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STATE OF INDIANA

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STATE BOARD OF ACCOUNTS
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March 14, 2013

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, 2011 to June 30, 2012. 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 Challenge Foundation Academy, Inc., as of June 30, 2012, 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.

State Board of Accounts

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Challenge Foundation Academy, Inc.

Financial Statements
With Supplemental Information
June 30, 2012

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8555 N. River Rd., Suite 300
Indianapolis, Indiana 46240

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Challenge Foundation Academy, Inc. (an Indiana non-profit organization) as of June 30, 2012, and the related statement of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Challenge Foundation Academy, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2013, on our consideration of Challenge Foundation Academy, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the foregoing table of contents 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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organization, and State Board of Audit Reports* and is also 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 basic 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. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
January 14, 2013

CHALLENGE FOUNDATION ACADEMY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

CURRENT ASSETS:	
Cash	$ 1,425,931
Grants receivable	1,716,445
Prepaid expenses	36,770
Total Current Assets	3,179,146
PROPERTY AND EQUIPMENT:	
Furniture and equipment	560,788
Computer hardware	245,608
Computer software	68,867
Leasehold improvements	1,145,491
Books and educational materials	633,263
Less: accumulated depreciation	(1,031,305)
Total Property and Equipment, net	1,622,712
OTHER ASSETS:	
Investments	751,324
	$ 5,553,182

See accompanying notes to financial statements.

CHALLENGE FOUNDATION ACADEMY, INC.

STATEMENT OF FINANCIAL POSITION
(continued)
JUNE 30, 2012

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 96,464
Loan payable	450,000
Accrued payroll	87,111
Total Current Liabilities	633,575
LONG TERM LIABILITIES:	
Deferred lease incentives	24,248
Accrued interest - Common School Loans	151,943
Common School Loan, net of current portion	1,422,450
Total Long Term Liabilities	1,598,641
Total Liabilities	2,232,216
NET ASSETS:	
Unrestricted	2,891,713
Temporary restricted	429,253
Total Net Assets	3,320,966
	$ 5,553,182

See accompanying notes to 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	4,557,727	74,458	4,632,185
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	3,645,014	-	3,645,014
Supporting services:			
General and administrative	1,057,078	-	1,057,078
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.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 227,580
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	235,112
Unrealized loss on investments	(2,132)
(Increase) decrease in:	
Grants receivable	(153,101)
Prepaid expense	(25,371)
Increase (decrease) in:	
Accounts payable	(62,574)
Accrued payroll	81,862
Accrued interest	151,943
Deferred Lease Incentives	24,248
NET CASH PROVIDED BY OPERATING ACTIVITIES	477,567
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(248,553)
NET CASH USED BY INVESTING ACTIVITIES	(248,553)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Long-term debt repayments	(25,000)
NET CASH USED BY FINANCING ACTIVITIES	(25,000)
NET INCREASE IN CASH	204,014
CASH AND CASH EQUIVALENTS - beginning of year	1,221,917
CASH AND CASH EQUIVALENTS - end of year	$ 1,425,931

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 September 2002. 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.

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Academy, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

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. As of June 30, 2012, the Academy had $429,253 of temporarily restricted net assets.
>
> ***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, 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 investments purchased with a maturity of three months or less to be cash equivalents.

Grants Receivable - Grants receivable represent the uncollected portion of funds from grants awarded to the Academy.

Grant receivables are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 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.

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 $235,112 for the year ended June 30, 2012.

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 year ended June 30, 2012.

Contributed Materials and Services - Contributed services are recognized as contributions in accordance with Contributions Disclosure Topic of FASB ASC, 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 $40,000 of in-kind contributions during June 30, 2012. At June 30, 2012, in-kind contributions consisted of nursing services provided at no charge.

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 of FASB ASC. These services include volunteering at events, picking up donations, and various clerical work.

Revenue Recognition - The Academy reports grants of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the grant is received, the Academy reports the support as unrestricted.

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 year ended June 30, 2012 was $547.

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.

The Academy 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 Academy is subject to examination by taxing authorities. The Academy's tax returns for years subsequent to fiscal year 2008 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 Academy 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 and limits the amount of credit exposure to any one financial institution. There was $1,175,931 in excess of FDIC insured limits at June 30, 2012.

Concentrations of credit risk with respect to grants receivable are limited due to the Academy'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 62% of the Academy's support and revenue in June 30, 2012. 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.

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 - 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 year ended June 30, 2012, $264,000 was expensed for educational facility rent.

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 will expire 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 year ended June 30, 2012, $34,421 was expensed.

The future minimum rental payments required under the operating leases for the years subsequent to June 30, 2012 are as follows:

Year	Amount
2013	$ 311,921
2014	300,853
2015	291,493
2016	265,447
2017 and thereafter	2,662,000
	$ 3,831,714

NOTE 4 - PENSION PLAN

403(b) Plan

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

Indiana Public Retirement System

Plan Description

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 Academy contributes to INPRS, an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under Internal Revenue Code Section 401(a) and is tax exempt.

INPRS is a contributory defined benefit plan that covers substantially all Academy employees. INPRS retirement benefits vest after 10 years of service. Senate Bill 74 enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the pension benefit at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earning within the 10 years preceding retirement.

Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

Participants have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above.

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.

Funding Policy and Annual Pension Cost

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

The Academy 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 Academy 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.

NOTE 5 - LONG-TERM DEBT ACTIVITY

Long-term debt included the following at June 30, 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

(a) The State of Indiana advanced funds from the Common School Fund to assist the Academy during its initial years of operations. Under the terms of the agreements with the State of Indiana, the Academy agreed to repay these loans through deductions from the Academy's share of State Tuition Support. In 2011, the Indiana Common School Fund granted a second moratorium on loan payments. Payments will commence on July 1, 2013.

