

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

THE CHALLENGE FOUNDATION ACADEMY  
MARION COUNTY, INDIANA

July 1, 2009 to June 30, 2011



**FILED**  
02/22/2012



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report on the Financial Statement and Supplementary Schedule of Expenditures of Federal Awards.....	3-4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance With Government Auditing Standards .....	5-6
Financial Statement: Statement of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis.....	9
Notes to Financial Statement.....	10-13
Supplementary Information: Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis .....	16-21
Schedule of Capital Assets.....	22
Schedule of Long-Term Debt .....	23
Audit Results and Comments: Indiana Special Education Charter Cooperative (ISECC).....	24-25
Textbook Rental Fees .....	25
Deposits.....	25
Supplemental Audit of Federal Awards: 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.....	28-29
Schedule of Expenditures of Federal Awards .....	32
Note to Schedule of Expenditures of Federal Awards.....	33
Schedule of Findings and Questioned Costs .....	34
Auditee Prepared Schedule: Summary Schedule of Prior Audit Findings .....	35
Exit Conference.....	36

#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Evan S. Hawkins Luanne Brown	07-01-09 to 12-14-11 12-15-11 to 06-30-12
Superintendent of Schools	Charlie Schlegel	07-01-09 to 06-30-12
President of the School Board	Fred Scott Rose Mays	07-01-09 to 08-31-09 09-01-09 to 06-30-12
Treasurer of the School Board	Owen B. Melton	07-01-09 to 06-30-12



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL THE STATEMENT  
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 statement of The Challenge Foundation Academy (School Corporation), for the years ended June 30, 2010 and 2011. This financial statement is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the financial statement 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 statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the School Corporation for the years ended June 30, 2010 and 2011, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated January 24, 2012, 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 integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the 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 financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the financial statement. The Combining Schedules of Receipts, Disbursements, and Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis, 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 financial statement and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the School Corporation's management, School Board, others within the entity, 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

January 24, 2012



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

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

We have audited the financial statement of The Challenge Foundation Academy (School Corporation), for the years ended June 30, 2010 and 2011, and have issued our report thereon dated January 24, 2012. 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 opinion 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 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 material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
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 statement is 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.

This report is intended solely for the information and use of the School Corporation's management, School Board, others within the entity, 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

January 24, 2012

## FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the School Corporation. The financial statement and notes are presented as intended by the School Corporation.



THE CHALLENGE FOUNDATION ACADEMY  
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Years Ended June 30, 2010 and 2011

