

**THE HOPE CENTER, INC. AND AFFILIATES**  
**YEARS ENDED JULY 31, 2010 AND 2009**



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

# THE HOPE CENTER, INC. AND AFFILIATES

YEARS ENDED JULY 31, 2010 AND 2009

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

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Independent Auditors' Report

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

We have audited the accompanying combined statements of financial position of The Hope Center, Inc. and Affiliates (the Organization) as of July 31, 2010 and 2009 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 Affiliates as of July 31, 2010 and 2009 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.*

January 22, 2011

**THE HOPE CENTER, INC. AND AFFILIATES**

COMBINED STATEMENTS OF FINANCIAL POSITION - JULY 31, 2010 AND 2009

ASSETS

|                                    | <u>2010</u>         | <u>2009</u>         |
|------------------------------------|---------------------|---------------------|
| Cash and cash equivalents (Note 2) | \$ 1,075,899        | \$ 999,405          |
| Contributions receivable (Note 3)  |                     | 50,761              |
| Prepaid insurance                  | 5,654               | 5,379               |
| Real estate held for sale          | 29,648              | 29,648              |
| Property and equipment (Note 4)    | 1,300,394           | 1,106,315           |
| Other assets                       | <u>16,560</u>       | <u>9,065</u>        |
|                                    | <u>\$ 2,428,155</u> | <u>\$ 2,200,573</u> |

LIABILITIES AND NET ASSETS

|                                       |                     |                     |
|---------------------------------------|---------------------|---------------------|
| Accounts payable and accrued expenses | <u>\$ 88,001</u>    | <u>\$ 9,724</u>     |
| Commitments (Note 6)                  |                     |                     |
| Net assets:                           |                     |                     |
| Unrestricted                          | 1,820,824           | 1,381,478           |
| Temporarily restricted (Note 5)       | <u>519,330</u>      | <u>809,371</u>      |
|                                       | <u>2,340,154</u>    | <u>2,190,849</u>    |
|                                       | <u>\$ 2,428,155</u> | <u>\$ 2,200,573</u> |

See notes to financial statements.

**THE HOPE CENTER, INC. AND AFFILIATES**

**COMBINED STATEMENT OF ACTIVITIES**

YEAR ENDED JULY 31, 2010

|   | <u>Unrestricted</u> | <u>Temporarily<br/>restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|---------------------|
| Revenues, gains and other support:            |                     |                                   |                     |
| Contributions                                 | \$ 502,467          | \$ 381,106                        | \$ 883,573          |
| Program fees                                  | 13,763              |                                   | 13,763              |
| Investment income                             | 1,454               |                                   | 1,454               |
| Other income                                  | 6,456               |                                   | 6,456               |
| Net assets released from program restrictions | <u>671,147</u>      | <u>( 671,147)</u>                 | <u>905,246</u>      |
|   | <u>1,195,287</u>    | <u>( 290,041)</u>                 |                     |
| Expenses:                                     |                     |                                   |                     |
| Program services                              | 238,296             |                                   | 238,296             |
| Management and general                        | 507,101             |                                   | 507,101             |
| Fundraising                                   | <u>10,544</u>       |                                   | <u>10,544</u>       |
|   | <u>755,941</u>      |                                   | <u>755,941</u>      |
| Change in net assets                          | 439,346             | ( 290,041)                        | 149,305             |
| Net assets, beginning of year                 | <u>1,381,478</u>    | <u>809,371</u>                    | <u>2,190,849</u>    |
| Net assets, end of year                       | <u>\$ 1,820,824</u> | <u>\$ 519,330</u>                 | <u>\$ 2,340,154</u> |

See notes to financial statements.

**THE HOPE CENTER, INC. AND AFFILIATES**

**COMBINED STATEMENT OF ACTIVITIES**

YEAR ENDED JULY 31, 2009

|   | <u>Unrestricted</u> | <u>Temporarily<br/>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. AND AFFILIATES**  
**COMBINED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JULY 31, 2010**