At June 30, 2012, the debt service requirements of loans payable were as follows:

Year Ending	**Total Principal**	**Total Interest**	**Total Debt Service**
June 30, 2014	$ 75,175	$ 60,528	$ 135,703
June 30, 2015	75,175	53,139	128,314
June 30, 2016	75,175	50,132	125,307
June 30, 2017	75,175	47,125	122,300
June 30, 2018-and thereafter	1,121,750	572,396	1,694,146
	$ 1,422,450	$ 783,320	$ 2,205,770

Total interest paid during the year ended June 30, 2012 was $13,576.

NOTE 6 - INVESTMENTS

Investments are stated at fair market value and consist of a certificate of deposit and marketable securities. Fair market values of investments at June 30, 2012 are as follows:

	Cost	Fair Market 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 year ended June 30, 2012:

Interest Income	13,396
Realized Loss	(305)
Unrealized loss	$ (3,376)
Total investment income	$ 9,715

NOTE 7 - 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012:

		Fair Value Measurements Using		
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)
Certificate of deposit	$ 500,000	$ 500,000	$ -	$ -
Corporate debt securities	250,024	250,024	-	-
Cash equivalents	1,300	1,300	-	-
Total	$ 751,324	$ 751,324	$ -	$ -

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

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

Perkins Hunter Foundation	$ 60,000
Meadows Community Foundation	2,500
Chicago Foundation	11,959
Knall Teacher Endowment	249,192
Early Intervention	5,603
Challenge Foundation Donation	100,000
	$ 429,254

During 2012, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Early Intervention	$ 11,833
Challenge Core Know 2010	7,577
	$ 19,410

NOTE 9 - 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 year ended June 30, 2012, the Academy received contributions from Challenge Foundation National Organization of $22,590.

NOTE 10 – ASSIGNMENT OF INVESTMENTS

In order to procure a loan, the Academy has assigned certain investments as collateral to secure its obligations under the term note. These investments consist of a certificate of deposit.

NOTE 11 - 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 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 12 - SUBSEQUENT EVENT

In preparing these financial statements, the Academy has evaluated subsequent events and transactions for potential recognition or disclosure through January 14, 2013, the date the financial statements were available to be issued.

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	-	-	-	75,306	-	75,306
Miscellaneous	-	-	-	75,640	-	75,640
Total direct program expenses	$ 1,268,545	$ 2,376,469	$ 3,645,014	$ 1,057,078	$ 2,461	$ 4,704,553

See accompanying notes to the financial statements.

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Indianapolis, Indiana 46240

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

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 the financial statements of Challenge Foundation Academy, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated January 14, 2013. 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

Management of Challenge Foundation Academy, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Challenge Foundation Academy, Inc.'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 Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 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 statements 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Challenge Foundation Academy, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclose 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 Challenge Foundation Academy, Inc.'s Board of Directors, management, others within the Academy, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
January 14, 2013

CHALLENGE FOUNDATION ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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			
School Breakfast Program	10.553	2011-2012	$ 42,036
National School Lunch Program	10.555	2011-2012	194,259
Summer Food Service Program for Children	10.559	2011-2012	22,428
Total for Child Nutrition Cluster			258,723
Total for U.S. Department of Agriculture			258,723
U.S. DEPARTMENT OF EDUCATION			
Passed through the Indiana Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	2010-2011	32,568
		2011-2012	390,941
Total for Program			423,509
Special Education Cluster (IDEA)			
Special Education Grants to States	84.027	2010-2011	14,960
		2011-2012	58,384
Total for Program			73,344
Education Technology State Grants Cluster			
ARRA - Education Technology State Grants*	84.386	2009-2010	1,732
School Improvement Grants	84.377	2010-2011	30,343
		2011-2012	526,377
Total for Program			556,720
ARRA-Education Job Fund*	84.410	2010-2011	1,258
Improving Teacher Quality State Grants	84.367	2010-2011	17,118
		2011-2012	49,515
Total for Program			66,633
Teacher Incentive Fund	84.374	2011-2012	80,871
Total U.S. Department of Education			1,204,067
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,462,790

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

See accompanying Independent Auditors' Report
See accompanying notes to the financial statements.

CHALLENGE FOUNDATION ACADEMY, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited Challenge Foundation Academy, Inc.'s compliance with types of compliance requirements described in the *U.S Office of Management and Budget (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, 2012. Challenge Foundation Academy, Inc.'s major federal programs are identified in the summary of auditors' 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 Challenge Foundation Academy, Inc.'s management. Our responsibility is to express an opinion on Challenge Foundation Academy, Inc.'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 audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit 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. Our audit does not provide a legal determination on Challenge Foundation Academy, Inc.'s compliance with those requirements.

In our opinion, Challenge Foundation Academy, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Challenge Foundation Academy, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Challenge Foundation Academy, Inc.'s internal control over compliance with the 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 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* 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.

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 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 Challenge Foundation Academy, Inc.'s Board of Directors, management, others within the Academy, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
January 14, 2013

CHALLENGE FOUNDATION ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements:

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

Government Auditing Statements:

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: **84.010 Title I, Part A Cluster,**
  84.377 School Improvement Grants

- Dollar threshold used to distinguish between type A type B programs: **$ 300,000**
- Auditee qualified as low-risk auditee? ____ Yes __X__ No
- Type of auditors' 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? ____ 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, 2012

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.