
Investment earnings				2,904
Total general receipts				<u>3,138,878</u>
Change in net assets				401,097
Net assets - beginning				<u>977,468</u>
Net assets - ending				<u>\$ 1,378,565</u>
 <u>Assets</u>				
Cash and investments				<u>\$ 1,378,565</u>
 <u>Net Assets</u>				
Unrestricted				<u>\$ 1,378,565</u>

The notes to the financial statements are an integral part of this statement.

CHALLENGE FOUNDATION ACADEMY
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	General	Challenge Donation	Federal Programs	Other	Totals
Receipts:					
Local sources	\$ 802,209	\$ 100,000	\$ -	\$ 125,761	\$ 1,027,970
State sources	1,338,225	-	-	45,258	1,383,483
Federal sources	-	-	252,000	336,286	588,286
Temporary loans	242,835	-	-	-	242,835
	<u>2,383,269</u>	<u>100,000</u>	<u>252,000</u>	<u>507,305</u>	<u>3,242,574</u>
Total receipts					
Disbursements:					
Current:					
Instruction	1,039,811	-	-	356,867	1,396,678
Support services	736,787	-	-	81,403	818,190
Noninstructional services	11,481	-	-	146,147	157,628
Facilities acquisition and construction	463,701	-	-	40,230	503,931
Debt services	76,929	-	-	-	76,929
	<u>2,328,709</u>	<u>-</u>	<u>-</u>	<u>624,647</u>	<u>2,953,356</u>
Total disbursements					
Excess (deficiency) of receipts over disbursements	<u>54,560</u>	<u>100,000</u>	<u>252,000</u>	<u>(117,342)</u>	<u>289,218</u>
Other financing sources (uses):					
Transfers in	-	-	-	102,677	102,677
Transfers out	-	-	-	(102,677)	(102,677)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)					
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	54,560	100,000	252,000	(117,342)	289,218
Cash and investments - beginning	<u>397,698</u>	<u>-</u>	<u>29,445</u>	<u>261,107</u>	<u>688,250</u>
Cash and investments - ending	<u>\$ 452,258</u>	<u>\$ 100,000</u>	<u>\$ 281,445</u>	<u>\$ 143,765</u>	<u>\$ 977,468</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ 452,258</u>	<u>\$ 100,000</u>	<u>\$ 281,445</u>	<u>\$ 143,765</u>	<u>\$ 977,468</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 452,258</u>	<u>\$ 100,000</u>	<u>\$ 281,445</u>	<u>\$ 143,765</u>	<u>\$ 977,468</u>

The notes to the financial statements are an integral part of this statement.

CHALLENGE FOUNDATION ACADEMY
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	General	Challenge Donation	Federal Programs	Other	Totals
Receipts:					
Local sources	\$ 477,397	\$ -	\$ -	\$ 24,025	\$ 501,422
State sources	1,853,611	-	-	63,176	1,916,787
Federal sources	-	-	-	705,422	705,422
Temporary loans	341,990	-	-	-	341,990
	<u>2,672,998</u>	<u>-</u>	<u>-</u>	<u>792,623</u>	<u>3,465,621</u>
Total receipts					
Disbursements:					
Current:					
Instruction	1,081,692	-	43,038	386,424	1,511,154
Support services	749,210	-	12,590	128,994	890,794
Noninstructional services	24,078	-	-	181,875	205,953
Facilities acquisition and construction	195,564	-	39,685	124,388	359,637
Debt services	96,986	-	-	-	96,986
	<u>2,147,530</u>	<u>-</u>	<u>95,313</u>	<u>821,681</u>	<u>3,064,524</u>
Total disbursements					
Excess (deficiency) of receipts over disbursements	<u>525,468</u>	<u>-</u>	<u>(95,313)</u>	<u>(29,058)</u>	<u>401,097</u>
Other financing sources (uses):					
Transfers in	171,635	-	-	35,873	207,508
Transfers out	-	-	(186,132)	(21,376)	(207,508)
	<u>171,635</u>	<u>-</u>	<u>(186,132)</u>	<u>14,497</u>	<u>-</u>
Total other financing sources (uses)					
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	697,103	-	(281,445)	(14,561)	401,097
Cash and investments - beginning	<u>452,258</u>	<u>100,000</u>	<u>281,445</u>	<u>143,765</u>	<u>977,468</u>
Cash and investments - ending	<u>\$ 1,149,361</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 129,204</u>	<u>\$ 1,378,565</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ 1,149,361</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 129,204</u>	<u>\$ 1,378,565</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 1,149,361</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 129,204</u>	<u>\$ 1,378,565</u>

