

**HOPE CHAPEL**  
(A Hawaii Nonprofit Corporation)

FINANCIAL STATEMENTS  
(With Independent Auditors' Report)

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Hope Chapel  
Kihei, Hawaii 96753

We have audited the accompanying financial statements of Hope Chapel (a Hawaii Nonprofit Corporation), which comprise the statements of financial position as of as of December 31, 2015 and 2014, and the related statements of activities, 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Chapel as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Carbonaro CPAs & Management Group***

Wailuku, Hawaii  
June 30, 2016

HOPE CHAPEL

**Statements of Financial Position**  
As of December 31, 2015 and 2014

**ASSETS**

	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Notes 2 and 6)	\$ 1,246,120	\$ 1,680,490
Accounts Receivable	16,700	2,077
Deferred Bond Issuance Costs	50,360	47,709
Prepaid Expenses	11,195	-
Inventory	<u>-</u>	<u>129,591</u>
 Total Current Assets	 1,324,375	 1,859,867
<b>FIXED ASSETS (Notes 2 and 6)</b>		
Land	2,220,000	2,220,000
Site	3,051,534	3,051,534
Buildings	8,592,594	8,157,740
Equipment	1,219,503	1,184,954
Construction in Progress	53,531	130,500
Furniture	<u>116,151</u>	<u>83,204</u>
	15,253,313	14,827,932
 Accumulated Depreciation	 <u>(4,053,009)</u>	 <u>(3,798,799)</u>
 Net Fixed Assets	 <u>11,200,304</u>	 <u>11,029,133</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 12,524,679</u></u>	 <u><u>\$ 12,889,000</u></u>

HOPE CHAPEL

**Statements of Financial Position**  
As of December 31, 2015 and 2014

**LIABILITIES AND NET ASSETS**

	<u>2015</u>	<u>2014</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 17,820	\$ 26,767
Interest Payable	94,192	95,724
Other Current Liabilities	888	42,127
Accrued Payroll and Taxes	45,798	42,624
Current Portion of First Mortgage Bonds (Note 6)	<u>264,000</u>	<u>258,000</u>
Total Current Liabilities	422,698	465,242
First Mortgage Bonds (Note 6)	6,756,000	7,020,000
Discount on Bonds Payable (Note 6)	<u>(248,812)</u>	<u>(263,448)</u>
Total Long-term Liabilities	<u>6,507,188</u>	<u>6,756,552</u>
Total Liabilities	6,929,886	7,221,794
<b>NET ASSETS (Note 3)</b>		
Unrestricted Net Assets	5,189,840	4,820,358
Temporarily Restricted Net Assets - Building	49,350	424,827
Temporarily Restricted Net Assets - Other	355,603	422,021
Permanently Restricted Net Assets	<u>-</u>	<u>-</u>
Total Net Assets	<u>5,594,793</u>	<u>5,667,206</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 12,524,679</u></u>	<u><u>\$ 12,889,000</u></u>

## HOPE CHAPEL

**Statement of Activities**

For the Year Ended December 31, 2015

	General Operations		Book Store	Total	
	Unrestricted	Temporarily Restricted			
		Building	All Others		
<b>PUBLIC SUPPORT and REVENUE</b>					
General Offering	\$ 2,219,575	\$ 56,167	\$ -	\$ -	\$ 2,275,742
Missions			506,264		506,264
In Kind	8,721				8,721
Designated Giving		27,128	3,650		30,778
Ministry and Other Income	33,157		61,042		94,199
Net Assets Released from Restrictions	1,096,146	(458,772)	(637,374)		-
<b>Total Public Support and Revenue</b>	<b>3,357,599</b>	<b>(375,477)</b>	<b>(66,418)</b>	<b>-</b>	<b>2,915,704</b>
<b>BOOKSTORE</b>					
Sales				294,448	294,448
Cost of Sales				221,939	221,939
<b>Gross Profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>72,509</b>	<b>72,509</b>
<b>Total Public Support, Revenue and Gross Profit</b>	<b>3,357,599</b>	<b>(375,477)</b>	<b>(66,418)</b>	<b>72,509</b>	<b>2,988,213</b>
<b>EXPENSES</b>					
General Payroll Expenses	1,024,572				1,024,572
Missions	533,255				533,255
Interest Expense	397,082				397,082
General Operations	225,427				225,427
Bookstore Operations				124,225	124,225
Intern Program	117,318				117,318
Special Programs	65,976				65,976
Outreach and Appreciation	62,997				62,997
Facility and Rent	58,723				58,723
Children's Ministry	36,512				36,512
J. Jaquess Trust Expense	34,559				34,559
Youth Ministry	27,568				27,568
Multi Media	23,162				23,162
General Excise Tax				11,338	11,338
General Ministries	9,293				9,293
Education and Training	5,876				5,876
University of Hope Expenses	2,164				2,164
<b>Total Expense</b>	<b>2,624,484</b>	<b>-</b>	<b>-</b>	<b>135,563</b>	<b>2,760,047</b>
<b>Changes in Net Assets before Depreciation</b>	<b>\$ 733,115</b>	<b>\$ (375,477)</b>	<b>\$ (66,418)</b>	<b>\$ (63,054)</b>	<b>\$ 228,166</b>
Depreciation Expense	300,579				300,579
<b>Changes in Net Assets</b>	<b>\$ 432,536</b>	<b>\$ (375,477)</b>	<b>\$ (66,418)</b>	<b>\$ (63,054)</b>	<b>\$ (72,413)</b>

