

Hope Academy of
West Michigan



Year Ended
June 30, 2016

Financial
Statements

HOPE ACADEMY OF WEST MICHIGAN

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INDEPENDENT AUDITORS' REPORT

October 24, 2016

Board of Directors
Hope Academy of West Michigan
Grand Rapids, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of *Hope Academy of West Michigan* (the "Academy"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

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.

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund, and the aggregate remaining fund information of Hope Academy of West Michigan as of June 30, 2016, and the changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Restatement of Beginning Fund Balance/Net Position of Governmental Activities

As described in Note 12 to the financial statements, the beginning fund balance of the food service special revenue fund/net position of governmental activities was restated (i.e., decreased) by \$122,020 to eliminate food service activity administered by a third-party. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic 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 basic 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 basic financial statements or to the basic 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 basic 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 October 24, 2016, on our consideration of the Academy'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

HOPE ACADEMY OF WEST MICHIGAN

Management's Discussion and Analysis

This section of the annual financial report presents our discussion and analysis of Hope Academy of West Michigan's (the "Academy's") financial performance during the year ended June 30, 2016. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

Key metrics and financial highlights of the Academy for the year ended June 30, 2016 are as follows:

Total net position	\$ 706,023
Unrestricted net position	497,246
Change in net position	(16,102)
Fund balances, governmental funds	497,246
Change in fund balances, governmental funds	58,118
Fund balance, general fund	
(as percentage of general fund expenditures)	13.9%
Unassigned fund balance, general fund	
(as percentage of general fund expenditures)	12.1%

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including the management's discussion and analysis and budgetary schedules.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Academy's assets and liabilities, with the difference being net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The *statement of activities* presents information showing how the Academy's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the Academy that are principally supported by intergovernmental revenues (*governmental activities*). The activities of the Academy include instruction, supporting services, and food services. The Academy had no business-type activities as of and for the year ended June 30, 2016.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

HOPE ACADEMY OF WEST MICHIGAN

Management's Discussion and Analysis

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Academy's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Academy's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Academy maintains two governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other governmental fund is presented in a separate column. Individual fund data for the nonmajor governmental fund is provided as supplementary information elsewhere in this report.

The Academy adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Fiduciary fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Academy's own programs.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis. The individual fund schedule referred to earlier in connection with the nonmajor governmental fund is presented immediately following the notes.

Reporting the Academy as a Whole - Government-wide Financial Statements

The government-wide statements report information about the governmental activities of the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Academy's assets and liabilities, both short- and long-term, regardless of whether they are "currently available."

HOPE ACADEMY OF WEST MICHIGAN

Management's Discussion and Analysis

The statement of net position provides the perspective of the Academy as a whole. The following table shows the condensed statement of net position compared to prior year.

	Net Position	
	2016	2015
Assets		
Current and other assets	\$ 805,590	\$ 1,013,989
Capital assets, net	208,777	282,997
Total assets	<u>1,014,367</u>	<u>1,296,986</u>
Liabilities		
Current and other liabilities	<u>308,344</u>	<u>452,841</u>
Net position		
Investment in capital assets	208,777	282,997
Restricted	-	122,020
Unrestricted	497,246	439,128
Total net position	<u>\$ 706,023</u>	<u>\$ 844,145</u>

The Academy's total net position was \$706,023 at June 30, 2016. The investment in capital assets was \$208,777. The remaining net position at June 30, 2016 of \$497,246 is unrestricted.

HOPE ACADEMY OF WEST MICHIGAN

Management's Discussion and Analysis

The table below presents the revenues and expenses for the current fiscal year compared to prior year for the Academy as a whole.

