

**HOPE ACADEMY OF
WEST MICHIGAN
Kent County, Michigan**

Annual Financial Report

For the year ended June 30, 2015

HOPE ACADEMY OF WEST MICHIGAN
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For the year ended June 30, 2015

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

October 22, 2015

The 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 major fund and the aggregate remaining fund information of Hope Academy of West Michigan (the "Academy") as of and for the year ended June 30, 2015, 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.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 major fund and the aggregate remaining fund information of Hope Academy of West Michigan as of June 30, 2015, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 10 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 Hope Academy of West Michigan's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 individual fund financial statements are 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 22, 2015 on our consideration of Hope Academy of West Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hope Academy of West Michigan's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Hungerford Nichols".

Certified Public Accountants

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MANAGEMENT'S DISCUSSION AND ANALYSIS

HOPE ACADEMY OF WEST MICHIGAN
Management's Discussion and Analysis
June 30, 2015

As management of Hope Academy of West Michigan, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with Hope Academy of West Michigan's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *academy-wide financial statements* that provide both short-term and long-term information about Hope Academy of West Michigan's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of Hope Academy of West Michigan, reporting operations in more detail than the academy-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

Academy-wide Statements

The academy-wide financial statements report information about Hope Academy of West Michigan as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of Hope Academy of West Michigan's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two academy-wide statements report Hope Academy of West Michigan's net position, and how they have changed. Net position - the difference between assets and liabilities - is one way to measure Hope Academy of West Michigan's financial health or position.

- Over time, increases or decreases in Hope Academy of West Michigan's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess Hope Academy of West Michigan's overall health, one should consider additional non-financial factors such as changes in pupil membership and the condition of the Academy's building and equipment.

In the academy-wide financial statements, Hope Academy of West Michigan's activities are presented as follows:

- *Governmental activities*: Hope Academy of West Michigan's basic services are included here, such as regular and special education, instructional support, administration, and food service. State aid finances most of these activities.

HOPE ACADEMY OF WEST MICHIGAN
Management's Discussion and Analysis
June 30, 2015

Condensed Academy-wide Financial Information

The Statement of Net position provides financial information for Hope Academy of West Michigan as a whole.

	2015	2014
Assets		
Current assets	\$ 1,013,989	\$ 1,349,091
Net capital assets	282,997	211,835
Total Assets	1,296,986	1,560,926
Liabilities		
Current liabilities	452,841	453,818
Net Position		
Net investment in capital assets	282,997	211,835
Restricted	122,020	80,724
Unrestricted	439,128	814,549
Total Net Position	\$ 844,145	\$ 1,107,108

The results of the fiscal year's operations for Hope Academy of West Michigan as a whole are presented in the Statement of Activities, which shows the change in total net position for the year.

	2015	2014
Program Revenues		
Charges for services	\$ 233,195	\$ 195,129
Operating grants	735,279	960,854
General Revenues		
State school aid, unrestricted	2,613,599	2,279,909
Interest earned	1,686	3,766
Other	39,007	18,954
Total Revenues	3,622,766	3,458,612
Expenses		
Instruction	2,066,603	1,551,745
Supporting services	1,748,795	1,471,088
Food service	200,431	145,155
Total Expenses	4,015,829	3,167,988
Increase (decrease) in net position	(393,063)	290,624
Net Position - Beginning of Year, as restated	1,237,208	816,484
Net Position - End of Year	\$ 844,145	\$ 1,107,108

HOPE ACADEMY OF WEST MICHIGAN
Management's Discussion and Analysis
June 30, 2015

Financial Analysis of the Academy as a Whole

Hope Academy of West Michigan's financial position is the product of many factors. Unrestricted State aid revenue of \$2,613,599 was the result of a blended count of 334 full-time equivalent students in 2014-15.