|  | <u>Program<br/>services</u> | <u>Management<br/>and general</u> | <u>Fundraising</u> | <u>Total</u>      |
|--|-----------------------------|-----------------------------------|--------------------|-------------------|
| Compensation                             | \$ 146,632                  | \$ 215,143                        |                    | \$ 361,775        |
| Payroll taxes                            | 7,423                       | 18,915                            |                    | 26,338            |
| Employee benefits                        | <u>7,226</u>                | <u>24,382</u>                     |                    | <u>31,608</u>     |
|  | 161,281                     | 258,440                           |                    | 419,721           |
| Bank service charges                     |                             | 300                               |                    | 300               |
| Board development                        |                             | 7,377                             |                    | 7,377             |
| Depreciation and amortization            |                             | 72,471                            |                    | 72,471            |
| Donor development                        |                             |                                   | \$ 10,534          | 10,534            |
| Dues and subscriptions                   |                             | 460                               |                    | 460               |
| Insurance                                |                             | 25,247                            |                    | 25,247            |
| Information technology                   |                             | 13,157                            |                    | 13,157            |
| Licenses and permits                     |                             | 390                               |                    | 390               |
| Occupancy expenses                       |                             | 79,304                            |                    | 79,304            |
| Office supplies                          |                             | 2,131                             |                    | 2,131             |
| Other expense                            |                             | 1,953                             | 10                 | 1,963             |
| Postage and delivery                     |                             | 89                                |                    | 89                |
| Printing and reproduction                |                             | 337                               |                    | 337               |
| Professional fees                        |                             | 45,445                            |                    | 45,445            |
| Program supplies and related<br>expenses | 72,509                      |                                   |                    | 72,509            |
| Travel and transportation expenses       | <u>4,506</u>                |                                   |                    | <u>4,506</u>      |
|  | <u>\$ 238,296</u>           | <u>\$ 507,101</u>                 | <u>\$ 10,544</u>   | <u>\$ 755,941</u> |

See notes to financial statements.

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

|                                       | <u>Program<br/>services</u> | <u>Management<br/>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. AND AFFILIATES**

**COMBINED STATEMENTS OF CASH FLOWS**

YEARS ENDED JULY 31, 2010 AND 2009

|  | <u>2010</u>         | <u>2009</u>       |
|--|---------------------|-------------------|
| Cash flows from operating activities:  |                     |                   |
| Change in net assets   | \$ 149,305          | (\$ 21,489)       |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: |                     |                   |
| Depreciation and amortization  | 72,471              | 34,528            |
| Donated construction and architectural services  | ( 58,000)           |                   |
| Changes in operating assets and liabilities:   |                     |                   |
| Contributions receivable   | 50,761              | 109,334           |
| Prepaid insurance  | ( 275)              |                   |
| Other assets   | ( 7,495)            | ( 11,959)         |
| Accounts payable and accrued expenses  | <u>78,277</u>       | <u>1,883</u>      |
| Net cash provided by operating activities  | <u>285,044</u>      | <u>112,297</u>    |
| Cash flows from investing activities, purchase of property and equipment                           | <u>( 208,550)</u>   | <u>( 207,062)</u> |
| Net increase (decrease) in cash  | 76,494              | ( 94,765)         |
| Cash, beginning of year  | <u>999,405</u>      | <u>1,094,170</u>  |
| Cash, end of year  | <u>\$ 1,075,899</u> | <u>\$ 999,405</u> |
| <i>Supplemental disclosure of cash flow information:</i>   |                     |                   |
| Non-monetary transactions:   |                     |                   |
| Donated construction and architectural services capitalized  | <u>\$ 58,000</u>    |                   |

See notes to financial statements.

**THE HOPE CENTER, INC. AND AFFILIATES**  
NOTES TO COMBINED FINANCIAL STATEMENTS  
YEARS ENDED JULY 31, 2010 AND 2009

**1. Organization and summary of significant accounting policies:**

*Organization and principles of combination:*

The combined financial statements include the accounts of The Hope Center, Inc. and its controlled affiliates, the Hope Family Care Center, LLC, and Hope Leadership Academy Charter School (the Organization). All significant intercompany accounts and transactions have been eliminated.

The Hope Center, Inc. provides bible study opportunities and leadership training to inner-city youth and establishes projects to develop the urban core of Kansas City, Missouri, and is supported primarily through private donor contributions. Hope Family Care Center, LLC (HFCC) is a primary care practice serving the low-income east side community of Kansas City. Hope Leadership Academy Charter School (HLA) is a charter school focusing on youth leadership development.

*Concentrations of credit risk:*

Financial instruments, which potentially subject the Organization to significant concentrations of credit risk, consist principally of cash and certificates of deposit (CDs). 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 and amortization:*

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.

Leasehold improvements are stated at cost and are amortized using the straight-line method over the estimated useful lives of the assets or the term of the lease, whichever is less.

*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.

# THE HOPE CENTER, INC. AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

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

#### *Basis of accounting:*

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

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.

Effective August 1, 2009, the Organization adopted generally accepted accounting principles related to uncertain tax provisions. The effect of the adoption had no impact on the Organization's financial statements. The Organization's current accounting policy is to provide liabilities for uncertain income tax provisions when a liability is probable and estimable. Management is not aware of any violation of its tax status as an organization exempt from income taxes. The Organization is no longer subject to audits for Federal or state purposes for periods prior to July 31, 2007.

#### *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.

# THE HOPE CENTER, INC. AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

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

#### *Donated material and services:*

Donated services are reported as contributions when the services (a) create or enhance nonfinancial assets or (b) would be purchased if they had not been provided by contribution, require specialized skills and are provided by individuals possessing those skills. Donated equipment or materials, if significant, are included in public support at fair value. Donated services and equipment of \$200,604 have been reflected at fair value in the financial statements for the year ended July 31, 2010, \$58,000 of which has been capitalized. Donated services consist of architectural, administrative, construction, medical care, and laboratory services.