	Cash and Investments 07-01-09	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-10	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-11
General	\$ 1,149,362	\$ 3,124,860	\$ 2,316,520	\$ 40,000	\$ 1,997,702	\$ 3,079,071	\$ 3,404,909	\$ -	\$ 1,671,864
School Lunch	1,561	177,396	178,957	-	-	222,661	222,661	-	-
Textbook Rental	28,245	18,160	26,786	-	19,619	13,144	32,763	-	-
Early Intervention Grant	-	26,700	-	-	26,700	15,120	24,383	-	17,437
Challenge Foundation Grant	34,070	-	27,463	-	6,607	-	6,607	-	-
Challenge Foundation Director	2,500	-	2,500	-	-	-	-	-	-
Challenge Donation	100,000	-	-	-	100,000	-	-	-	100,000
Challenge Core Knowledge 2010	-	31,026	3,467	-	27,559	-	19,982	-	7,577
Knall Teacher Endorsement	-	-	-	-	-	249,192	-	-	249,192
Fundraising Account	1,697	-	-	(1,697)	-	-	-	-	-
School Administration	-	165,576	112,831	(38,303)	14,442	113,451	64,052	-	63,841
Title I 08-09	26,133	23,600	14,407	(35,326)	-	-	-	-	-
Title I 09-10	-	316,719	321,976	35,326	30,069	30,901	41,438	(19,532)	-
Title I 10-11	-	-	-	-	-	306,623	331,753	19,532	(5,598)
School Improvement Grant Title	-	-	-	-	-	515,868	521,939	-	(6,071)
IDEA	-	-	-	-	-	59,361	64,656	-	(5,295)
Improving Teaching Quality, No Child Left, Title II,	34,998	44,517	79,515	-	-	4,641	28,704	-	(24,063)
Facilities Grant 09-10	-	134,400	134,400	-	-	147,250	147,250	-	-
TIF/TAP	-	-	-	-	-	7,500	7,500	-	-
Fiscal Stabilization - Education	-	79,021	79,021	-	-	-	-	-	-
Title I - Grants to LEAs	-	275,994	242,696	-	33,298	28,897	62,195	-	-
Special Education - Part B	-	23,462	23,462	-	-	20,635	20,635	-	-
Education Technology	-	94,750	94,750	-	-	3,250	3,250	-	-
School Lunch Equipment	-	5,975	5,975	-	-	-	-	-	-
Education Jobs	-	-	-	-	-	85,162	85,162	-	-
PERF Withholding	-	-	-	-	-	-	-	5,213	5,213
TRF Withholding	9,052	-	-	2,778	11,830	-	-	2,258	14,088
Payroll Liabilities	55	-	-	(55)	-	-	-	5,249	5,249
Totals	<u>\$ 1,387,673</u>	<u>\$ 4,542,156</u>	<u>\$ 3,664,726</u>	<u>\$ 2,723</u>	<u>\$ 2,267,826</u>	<u>\$ 4,902,727</u>	<u>\$ 5,089,839</u>	<u>\$ 12,720</u>	<u>\$ 2,093,434</u>

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

THE CHALLENGE FOUNDATION ACADEMY  
NOTES TO FINANCIAL STATEMENT

**Note 1. 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 accompanying financial statement presents the financial information for the School Corporation (primary government).

*B. Basis of Accounting*

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The regulatory 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.

*C. Cash and Investments*

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

*D. Receipts*

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Local sources which include transportation fees, investment income, food services, school corporation activities, revenue from community services activities, and other revenue from local sources.

State sources which include distributions from the State of Indiana to be used by the School Corporation for various purposes. Included in state sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

THE CHALLENGE FOUNDATION ACADEMY  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Federal sources which include distributions from the federal government to be used by the School Corporation for various purposes. Included in federal sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Temporary loans which include money received from a loan obtained to pay current expenses.

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Instruction which includes outflows for regular programs, special programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services which include outflows for support services related to students, instruction, general administration, and school administration. It also includes outflows for central services, operation and maintenance of plant services, and student transportation.

Noninstructional services which include outflows for food service operations and community service operations.

Facilities acquisition and construction which includes outflows for the acquisition, development, construction, and improvement of new and existing facilities.

Debt services which include fixed obligations resulting from financial transactions previously entered into by the School Corporation. It includes all expenditures for the reduction of the principal and interest of the School Corporation's general obligation indebtedness.

*F. Other financing sources and uses*

Other financing sources and uses are presented in the aggregate on the face of the financial statement. The aggregate other financing sources and uses include the following:

Transfers in which includes money received by one fund as a result of transferring money from another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

Transfers out which includes money paid by one fund to another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the School Corporation. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the School Corporation. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the School Corporation in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

THE CHALLENGE FOUNDATION ACADEMY  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 2. Budgets**

The operating budget is prepared and approved at the local level. The fiscal officer of the School Corporation submits a proposed operating budget to the governing board for the following fiscal year.

**Note 3. Deposits and Investments**

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depositary Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

**Note 4. Risk Management**

The School Corporation may be 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; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the School Corporation to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the School Corporation by recording as a disbursement and replacement items purchased.