	Change in Net Position	
	2016	2015
Revenues		
Program revenues:		
Charges for services	\$ -	\$ 233,195
Operating grants and contributions	1,149,130	735,279
General revenues:		
Unrestricted school aid	2,431,952	2,613,599
Unrestricted donations	61,478	39,007
Unrestricted interest	2,399	1,686
Total revenues	<u>3,644,959</u>	<u>3,622,766</u>
Expenses		
Instruction	1,871,566	1,993,297
Supporting services	1,699,664	1,728,972
Food service	1,115	198,559
Depreciation - unallocated	88,716	95,001
Total expenses	<u>3,661,061</u>	<u>4,015,829</u>
Change in net position	(16,102)	(393,063)
Net position, beginning of year	844,145	1,237,208
Restatement for food service activity	(122,020)	-
Net position, end of year	<u>\$ 706,023</u>	<u>\$ 844,145</u>

As reported in the statement of activities, the cost of the Academy's governmental activities in 2016 was \$3,661,061. Certain activities were partially or fully funded by other governments and organizations with operating grants and contributions amounting to \$1,149,130. The Academy paid for the remaining public benefit portion of its governmental activities with \$2,495,829 in unrestricted state aid, donations, and interest.

The Academy experienced a decrease in net position of \$16,102 in 2016. Details of the primary reasons for the change are described below.

As discussed above, the net cost shows the financial burden that was placed on the Academy by each of these functions. Since unrestricted school aid constitutes the vast majority of Academy operating revenue sources, the Board of Directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

The \$16,120 decrease in net position resulted mainly from increased academic supports through additional staff and training to improve student achievement.

HOPE ACADEMY OF WEST MICHIGAN

Management's Discussion and Analysis

The Academy's General Fund

As noted earlier, reviewing the general fund helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

At June 30, 2016, the general fund reported a total fund balance of \$497,246, an increase of \$58,118 from the prior year, as compared to the final budgeted change in fund balance amount of \$11,846.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A statement showing the Academy's original and amended budgets compared with amounts actually paid and received is provided as part of the basic financial statements.

Revenues. The original budget for State revenue was increased by approximately \$136,000 to account for changes in the awarded State Aid allocations. The budget for interdistrict revenue was also increased by approximately \$69,000 due to accounting for additional revenue received under a cooperative education agreement with Berrien Springs.

Expenditures. The final amended budget for general fund expenditures was increased from the original budget by approximately \$309,000 (9.1%). This was largely the result of an increase in basic instructional (approximately \$93,000), added needs instructional (approximately \$30,000), and instructional staff support services (approximately \$171,000) related to a continuing emphasis on improving student achievement. The funds were spent on additional staff and training on academic methodology to improve student achievement.

Expenditures were well under budget in most functional areas. This was not a direct result of any specific circumstances, but rather an Academy practice of using a conservative approach to expenditure budgeting using prior years' history combined with current year expenditure activities. The actual amount of pupil transportation support services exceeded budget by approximately \$13,000. This was due to a mid-year change in transportation provider with higher expenses than anticipated.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2016, the Academy had approximately \$199,000 invested in capital assets, net of accumulated depreciation.

	Capital Assets	
	2016	2015
Furniture and equipment	\$ 561,484	\$ 546,988
Accumulated depreciation	(352,707)	(263,991)
Total capital assets, net	<u>\$ 208,777</u>	<u>\$ 282,997</u>

Additional information on the Academy's capital assets can be found in Note 6 to the financial statements.

HOPE ACADEMY OF WEST MICHIGAN

Management's Discussion and Analysis

Long-term Debt

The Academy had no long-term debt outstanding at June 30, 2016 or 2015.

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the Academy was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The Academy anticipates an increase in the enrollment compared to the previous year.
- The Academy remains on the State priority list. The students have made significant academic growth, however, increased expenditures will be required to continue the academic growth.
- Per pupil State aid was increased but is not keeping pace with wages and benefit costs.

Contacting the Academy's Financial Management

This financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the Academy. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Integrity Educational Services, 3300 36th Street SE, Grand Rapids, MI, 49512.

In addition, the Academy's budget for fiscal year 2017 is presented on its website, which is located at www.hopeacademywm.org.

