

THE HOPE CENTER, INC. AND AFFILIATE
YEARS ENDED JULY 31, 2009 AND 2008



HOUSE PARK & DOBRATZ, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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CONTENTS

	Page
Independent auditors' report	1
Combined financial statements:	
Statements of financial position	2
Statements of activities	3-4
Statements of functional expenses	5-6
Statements of cash flows	7
Notes to financial statements	8-11



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CERTIFIED PUBLIC ACCOUNTANTS

STANLEY H. HOUSE
STEPHEN M. PARK
MICHAEL A. DOBRATZ
STEVEN V. WIEBLER
MARY H. STRATMAN

605 WEST 47TH STREET · SUITE 301
KANSAS CITY, MISSOURI 64112
TEL. (816) 931-3393
FAX: (816) 931-9636

Independent Auditors' Report

Board of Directors
The Hope Center, Inc. and Affiliate
Kansas City, Missouri

We have audited the accompanying combined statements of financial position of The Hope Center, Inc. and Affiliate (the Organization) as of July 31, 2009 and 2008 and the related combined statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Hope Center, Inc. and Affiliate as of July 31, 2009 and 2008 and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

House Park & Dobratz, P.C.

February 22, 2010

THE HOPE CENTER, INC. AND AFFILIATE

COMBINED STATEMENTS OF FINANCIAL POSITION - JULY 31, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Cash	\$ 754,217	\$ 734,873
Contributions receivable (Note 2)	50,761	160,095
Certificates of deposit	245,188	359,297
Real estate held for sale	29,648	29,648
Property and equipment (Note 3)	1,106,315	933,781
Other assets	<u>14,444</u>	<u>2,485</u>
	<u>\$ 2,200,573</u>	<u>\$ 2,220,179</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	<u>\$ 9,724</u>	<u>\$ 7,841</u>
Net assets:		
Unrestricted	1,381,478	1,433,493
Temporarily restricted (Note 4)	<u>809,371</u>	<u>778,845</u>
	<u>2,190,849</u>	<u>2,212,338</u>
	<u>\$ 2,200,573</u>	<u>\$ 2,220,179</u>

See notes to financial statements.

THE HOPE CENTER, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED JULY 31, 2009

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues, gains and other support:			
Contributions	\$ 344,088	\$ 147,973	\$ 492,061
Program fees	441		441
Rental income	1,400		1,400
Investment income	26,576		26,576
Other income	5,458		5,458
Net assets released from program restrictions	<u>117,447</u>	<u>(117,447)</u>	<u> </u>
	<u>495,410</u>	<u>30,526</u>	<u>525,936</u>
Expenses:			
Program services	364,390		364,390
Management and general	146,443		146,443
Fundraising	<u>36,592</u>		<u>36,592</u>
	<u>547,425</u>	<u> </u>	<u>547,425</u>
Change in net assets	(52,015)	30,526	(21,489)
Net assets, beginning of year	<u>1,433,493</u>	<u>778,845</u>	<u>2,212,338</u>
Net assets, end of year	<u>\$ 1,381,478</u>	<u>\$ 809,371</u>	<u>\$ 2,190,849</u>

See notes to financial statements.

THE HOPE CENTER, INC.
COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED JULY 31, 2008

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues, gains (losses) and other support:			
Contributions	\$ 406,613	\$ 593,964	\$ 1,000,577
Special events	30,033		30,033
Program fees	985		985
Rental income	10,800		10,800
Loss on sale of assets	(543)		(543)
Investment income	21,192		21,192
Other income	6,268		6,268
Net assets released from program restrictions	<u>131,708</u> <u>607,056</u>	<u>(131,708)</u> <u>462,256</u>	<u>1,069,312</u>
Expenses:			
Program services	338,148		338,148
Management and general	163,753		163,753
Fundraising	<u>84,157</u> <u>586,058</u>		<u>84,157</u> <u>586,058</u>
Change in net assets	20,998	462,256	483,254
Net assets, beginning of year	<u>1,412,495</u>	<u>316,589</u>	<u>1,729,084</u>
Net assets, end of year	<u>\$ 1,433,493</u>	<u>\$ 778,845</u>	<u>\$ 2,212,338</u>

See notes to financial statements.