The notes to the financial statements are an integral part of this statement.

CHALLENGE FOUNDATION ACADEMY
STATEMENT OF CASH AND INVESTMENT BALANCES
FIDUCIARY FUND
For the Year Ended June 30, 2008

	<u>Agency Fund</u>
Cash and investment fund balance - ending	<u>\$ (43)</u>

The notes to the financial statements are an integral part of this statement.

CHALLENGE FOUNDATION ACADEMY
STATEMENT OF CASH AND INVESTMENT BALANCES
FIDUCIARY FUND
For the Year Ended June 30, 2009

	<u>Agency Fund</u>
Cash and investment fund balance - ending	<u>\$ 9,106</u>

The notes to the financial statements are an integral part of this statement.

CHALLENGE FOUNDATION ACADEMY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Challenge Foundation Academy

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

During the audit period, the School Corporation was a participant with 21st Century Charter School, 21st Century Charter School at Fountain Square, 21st Century Charter School of Gary, Campagna Academy, Challenge Foundation Academy, Charles A. Tindley Accelerated School, Charter School of the Dunes, Christel House Academy, Community Montessori, East Chicago Urban Enterprise, Flanner House Elementary School, Galileo Charter School, Gary Lighthouse Charter School, Indianapolis Lighthouse Charter School #1, Indianapolis Metropolitan High School, Irvington Community School, Joshua Academy, KIPP Indianapolis College Preparatory, New Community School, Options Charter School of Carmel, Rural Community Academy, Signature School, Southeast Neighborhood School of Excellence, Thea Bowman Leadership Academy, Timothy L. Johnson Academy, and Veritas Academy in a joint venture to operate the Virtual Special Education Cooperative (Cooperative) which was created to provide needed special programs and services, supplies, materials and equipment, and facilities for identified students with disabilities. The School Corporation was obligated by contract to remit annually the federal allocation received for special education assistance to supplement the Cooperative. Complete financial statements for the Cooperative can be obtained from Ball State University, Muncie, Indiana.

On June 30, 2008, the School Corporation withdrew from the joint venture.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CHALLENGE FOUNDATION ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. (However, at this time, the School Corporation has not established any enterprise funds.)

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The challenge foundation fund accounts for financial resources received from the Challenge Foundation.

The federal programs fund accounts for financial resources related to federal grant awards.

Additionally, the School Corporation reports the following fund type:

Agency funds account for assets held by the School Corporation as an agent for Individuals, private organizations, and other governments.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CHALLENGE FOUNDATION ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any proprietary funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance).

3. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

4. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

5. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

CHALLENGE FOUNDATION ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

CHALLENGE FOUNDATION ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are prepared and approved at the local level and adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

III. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The School Corporation does not have a deposit policy for custodial credit risk. At June 30, 2009, the School Corporation had deposit balances in the amount of \$1,463,156. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2008 and 2009, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2008</u>	<u>2009</u>
Federal Programs	General Fund	\$ -	\$ 171,635
	Other governmental funds	-	15,302
Other governmental funds	Other governmental funds	<u>102,677</u>	<u>20,571</u>
Totals		<u>\$ 102,677</u>	<u>\$ 207,508</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

CHALLENGE FOUNDATION ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. Risk financing is not utilized for the other risks of loss.

B. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

CHALLENGE FOUNDATION ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Information to segregate the assets/liabilities and the actuarial study figures between the School Corporation and the Utilities is not available.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 2,656
Contributions made	6,668
Increase (decrease) in net pension obligation	(4,012)
Net pension obligation, end of year	\$ (4,012)

	PERF
Contribution rates:	
School Corporation	6.75%
Plan members	3%
Actuarial valuation date	07-01-08
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

<u>Actuarial Assumptions</u>	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

CHALLENGE FOUNDATION ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-06	N/A	N/A	N/A
	06-30-07	N/A	N/A	N/A
	06-30-08	\$ 2,656	251%	\$ (4,012)

N/A = Not applicable

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

CHALLENGE FOUNDATION ACADEMY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-06	N/A	N/A	N/A	N/A	N/A	N/A
07-01-07	\$ 3,503	\$ 3,020	\$ 483	116%	\$ 37,856	1%
07-01-08	11,263	3,903	7,360	289%	96,531	8%

CHALLENGE FOUNDATION ACADEMY
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2008

	School Lunch	Textbook Rental	Donations Gifts and Trusts	Challenge Foundation Grant	Challenge Foundation Director
Receipts:					
Local sources	\$ 14,607	\$ 3,154	\$ -	\$ -	\$ 88,000
State sources	32	45,226	-	-	-
Federal sources	118,317	-	-	-	-
Total receipts	<u>132,956</u>	<u>48,380</u>	<u>-</u>	<u>-</u>	<u>88,000</u>
Disbursements:					
Current:					
Instruction	-	52,504	19,495	44,565	-
Support services	-	-	-	11,693	68,000
Noninstructional services	146,147	-	-	-	-
Facilities acquisition and construction	-	-	-	15,000	-
Total disbursements	<u>146,147</u>	<u>52,504</u>	<u>19,495</u>	<u>71,258</u>	<u>68,000</u>
Excess (deficiency) of receipts over disbursements	<u>(13,191)</u>	<u>(4,124)</u>	<u>(19,495)</u>	<u>(71,258)</u>	<u>20,000</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(13,191)</u>	<u>(4,124)</u>	<u>(19,495)</u>	<u>(71,258)</u>	<u>20,000</u>
Cash and investments - beginning	<u>13,412</u>	<u>4,124</u>	<u>19,495</u>	<u>100,000</u>	<u>-</u>
Cash and investments - ending	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,742</u>	<u>\$ 20,000</u>
Cash and Investment Assets - Ending					
Cash and investments	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,742</u>	<u>\$ 20,000</u>
Cash and Investment Fund Balance - Ending					
Unrestricted	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,742</u>	<u>\$ 20,000</u>

CHALLENGE FOUNDATION ACADEMY
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2008
 (Continued)

	Miscellaneous Programs	Title I FY 2006-07	Title I FY 2007-08	Improving Teaching Quality	Totals
Receipts:					
Local sources	\$ 20,000	\$ -	\$ -	\$ -	\$ 125,761
State sources	-	-	-	-	45,258
Federal sources	-	28,000	167,222	22,747	336,286
Total receipts	20,000	28,000	167,222	22,747	507,305
Disbursements:					
Current:					
Instruction	20,000	49,399	165,609	5,295	356,867
Support services	-	-	350	1,360	81,403
Noninstructional services	-	-	-	-	146,147
Facilities acquisition and construction	-	-	25,230	-	40,230
Total disbursements	20,000	49,399	191,189	6,655	624,647
Excess (deficiency) of receipts over disbursements	-	(21,399)	(23,967)	16,092	(117,342)
Other financing sources (uses)					
Transfers in	-	-	102,677	-	102,677
Transfers out	-	(102,677)	-	-	(102,677)
Total other financing sources (uses)	-	(102,677)	102,677	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(124,076)	78,710	16,092	(117,342)
Cash and investments - beginning	-	124,076	-	-	261,107
Cash and investments - ending	\$ -	\$ -	\$ 78,710	\$ 16,092	\$ 143,765
Cash and Investment Assets - Ending					
Cash and investments	\$ -	\$ -	\$ 78,710	\$ 16,092	\$ 143,765
Cash and Investment Fund Balance - Ending					
Unrestricted	\$ -	\$ -	\$ 78,710	\$ 16,092	\$ 143,765