**Note 5. Pension Plans**

*A. Public Employees' Retirement Fund*

*Plan Description*

The Indiana Public Employees' Retirement Fund (PERF) is 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 this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) 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 members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

THE CHALLENGE FOUNDATION ACADEMY  
NOTES TO FINANCIAL STATEMENT  
(Continued)

INPRS 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. That report may be obtained by contacting:

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

*Funding Policy and Annual Pension Cost*

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

*B. Teachers' Retirement Fund*

*Plan Description*

The Indiana Teachers' Retirement Fund (TRF) is 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 Indiana Public Retirement System (INPRS) 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 members' contributions, set by state statute at 3 percent 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.

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

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 286-3544

*Funding Policy and Annual Pension Cost*

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.

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#### SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the School Corporation Treasurer's office.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Financial Reports of the School Corporation which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was prepared and/or approved by management of the School Corporation. It is presented as intended by the School Corporation.

THE CHALLENGE FOUNDATION ACADEMY  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2010

	General	School Lunch	Textbook Rental	Early Intervention Grant	Challenge Foundation Grant	Challenge Foundation Director	Challenge Donation	Challenge Core Knowledge 2010
Cash and investments - beginning	\$ 1,149,362	\$ 1,561	\$ 28,245	\$ -	\$ 34,070	\$ 2,500	\$ 100,000	\$ -
Receipts:								
Local sources	56,619	11,050	2,824	-	-	-	-	31,026
State sources	2,568,241	474	15,336	26,700	-	-	-	-
Federal sources	-	165,872	-	-	-	-	-	-
Temporary loans	500,000	-	-	-	-	-	-	-
Total receipts	3,124,860	177,396	18,160	26,700	-	-	-	31,026
Disbursements:								
Current:								
Instruction	1,225,994	-	26,786	-	-	-	-	-
Support services	828,153	199	-	-	27,283	2,500	-	3,467
Noninstructional services	26,390	176,595	-	-	180	-	-	-
Facilities acquisition and construction	227,445	2,163	-	-	-	-	-	-
Debt services	8,538	-	-	-	-	-	-	-
Total disbursements	2,316,520	178,957	26,786	-	27,463	2,500	-	3,467
Excess (deficiency) of receipts over disbursements	808,340	(1,561)	(8,626)	26,700	(27,463)	(2,500)	-	27,559
Other financing sources (uses):								
Transfers in	40,000	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	40,000	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	848,340	(1,561)	(8,626)	26,700	(27,463)	(2,500)	-	27,559
Cash and investments - ending	\$ 1,997,702	\$ -	\$ 19,619	\$ 26,700	\$ 6,607	\$ -	\$ 100,000	\$ 27,559

THE CHALLENGE FOUNDATION ACADEMY  
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Year Ended June 30, 2010  
(Continued)

	Fundraising Account	School Administration	Title I 08-09	Title I 09-10	Improving Teaching Quality, No Child Left, Title II, Part A	Facilities Grant 09-10	Fiscal Stabilization - Education
Cash and investments - beginning	\$ 1,697	\$ -	\$ 26,133	\$ -	\$ 34,998	\$ -	\$ -
Receipts:							
Local sources	-	165,576	-	-	-	-	1
State sources	-	-	-	-	-	-	-
Federal sources	-	-	23,600	316,719	44,517	134,400	79,020
Temporary loans	-	-	-	-	-	-	-
Total receipts	-	165,576	23,600	316,719	44,517	134,400	79,021
Disbursements:							
Current:							
Instruction	-	28,147	14,407	261,863	79,220	-	-
Support services	-	19,890	-	47,381	295	-	30,319
Noninstructional services	-	11,640	-	1,606	-	-	-
Facilities acquisition and construction	-	53,154	-	11,126	-	134,400	48,702
Debt services	-	-	-	-	-	-	-
Total disbursements	-	112,831	14,407	321,976	79,515	134,400	79,021
Excess (deficiency) of receipts over disbursements	-	52,745	9,193	(5,257)	(34,998)	-	-
Other financing sources (uses):							
Transfers in	-	1,697	-	35,326	-	-	-
Transfers out	(1,697)	(40,000)	(35,326)	-	-	-	-
Total other financing sources (uses)	(1,697)	(38,303)	(35,326)	35,326	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(1,697)	14,442	(26,133)	30,069	(34,998)	-	-
Cash and investments - ending	\$ -	\$ 14,442	\$ -	\$ 30,069	\$ -	\$ -	\$ -

