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October 8, 2014

Charter School Board
Challenge Foundation Academy, Inc.
3980 Meadows Drive
Indianapolis, IN 46205

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Sikich, LLP, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Challenge Foundation Academy, Inc., as of June 30, 2013, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Audit Report for Challenge Foundation Academy, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

CHALLENGE FOUNDATION ACADEMY, INC.

Financial Statements
With Supplemental Information

For the Years Ended
June 30, 2013 and 2012

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Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Challenge Foundation Academy, Inc.
Indianapolis, Indiana:

Report on the Financial Statements

We have audited the accompanying financial statements of Challenge Foundation Academy, Inc., (an Indiana non-profit organization) which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Challenge Foundation Academy, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2014 on our consideration of Challenge Foundation Academy, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Challenge Foundation Academy, Inc.'s internal control over financial reporting and compliance.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
September 5, 2014

CHALLENGE FOUNDATION ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,083,196	$ 1,425,931
Grants receivable	221,327	204,125
Accounts receivable	31,662	-
State support receivable, net of allowance of $1,541,709 and $0, respectively	-	1,512,320
Prepaid expenses	45,811	36,770
Total Current Assets	2,381,996	3,179,146
PROPERTY AND EQUIPMENT:		
Furniture and equipment	618,476	560,788
Computer hardware	350,783	245,608
Computer software	68,867	68,867
Leasehold improvements	1,156,814	1,145,491
Books and educational materials	660,584	633,263
Less: accumulated depreciation	(1,292,917)	(1,031,305)
Total Property and Equipment, net	1,562,607	1,622,712
OTHER ASSETS:		
Investments	252,181	751,324
	$ 4,196,784	$ 5,553,182

See accompanying notes to the financial statements.

CHALLENGE FOUNDATION ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION
(continued)
JUNE 30, 2013 AND 2012

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES:		
Accounts payable	$ 56,455	$ 96,464
Current portion of notes payable	-	450,000
Accrued payroll	79,359	87,111
Total Current Liabilities	135,814	633,575
LONG TERM LIABILITIES:		
Deferred lease incentives	16,384	24,248
Accrued interest - Common School Loans	-	151,943
Common School Loan, net of current portion	-	1,422,450
Total Long Term Liabilities	16,384	1,598,641
Total Liabilities	152,198	2,232,216
NET ASSETS:		
Unrestricted	3,523,020	2,891,713
Temporary restricted	521,566	429,253
Total Net Assets	4,044,586	3,320,966
	$ 4,196,784	$ 5,553,182

See accompanying notes to the financial statements.

CHALLENGE FOUNDATION ACADEMY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT:			
School lunch program	$ 21,358	$ -	$ 21,358
Student fees	27,085	-	27,085
Contributions and donations	258,346	-	258,346
Grant revenue	2,073,431	112,375	2,185,806
State support	3,083,453	-	3,083,453
Textbook rentals	5,473	-	5,473
Interest income	7,553	-	7,553
Realized and unrealized gain on investments	857	-	857
Service contract revenue	137,500	-	137,500
Other revenue	11,434	-	11,434
In-kind contributions	172,242	-	172,242
Net assets released from restrictions by satisfaction of temporary restrictions	20,062	(20,062)	-
Total Revenues and Support	5,818,794	92,313	5,911,107
PROGRAM AND SUPPORTING SERVICE EXPENSES:			
Program services	3,951,493	-	3,951,493
General and administrative	1,331,565	-	1,331,565
Total Expenses	5,283,058	-	5,283,058
NET OPERATING REVENUE:	535,736	92,313	628,049
NON-OPERATING REVENUE:			
Net gain due to changes in legislative funding	95,571	-	95,571
CHANGE IN NET ASSETS	631,307	92,313	723,620
NET ASSETS, beginning of year	2,891,713	429,253	3,320,966
NET ASSETS, end of year	$ 3,523,020	$ 521,566	$ 4,044,586

See accompanying notes to the financial statements.