CHALLENGE FOUNDATION ACADEMY
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2009

	School Lunch	Textbook Rental	Challenge Foundation Grant	Challenge Foundation Director	Fundraising Account	School Administration
Receipts:						
Local sources	\$ 15,321	\$ 1,057	\$ 2,500	\$ -	\$ 1,074	\$ 4,073
State sources	650	62,526	-	-	-	-
Federal sources	152,766	-	-	-	-	-
Total receipts	168,737	63,583	2,500	-	1,074	4,073
Disbursements:						
Current:						
Instruction	-	35,338	1,958	-	225	248
Support services	193	-	6,005	17,500	-	3,268
Noninstructional services	167,204	-	470	-	-	-
Facilities acquisition and construction	-	-	2,345	-	-	600
Total disbursements	167,397	35,338	10,778	17,500	225	4,116
Excess (deficiency) of receipts over disbursements	1,340	28,245	(8,278)	(17,500)	849	(43)
Other financing sources (uses):						
Transfers in	-	-	13,606	-	848	848
Transfers out	-	-	-	-	-	(805)
Total other financing sources (uses)	-	-	13,606	-	848	43
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,340	28,245	5,328	(17,500)	1,697	-
Cash and investments - beginning	221	-	28,742	20,000	-	-
Cash and investments - ending	\$ 1,561	\$ 28,245	\$ 34,070	\$ 2,500	\$ 1,697	\$ -
Cash and Investment Assets - Ending						
Cash and investments	\$ 1,561	\$ 28,245	\$ 34,070	\$ 2,500	\$ 1,697	\$ -
Cash and Investment Fund Balance - Ending						
Unrestricted	\$ 1,561	\$ 28,245	\$ 34,070	\$ 2,500	\$ 1,697	\$ -

CHALLENGE FOUNDATION ACADEMY
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2009
 (Continued)

	Title I FY 2007-08	Title I FY 2008-09	Special Education	Improving Teacher Quality	Fiscal Stabilization	Totals
Receipts:						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,025
State sources	-	-	-	-	-	63,176
Federal sources	19,000	241,160	61,399	22,230	208,867	705,422
Total receipts	19,000	241,160	61,399	22,230	208,867	792,623
Disbursements:						
Current:						
Instruction	54,767	226,717	61,399	1,580	4,192	386,424
Support services	-	8,339	-	1,744	91,945	128,994
Noninstructional services	12,438	542	-	-	1,221	181,875
Facilities acquisition and construction	9,934	-	-	-	111,509	124,388
Total disbursements	77,139	235,598	61,399	3,324	208,867	821,681
Excess (deficiency) of receipts over disbursements	(58,139)	5,562	-	18,906	-	(29,058)
Other financing sources (uses):						
Transfers in	-	20,571	-	-	-	35,873
Transfers out	(20,571)	-	-	-	-	(21,376)
Total other financing sources (uses)	(20,571)	20,571	-	-	-	14,497
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(78,710)	26,133	-	18,906	-	(14,561)
Cash and investments - beginning	78,710	-	-	16,092	-	143,765
Cash and investments - ending	\$ -	\$ 26,133	\$ -	\$ 34,998	\$ -	\$ 129,204
Cash and Investment Assets - Ending						
Cash and investments	\$ -	\$ 26,133	\$ -	\$ 34,998	\$ -	\$ 129,204
Cash and Investment Fund Balance - Ending						
Unrestricted	\$ -	\$ 26,133	\$ -	\$ 34,998	\$ -	\$ 129,204