Unrestricted state aid accounted for most of Hope Academy of West Michigan's revenue, contributing 72 percent of every dollar raised. Another 20 percent came from State and federal aid for specific programs and the remainder from fees charged for services, donations and miscellaneous sources.

Hope Academy of West Michigan's expenses are predominantly related to instructing students (51 percent). Instruction support, administration and operation and maintenance accounted for 44 percent of total costs. Food service expenses accounted for the remaining 5 percent of the total costs.

Total expenses surpassed revenues, decreasing net position by \$393,063.

Fund Financial Statements

The fund financial statements provide more detailed information about Hope Academy of West Michigan's funds, focusing on its most significant or "major" fund (the General Fund) - not the Academy as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs.

Hope Academy of West Michigan utilizes only one kind of fund:

- *Governmental funds:* All of Hope Academy of West Michigan's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance Academy programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

Financial Analysis of the Academy's Funds

Hope Academy of West Michigan uses funds to record and analyze financial information. Hope Academy of West Michigan's funds are described as follows:

Major Fund

The General Fund is Hope Academy of West Michigan's primary operating fund. The General Fund had total revenues of \$3,382,911 and total expenditures of \$3,758,332. It ended the fiscal year with a fund balance of \$439,128 at June 30, 2015, down from \$814,549 at June 30, 2014.

HOPE ACADEMY OF WEST MICHIGAN
Management's Discussion and Analysis
June 30, 2015

Nonmajor Fund

Hope Academy of West Michigan operates one nonmajor Special Revenue Fund, for the food service program. Total revenues were \$239,855 and total expenditures were \$198,559. The ending fund balance was \$122,020 at June 30, 2015, up from \$80,724 at June 30, 2014.

General Fund Budgetary Highlights

Hope Academy of West Michigan revised the General Fund budget twice during the year. These budget amendments and the differences between budgeted and actual amounts were as follows:

- Changes made to reflect actual enrollment at the Academy. The Academy was paid on a blend of the fall and winter student count.
- Changes in the availability of when federal funds and state categorical funds were available for spending.
- The Academy's final budget for the General Fund anticipated expenditures would exceed revenues by \$538,550, the actual results for the year show a \$375,413 decrease for the fiscal year.
- Actual revenues were \$37,188 higher than expected, due mainly to the receipt of Medicaid funds and use of additional state section funding.
- Actual expenditures were \$125,949 under budget, primarily as a result of instructional staffing and administrative services being under budget.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2015, Hope Academy of West Michigan had invested a total of \$546,988 in furniture and equipment. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of capital assets at June 30, 2015 are as follows:

Furniture and equipment	<u>\$ 282,997</u>
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Long-term Debt

The Academy had no long-term debt during, or at, the year ended June 30, 2015.

HOPE ACADEMY OF WEST MICHIGAN
Management's Discussion and Analysis
June 30, 2015

Factors Bearing on the Academy's Future

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

The Academy anticipates a decrease in the enrollment compared to the previous fiscal year.

The Academy has been placed on the State priority list. As a result, additional resources have been committed to student achievement.

The uncertainty of the State's fiscal climate.

Contacting the Academy's Financial Management

This financial report is designed to provide Hope Academy of West Michigan's parents, citizens, customers, investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Superintendent's Office, Hope Academy of West Michigan, 3300 36th Street SE., Grand Rapids, Michigan 49512.

BASIC FINANCIAL STATEMENTS

HOPE ACADEMY OF WEST MICHIGAN
Statement of Net Position
June 30, 2015

	Governmental Activities
Assets	
Cash equivalents (Note B)	\$ 187,563
Accounts receivable	314
Due from other governmental units (Note C)	730,998
Prepaid expenditures	95,114
Capital assets being depreciated, net (Note E)	282,997
Total Assets	1,296,986
Liabilities	
Accounts payable	38,214
Due to other governmental units	12,751
Salaries and benefits payable	347,802
Unearned revenue	54,074
Total Liabilities	452,841
Net Position	
Invested in capital assets	282,997
Restricted :	
Food service	122,020
Unrestricted	439,128
Total Net Position	\$ 844,145