CHALLENGE FOUNDATION ACADEMY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT:			
School lunch program	$ 27,110	$ -	$ 27,110
Student fees	26,100	-	26,100
Contributions and donations	147,185	-	147,185
Grant revenue	1,532,940	74,458	1,607,398
State support	3,024,787	-	3,024,787
Textbook rentals	6,739	-	6,739
Interest income	13,396	-	13,396
Realized and unrealized loss on investments	(3,681)	-	(3,681)
Other revenue	43,099	-	43,099
In-kind contributions	40,000	-	40,000
Net assets released from restrictions by satisfaction of temporary restrictions	19,410	(19,410)	-
Total Revenues and Support	4,877,085	55,048	4,932,133
PROGRAM AND SUPPORTING SERVICE EXPENSES:			
Program services	3,705,259	-	3,705,259
Supporting services:			
General and administrative	996,833	-	996,833
Fundraising	2,461	-	2,461
Total Expenses	4,704,553	-	4,704,553
CHANGE IN NET ASSETS	172,532	55,048	227,580
NET ASSETS, beginning of year			
As previously reported	2,841,505	374,205	3,215,710
Prior period adjustment for understatement of accrued interest from Common School Loans and deferred lease incentives	(122,324)	-	(122,324)
NET ASSETS, beginning of year			
As restated	2,719,181	374,205	3,093,386
NET ASSETS, end of year	$ 2,891,713	$ 429,253	$ 3,320,966

See accompanying notes to the financial statements.

CHALLENGE FOUNDATION ACADEMY, INC.
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		(Restated)
Change in net assets	$ 723,620	$ 227,580
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	261,612	235,112
Net gain due to changes in legislation	(95,571)	-
Unrealized / realized (gain) loss on investments	(857)	3,681
(Increase) decrease in operating assets and liabilities:		
Grants receivable	(17,202)	(153,101)
Accounts receivable	(31,662)	-
State support receivable	(29,389)	-
Prepaid expense	(9,041)	(25,371)
Accounts payable	(40,009)	(62,574)
Accrued payroll	(7,752)	81,862
Accrued interest	62,887	151,943
Deferred lease incentives	(7,864)	24,248
NET CASH PROVIDED BY OPERATING ACTIVITIES	808,772	483,380
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	-	(5,813)
Purchases of property and equipment	(201,507)	(248,553)
Proceeds from redemption of certificates of deposit	500,000	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	298,493	(254,366)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term debt repayments	(450,000)	(25,000)
NET CASH USED BY FINANCING ACTIVITIES	(450,000)	(25,000)
NET INCREASE IN CASH	657,265	204,014
CASH AND CASH EQUIVALENTS - beginning of year	1,425,931	1,221,917
CASH AND CASH EQUIVALENTS - end of year	$ 2,083,196	$ 1,425,931
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 14,024	$ 13,576

See accompanying notes to the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Challenge Foundation Academy, Inc. (the "Academy") was incorporated August 9, 2004, under the laws of the State of Indiana and commenced operations in 2006. The Academy is a kindergarten through grade 5 tuition-free quality public charter school founded on the Core Knowledge curriculum. The Academy is open to all students. The core focus is to provide an outstanding education for our children equipping them with the knowledge, wisdom, core values, and behaviors to be successful in life.

***Basis of Accounting* -** The financial statements of the Academy have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses when the obligation is incurred.

Basis of Presentation - As required by Financial Statement Presentation Disclosure topic of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), the Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net Assets - The financial statements report amounts separately by class of net assets:

> ***Unrestricted net assets -*** Unrestricted amounts are those currently available for use in the Academy's activities.
>
> ***Temporarily restricted net assets -*** Temporarily restricted expendable amounts are those which are restricted by donors for specific purposes or the passage of time. As of June 30, 2013 and 2012, the Academy had $521,566 and $429,253 of temporarily restricted net assets, respectively.
>
> ***Permanently restricted net assets -*** Net assets subject to donor-imposed stipulations require that they be maintained permanently by the Academy. Generally, the donors of these assets permit the Academy to use all or part of the income earned on the related investments for general or specific purposes. As of June 30, 2013 and 2012, the Academy had no permanently restricted net assets.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Academy considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

Grants Receivable - Grants receivable represent the uncollected portion of funds from grants earned.

Grant receivables are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2013 and 2012, based on management's estimate of the amount of receivables that will actually be collected. Grant receivables are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Support Receivable – Tuition support is determined by state law and is dependent upon the geographic location of the school. The tuition is also indexed to the poverty data of the enrolled students and other factors. The payment schedule is likewise determined by state law. Tuition support is payable in equal monthly installments in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, tuition support will be paid currently in monthly installments that coincide with the School's fiscal year.