CHALLENGE FOUNDATION ACADEMY
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

At June 30, 2009

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Primary Government

Governmental activities:

Capital assets, not being depreciated:

Improvements other than buildings	\$ 81,575
Machinery and equipment	<u>376,006</u>

Total governmental activities, capital
assets not being depreciated

\$ 457,581

THE CHALLENGE FOUNDATION ACADEMY
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
June 30, 2009

The School Corporation has entered into the following debt:

<u>Description of Debt</u>	<u>Ending Principal Balance</u>	<u>Principal and Interest Due Within One Year</u>
Governmental Activities: Notes and loans payable	<u>\$ 1,422,450</u>	<u>\$ -</u>

CHALLENGE FOUNDATION ACADEMY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCE

The cash balance of the Withholding Fund was overdrawn at June 30, 2008.

The cash balance of any fund may not be reduced below zero. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CREDIT CARDS

Payments were made to a financial institution for credit card purchases that were not supported by original bills or invoices. Additionally, late fees were assessed and paid on the credit card balance. We noted where sales tax was paid on some credit card purchases. A similar comment appeared in prior Report B31791.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CHALLENGE FOUNDATION ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEXTBOOK REIMBURSEMENT CLAIMS - RECORDS RETENTION

Detailed records substantiating the Textbook Reimbursement Claim forms were not presented for audit.

IC 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The Indiana Department of Education conducted Coordinated and Program Reviews of the National School Lunch program on April 11 2008. The following findings were noted:

Due to errors, incorrect eligibility status of students resulted in incorrect meals being recorded for these children. All of the applications on file at the school were reviewed to determine whether households provided required information and whether the School Food Authority (SFA) properly approved applications.

Approved applications were on file for students who were not included on the school's master list of eligible children.

The review noted that students had more than one application on file.

CHALLENGE FOUNDATION ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

Lunch counts were not taken at the point of service. Point of service is defined as that point where the child receives his/her tray and a reimbursable meal can be identified by type.

School Officials responded on September 9, 2008, to the Indiana Department of Education's findings in writing outlining corrective measures to be taken. The Indiana Department of Education replied on October 31, 2008, stating that all corrective actions outlined were acceptable and should correct the findings noted during the review.

We noted during our audit, that information presented for audit substantiating the free and reduced-price meal Verification Summary Report was incomplete or inaccurate. A similar comment appeared in prior Report B31791.

Additionally, while auditing monthly Claim for Reimbursement (CND-1) forms, we noted where 14 of 22 claims were not filed on a timely basis. A similar comment appeared in prior Report B31791.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

Information presented for audit indicates enrollment figures on Form 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2009. Detail presented for audit indicated underreporting of one student from the count reported on the ADM.

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CHALLENGE FOUNDATION ACADEMY, MARION COUNTY, INDIANA

Compliance

We have audited the compliance of the Challenge Foundation Academy (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2008 and 2009. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

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 School Corporation'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. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2008 and 2009.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 School Corporation's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A control deficiency in a School Corporation's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

The School Corporation's response to the findings identified in our audit is described in the accompanying Official Response. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 25, 2010

CHALLENGE FOUNDATION ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2008 and 2009