See accompanying notes to basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN
Statement of Activities
For the year ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 2,066,603	\$ -	\$ 728,643	\$ (1,337,960)
Supporting services	1,748,795	-	-	(1,748,795)
Food service	200,431	233,195	6,636	39,400
Total Governmental Activities	<u>\$ 4,015,829</u>	<u>\$ 233,195</u>	<u>\$ 735,279</u>	<u>(3,047,355)</u>
General Revenues				
State school aid, unrestricted				2,613,599
Interest earned				1,686
Other				39,007
Total General Revenues				<u>2,654,292</u>
Change in Net Position				(393,063)
Net Position - Beginning, As Previously Reported				1,107,108
Restatement of Net Position (Note I)				130,100
Net Position - Beginning of Year, As Reported				<u>1,237,208</u>
Net Position - End of Year				<u>\$ 844,145</u>

See accompanying notes to basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN
Balance Sheet
Governmental Funds
June 30, 2015

Assets	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Cash equivalents (Note B)	\$ 187,563	\$ -	\$ 187,563
Accounts receivable	314	-	314
Due from other funds (Note D)	-	2,050	2,050
Due from other governmental units (Note C)	611,028	119,970	730,998
Prepaid expenditures	95,114	-	95,114
Total Assets	<u>\$ 894,019</u>	<u>\$ 122,020</u>	<u>\$ 1,016,039</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 33,789	\$ -	\$ 33,789
Due to other funds (Note D)	6,475	-	6,475
Due to other governmental units	12,751	-	12,751
Salaries and benefits payable	347,802	-	347,802
Unearned revenue	54,074	-	54,074
Total Liabilities	<u>454,891</u>	<u>-</u>	<u>454,891</u>
Fund Balances (Note A)			
Nonspendable	95,114	-	95,114
Restricted	-	122,020	122,020
Unassigned	344,014	-	344,014
Total Fund Balances	<u>439,128</u>	<u>122,020</u>	<u>561,148</u>
Total Liabilities and Fund Balances	<u>\$ 894,019</u>	<u>\$ 122,020</u>	<u>\$ 1,016,039</u>

See accompanying notes to basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2015

Total governmental fund balances	\$ 561,148
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 are not reported as assets in governmental funds. The cost of assets is \$546,988 and accumulated depreciation is \$263,991.	<u>282,997</u>
Total net position - governmental activities	<u><u>\$ 844,145</u></u>

See accompanying notes to 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, 2015

	General	Nonmajor	Total
Revenues			
Local sources	\$ 40,669	\$ 24	\$ 40,693
State sources	2,921,493	-	2,921,493
Federal sources	328,502	6,636	335,138
Interdistrict sources	92,247	233,195	325,442
Total Revenues	3,382,911	239,855	3,622,766
Expenditures			
Current:			
Instruction	2,012,110	-	2,012,110
Supporting services	1,741,938	-	1,741,938
Food service	-	198,559	198,559
Interdistrict	4,284	-	4,284
Total Expenditures	3,758,332	198,559	3,956,891
Net Change in Fund Balances	(375,421)	41,296	(334,125)
Fund Balances, Beginning of Year	814,549	80,724	895,273
Fund Balances, End of Year	\$ 439,128	\$ 122,020	\$ 561,148

See accompanying notes to basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2015

Net change in fund balances - total governmental funds \$ (334,125)

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 these assets is capitalized and
allocated over their estimated useful lives as depreciation expense.
This is the amount by which depreciation exceeded capital outlays
in the current period:

	\$	36,063	
Capital outlays			
Depreciation expense		(95,001)	(58,938)

Total changes in net position - governmental activities \$ (393,063)

See accompanying notes to basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2015