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BASIC FINANCIAL STATEMENTS

HOPE ACADEMY OF WEST MICHIGAN

Statement of Net Position

June 30, 2016

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 124,154
Receivables	617,855
Prepays	63,581
Capital assets being depreciated, net	<u>208,777</u>
Total assets	<u>1,014,367</u>
Liabilities	
Accounts payable and accrued liabilities	288,679
Unearned revenue	<u>19,665</u>
Total liabilities	<u>308,344</u>
Net position	
Investment in capital assets	208,777
Unrestricted	<u>497,246</u>
Total net position	<u><u>\$ 706,023</u></u>

The accompanying notes are an integral part of these basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN

Statement of Activities

For the Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues	Net
		Operating Grants and Contributions	(Expenses) Revenues
Governmental activities			
Instruction	\$ 1,871,566	\$ 827,883	\$ (1,043,683)
Supporting services	1,699,664	320,132	(1,379,532)
Food service	1,115	1,115	-
Depreciation - unallocated	88,716	-	(88,716)
Total governmental activities	<u>\$ 3,661,061</u>	<u>\$ 1,149,130</u>	<u>\$ (2,511,931)</u>
General revenues			
Unrestricted school aid			2,431,952
Unrestricted donations			61,478
Unrestricted interest			<u>2,399</u>
Total general revenues			<u>2,495,829</u>
Change in net position			(16,102)
Net position, beginning of year, as restated			<u>722,125</u>
Net position, end of year			<u>\$ 706,023</u>

The accompanying notes are an integral part of these basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN

Balance Sheet

Governmental Funds

June 30, 2016

	General Fund	Nonmajor Fund - Food Service	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 124,154	\$ -	\$ 124,154
Accounts receivable	302	-	302
Due from other governments	616,438	1,115	617,553
Due from other funds	1,115	-	1,115
Prepays	63,581	-	63,581
Total assets	\$ 805,590	\$ 1,115	\$ 806,705
Liabilities			
Accounts payable	\$ 31,320	\$ -	\$ 31,320
Accrued liabilities	244,136	-	244,136
Due to other governments	13,223	-	13,223
Due to other funds	-	1,115	1,115
Unearned revenue	19,665	-	19,665
Total liabilities	308,344	1,115	309,459
Fund balances			
Nonspendable	63,581	-	63,581
Unassigned	433,665	-	433,665
Total fund balances	497,246	-	497,246
Total liabilities and fund balances	\$ 805,590	\$ 1,115	\$ 806,705

The accompanying notes are an integral part of these basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2016

Fund balances - total governmental funds \$ 497,246

Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Capital assets being depreciated, net 208,777

Net position of governmental activities \$ 706,023

The accompanying notes are an integral part of these basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2016

	General Fund	Nonmajor Fund - Food Service	Total Governmental Funds
Revenues			
Local sources	\$ 63,877	\$ -	\$ 63,877
State sources	2,990,691	-	2,990,691
Federal sources	284,056	1,115	285,171
Interdistrict sources	305,220	-	305,220
Total revenues	3,643,844	1,115	3,644,959
Expenditures			
Instruction	1,871,566	-	1,871,566
Supporting services	1,714,160	-	1,714,160
Food service	-	1,115	1,115
Total expenditures	3,585,726	1,115	3,586,841
Net changes in fund balances	58,118	-	58,118
Fund balances, beginning of year, as restated	439,128	-	439,128
Fund balances, end of year	\$ 497,246	\$ -	\$ 497,246

The accompanying notes are an integral part of these basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds \$ 58,118

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased/constructed	14,496
Depreciation expense	<u>(88,716)</u>

Change in net position of governmental activities	<u>\$ (16,102)</u>
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The accompanying notes are an integral part of these basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 10,300	\$ 67,491	\$ 63,877	\$ (3,614)
State sources	2,862,212	2,998,338	2,990,691	(7,647)
Federal sources	319,097	376,637	284,056	(92,581)
Interdistrict sources	220,369	289,131	305,220	16,089
Total revenues	3,411,978	3,731,597	3,643,844	(87,753)
Expenditures				
Instruction:				
Basic	1,626,031	1,719,390	1,702,744	(16,646)
Added needs	186,010	216,238	168,822	(47,416)
Total instruction	1,812,041	1,935,628	1,871,566	(64,062)
Supporting services:				
Pupil services	212,114	184,047	174,783	(9,264)
Instructional staff	61,653	232,212	207,403	(24,809)
General administration	207,743	164,168	149,546	(14,622)
School administration	303,470	300,206	291,771	(8,435)
Business services	190,721	229,731	216,915	(12,816)
Operation and maintenance	515,696	543,646	540,742	(2,904)
Pupil transportation services	23,511	21,765	35,186	13,421
Central services	57,250	82,699	73,345	(9,354)
Other supporting services	26,244	25,649	24,469	(1,180)
Total supporting services	1,598,402	1,784,123	1,714,160	(69,963)
Total expenditures	3,410,443	3,719,751	3,585,726	(134,025)
Net changes in fund balances	1,535	11,846	58,118	46,272
Fund balances, beginning of year	439,128	439,128	439,128	-
Fund balances, end of year	\$ 440,663	\$ 450,974	\$ 497,246	\$ 46,272