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

HOPE CHAPEL

**Statement of Activities**

For the Year Ended December 31, 2014

	General Operations			Book Store	Total
	Unrestricted	Temporarily Restricted			
		Building	All Others		
<b>PUBLIC SUPPORT and REVENUE</b>					
General Offering	\$ 2,222,353	\$ 46,597	\$ -	\$ -	\$ 2,268,950
Missions			284,372		284,372
Inkind	26,796				26,796
Designated Giving		532,777	87,646		620,423
Ministry and Other Income	18,595		130,282		148,877
Net Assets Released from Restrictions	705,289	(154,547)	(550,742)		-
<b>Total Public Support and Revenue</b>	<b>2,973,033</b>	<b>424,827</b>	<b>(48,442)</b>	<b>-</b>	<b>3,349,418</b>
<b>BOOKSTORE</b>					
Sales				257,139	257,139
Cost of Sales				137,211	137,211
<b>Gross Profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>119,928</b>	<b>119,928</b>
<b>Total Support, Revenue and Gross Profit</b>	<b>2,973,033</b>	<b>424,827</b>	<b>(48,442)</b>	<b>119,928</b>	<b>3,469,346</b>
<b>EXPENSES</b>					
General Payroll Expenses	979,127				979,127
Interest Expense	407,998				407,998
Missions	348,243				348,243
General Operations	218,871				218,871
Special Programs	170,790				170,790
Bookstore Operations				123,094	123,094
Intern Program	94,989				94,989
Facility and Rent	60,830				60,830
Outreach and Appreciation	42,176				42,176
Children's Ministry	38,273				38,273
J. Jaquess Trust Expense	35,170				35,170
Youth Ministry	28,553				28,553
Multi Media	17,598				17,598
General Ministries	10,088				10,088
General Excise Tax				10,019	10,019
Education and Training	2,525				2,525
University of Hope Expenses	1,693				1,693
<b>Total Expense</b>	<b>2,456,924</b>	<b>-</b>	<b>-</b>	<b>133,113</b>	<b>2,590,037</b>
<b>Changes in Net Assets before Depreciation</b>	<b>\$ 516,109</b>	<b>\$ 424,827</b>	<b>\$ (48,442)</b>	<b>\$ (13,185)</b>	<b>\$ 879,309</b>
Depreciation Expense	295,953			-	295,953
<b>Changes in Net Assets</b>	<b>\$ 220,156</b>	<b>\$ 424,827</b>	<b>\$ (48,442)</b>	<b>\$ (13,185)</b>	<b>\$ 583,356</b>

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

HOPE CHAPEL

**Statement of Changes in Net Assets**  
For the Years Ended December 31, 2015 and 2014

	General Operations			Book Store Unrestricted	Total
	Unrestricted	Temporarily Restricted Building	All Others		
Net Assets as of December 31, 2013	\$ 4,373,848	\$ -	\$ 470,463	\$ 239,539	\$ 5,083,850
Change in Net Assets - 2014	220,156	424,827	(48,442)	(13,185)	583,356
<b>Net Assets as of December 31, 2014</b>	<b>\$ 4,594,004</b>	<b>\$ 424,827</b>	<b>\$ 422,021</b>	<b>\$ 226,354</b>	<b>\$ 5,667,206</b>
Change in Net Assets - 2015	432,536	(375,477)	(66,418)	(63,054)	(72,413)
Transfer (Note 1)	163,300			(163,300)	-
<b>Net Assets as of December 31, 2015</b>	<b>\$ 5,189,840</b>	<b>\$ 49,350</b>	<b>\$ 355,603</b>	<b>\$ -</b>	<b>\$ 5,594,793</b>