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Local sources	\$ 249,254	\$ 148,966	\$ 40,669	\$ (108,297)
State sources	2,596,782	2,683,143	2,921,493	238,350
Federal sources	456,242	513,622	328,502	(185,120)
Interdistrict sources	-	-	92,247	92,247
Total Revenues	3,302,278	3,345,731	3,382,911	37,180
Expenditures				
Current:				
Instruction:				
Basic programs	1,445,201	1,809,506	1,779,683	29,823
Added needs	248,354	243,607	232,427	11,180
Supporting services:				
Pupil services	245,875	213,764	209,164	4,600
Instructional staff services	122,344	181,139	144,439	36,700
General administrative services	335,629	302,487	281,830	20,657
School administrative services	243,804	295,797	292,970	2,827
Business services	101,724	112,230	110,642	1,588
Operation and maintenance services	510,676	521,958	516,036	5,922
Pupil transportation services	7,250	24,018	25,311	(1,293)
Central services	65,750	149,742	135,367	14,375
Pupil accounting	25,614	21,933	21,081	852
Other supporting services	-	-	5,098	(5,098)
Interdistrict	-	-	4,284	(4,284)
Facilities acquisitions	6,020	8,100	-	8,100
Total Expenditures	3,358,241	3,884,281	3,758,332	125,949
Net Change in Fund Balances	(55,963)	(538,550)	(375,421)	163,129
Fund Balances, Beginning of Year	814,549	814,549	814,549	-
Fund Balances, End of Year	\$ 758,586	\$ 275,999	\$ 439,128	\$ 163,129

See accompanying notes to basic financial statements.

HOPE ACADEMY OF WEST MICHIGAN
Fiduciary Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2014

Assets

Due from other funds (Note D)	<u>\$ 4,425</u>
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Liabilities

Due to student groups	<u>\$ 4,425</u>
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See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

HOPE ACADEMY OF WEST MICHIGAN
Notes to Basic Financial Statements
June 30, 2015

Note A – Summary of Significant Accounting Policies

Hope Academy of West Michigan received its charter under Public Act 416 of 1994 from Ferris State University. As part of the chartering process, Hope Academy of West Michigan filed Articles of Incorporation with the Michigan Department of Commerce. According to the contract with Ferris State University, Hope Academy of West Michigan is to act exclusively as a governmental agency, and is not to undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Under this contract, Ferris State University provides certain services to Hope Academy of West Michigan including approval of Hope Academy of West Michigan's operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. Ferris State University is paid 3% of State Aid payments received by Hope Academy of West Michigan for such services.

The Academy is governed by a Board of Directors consisting of seven members approved by Ferris State University. The Academy provides educational services for approximately 335 full-time students as specified by state statute and Board of Directors policy. These services include secondary education, special education, community services, food service and general administrative services.

The Board of Directors of the Academy has entered into a management agreement (the "agreement") with Integrity Educational Services (hereinafter referred to as "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 agreement took effect July 1, 2011.

The financial statements of Hope Academy of West Michigan (the "Academy") have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Academy's significant accounting policies are described below.

1. The Reporting Entity

The financial reporting entity consists of a primary government and its component units. The Academy is a primary government because it is a special-purpose government that has a separately appointed governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the Academy for financial statement presentation purposes, and the Academy is not included in any other governmental reporting entity. Consequently, the Academy's financial statements include the funds of those organizational entities for which its governing board is financially accountable.

2. Academy-wide and Fund Financial Statements

Academy-wide Financial Statements - The academy-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the Academy as a whole. The reported information includes all of the nonfiduciary activities of the Academy. The Academy does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the Academy. *Governmental activities*

HOPE ACADEMY OF WEST MICHIGAN
Notes to Basic Financial Statements
June 30, 2015

normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Academy does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The Academy's net position is reported in three parts: invested in capital assets, restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the Academy's only major fund. The Food Service Special Revenue Fund is the Academy's only nonmajor fund.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the academy-wide level. Reconciliations between the two sets of statements are provided in separate schedules.