The accompanying notes are an integral part of these basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN

Statement of Fiduciary Assets and Liabilities

Agency Fund
June 30, 2016

Assets

Cash and cash equivalents	<u>\$ 7,697</u>
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Liabilities

Due to student and other groups	<u>\$ 7,697</u>
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The accompanying notes are an integral part of these basic financial statements.

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NOTES TO FINANCIAL STATEMENTS

HOPE ACADEMY OF WEST MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of Hope Academy of West Michigan (the "Academy") consistently applied in the preparation of the accompanying financial statements, is as follows:

The Reporting Entity

The Academy was formed as a public school academy pursuant to Public Act 416 of 1996. The Academy then entered into a contract with Ferris State University to charter the Academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive State school aid funds pursuant to the State constitution. The Ferris State University Board of Education is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Ferris State University 3% of its discretionary payment and PSA protected State aid funding as administrative fees. The total administrative fees for the year ended June 30, 2016 were \$73,209.

The Academy is governed by a Board of Directors consisting of seven members approved by Ferris State University.

The Board of Directors of the Academy has entered into a services agreement (the "Agreement") with Integrity Educational Services ("IES") which requires IES to provide management and operational services (including the educational program, human resources, administration, operations and maintenance and accounting) to the Academy.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Academy. Based on application of the criteria, the Academy does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Academy had no business-type activities during the year ended June 30, 2016.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted State aid and other items not properly included among program revenues are reported instead as *general revenues*.

HOPE ACADEMY OF WEST MICHIGAN

Notes to Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major governmental fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy not accounted for and reported in another fund.

Additionally, the government reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Academy maintains one special revenue fund to account for food service operations.

Fiduciary funds are used to account for assets held by the Academy in a trustee capacity or as agent. The Academy's only fiduciary fund is the Agency Fund, which is used to account for assets held by the Academy as an agent for student activities and other school-related organizations.

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

HOPE ACADEMY OF WEST MICHIGAN

Notes to Financial Statements

Investments

Michigan law authorizes the Academy to deposit and invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

At June 30, 2016, the Academy had no investments.

Receivables

The Academy follows the practice of recording revenues that have been earned but not yet received as receivables. Receivables consist primarily of state aid payments from the State of Michigan and federal grant funds earned but not yet collected. No amounts have been identified as potentially uncollectible by management, and therefore, no amount has been recorded as a provision for bad debts.

Prepays

Payments to vendors for services that will benefit periods beyond a fund's fiscal year-end are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

HOPE ACADEMY OF WEST MICHIGAN

Notes to Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the Academy are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Furniture and equipment	3-5

Accrued Contracted Staffing Costs

A liability is recorded at June 30 for amounts owed to the Academy's contracted staffing company, for those amounts owed by the staffing company to teachers and other staff members who do not work during the summer but are contracted to have their salaries paid over a twelve-month period. This has the effect of properly charging these contracted staffing costs to expenditures in the fiscal year in which the services are received, even though they are not paid until July and August of the following fiscal year.

The Academy has also recorded accrued contracted staffing costs for amounts to be reimbursed to the staffing company after June 30, 2016, for the post-year-end cost to the staffing company of funding FICA, as well as retirement plan funding, related to the services of Academy staff during the school year and fiscal year ended June 30, 2016.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Directors. A formal resolution of the Board of Directors is required to establish, modify, or rescind a fund balance commitment. The authority to assign fund balance has not been delegated by the Board of Directors. Unassigned fund balance is the residual classification for the general fund.