THE CHALLENGE FOUNDATION ACADEMY  
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Year Ended June 30, 2010  
(Continued)

	Title I - Grants to LEAs	Special Education - Part B	Education Technology	School Lunch Equipment	TRF Withholding	Payroll Liabilities	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ 9,052	\$ 55	\$ 1,387,673
Receipts:							
Local sources	16,146	23,462	-	-	-	-	306,704
State sources	-	-	-	-	-	-	2,610,751
Federal sources	259,848	-	94,750	5,975	-	-	1,124,701
Temporary loans	-	-	-	-	-	-	500,000
Total receipts	<u>275,994</u>	<u>23,462</u>	<u>94,750</u>	<u>5,975</u>	<u>-</u>	<u>-</u>	<u>4,542,156</u>
Disbursements:							
Current:							
Instruction	216,850	23,462	-	-	-	-	1,876,729
Support services	8,090	-	52,010	-	-	-	1,019,587
Noninstructional services	2	-	-	5,975	-	-	222,388
Facilities acquisition and construction	17,754	-	42,740	-	-	-	537,484
Debt services	-	-	-	-	-	-	8,538
Total disbursements	<u>242,696</u>	<u>23,462</u>	<u>94,750</u>	<u>5,975</u>	<u>-</u>	<u>-</u>	<u>3,664,726</u>
Excess (deficiency) of receipts over disbursements	<u>33,298</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>877,430</u>
Other financing sources (uses):							
Transfers in	-	-	-	-	2,778	-	79,801
Transfers out	-	-	-	-	-	(55)	(77,078)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,778</u>	<u>(55)</u>	<u>2,723</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>33,298</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,778</u>	<u>(55)</u>	<u>880,153</u>
Cash and investments - ending	<u>\$ 33,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,830</u>	<u>\$ -</u>	<u>\$ 2,267,826</u>

THE CHALLENGE FOUNDATION ACADEMY  
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Year Ended June 30, 2011

	General	School Lunch	Textbook Rental	Early Intervention Grant	Challenge Foundation Grant	Challenge Donation	Challenge Core Knowledge 2010	Knall Teacher Endorsement
Cash and investments - beginning	\$ 1,997,702	\$ -	\$ 19,619	\$ 26,700	\$ 6,607	\$ 100,000	\$ 27,559	\$ -
Receipts:								
Local sources	133,723	23,262	6,022	-	-	-	-	249,192
State sources	2,945,348	686	7,122	15,120	-	-	-	-
Federal sources	-	198,713	-	-	-	-	-	-
Total receipts	3,079,071	222,661	13,144	15,120	-	-	-	249,192
Disbursements:								
Current:								
Instruction	1,228,959	-	32,763	22,213	6,607	-	1,535	-
Support services	975,425	382	-	1,469	-	-	17,527	-
Noninstructional services	-	221,491	-	701	-	-	162	-
Facilities acquisition and construction	1,160,913	788	-	-	-	-	758	-
Debt services	39,612	-	-	-	-	-	-	-
Total disbursements	3,404,909	222,661	32,763	24,383	6,607	-	19,982	-
Excess (deficiency) of receipts over disbursements	(325,838)	-	(19,619)	(9,263)	(6,607)	-	(19,982)	249,192
Other financing sources (uses):								
Transfers in	90,947	-	-	-	-	-	-	-
Transfers out	(90,947)	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(325,838)	-	(19,619)	(9,263)	(6,607)	-	(19,982)	249,192
Cash and investments - ending	\$ 1,671,864	\$ -	\$ -	\$ 17,437	\$ -	\$ 100,000	\$ 7,577	\$ 249,192

THE CHALLENGE FOUNDATION ACADEMY  
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Year Ended June 30, 2011  
(Continued)