State support receivables are reported net of an allowance for doubtful accounts. As of June 30, 2013 and 2012, the allowance for doubtful accounts was $1,541,709 and $0 respectively. This allowance is based upon management's estimate using the expected amount of receivables that will be collected due to the change in legislative funding (See Note 3).

Property and Equipment - Property and equipment are recorded at cost or, if contributed, at the estimated fair value at the date of the gift. The Academy capitalizes additions of property and equipment in excess of $1,000 cost, or fair value if contributed. Depreciation of property and equipment is computed using the straight-line method and based upon the estimated useful lives of the assets ranging from 3 to 40 years. Expenditures for property and equipment and for renewals or improvements which extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

Depreciation expense was $261,612 and $235,112 for the years ending June 30, 2013 and 2012, respectively.

Impairment of Long-lived Assets - The Academy evaluates long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. Management has determined that no impairment existed for the years ending June 30, 2013 and 2012.

Contributed Materials and Services - Contributed services are recognized as contributions in accordance with Contributions Disclosure Topic, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Academy. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

The Academy received $172,242 and $40,000 of in-kind contributions during June 30, 2013 and 2012, respectively. For 2013 and 2012, in-kind contributions consisted of nursing services provided at no charge.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Volunteers provide program services throughout the year that are not recognized as contributions in the financial statements since they do not meet the recognition criteria under Contributions Disclosure Topic. These services include volunteering at events, picking up donations, and various clerical work.

Investments - Investments are reported at their fair values based on quoted prices in active markets in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Revenue Recognition - Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the Academy receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in equal monthly installments in January through December following the start of the academic Academy year. Revenue is recognized in the year in which the educational services are rendered. See Note 3 regarding legislative funding changes affecting revenue recognition.

A portion of the Academy's revenue is based on cost reimbursement grants. Accordingly, the Academy recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred.

Functional Expense Allocation - The costs of providing the various programs and other activities have been summarized in the statement of activities. Some expenses relate directly to specific programs or supportive services while others do not. Expenses that relate to more than one program or supporting service are allocated among the applicable functions. The allocation is based on a formula contained within the grant documents.

Costs are allocated to the programs and supporting services. Management periodically evaluates its allocation method and revises it when necessary. Management and general expenses include those expenses that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the Academy.

Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could vary from the estimates that were used.

Advertising - The Academy expenses advertising costs as they are incurred. Advertising expense for the years ending June 30, 2013 and 2012, was $279 and $7,662, respectively.

Income Taxes - The Academy is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The Academy is not considered to be a private foundation. Accordingly, no provision for income taxes has been reflected in the Academy's financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School has adopted the provisions of Uncertain Tax Positions Disclosure Topics of FASB ASC, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has not been met. This guidance also addresses de-recognition, classification, interest and penalties, disclosure, and transition. In the normal course of business, the School is subject to examination by taxing authorities. The School's tax returns for years subsequent to fiscal 2010 are open, by statute, for review by authorities. However, at present there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the School currently files or has filed.

Concentration of Credit Risk - Financial instruments that potentially subject the Academy to concentrations of credit risk consist principally of temporary cash investments and grants receivable.

The Academy places its temporary cash investments with financial institutions. There was $1,833,196 and $1,175,931 in excess of FDIC insured limits at June 30, 2013 and 2012, respectively.

Concentrations of credit risk with respect to grants receivable are limited due to the School's ability to accomplish the terms of the grants. Credit losses, if any, have been provided in the financial statements and have been within management's expectations.

Operating Funds from the Indiana Department of Education amounted to 53% and 62% of the School's support and revenue in June 30, 2013 and 2012, respectively. A state funding formula is used to determine the amount of revenue a charter school receives. The formula is based on the number of students enrolled in the school during the year.

Risks and Uncertainties - The Academy provides education instruction services to families residing in Marion and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the Academy. Additionally, the Academy is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the Academy.

Financial instruments that potentially subject the Academy to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2013, substantially all of the receivable balance was due from the State of Indiana. In addition, deposits maintained at Fifth Third Bank frequently exceed the FDIC insurance limit.

Cash Flow Information – The cash flow statement for 2012 was restated for a non-cash investing activity relating to the realized and unrealized loss on investments and the reinvestment of interest income.

Reclassifications – Certain amounts in the prior-year financial statements have been reclassified in order to be comparable with the current year presentation. State support receivable and state support revenue has been separated from grants receivable and grant revenue due to the change in legislative funding. These reclassifications have no effect on previously reported change in net assets.

