



STATE OF INDIANA
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January 5, 2017

Charter School Board
Hope Academy
8102 Clearvista Parkway
Indianapolis, IN 46256

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Blue & Co., LLC, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Hope Academy, as of June 30, 2016, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Audit Report for the Hope Academy was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner



FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

CPAs / ADVISORS



HOPE ACADEMY

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
The Recovery High School at Fairbanks, Inc.
d/b/a Hope Academy
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of The Recovery High School at Fairbanks, Inc., d/b/a Hope Academy (Hope Academy), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Board of Directors
The Recovery High School at Fairbanks, Inc.
d/b/a Hope Academy
Indianapolis, Indiana

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Academy as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on our consideration of Hope Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
December 20, 2016

HOPE ACADEMY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2016 AND 2015

	ASSETS	
	2016	2015
Current assets		
Cash and cash equivalents	\$ 86,559	\$ 69,200
Prepaid expenses	10,975	12,437
Other assets	3,846	160
Total current assets	<u>101,380</u>	<u>81,797</u>
Property and equipment		
Equipment	179,072	179,072
Computer hardware	140,141	124,991
Software	29,333	29,333
Books and educational materials	7,068	7,068
	<u>355,614</u>	<u>340,464</u>
Accumulated depreciation	(333,568)	(310,543)
Property and equipment, net	<u>22,046</u>	<u>29,921</u>
Total assets	<u>\$ 123,426</u>	<u>\$ 111,718</u>
	LIABILITIES AND NET ASSETS	
Current liabilities		
Accounts payable and accrued expenses	\$ 5,559	\$ 17,857
Salaries, wages and related liabilities	19,883	18,527
Due to Fairbanks Hospital, Inc.	509	-0-
Total current liabilities	<u>25,951</u>	<u>36,384</u>
Net assets		
Unrestricted	87,397	75,334
Temporarily restricted	10,078	-0-
Total net assets	<u>97,475</u>	<u>75,334</u>
Total liabilities and net assets	<u>\$ 123,426</u>	<u>\$ 111,718</u>

See accompanying notes to financial statements.

HOPE ACADEMY

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Unrestricted operating revenue		
State support	\$ 506,134	\$ 472,675
Grant revenue	2,160	10,000
Other revenue	21,707	19,323
Total operating revenue	530,001	501,998
Operating expenses		
Salaries and benefits	570,030	564,743
Fiscal and administrative	45,876	47,349
Travel	18,954	8,496
Purchased services	390,368	338,920
Advertising	11,298	552
Depreciation	23,026	25,438
Insurance	17,374	17,910
Rent	150,448	150,160
Other	12,068	19,194
Total operating expenses	1,239,442	1,172,762
Operating loss	(709,441)	(670,764)
Nonoperating revenue		
Contributions	105,851	93,747
Donation from Fairbanks	360,000	385,709
Total nonoperating revenue	465,851	479,456
Revenue under expenses	(243,590)	(191,308)
Other changes in net assets		
Equity transfer from Fairbanks Hospital, Inc.	255,653	253,706
Change in unrestricted net assets	12,063	62,398
Temporarily restricted net assets		
Donations	10,078	-0-
Change in temporarily restricted net assets	10,078	-0-
Change in net assets	22,141	62,398
Net assets		
Beginning of year	75,334	12,936
End of year	\$ 97,475	\$ 75,334

See accompanying notes to financial statements.

HOPE ACADEMY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating activities		
Change in net assets	\$ 22,141	\$ 62,398
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	23,026	25,438
Equity transfer with Fairbanks	(255,653)	(253,706)
Donation from Fairbanks	(360,000)	(385,709)
Changes in operating assets and liabilities		
Prepaid expenses and other current assets	(2,224)	4,536
Accounts payable and accrued expenses	(12,298)	(9,878)
Salaries, wages and related liabilities	1,356	(7,160)
Net cash flows from operating activities	<u>(583,652)</u>	<u>(564,081)</u>
Investing activities		
Property and equipment additions	(15,151)	(1,133)
Net cash flows from investing activities	<u>(15,151)</u>	<u>(1,133)</u>
Financing activities		
Due to Fairbanks Hospital, Inc.	360,509	365,897
Equity transfer from Fairbanks Hospital, Inc.	255,653	253,706
Net cash flows from financing activities	<u>616,162</u>	<u>619,603</u>
Change in cash and cash equivalents	17,359	54,389
Cash and cash equivalents		
Beginning of year	69,200	14,811
End of year	<u>\$ 86,559</u>	<u>\$ 69,200</u>
Noncash financing activities		
Donation from Fairbanks	\$ 360,000	\$ 385,709

See accompanying notes to financial statements.