#### *Subsequent events:*

Subsequent events have been evaluated through January 22, 2011, which is the date the financial statements were available to be issued.

### 2. Cash and cash equivalents:

Cash and cash equivalents consist of the following:

|                         | <u>2010</u>         | <u>2009</u>       |
|-------------------------|---------------------|-------------------|
| Cash                    | \$ 763,642          | \$ 613,963        |
| Certificates of deposit | 299,821             | 245,188           |
| Money market funds      | <u>12,436</u>       | <u>140,254</u>    |
|                         | <u>\$ 1,075,899</u> | <u>\$ 999,405</u> |

### 3. Contributions receivable:

|                                     | <u>2009</u>      |
|-------------------------------------|------------------|
| Receivable in less than one year    | \$ 32,000        |
| Receivable in one to five years     | <u>20,000</u>    |
|                                     | 52,000           |
| Less discounts to net present value | <u>1,239</u>     |
|                                     | <u>\$ 50,761</u> |

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

**THE HOPE CENTER, INC. AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

**4. Property and equipment:**

|   | <u>2010</u>         | <u>2009</u>         |
|---|---------------------|---------------------|
| Land                                      | \$ 14,200           | \$ 14,200           |
| Land improvements                         | 25,887              | 25,887              |
| Buildings                                 | 808,693             | 808,693             |
| Building improvements                     | 540,510             | 259,537             |
| Vehicles                                  | 36,300              | 36,300              |
| Furniture and equipment                   | 42,058              | 16,046              |
| Computer equipment                        | 45,565              | 11,209              |
| Software                                  | 6,740               | 6,740               |
|   | <u>1,519,953</u>    | <u>1,178,612</u>    |
| Accumulated depreciation and amortization | ( 226,380)          | ( 153,909)          |
|   | 1,293,573           | 1,024,703           |
| Construction in progress                  | <u>6,821</u>        | <u>81,612</u>       |
|   | <u>\$ 1,300,394</u> | <u>\$ 1,106,315</u> |

**5. Temporarily restricted net assets:**

Temporarily restricted net assets are designated for the following:

|                             | <u>2010</u>       | <u>2009</u>       |
|-----------------------------|-------------------|-------------------|
| Leadership Academy          | \$ 450,833        | \$ 500,000        |
| COO salary                  | 44,438            | 15,745            |
| Hope Youth Ministry         | 24,059            |                   |
| Capital campaign            |                   | 153,028           |
| Hope Family Care Center     |                   | 76,693            |
| Medical House               |                   | 19,550            |
| Fundraising consultant      |                   | 19,411            |
| Leaders in training program |                   | 12,042            |
| Scholarships                |                   | 3,358             |
| Lawnmowing                  |                   | 3,094             |
| Church                      |                   | 1,870             |
| Computer recycling          |                   | 1,300             |
| Awareness luncheon          |                   | 1,272             |
| Room dividers               |                   | 1,220             |
| Curriculum                  |                   | 788               |
|                             | <u>\$ 519,330</u> | <u>\$ 809,371</u> |

**THE HOPE CENTER, INC. AND AFFILIATES**

**NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JULY 31, 2010 AND 2009**

**6. Commitments:**

On May 14, 2010, HLA entered into an employment contract with the Principal of the school. The employment term commences on September 1, 2010, and ends on June 30, 2012. Extension of the contract term will be considered on or around February 1, 2011. The contract may be terminated by mutual agreement of the parties, disability or death of the Principal, or discharge by HLA for cause.

Future minimum wage payments under this employment contract are as follows:

| <u>Year ending<br/>July 31,</u> | <u>Amount</u>     |
|---------------------------------|-------------------|
| 2011                            | \$ 77,000         |
| 2012                            | <u>77,000</u>     |
|                                 | <u>\$ 154,000</u> |

In August, 2010, HFCC entered into an agreement with Research Medical Center (Research) whereby Research agreed to make 24 monthly payments to HFCC to fund a new physician practice, beginning in 2011. The amounts to be advanced each month will be the lesser of actual expenses or the monthly maximums as defined in the agreement, which total \$589,792 for the 24 months.

Pursuant to a promissory note, HFCC agreed to repay the advances beginning in the 25<sup>th</sup> month, in 24 monthly payments of principal and interest at the Wall Street Journal rate plus 1%. However, for each month after the initial 24 month period that the physician remains in the Research geographic area, one twenty-fourth of the amount due will be forgiven. Thus, if the physician remains in the area for 48 months, the entire note will be forgiven.

In connection with the above agreement with Research, in August, 2010, HFCC entered into an employment agreement with a physician to provide medical services at HFCC for four years beginning in February, 2011. The agreement provides for annual compensation of \$144,000 for the first 2 years and \$106,000 for the second two years of the agreement.