THE HOPE CENTER, INC. AND AFFILIATE
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JULY 31, 2009

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Compensation	\$ 244,855	\$ 45,910	\$ 15,303	\$ 306,068
Payroll taxes	20,923	3,923	1,308	26,154
Employee benefits	<u>13,131</u>	<u>8,209</u>	<u>821</u>	<u>22,161</u>
	278,909	58,042	17,432	354,383
Bank service charges		125		125
Board development		6,344		6,344
Depreciation and amortization	17,264	17,264		34,528
Donor development			705	705
Dues and subscriptions		1,154		1,154
Food and refreshments	2,334	988		3,322
Insurance		3,750		3,750
Information technology	2,424	2,181	242	4,847
Licenses and permits		2,089		2,089
Occupancy expenses	17,477	15,731	1,747	34,955
Office supplies		2,969		2,969
Other expense		160		160
Postage and delivery	745	745		1,490
Printing and reproduction	154	153		307
Professional fees		31,716	16,466	48,182
Program supplies and related expenses	39,727			39,727
Travel and transportation expenses	<u>5,356</u>	<u>3,032</u>	<u> </u>	<u>8,388</u>
	<u>\$ 364,390</u>	<u>\$ 146,443</u>	<u>\$ 36,592</u>	<u>\$ 547,425</u>

See notes to financial statements.

THE HOPE CENTER, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JULY 31, 2008

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Compensation	\$ 216,796	\$ 35,355	\$ 11,456	\$ 263,607
Payroll taxes	13,741	2,241	726	16,708
Employee benefits	<u>13,641</u>	<u>4,718</u>	<u>719</u>	<u>19,078</u>
	244,178	42,314	12,901	299,393
Bank service charges		542		542
Depreciation and amortization	15,552	15,552		31,104
Dues and subscriptions		2,103		2,103
Food and refreshments, not program		2,891		2,891
Insurance		4,670		4,670
Internet	60	59		119
Licenses and permits		1,180		1,180
Occupancy expenses	14,000	21,717		35,717
Office supplies		2,977		2,977
Other expense	3,150	2,866		6,016
Postage and delivery	498	498	110	1,106
Printing and reproduction	409	409		818
Professional fees		54,513	70,683	125,196
Program supplies and related expenses	41,385			41,385
Telephone	2,085	2,085	463	4,633
Travel and transportation expenses	6,161	5,820		11,981
Utilities	<u>10,670</u>	<u>3,557</u>	<u> </u>	<u>14,227</u>
	<u>\$ 338,148</u>	<u>\$ 163,753</u>	<u>\$ 84,157</u>	<u>\$ 586,058</u>

See notes to financial statements.

THE HOPE CENTER, INC. AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	(\$ 21,489)	\$ 483,254
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	34,528	31,104
Changes in operating assets and liabilities:		
Contributions receivable	109,334	27,894
Interest and dividends receivable		926
Prepaid expenses		5,096
Other assets	(11,959)	1,598
Accounts payable and accrued expenses	<u>1,883</u>	<u>3,622</u>
Net cash provided by operating activities	<u>112,297</u>	<u>553,494</u>
Cash flows from investing activities:		
Purchase of property and equipment	(207,062)	(118,165)
Net redemptions (purchases) of certificates of deposit	<u>114,109</u>	<u>(205,367)</u>
Net cash used by investing activities	<u>(92,953)</u>	<u>(323,532)</u>
Cash flows from financing activities, payments on notes payable		<u>(183,521)</u>
Net increase in cash	19,344	46,441
Cash, beginning of year	<u>734,873</u>	<u>688,432</u>
Cash, end of year	<u>\$ 754,217</u>	<u>\$ 734,873</u>

See notes to financial statements.