HOPE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Recovery High School at Fairbanks, Inc. d/b/a Hope Academy (Hope Academy) is a not-for-profit, fully accredited, tuition-free, Indiana public charter high school based in Indianapolis, Indiana. It was incorporated June 29, 2005 for the purpose of providing opportunities for academic achievement, sobriety and personal growth for students and their families. Fairbanks Hospital, Inc. is the sole member of Hope Academy. The School was awarded a charter grant from the State of Indiana.

Fairbanks Hospital, Inc. (Fairbanks) is the sole member of Hope Academy. Fairbanks is committed to the financial viability of Hope Academy and as such, pledges continued support to Hope Academy.

Basis of Accounting

The financial statements of Hope Academy have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses when the obligation is incurred.

Use of Estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Hope Academy considered highly liquid investments available for operating purposes with and original maturity of 90 days or less to be cash and cash equivalents.

Prepaid Expenses

Prepaid expenses relate to advance payments on products or services that will be used for future programs or activities.

HOPE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair market value at date of donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Maintenance repairs and minor renewals are expenses as incurred. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss for the period is recognized. Depreciation is provided over the estimated useful life of each class of depreciable asset, ranging from 3-15 years, and is computed on using the straight-line method.

Depreciation expense was \$23,026 and \$25,438 for the year ended June 30, 2016 and 2015, respectively.

State Support

Hope Academy receives state funds that have been designated for charter schools from the Indiana Department of Education. The State uses a formula based on the number of students enrolled in the school during the year to determine the amount of funds Hope Academy receives.

Grant Revenue

Grant revenue consists of grants from cost reimbursement and other grants.

Other Revenue

Other revenue consists of student fees, student lunch, textbook rental and other miscellaneous income.

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unrestricted contributions are recorded as non-operating income. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets.

HOPE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Hope Academy.

Volunteers also provide program services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. These services include volunteering at events and clerical work.

Temporarily Restricted Net Assets

Temporarily restricted net assets which are those assets whose use has been limited by donors for a specific operating or capital purpose. When a donor restriction is met or expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported as net assets released from restrictions.

Performance Indicator

The statement of activities and changes in net assets include a performance indicator, revenues over expenses. Consistent with industry practice, net assets released from restrictions for temporarily restricted net asset activity and the equity transfer from Fairbanks Hospital is excluded from the performance indicator.

Advertising

Hope Academy uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred.

Income Taxes

Hope Academy is a not-for-profit corporation as defined by Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal and state income taxes.

As such, Hope Academy is generally exempt from income taxes. However, Hope Academy is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

HOPE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Hope Academy and recognize a tax liability if Hope Academy has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by Hope Academy, and has concluded that as of June 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. Hope Academy is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Hope Academy filed their federal and state income tax returns for periods through June 30, 2015. The income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Litigation

Hope Academy may be involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the future financial position, results of operations or cash flows of Hope Academy.

Concentration of Credit Risk

Hope Academy maintains its cash in accounts, which at times, may exceed federally insured limits. Hope Academy has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Approximately 95% and 94% of Hope Academy's operating revenue is from the Indiana Department of Education for the years ended June 30, 2016 and 2015, respectively.

Subsequent Events

Hope Academy has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued which is December 20, 2016.

HOPE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Recently Issued Accounting Standards

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14 Presentation of Financial Statements of Not-for-Profit Entities (Topic 958) that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Center is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two phase project to amend not-for-profit financial reporting requirements.

2. RELATED PARTIES

Hope Academy receives financial assistance from its sole member in the form of unrestricted contributions that Fairbanks raises on behalf of Hope Academy in addition to net asset equity transfers. Hope Academy has recorded payables due to Fairbanks of \$509 and \$-0- as of June 30, 2016 and 2015, respectively. For the year ended June 30, 2016, Hope Academy received unrestricted contribution revenue of \$360,000 and net assets equity transfers totaling \$255,653 in addition to incurring lease expense in the amount of \$150,448 due to Fairbanks. For the year ended June 30, 2015, Hope Academy received unrestricted contributions revenue \$385,709 and net asset equity transfers totaling \$253,706 in addition to incurring lease expense in the amount of \$150,160.