HOPE CHAPEL

**Statements of Cash Flows**

For the Years Ended December 31, 2015 and 2014

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2015</u>	<u>2014</u>
Cash Received from Members	\$ 2,906,983	\$ 3,322,622
Cash Received from Sales	279,825	258,087
Cash Paid for Interest	(386,629)	(391,358)
Cash Paid to Employees and Vendors	<u>(2,513,520)</u>	<u>(2,271,262)</u>
Net Cash Provided by Operating Activities (Note 5)	286,659	918,089
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Construction in Process	(44,810)	(103,704)
Purchase of Buildings and Equipment	<u>(418,219)</u>	<u>(29,473)</u>
Net Cash Used by Investing Activities	(463,029)	(133,177)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Notes Payable and Redemption of Bonds	<u>(258,000)</u>	<u>(253,000)</u>
Net Cash Used by Financing Activities	<u>(258,000)</u>	<u>(253,000)</u>
 <b>Net Increase (Decrease) in Cash for the Year</b>	<b>(434,370)</b>	<b>531,912</b>
 CASH BALANCE, BEGINNING OF YEAR	<u>1,680,490</u>	<u>1,148,578</u>
 CASH BALANCE, END OF YEAR	<u><u>\$ 1,246,120</u></u>	<u><u>\$ 1,680,490</u></u>
 Supplemental Non-Cash Financing Activities		
Construction in Process Transferred into Buildings	\$ 103,704	\$ -
In Kind Donation of Buildings	\$ 8,721	\$ -
In Kind Donation of Construction In Process	\$ -	\$ 26,796

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



## HOPE CHAPEL

### Notes to the Financial Statements December 31, 2015 and 2014

#### Note 1. CHURCH

Hope Chapel (the Church) was incorporated August 19, 1980 under the laws of the State of Hawaii. The purpose of the Church is to maintain and operate a religious corporation, which propagates and disseminates the religious principles presented in the Holy Bible. Part of fulfilling its mission is to establish schools of collegiate grade and less than collegiate grade and to establish, maintain and conduct missionary endeavors for the furtherance of the gospel of Jesus Christ. During the year, the Church closed the bookstore and the unrestricted net assets were transferred into the unrestricted general operations.

Hope Chapel is exempt from Federal income taxes pursuant to Internal Revenue Code Section 501(c) (3) for income related to the Church's mission. Sales of bookstore items are subject to the State General Excise Tax.

#### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Method of Accounting:* The Church uses the accrual method of accounting for financial statement reporting according to generally accepted accounting principles. Under this method of accounting, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

*Cash and Cash Equivalents* - Cash and cash equivalents reflected in the Statement of Cash Flows include checking accounts, savings accounts, and investment accounts that are small and readily converted to cash within 90 days.

The Church, from time to time, maintains cash balances at financial institutions in excess of federally insured limits. Management believes that these financial institutions are stable and that the risk of loss is minimal.

*Inventory:* Inventory consists of books, music, clothing and other items that promote the Church's defined mission. Inventory is recorded at cost using the average cost method. The Church uses the cycle count method for physical inventory observation.

*Land:* The Church capitalizes all its land which is stated at cost or, if donated, at the approximate fair value at the date of donation. Land appraisals are used to determine fair market value.

*Capitalized Facility:* During the period of construction, the Church capitalized all costs associated with building the new Church facilities. Included in capitalized costs are the following: architectural design, interest incurred during the construction period, construction management, and other direct building costs.

*Fixed Assets:* Fixed assets are stated at cost or fair market value at the date of donation for donated items. The Church capitalized all fixed assets with a value over \$5,000 and a useful life greater than one year. Donated property and equipment are recorded as revenue at their estimated fair value. Such donations are reported as unrestricted revenue unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from three to forty years.

## HOPE CHAPEL

### Notes to the Financial Statements December 31, 2015 and 2014

#### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Revenue Recognition:* Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

*Donated Services:* The weekly operations of the Church require donated time from volunteers. No amounts have been reflected in the financial statements for these donated services as no objective basis is available to measure the actual hours and value of the services. Nevertheless, many volunteers have donated significant amounts of their time to the Church's activities.

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

*Advertising:* The Church expenses advertising as they incur. Advertising expense was \$13,389 and \$15,148 as of December 31, 2015 and 2014, respectively.

*Reclassification:* Certain items from the 2014 statement of activities has been reclassified to match 2015 classification. There were no changes to net assets.

#### Note 3. NET ASSETS

Hope Chapel has conformed to FASB ASC 958-210-45-9 "Not-for-Profit Entities, Classifications of Net Assets". Accordingly, the Church is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Temporarily restricted net assets represent designated funds received from donors who have restricted the use of the funds. The unspent balances related to temporarily restricted assets as of December 31, are the following:

	<u>2015</u>	<u>2014</u>
Jaquess Trust Fund	\$ 236,929	\$ 261,447
Missions	78,213	81,184
Jake's House and other Capital Projects	49,350	424,827
Others	22,108	53,257
Benevolence	<u>18,353</u>	<u>26,133</u>
	<u>\$ 404,953</u>	<u>\$ 846,848</u>

Permanently restricted net assets represent funds received which have permanent restrictions imposed by the donor. There are no permanently restricted net assets as of December 31, 2015 and 2014.