NOTE 2 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

Education - The Academy's mission is to offer all children a better chance in life and create a fairer and more literate society by educating America's youth in a solid, specific, sequenced, and shared curriculum. The Academy ensures that all students from grade K-5 attain basic skills appropriate to their age and grade level.

NOTE 3 – LEGISLATIVE FUNDING CHANGES

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to July 1, 2013, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered.

Effective July 1, 2013, school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will no longer be paid.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for the forgiveness repayments of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a net gain due to changes in legislative funding and is comprised of the following:

Forgiveness of Common School Fund loans	$1,422,450
Forgiveness of Common School Fund accrued interest	214,830
	1,637,280
Allowance of Doubtful Accounts Related to Common School Loan Forgiveness	(1,541,709)
Net Gain due to Changes in Legislation	$ 95,571

NOTE 4 – GRANT RECEIVABLE

Grants receivable for the years end June 30, 2013 and 2012 represented amounts due from relating to the following sources:

	2013	2012
TIF/TAP	$ 19,754	$ 36,502
Title I	30,400	54,222
Title II	34,932	55,222
Special Ed	16,869	3,142
SIG	58,652	55,037
Performance	60,210	-
State Tech	510	-
	$ 221,327	$ 204,125

NOTE 5 - OPERATING LEASES

The Academy entered into a 20 year lease with Challenge Foundation Properties, Inc. for an educational facility located at 4980 Meadows Drive, Indianapolis, Indiana. The lease, which expires on July 1, 2026, requires a monthly payment of $22,000. During the years ending June 30, 2013 and 2012, $264,000 and $264,000, respectively was expensed for educational facility rent. As further discussed in Note 13, the Academy purchased the building on October 22, 2013.

The Academy leases copiers from US Bank, Copy Co and HP Financial Services. The Academy also leases a postage machine from Pitney Bowes. The HP Financial Services lease will expire August of 2014, the US Bank lease will expire in July of 2015, and the Copy Co lease will expire in July of 2016. Finally, the Pitney Bowes lease expired in February 2013. In 2010, the Academy entered into a lease agreement in which they received the remaining payoff amount and storage of their old copiers, as a lease incentive. This amount was recorded as deferred lease incentive on the statement of financial position, and is being amortized against rental expense over the life of the lease. During the years ended June 30, 2013 and 2012, $31,543 and $34,421 was expensed.

The future minimum rental payments required under the operating leases for the years subsequent to June 30, 2013 are as follows:

Year	Amount
2014	$ 63,489
2015	17,364
2016	1,447
	$ 82,300

NOTE 6 - PENSION PLAN

403(b) Plan

The Academy's faculty and certain administrative employees are participants in a 403(b) contribution retirement plan. There was no employer match contributions to the Plan in the year ended June 30, 2013 and 2012.

The Academy elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011. 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. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. 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. Retirement plan expense for PERF and TRF was $96,991 and $160,523 for June 30, 2013 and 2012, respectively.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

NOTE 7 - LONG-TERM DEBT ACTIVITY

Long-term debt included the following at June 30, 2013 and 2012:

	2013	2012
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity on January 1, 2032 (a)	$ -	$ 230,693
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity on January 1, 2033 (a)	-	197,876
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity on January 1, 2033 (a)	-	144,114
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity on July 1, 2031 (a)	-	849,767
Loan Payable in monthly installments, including interest computed at 2.6% in excess of the LIBOR Rate on the the first day of each month, rounded to the nearest 1/8 of 1%, which was .25% on June 1, 2012, Through maturity on June 15, 2013	-	450,000
Less: current maturities	-	(450,000)
Total Long-term Debt	$ -	$ 1,422,450

NOTE 7 - LONG-TERM DEBT ACTIVITY (Continued)

Total interest incurred during the years ended June 30, 2013 and 2012 was $14,024 and $13,576, respectively.