3. PENSION PLAN

Hope Academy elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS includes the Public Employee's Retirement Fund (PERF) and the Teacher's Retirement Fund (TRF). PERF and TRF are cost-sharing multiple-employer defined benefit plans, governed by the INPRS Board of Trustees, that provide retirement, disability, and survivor benefits to its members and beneficiaries.

Hope Academy contributes the participant's required contribution of 3% of their annual salary. In addition, Hope Academy is required by State statute to contribute at an actuarially determined rate annually. The current actuarially determined rate for teaching faculty in the TRF is 7.5% and for non-teaching staff in the PERF it is 11.2% of annual covered payroll. The contribution requirements of participants are determined by State statute. Expenses related to the pension plan for the years ended June 30, 2016 and 2015 were \$21,259 and \$20,733, respectively.

HOPE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

4. RISKS AND UNCERTAINTIES

Hope Academy provides education instruction services to families residing in Marion and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana. Changes in state legislation could significantly affect Hope Academy. Additionally, Hope Academy is subject to monitoring and audit by state agencies. Those examinations may result in additional liability to be imposed on Hope Academy.

5. FUNCTIONAL EXPENSES

Hope Academy incurred the following program services as well as general and administrative expenses for the year ended June 30, 2016 and 2015:

	2016			Total Expenses
	Program Services	Management and General	Fundraising	
Salaries and benefits	\$ 570,030	\$ -0-	\$ -0-	\$ 570,030
Professional services	232,359	168,063	4,425	404,847
Operational supplies	17,793	-0-	-0-	17,793
Travel	19,791	-0-	-0-	19,791
Printing and postage	5,465	-0-	-0-	5,465
Other supplies	2,079	30	-0-	2,109
Insurance	17,374	-0-	-0-	17,374
Rent	150,448	-0-	-0-	150,448
Food purchases	787	584	-0-	1,371
Minor equipment	12,068	-0-	-0-	12,068
Interest	73	-0-	-0-	73
Depreciation	23,026	-0-	-0-	23,026
Other	12,620	2,427	-0-	15,047
	<u>\$ 1,063,913</u>	<u>\$ 171,104</u>	<u>\$ 4,425</u>	<u>\$ 1,239,442</u>

HOPE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

	2015			Total Expenses
	Program Services	Management and General	Fundraising	
Salaries and benefits	\$ 564,743	\$ -0-	\$ -0-	\$ 564,743
Professional services	169,583	180,245	4,105	353,933
Operational supplies	17,734	-0-	-0-	17,734
Travel	8,496	-0-	-0-	8,496
Printing and postage	4,335	-0-	-0-	4,335
Other supplies	5,903	212	-0-	6,115
Insurance	17,910	-0-	-0-	17,910
Rent	150,160	-0-	-0-	150,160
Food purchases	824	-0-	-0-	824
Minor equipment	17,426	-0-	-0-	17,426
Interest	16	-0-	-0-	16
Depreciation	25,438	-0-	-0-	25,438
Other	4,205	1,427	-0-	5,632
	<u>\$ 986,773</u>	<u>\$ 181,884</u>	<u>\$ 4,105</u>	<u>\$ 1,172,762</u>



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REPORT OF INDEPENDENT AUDITORS ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS*

Board of Directors
The Recovery High School at Fairbanks, Inc.
d/b/a Hope Academy
Indianapolis, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Recovery High School at Fairbanks, Inc. d/b/a Hope Academy (Hope Academy), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 20, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Hope Academy'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.

Board of Directors
The Recovery High School at Fairbanks, Inc.
d/b/a Hope Academy
Indianapolis, Indiana

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 Hope 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hope Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Blue & Co., LLC

Indianapolis, Indiana
December 20, 2016

HOPE ACADEMY

OTHER REPORTS
YEAR ENDED JUNE 30, 2016

The reports presented herein were prepared in addition to another official report prepared for Hope Academy as listed below:

The Recovery High School at Fairbanks, Inc. d/b/a Hope Academy
Supplemental Audit Report

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Guidelines Manual for Indiana Charter Schools*.