Revenues are recognized when susceptible to accrual; i.e., 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 after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the Academy before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Academy-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 and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

HOPE ACADEMY OF WEST MICHIGAN
Notes to Basic Financial Statements
June 30, 2015

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most academy functions typically are financed. The acquisition, use, and balances of an academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund—The General Fund is the general operating fund of an academy. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. An academy maintains full control of these funds. The School Service Fund maintained by the Academy is the Food Service Special Revenue Fund.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Agency Funds—Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

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

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of an academy be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Hope Academy of West Michigan has also adopted a budget for its Special Revenue Fund. An academy's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from an academy's budget may occur without a corresponding amendment to the budget. An academy has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. An academy may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval

HOPE ACADEMY OF WEST MICHIGAN
Notes to Basic Financial Statements
June 30, 2015

of the Board of Directors. Expenditures may not legally exceed budget appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Hope Academy of West Michigan utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- IES establishes proposed operating budgets for the ensuing fiscal year.
- Preliminary operating budgets are submitted to the Board of Directors by IES. These budgets include proposed expenditures and the means of financing them.
- After the budgets are finalized, the Board of Directors adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Capital Assets

Capital assets, which may include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the academy-wide financial statements. Assets having a useful life in excess of one year, and whose costs exceed \$1,000, are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Furniture and equipment

3-5 years

HOPE ACADEMY OF WEST MICHIGAN
Notes to Basic Financial Statements
June 30, 2015

8. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

9. Fund Balance

The Academy has adopted Governmental Accounting Standards Board (GASB) Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”. The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources 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 (Board of Directors). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts.
- Assigned – resources that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes.
- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

As Hope Academy of West Michigan has not established a policy for its use of unrestricted fund balance amounts, it considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

10. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

HOPE ACADEMY OF WEST MICHIGAN
Notes to Basic Financial Statements
June 30, 2015

11. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker’s acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

Cash Equivalents

Depositories actively used by the Academy during the year are detailed as follows:

1. Chemical Bank
2. Lake Michigan Credit Union

Balances at June 30, 2015 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Cash equivalents	\$ 187,563
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Cash equivalents consist of bank checking accounts.

HOPE ACADEMY OF WEST MICHIGAN
Notes to Basic Financial Statements
June 30, 2015

Custodial credit risk as related to cash equivalents

Custodial credit risk is the risk that in the event of bank failure, the Academy's cash equivalents may not be returned to the Academy. Protection of Academy cash equivalents is provided by the Federal Deposit Insurance Corporation and the National Credit Union Administration. At year end, the carrying amount of the Academy's cash equivalents was \$187,563 and the bank balance was \$188,386. The entire balance was covered by depository insurance.

Note C – State School Aid

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan schools in the form of a per pupil "Foundation Allowance" paid on a "blended count" of Academy pupil membership in October, 2014 and February, 2015. The 2014-15 "Foundation Allowance" for Hope Academy of West Michigan was \$7,135 for 334 "Full Time Equivalent" students, generating \$2,598,040 in State aid payments to the Academy of which \$474,952 was paid to the Academy in July and August, 2015 and included in "Due From Other Governmental Units" of the General Fund.

Note D – Interfund Receivables/Payables

Amounts due from/to other funds representing interfund receivables and payables for cash flow advances at June 30, 2015 are detailed as follows:

	Due From	Due To
Major Fund		
General Fund:		
Special Revenue Fund:		
Food Service Fund	\$ —	\$ 2,050
Agency Fund:		
Student Activities Fund	—	4,425
	—	6,475
Total Major Fund	—	6,475
Nonmajor Fund		
Special Revenue Fund:		
Food Service Fund:		
General Fund	2,050	—
	2,050	—
Fiduciary Fund		
Agency Fund:		
Student Activities Fund:		
General Fund	4,425	—
	4,425	—
Total All Funds	\$ 6,475	\$ 6,475