NOTE 8 - INVESTMENTS

Investments are stated at fair value. At June 30, 2013 and 2012, investment information is as follows:

	June 30, 2013		
	Cost	Fair Value	Unrealized Gain(Loss)
Corporate debt securities	$ 250,315	$ 250,169	$ (146)
Cash equivalents	2,012	2,012	-
	$ 252,327	$ 252,181	$ (146)

	June 30, 2012		
	Cost	Fair Value	Unrealized Gain(Loss)
Certificates of deposit	$ 500,000	$ 500,000	$ -
Corporate debt securities	253,400	250,024	(3,376)
Cash equivalents	1,300	1,300	-
	$ 754,700	$ 751,324	$ (3,376)

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2013 and 2012:

	2013	2012
Interest income	$ 7,553	$ 13,396
Realized gain (loss)	1,003	(305)
Unrealized loss	(146)	(3,376)
Total investment income	$ 8,410	$ 9,715

NOTE 9 - FAIR VALUE MEASUREMENTS

FASB guidance on fair value measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full-term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables present the fair value of measurements of assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy a of June 30, 2013 and 2012:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013				
Corporate debt securities	$ 250,169	$ 250,169	$ -	$ -
Total	$ 250,169	$ 250,169	$ -	$ -

NOTE 9 - FAIR VALUE MEASUREMENTS (Continued)

June 30, 2012	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate debt securities	$ 250,024	$ 250,024	$ -	$ -
Total	$ 250,024	$ 250,024	$ -	$ -

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purposes:

	2013	2012
Programs	$ 244,315	$ 180,062
Operations	277,251	249,191
	$ 521,566	$ 429,253

The temporarily restricted net assets released from restrictions during the years ended June 30, 2013 and 2012 were for program services.

NOTE 11 - RELATED PARTIES

The Academy has one affiliated organization, Challenge Foundation National Organization. Challenge Foundation National Organization is an affiliated company of the Academy. Challenge Foundation National Organization is a separately incorporated, not-for-profit organization that is not controlled by the Academy. During the years ending June 30, 2013 and 2012, the Academy received contributions from Challenge Foundation National Organization of $25,665 and $22,590, respectively.

NOTE 12 - PRIOR PERIOD ADJUSTMENT

During 2012, the Academy discovered unrecorded deferred lease incentives of $32,111 from the prior year. As a result, a prior period adjustment has been made to increase the deferred lease incentives account balance and decrease the balance in unrestricted net assets. The Academy also discovered accrued interest expense for Common School Loans from the State of Indiana was understated by $90,213 in the prior years. As a result, a prior period adjustment has been made to increase the accrued interest - Common School Loan account balance and decrease the balance in unrestricted net assets.

NOTE 13 - SUBSEQUENT EVENTS

In preparing these financial statements, the Academy has evaluated subsequent events and transactions for potential recognition or disclosure through September 5, 2014 the date the financial statements were available to be issued. Other than the following matters, the Academy is not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements.

The Academy purchased its building on October 22, 2013 for a purchase price of $4,175,000 from Challenge Foundation Properties. In order to finance the purchase, the Academy started a new loan with Huntington Bank for the full $4,175,000. The Academy pays variable monthly payments of principal plus accrued interest at an interest rate of 2.46% over LIBOR. Such monthly payments of principal and interest have averaged approximately $15,491 per month. The loan is set to mature in November 2018.

As of July 1, 2013, the Academy began an agreement with the Community Charter Network. In this agreement, the Community Charter Network will assist the Academy on achieving its academic and operational results. This agreement will last throughout the 2013-2014 school year, in which the Academy will pay the Community Charter Network twelve monthly installments of $11,417.

On March 25, 2014, the Academy changed its name to Avondale Meadows Academy. This motion was approved by the board of directors.

CHALLENGE FOUNDATION ACADEMY, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

	Program Service Expenses			Supporting Services		
	Grants	Academics	Total Program Services	Management and Totals	Fundraising	Total Expenses
Salaries and benefits	$ 824,671	$ 1,605,115	$ 2,429,786	$ 667,919	$ -	$ 3,097,705
Outside services	194,931	271,778	466,709	341,308	-	808,017
Course materials/supplies	5,430	89,756	95,186	62,688	-	157,874
Nutritional support	215,118	-	215,118	-	-	215,118
Sales and marketing	-	-	-	279	-	279
Travel and entertainment	11,469	-	11,469	43,011	-	54,480
Rent and facilities	-	468,098	468,098	116,567	-	584,665
Depreciation and amortization	-	206,674	206,674	54,938	-	261,612
Interest expense	-	58,453	58,453	18,459	-	76,912
Miscellaneous	-	-	-	26,396	-	26,396
	$1,251,619	$ 2,699,874	$ 3,951,493	$ 1,331,565	$ -	$ 5,283,058

See accompanying notes to the financial statements.