	School Administration	Title I 09-10	Title I 10-11	School Improvement Grant Title	IDEA	Improving Teaching Quality, No Child Left, Title II, Part A	Facilities Grant 09-10	TIF/TAP
Cash and investments - beginning	\$ 14,442	\$ 30,069	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:								
Local sources	113,451	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Federal sources	-	30,901	306,623	515,868	59,361	4,641	147,250	7,500
Total receipts	113,451	30,901	306,623	515,868	59,361	4,641	147,250	7,500
Disbursements:								
Current:								
Instruction	10,531	27,921	274,643	419,822	64,546	28,704	-	-
Support services	27,367	13,517	48,601	23,453	110	-	-	7,500
Noninstructional services	16,354	-	2,469	12,253	-	-	-	-
Facilities acquisition and construction	9,800	-	6,040	66,411	-	-	147,250	-
Debt services	-	-	-	-	-	-	-	-
Total disbursements	64,052	41,438	331,753	521,939	64,656	28,704	147,250	7,500
Excess (deficiency) of receipts over disbursements	49,399	(10,537)	(25,130)	(6,071)	(5,295)	(24,063)	-	-
Other financing sources (uses):								
Transfers in	-	-	19,532	-	-	-	-	-
Transfers out	-	(19,532)	-	-	-	-	-	-
Total other financing sources (uses)	-	(19,532)	19,532	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	49,399	(30,069)	(5,598)	(6,071)	(5,295)	(24,063)	-	-
Cash and investments - ending	\$ 63,841	\$ -	\$ (5,598)	\$ (6,071)	\$ (5,295)	\$ (24,063)	\$ -	\$ -

THE CHALLENGE FOUNDATION ACADEMY  
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Year Ended June 30, 2011  
(Continued)

	Title I - Grants to LEAs	Special Education - Part B	Education Technology	Education Jobs	PERF Withholding	TRF Withholding	Payroll Liabilities	Totals
Cash and investments - beginning	\$ 33,298	\$ -	\$ -	\$ -	\$ -	\$ 11,830	\$ -	\$ 2,267,826
Receipts:								
Local sources	27	20,635	-	-	-	-	-	546,312
State sources	-	-	-	-	-	-	-	2,968,276
Federal sources	28,870	-	3,250	85,162	-	-	-	1,388,139
Total receipts	28,897	20,635	3,250	85,162	-	-	-	4,902,727
Disbursements:								
Current:								
Instruction	2,068	20,635	-	85,162	-	-	-	2,226,109
Support services	1,523	-	3,250	-	-	-	-	1,120,124
Noninstructional services	-	-	-	-	-	-	-	253,430
Facilities acquisition and construction	58,604	-	-	-	-	-	-	1,450,564
Debt services	-	-	-	-	-	-	-	39,612
Total disbursements	62,195	20,635	3,250	85,162	-	-	-	5,089,839
Excess (deficiency) of receipts over disbursements	(33,298)	-	-	-	-	-	-	(187,112)
Other financing sources (uses):								
Transfers in	-	-	-	-	5,213	2,258	5,249	123,199
Transfers out	-	-	-	-	-	-	-	(110,479)
Total other financing sources (uses)	-	-	-	-	5,213	2,258	5,249	12,720
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(33,298)	-	-	-	5,213	2,258	5,249	(174,392)
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ 5,213	\$ 14,088	\$ 5,249	\$ 2,093,434

THE CHALLENGE FOUNDATION ACADEMY  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS  
June 30, 2011

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.