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-08	Total Federal Awards Expended 06-30-09
<u>U.S. Department of Agriculture</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	FY 2007-2008	\$ 7,191	\$ -
		FY 2008-2009	-	26,173
Total for program			7,191	26,173
National School Lunch Program	10.555	FY 2007-2008	111,126	-
		FY 2008-2009	-	126,592
Total for program			111,126	126,592
Total for federal grantor agency			118,317	152,765
<u>U.S. Department of Education</u>				
Pass-Through Indiana Department of Education				
Title I Cluster				
Title I Grants to Local Educational Agencies	84.010			
		08-9645	240,588	-
		09-9645	-	312,737
Total for cluster			240,588	312,737
Special Education Cluster				
Special Education grants to States	84.027			
		09-9645	-	61,399
Total for cluster			-	61,399
State Fiscal Stabilization Fund Cluster				
ARRA - State Fiscal Stabilization Fund (SFSF)				
Education State Grants	84.394			
		09-9645	-	208,867
Total for cluster			-	208,867
Public Charter School Title X (Planning and Implementation)	84.282			
		08-9645	186,132	-
		09-9645	-	95,314
Total for program			186,132	95,314
Improving Teacher Quality State Grants (Title II)	84.367			
		08-9645	6,655	-
		09-9645	-	3,325
Total for program			6,655	3,325
Total for federal grantor agency			433,375	681,642
Total federal awards expended			\$ 551,692	\$ 834,407

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CHALLENGE FOUNDATION ACADEMY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Challenge Foundation Academy (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

CHALLENGE FOUNDATION ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified (Disclaimer)

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no
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Identification of Major Programs:

Name of Federal Program or Cluster

Title I Cluster
Fiscal Stabilization Fund Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CHALLENGE FOUNDATION ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CHALLENGE FOUNDATION ACADEMY
EXIT CONFERENCE

The contents of this report were discussed on February 25, 2010, with Evan Hawkins, Treasurer; Charlie Schlegel, Superintendent of School; and Owen Melton, School Board member. The officials concurred with our audit findings. The official response has been made a part of this report and may be found on pages 39 and 40.



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March 1, 2010

State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, IN 46204

Re: Official State Board of Accounts Audit Response

This letter is written pursuant to the Audit Exit meeting held with Doug Witham on Thursday, February 25, 2010, at the Challenge Foundation Academy. Following are the official responses relative to the findings from that audit.

OVERDRAWN CASH BALANCE

The withholding funds that are being reported with negative balances as of 6/30/08 are holding accounts. These funds help Challenge ensure that the PERF, TRF and payroll withholdings are reconciled and accurate. Every six months these funds are rolled back into the general fund for Form 9 reporting. At no point do we consider these funds anything other than general fund dollars. Any negative balance is offset by the total balance of the general fund. Now that we have been informed that SBOA ties their reporting to our June Komputrol reports and not the Form 9, we will no longer allow these balances to occur. Funds will be rolled up into the general fund prior to the June close.

CREDIT CARDS

Challenge Foundation Academy will enhance its credit card policy to ensure compliance with State Board of Accounts rules and regulations. Necessary supporting documentation will be provided prior to initiating payment.





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PUBLIC RECORDS RETENTION

Hereon, the Challenge Foundation Academy will maintain appropriate textbook documentation in a working file. This file will maintain free/reduced student data, textbook procurement documentation and an official copy of the annual submission to State. File will be reviewed and approved by the school director on an annual basis.

FEDERAL AND STATE AGENCIES – COMPLAINT REQUIREMENTS

The Challenge Foundation Academy recently tested and completed the direct verification process for the current school year. The staff responsible for verification of applications randomly identified applications in appropriate fashion. At this current time all meal claims are filed in a timely fashion by the Director of Operations.

AVERAGE DAILY MEMBERSHIP (ADM) – INCORRECT REPORTING TO THE STATE

Challenge Foundation Academy recently installed a new student information system. This new system ensures that student counts are readily retrieved and archived, as well as conducted on a daily basis; all for reporting purposes. Currently, a copy of all generated ADM reports submitted to the state, are certified with Principal's signature, and then filed.

We wish to express our gratitude to the State Board of Accounts staff for professionally performing the audit of the Challenge Foundation Academy for the period ending June 30, 2009.

Charlie Schlegel, School Director

Evan Hawkins, Director of Operations