CHALLENGE FOUNDATION ACADEMY, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012

	Program Service Expenses			Supporting Services		
	Grants	Academics	Total Program Services	Management and Totals	Fundraising	Total Expenses
Salaries and benefits	$ 858,418	$ 1,538,389	$ 2,396,807	$ 318,479	$ -	$ 2,715,286
Outside services	191,979	113,064	305,043	335,693	1,355	642,091
Course materials/supplies	908	77,096	78,004	60,707	1,106	139,817
Nutritional support	211,969	-	211,969	-	-	211,969
Sales and marketing	-	4,792	4,792	-	-	4,792
Travel and entertainment	5,271	-	5,271	38,338	-	43,609
Rent and facilities	-	455,038	455,038	105,893	-	560,931
Depreciation and amortization	-	188,090	188,090	47,022	-	235,112
Interest expense	-	60,245	60,245	15,061	-	75,306
Miscellaneous	-	-	-	75,640	-	75,640
	$1,268,545	$ 2,436,714	$ 3,705,259	$ 996,833	$ 2,461	$ 4,704,553

See accompanying notes to the financial statements.

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INDEPENDENT AUDITORS' 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 Board of Directors
of Challenge Foundation Academy, Inc.
Indianapolis, Indiana:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Challenge Foundation Academy, Inc., which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 5, 2014.

Internal Control Over Financial Reporting

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

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Challenge Foundation Academy, Inc.'s financial statements are free from 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*.

Purpose of this Report

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

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
September 5, 2014

CHALLENGE FOUNDATION ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Indiana Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	2012-2013	$ 176,909
School Breakfast Program	10.553	2012-2013	40,791
Summer Food Service Program for Children	10.559	2012-2013	14,471
Total for Child Nutrition Cluster			232,171
Total for U.S. Department of Agriculture			232,171
U.S. DEPARTMENT OF EDUCATION			
Passed through the Indiana Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Education Direct Programs	84.010	2012-2013	351,827
		2011-2012	60,520
Total for Program			412,347
Charter Schools	84.282**	2012-2013	190,390
		2011-2012	144,054
Total for Program			334,444
Special Education Cluster (IDEA)			
Special Education Grants to States	84.027	2012-2013	60,135
		2011-2012	28,002
Total for Program			88,137
School Improvement Grants	84.377	2012-2013	467,689
		2011-2012	179,339
Total for Program			647,028
ARRA-Education Job Fund*	84.410	2012-2013	1,765
Improving Teacher Quality State Grants	84.367	2012-2013	34,932
		2011-2012	4,008
Total for Program			38,940
Teacher Incentive Fund	84.374**	2012-2013	83,888
		2011-2012	151,839
Total for Program			235,727
Total U.S. Department of Education			1,758,388
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,990,559

** Grant relates to the American Recovery and Reinvestment Act of 2009*

*** Indicates a major program*

See accompanying notes to the Schedule of Expenditures of Federal Awards.

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal awards include the federal grant activity of Challenge Foundation Academy, Inc. and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the 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.

NOTE 2 – OTHER

There were no amounts provided to sub-recipients; there was no non-cash assistance; there was no federal insurance in effect; and there were no loans or loan guarantees with continuing compliance requirements.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
of Challenge Foundation Academy, Inc.
Indianapolis, Indiana:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Challenge Foundation Academy, Inc.'s compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
September 5, 2014

CHALLENGE FOUNDATION ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- Type of auditors' report issued: **unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(s) identified that are not considered to be material weaknesses? ____ Yes __X__ No

Compliance:

- Noncompliance material to financial statements noted? ____ Yes __X__ No

OMB Circular A-133:

Internal control over major programs:

- Material weakness(es) identified? ____ Yes __X__ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ____ Yes __X__ No

Compliance with requirements applicable to each major program:

- Identification of major programs: **84.282 Charter School Grant**
  84.374 Teacher Incentive Fund

- Dollar threshold used to distinguish between type A type B programs: **$ 300,000**
- Auditee qualified as low-risk auditee? __X__ Yes ____ No
- Type of auditors' report issued on compliance for major programs: **unmodified**
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ____ Yes __X__ No

SECTION II – FINANCIAL STATEMENTS FINDINGS

- *None*

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- *None*

CHALLENGE FOUNDATION ACADEMY, INC.
OTHER REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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

Supplemental Audit Report of Challenge Foundation Academy, Inc.