	<u>Ending Balance</u>
Capital assets, not being depreciated:	
Land	\$ 10,000
Improvements other than buildings	1,085,512
Machinery and equipment	<u>836,978</u>
Total capital assets, not being depreciated	<u><u>\$ 1,932,490</u></u>

THE CHALLENGE FOUNDATION ACADEMY  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT  
June 30, 2011

The School Corporation has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Notes and loans payable	<u>\$ 1,897,450</u>	<u>\$ 38,927</u>

THE CHALLENGE FOUNDATION ACADEMY  
AUDIT RESULTS AND COMMENTS

***INDIANA SPECIAL EDUCATION CHARTER COOPERATIVE (ISECC)***

During 2009-2010, the Indiana Department of Education (IDOE) awarded IDEA, Part B special education grants to The Challenge Foundation Academy (CFA) in the amount of \$75,368 which was administered by Indiana Special Education Charter Cooperative (ISECC). The School Corporation entered into a joint services agreement with ISECC to provide special education related services. We identified a couple major concerns with the agreement.

The agreement states: ". . . this Agreement is authorized by Indiana Code 20-35-5 and shall be operated pursuant thereto." However, Indiana Code 20-35-5 does not authorize this type of agreement between a not for profit organization and a school corporation. This type of agreement is only allowable between two or more participating school corporations.

According to the joint services agreement, ISECC is "a service of the Institute for School Excellence, a 501(c)3 organization under Indiana law governing non-profit organizations" and designated the Institute for School Excellence as the administrator and fiscal agent of the cooperative. ISECC does not have a separate governing board and relies on the governing board of the Institute for School Excellence.

The joint services agreement requires that all federal funds awarded to participating schools be used for ISECC operations and flow directly to ISECC. ISECC prepares and submits special education grant applications to IDOE each year on behalf of all participating schools as a cooperative program. IDOE awards each school an amount based on their eligibility under one project number for the cooperative. ISECC prepares and submits draw down and reimbursement requests as one amount under the cooperative project number. However, Institute for School Excellence and ISECC are not established as school corporations and are not entitled to receive funds directly from IDOE. Therefore, the Institute for School Excellence designates a participating school corporation each year to act as the Local Education Agency (LEA) to receive the special education grant funds. Once the grant funds are received by the LEA, they are immediately disbursed to ISECC. ISECC disburses the grant funds and retains all supporting documentation for their records. Summarized reports are provided to participating schools and the LEA upon request. However, detailed documentation to support the disbursements of the special education grant funds by ISECC is not made available to participating schools or the LEA. Proper internal controls were not in place at the School Corporation to ensure accountability for the federal funds awarded to them.

In 2009, CFA withdrew from the ISECC and administered its own special education program. In addition to the special education grant funds of \$75,368 on behalf of CFA, CFA paid \$50,000 to the Institute for School Excellence in July of 2009 for CFA's share of additional costs for speech therapy for five different schools, including CFA.

Indiana Code 20-35-5-1 defines a "participating school corporation" as ". . . a local public school corporation that: (A) is established under Indiana law . . ." Indiana Code 20-35 does apply to charter schools pursuant to IC 20-24-8-5(3).

Indiana Code 20-35-5-2 states in part: "Two (2) or more participating school corporations may form a special education cooperative in accordance with the provisions of either sections 13 through 15 . . . or section 16 . . ."

Indiana Code 20-35-5-13 states:

"A special education cooperative may: (1) be attached to a participating school corporation that has responsibility for administrative and financial controls; or (2) establish a separate treasury with separate accounts. If a special education cooperative is not attached to a participating school corporation, it must comply with the state board of accounts' approved forms and rules for fiscal accountability and is subject to audit by the state board of accounts."

THE CHALLENGE FOUNDATION ACADEMY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 20-35-5-14 states in part: "...The board of managers consists of one (1) designated member from each participating school corporation ..."

Indiana Code 20-35-5-15 states: "Meetings of the board of managers shall be held in accordance with IC 20-26-4-3."

Indiana Code 20-35-5-16 states: "The special education cooperative may be organized in accordance with IC 20-26-10 or IC 36-1-7."

**TEXTBOOK RENTAL FEES**

Textbook rental fees charged for school years 2009-2010 and 2010-2011 were not properly calculated. The School charged the same fee for all grades. The amounts charged were not based on any calculations or actual costs.