## HOPE CHAPEL

### Notes to the Financial Statements December 31, 2015 and 2014

#### Note 4. VISION OF HOPE

Vision of Hope is the name given to the fundraising campaign and building project. The Church completed the facility in 2006 and as a result, the Church obtained financing to fund the project as more fully described in Notes 6 and 7. The Vision of Hope campaign is continuing as pledges are collected and new donations are received. All of these funds are being used to purchase and complete the Vision of Hope building project.

#### Note 5. RECONCILIATION OF CHANGES IN NET ASSETS WITH NET CASH PROVIDED BY OPERATING ACTIVITIES

	2015	2014
Changes in Net Assets	\$ (72,413)	\$ 583,356
Adjustments to Reconcile:		
Add back Depreciation	300,579	295,953
In-Kind Donation of Construction In Process	(8,721)	(26,796)
Net Bond Discount/Issuance Amortization	11,985	17,669
Change in Accounts Receivable	(14,623)	948
Change in Inventory	129,591	11,419
Change in Prepaid Expenses	(11,195)	-
Change in Accounts and Interest Payable	(51,718)	27,901
Change in Accrued Payroll and Taxes	3,174	7,639
Net Cash Provided by Operating Activities	<u>\$ 286,659</u>	<u>\$ 918,089</u>

#### Note 6. FIRST MORTGAGE BONDS

In 2013, Hope Chapel issued First Mortgage Bonds for \$7,625,000 discounted \$292,720 (4% for non Church members and 2% for Church members). The Bonds were issued under and secured by a Second Supplemental Trust Indenture dated as of April 1, 2013 between the Reliance Trust Company (formally Church and Marshall & Ilsley Trust Company and M.F. Hron) as the trustee. The Bonds are secured by a Mortgage, dated November 1, 2013, by and among the Church, as mortgagor, and the Trustee, collectively as mortgagee. The Trustees will serve as paying agent for the Bonds. The purpose of the loan was to refinance several loans.

The \$292,720 of discounts on the bonds along with the \$53,010 of bond issuance costs have been capitalized and will be amortized over the 20 year life of the bonds.

## HOPE CHAPEL

### Notes to the Financial Statements December 31, 2015 and 2014

#### Note 6. FIRST MORTGAGE BONDS (Continued)

Payment of interest and principal of the First Mortgage Bonds is solely the responsibility of Hope Chapel. Interest payments by the Trustee will be made each April 1 and October 1 to the Registered Owner of a Bond as of the applicable interest payment date. Principle maturity schedule and interest Rates are as follows:

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>
April 1, 2016	\$131,000	3.00%	April 1, 2021	\$158,000	4.75%
October 1, 2016	\$133,000	3.25%	October 1, 2021	\$162,000	5.00%
April 1, 2017	\$136,000	3.25%	April 1, 2022	\$166,000	5.00%
October 1, 2017	\$138,000	3.50%	October 1, 2022	\$170,000	5.00%
April 1, 2018	\$140,000	3.75%	April 1, 2023	\$175,000	5.25%
October 1, 2018	\$143,000	4.00%	October 1, 2023	\$179,000	5.50%
April 1, 2019	\$146,000	4.00%	April 1, 2024	\$184,000	5.50%
October 1, 2019	\$149,000	4.25%	April 1, 2027	\$1,220,000	5.75%
April 1, 2020	\$152,000	4.25%	April 1, 2033	\$3,183,000	6.00%
October 1, 2020	\$155,000	4.50%			
				<u>\$7,020,000</u>	

The Bonds may be redeemed in whole on any day of the month at the option of the Church without penalty. The mortgage collateral is the land and building of the new Church location on Piilani Highway. This consists of 3 large buildings on approximately 17.8 acres.

The Church is required to make minimum monthly sinking fund payments of \$53,825 until all of the bonds have been paid. Mandatory redemption fund payments will be made semi annually on April 1 and October 1 with the final maturity of April 1, 2033. The sinking fund balance was \$167,272 and \$166,001 at December 31, 2015 and 2014, respectively. These amounts are included in cash and cash equivalents for their respective year.

There are other detailed provisions of the First Mortgage Bonds and the Trust Indenture; therefore, these documents should be read in their entirety.

#### Note 7. SUBSEQUENT EVENT

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through June 30, 2016, the date the financial statements were available for use.

#### Note 8. PURCHASE POWER AGREEMENT

During 2014, the Church entered into a purchase power agreement with KEC Ohana Solar Fund 2014 LLC (the Seller). Under the agreement, the Seller constructed a 194.0 kWpDC 1337 solar panel system on the Church's property. The Church will purchase power from the Seller for a term of 20 years. At the end of year six and ten during the agreement the Church has the option to purchase the solar panels at fair market value. If the Church does not exercise these options the solar panels become property of the Church at the end of the agreement which is year twenty.