When the Academy incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Academy's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

State of Michigan School Aid

For the fiscal year ended June 30, 2016, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2016, the foundation allowance was based on the average pupil membership counts taken in February and October of 2015.

HOPE ACADEMY OF WEST MICHIGAN

Notes to Financial Statements

The State portion of the foundation allowance is provided primarily by a State education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The Academy has no local portion of the foundation allowance. The State revenues are recognized during the foundation period (currently the State's fiscal year) and is funded through payments from October - August each fiscal year.

The Academy also receives revenues from the State to administer certain categorical education programs. State rules require that revenues earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

The Academy reports State of Michigan school aid in the fiscal year in which the Academy is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding represented approximately 82% of the Academy's general fund revenue during the 2016 fiscal year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. ACCOUNTABILITY AND BUDGETARY COMPLIANCE

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general fund and special revenue funds as required by the State of Michigan Uniform Budgeting and Accounting Act, as amended by Public Act 621 of 1978 ("Public Act 621"). The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The contracted Chief Financial Officer submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. A public hearing is conducted to obtain public comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. Adoption and amendments of all budgets used by the School are governed by Public Act 621, which was followed for the year ended June 30, 2016. Expenditures may not exceed appropriations at the function code level. The appropriations resolutions are based on the projected expenditures budget developed by the contracted financial service team in collaboration with school leadership and Board of Directors. Any revisions that alter the total expenditures of any fund must be approved by the Academy Board of Directors.

HOPE ACADEMY OF WEST MICHIGAN

Notes to Financial Statements

The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. Both the original and final amended budgets are presented in the accompanying financial statements.

Excess of Expenditures over Appropriations in Budgetary Funds

During June 30, 2016, the Academy incurred expenditures in excess of the amount appropriated as follows:

	Final Budget	Actual	Variance
General Fund			
Supporting services:			
Pupil transportation services	\$ 21,765	\$ 35,186	\$ 13,421

3. CASH AND CASH EQUIVALENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 124,154	\$ 7,697	\$ 131,851

Cash and cash equivalents are comprised of the following at year-end:

Checking and savings accounts	<u>\$ 131,851</u>
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Cash and cash equivalents are comprised of deposits in two (2) financial institutions located in Michigan. All accounts are in the name of the Academy.

Custodial Credit Risk of Bank Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. At June 30, 2016, the Academy had a balance of \$178,230 in bank deposits (checking and savings accounts), none of which was exposed to custodial credit risk.

HOPE ACADEMY OF WEST MICHIGAN

Notes to Financial Statements

4. RECEIVABLES AND PAYABLES

Receivables in the government-wide financial statements at June 30, 2016 are as follows:

	Governmental Activities
State aid	\$ 496,929
Federal grants	68,397
Interdistrict revenue	52,227
Miscellaneous local	302
Total	\$ 617,855

Payables in the government-wide financial statements at June 30, 2016 are as follows:

	Governmental Activities
Accounts	\$ 31,320
Accrued contracted staffing costs	244,136
Due to other governments	13,223
Total	\$ 288,679

5. INTERNAL BALANCES AND INTERFUND TRANSFERS

At June 30, 2016, interfund receivables and payables consisted of the following:

	Due from Other Funds	Due to Other Funds
General fund	\$ 1,115	\$ -
Nonmajor governmental funds	-	1,115
	<u>\$ 1,115</u>	<u>\$ 1,115</u>

The Academy reports interfund balances between its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

HOPE ACADEMY OF WEST MICHIGAN

Notes to Financial Statements

6. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets being depreciated:					
Furniture and equipment	\$ 546,988	\$ 14,496	\$ -	\$ -	\$ 561,484
Less accumulated depreciation for:					
Furniture and equipment	(263,991)	(88,716)	-	-	(352,707)
Governmental activities capital assets, net	<u>\$ 282,997</u>	<u>\$ (74,220)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 208,777</u>

Depreciation expense for the fiscal year ended June 30, 2016 amounted to \$88,716. The Academy determined that it was impractical to allocate depreciation to the various functions as the assets serve multiple functions.