Indiana Code 20-26-12-2 states in part:

"... The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the textbooks.

(b) Notwithstanding subsection (a), the governing body may not assess a rental fee of more than fifteen percent (15%) of the retail price of a textbook that has been:

- (1) adopted for usage by students under IC 20-20-5;
- (2) extended for usage by students under IC 20-20-5-2; and
- (3) paid for through rental fees previously collected. ..."

**DEPOSITS**

The internal controls established by the School Corporation required that receipts be deposited weekly or daily, if a large amount of money was on hand. For the receipts and deposits tested, we noted that some receipts were not deposited daily.

Indiana Code 5-13-6-1(c) states in part:

"... all local officers ... who collect public funds of their respective political subdivisions shall, deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the ... local boards of finance ..."

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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Telephone: (317) 232-2513  
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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, 2010 and 2011. 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, 2010 and 2011.

Internal Control Over Compliance

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 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 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 deficiency in 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 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the School Corporation's management, School Board, others within the entity, 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

January 24, 2012

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#### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the School Corporation. The schedule and note are presented as intended by the School Corporation.

THE CHALLENGE FOUNDATION ACADEMY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2009 and 2010

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 06-30-09	Total Federal Awards Expended 06-30-10
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	FY 2009-2010 FY 2010-2011	\$ 29,893 -	\$ - 30,839
Total for program			29,893	30,839
National School Lunch Program	10.555	FY 2009-2010 FY 2010-2011	135,979 -	- 158,951
Total for program			135,979	158,951
Summer Food Service Program for Children	10.559	FY 2010-2011	-	8,923
Total for cluster			165,872	198,713
Child Nutrition Discretionary Grants Limited Availability	10.579	FY 2009-2010	5,975	-
Total for federal grantor agency			171,847	198,713
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	84.010	09-9645 10-9645 11-9645	14,407 321,976 -	- 41,438 331,753
Total for program			336,383	373,191
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	ARRA	242,696	62,195
Total for cluster			579,079	435,386
Special Education Cluster				
Special Education - Grants to States	84.027	10-9645	-	64,656
ARRA - Special Education - Grants To States (IDEA Part B), Recovery Act	84.391	ARRA	23,462	20,635
Total for cluster			23,462	85,291
School Improvement Grants Cluster				
School Improvement Grants	84.377	11-9645	-	521,939
Education Technology State Grants Cluster				
ARRA - Education Technology State Grants, Recovery Act	84.386	10-9645	94,750	3,250
State Fiscal Stabilization Fund Cluster				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	10-9645	79,021	-
Pass-Through Indiana Department of Education				
Charter Schools	84.282	11-9645	134,400	147,250
Improving Teacher Quality State Grants	84.367	10-9645	79,515	28,704
Teacher Incentive Fund Cluster				
Teacher Incentive Fund	84.374	11-9645	-	7,500
ARRA - Education Jobs Fund, Recovery Act	84.410	11-9645	-	85,162
Total for federal grantor agency			990,227	1,314,482
Total federal awards expended			\$ 1,162,074	\$ 1,513,195

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

THE 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 The Challenge Foundation Academy (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

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 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.

THE CHALLENGE FOUNDATION ACADEMY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.377	Child Nutrition Cluster Title I, Part A Cluster School Improvement Grants

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

Auditee qualified as low-risk auditee? no

**Section II – Financial Statement Findings**

No matters are reportable.

**Section III – Federal Award Findings and Questioned Costs**

No matters are reportable.

THE CHALLENGE FOUNDATION ACADEMY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

THE CHALLENGE FOUNDATION ACADEMY  
EXIT CONFERENCE

The contents of this report were discussed on January 24, 2012, with Evan S. Hawkins, former Treasurer; Luanne Brown, Treasurer; Charlie Schlegel, Superintendent of Schools; Kelly Herron, Assistant Principal; and (by teleconference) Owen B. Melton, Treasurer of the School Board. The officials concurred with our audit findings.