HOPE ACADEMY OF WEST MICHIGAN
Notes to Basic Financial Statements
June 30, 2015

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balances July 1, 2014	Additions	Deductions	Balances June 30, 2015
Capital assets being depreciated:				
Furniture and equipment	\$ 510,925	\$ 36,063	\$ —	\$ 546,988
Less accumulated depreciation for:				
Furniture and equipment	168,990	\$ 95,001	\$ —	263,991
Net Capital Assets	\$ 341,935			\$ 282,997

Depreciation expense was charged to Academy activities as follows:

Governmental activities:	
Instruction	\$ 73,306
Supporting services	19,823
Food service	1,872
	\$ 95,001

The beginning balance of net capital assets has been restated as discussed in Note I – Restatement of Net Position.

Note F – Operating Lease

On June 18, 2015, Hope Academy of West Michigan entered into a one year operating lease agreement with Wedgwood Christian Services (the “Agency”) for the rental of the “School Building” located at 240 Brown Street SE, Grand Rapids, Michigan, at an annual fee of \$425,000 (\$35,417 per month payable in advance). This fee will be reviewed quarterly and may be reduced as mutually agreed upon. Annual rent paid in 2014-15 totaled \$349,992. The Academy also agreed to pay the Agency an Annual Technology Fee of \$40,000 (\$3,333 per month payable in advance). The \$40,000 was paid during the 2014-15 fiscal year.

Note G– Retirement Plan

Staff of Hope Academy are employees of Integrity Education Services (IES). The Academy reimburses to IES a 50% match up to 6% of each employee’s salary to a qualified 401(k) plan. Contributions for the years ended June 30, 2015 totaled \$37,876.

HOPE ACADEMY OF WEST MICHIGAN
Notes to Basic Financial Statements
June 30, 2015

Note H – Risk Management

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during the 2014-15 fiscal year, and claims did not exceed coverage less retained risk deductible amounts during the fiscal year.

Note I – Restatement of Net Position

The beginning net investment in capital assets was understated. Changes/additions to beginning net investment in capital assets increased beginning net position by \$130,100.

Note J – Stewardship, Compliance and Accountability

The following Academy funds had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2015, as follows:

	Budget	Actual	Variance
General Fund			
Supporting services:			
Pupil transportation services	\$ 24,018	\$ 25,311	\$ 1,293
Other supporting services	—	5,098	5,098
Interdistrict	—	4,284	4,284
Food Service Special Revenue Fund			
Food service	187,377	198,559	11,182

Note K – Subsequent events

Subsequent to year end, the Academy's management company, IES, was awarded a favorable judgment regarding its employer status with the unemployment agency. Management estimates this will result in a future liability of \$12,000 for the Academy.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUND

HOPE ACADEMY OF WEST MICHIGAN
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources	\$ -	\$ 24	\$ 24
Federal sources	6,636	6,636	-
Interdistrict sources	<u>210,577</u>	<u>233,195</u>	<u>22,618</u>
Total Revenues	<u>217,213</u>	<u>239,855</u>	<u>22,642</u>
Expenditures			
Current:			
Food service	<u>187,377</u>	<u>198,559</u>	<u>(11,182)</u>
Net Change in Fund Balances	29,836	41,296	11,460
Fund Balances, Beginning of Year	<u>80,724</u>	<u>80,724</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 110,560</u></u>	<u><u>\$ 122,020</u></u>	<u><u>\$ 11,460</u></u>

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INTERNAL CONTROL AND COMPLIANCE



**INDEPENDENT AUDITOR'S 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 22, 2015

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

We have audited, 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, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hope Academy of West Michigan (the "Academy"), as of and for the year ended June 30, 2015, 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 22, 2015.

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 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.

A handwritten signature in cursive script that reads "Hungerford Nichols".

Certified Public Accountants