7. SHORT-TERM DEBT/SUBSEQUENT EVENT

The Academy borrowed \$300,000 on a business loan during the year. The outstanding borrowing at June 30, 2016 was \$0. The effective interest rate at June 30, 2016 was 1.99%. Total interest expense paid on this loan for the year ended June 30, 2016 was \$3,571.

	Beginning Balance	Additions	Deletions	Ending Balance
Note payable	\$ -	\$ 300,000	\$ (300,000)	\$ -

On September 9, 2016, the District received proceeds of \$300,000 in State of Michigan school aid anticipation notes due on September 1, 2017. The notes bear interest at 1.99%.

8. OPERATING LEASES

On June 18, 2015, the Academy entered into a one year lease agreement with Wedgwood Christian Services for the rental of a school building. This agreement requires advance monthly payments of \$35,417. This fee will be reviewed quarterly and may be reduced as mutually agreed upon (no less than \$198,000). Annual rent paid for the year ended June 30, 2016 totaled \$380,567. This agreement was renewed on May 19, 2016 through June 30, 2017. The amount due during 2017 under this agreement is \$425,000.

9. RETIREMENT PLAN

All leased employees of the Academy are eligible to participate in a retirement plan established by IES. The Academy reimburses to IES a 50% match up to 6% of each employee's salary to a qualified 401(k) plan. Academy contributions for the year ended June 30, 2016 totaled \$36,812.

HOPE ACADEMY OF WEST MICHIGAN

■ Notes to Financial Statements

10. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employees injuries (workers' compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

11. OUTSOURCED FOOD SERVICE ACTIVITY

The Academy has contracted with Grand Rapids Public Schools ("GRPS") to provide food services for its students. Under this agreement, GRPS is the direct recipient of most grants and charges for services and has discretionary control over the spending of the funds. As such, any activity is included in Grand Rapids Public Schools' financial statements and therefore has been excluded from this report. If the Academy were to terminate the agreement with GRPS, it would receive a distribution of the balance of the fund maintained by GRPS. As of June 30, 2016, the food service fund balance held by GRPS on behalf of the Academy was \$146,918.

12. RESTATEMENT

The Academy outsources its food service activity to Grand Rapids Public Schools ("GRPS"). The Academy does not have any discretionary control over the funding and charges for service which are received directly by GRPS. Based on guidance provided by the Michigan Department of Education, it has been determined this activity should be excluded from the Academy's general ledger. As a result of this change, beginning fund balance of the nonmajor governmental fund and beginning net position of governmental activities has been reduced by \$122,020.



SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUND

HOPE ACADEMY OF WEST MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Food Service Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Federal sources	\$ -	\$ -	\$ 1,115	\$ 1,115
Interdistrict sources	175,000	216,000	-	(216,000)
Total revenues	175,000	216,000	1,115	(214,885)
Expenditures				
Food service	175,000	231,000	1,115	(229,885)
Net changes in fund balances	-	(15,000)	-	15,000
Fund balances, beginning of year, as restated	122,020	122,020	-	(122,020)
Fund balances, end of year	\$ 122,020	\$ 107,020	\$ -	\$ (107,020)

AGENCY FUND

HOPE ACADEMY OF WEST MICHIGAN

Statement of Changes in Fiduciary Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2016

	Beginning Balance	Additions	Deletions	Ending Balance
Assets				
Cash and cash equivalents	<u>\$ 4,425</u>	<u>\$ 7,104</u>	<u>\$ 3,832</u>	<u>\$ 7,697</u>
Liabilities				
Due to student and other groups	<u>\$ 4,425</u>	<u>\$ 7,104</u>	<u>\$ 3,832</u>	<u>\$ 7,697</u>

INTERNAL CONTROL AND COMPLIANCE

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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*

October 24, 2016

Board of Directors
Hope Academy of West Michigan
Grand Rapids, Michigan

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 the governmental activities, the general fund, and the aggregate remaining fund information of the *Hope Academy of West Michigan* (the "Academy"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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 the Academy'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 Academy'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehman Loham LLC