THE HOPE CENTER, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2009 AND 2008

1. Organization and summary of significant accounting policies:

Organization:

The Hope Center (the Organization) provides bible study opportunities and leadership training to inner-city youth and establishes projects to develop the urban core of Kansas City, Missouri. The Organization is supported primarily through private donor contributions.

Principles of combination:

The combined financial statements include the accounts of the Organization and Hope Family Care Center, LLC, a volunteer-based primary care practice serving the east side community of Kansas City, managed by The Hope Center. All significant intercompany accounts and transactions have been eliminated.

Investments and concentrations of credit risk:

Investments consist of certificates of deposit that have maturities of less than one year.

Financial instruments, which potentially subject the Organization to significant concentrations of credit risk, consist principally of cash, certificates of deposit (CDs) and contributions receivable. The Organization maintains cash and CDs with various major financial institutions. Balances may exceed federally insured limits.

A majority of contributions are from individuals and corporate and charitable entities in the Greater Kansas City area.

Property and equipment and depreciation:

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Functional allocation of expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated based on management's estimate of resources devoted to the program or support service.

Basis of accounting:

All financial transactions have been recorded in and reported by the following net asset groups:

THE HOPE CENTER, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2009 AND 2008

1. Organization and summary of significant accounting policies (continued):

Basis of accounting (continued):

Unrestricted net assets represent resources over which the Board of Directors has discretionary control and are used to carry out operations of the Organization in accordance with its bylaws.

Temporarily restricted net assets represent resources available for use currently or in the future, but expendable only for purposes specified by the donor or within a donor-designated time period. Resources of these funds originate from gifts.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Income taxes:

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the accompanying financial statements.

Hope Family Care Center, LLC is in the process of applying for tax exempt status as an organization described under Section 501(c)(3).

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Subsequent events:

Subsequent events have been evaluated through February 22, 2010, which is the date the financial statements were available to be issued.

THE HOPE CENTER, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JULY 31, 2009 AND 2008

2. Contributions receivable:

	<u>2009</u>	<u>2008</u>
Receivable in less than one year	\$ 32,000	\$ 74,880
Receivable in one to five years	<u>20,000</u>	<u>96,635</u>
	52,000	171,515
Less discounts to net present value	<u>1,239</u>	<u>11,420</u>
	<u>\$ 50,761</u>	<u>\$ 160,095</u>

The present value of contributions receivable was calculated using a discount rate of 3.25%.

Contributions receivable consist of the following:

	<u>2009</u>	<u>2008</u>
Unrestricted		\$ 61,965
Temporarily restricted	<u>\$ 52,000</u>	<u>109,550</u>
	<u>\$ 52,000</u>	<u>\$ 171,515</u>

3. Property and equipment:

	<u>2009</u>	<u>2008</u>
Land	\$ 14,200	\$ 14,200
Land improvements	25,887	25,887
Buildings	808,693	808,693
Building improvements	259,537	129,366
Vehicles	36,300	36,300
Furniture and equipment	16,046	16,046
Computer equipment	11,209	9,109
Software	6,740	6,740
Construction in progress	<u>81,612</u>	<u>6,821</u>
	1,260,224	1,053,162
Accumulated depreciation and amortization	<u>(153,909)</u>	<u>(119,381)</u>
	<u>\$1,106,315</u>	<u>\$ 933,781</u>

THE HOPE CENTER, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2009 AND 2008

4. Temporarily restricted net assets:

Temporarily restricted net assets are designated for the following:

	<u>2009</u>	<u>2008</u>
Leadership Academy	\$ 500,000	\$ 500,000
Capital campaign	153,028	185,871
Hope Family Care Center	76,693	
Medical House	19,550	6,800
Fundraising consultant	19,411	13,251
COO salary	15,745	
Leaders in training program	12,042	27,761
Scholarships	3,358	8,810
Lawnmowing	3,094	3,597
Church	1,870	1,870
Computer recycling	1,300	
Awareness luncheon	1,272	1,272
Room dividers	1,220	1,220
Curriculum	788	
Kitchen remodel		24,680
Summer camp		225
Accounting services		3,488
	<u>\$ 809,371</u>	<u>\$ 778,845</u>