

HOPE CHAPEL
(A Hawaii Nonprofit Corporation)

FINANCIAL STATEMENTS
(With Independent Auditors' Report)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 and Management Group

Wailuku, Hawaii
April 28, 2017

HOPE CHAPEL

Statements of Financial Position
As of December 31, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and Cash Equivalents (Notes 2 and 6)	\$ 1,164,723	\$ 1,246,120
Accounts Receivable	9,379	16,700
Investments (Note 9)	160,000	-
Deferred Bond Issuance Costs (Note 6)	42,408	50,360
Prepaid Expenses	<u>9,748</u>	<u>11,195</u>
Total Current Assets	1,386,258	1,324,375
FIXED ASSETS (Notes 2 and 6)		
Buildings	8,655,273	8,592,594
Site	3,126,897	3,051,534
Land	2,220,000	2,220,000
Equipment	1,286,228	1,219,503
Furniture	139,946	116,151
Auto	28,463	-
Construction in Progress	-	53,531
	<u>15,456,807</u>	<u>15,253,313</u>
Accumulated Depreciation	<u>(4,394,722)</u>	<u>(4,053,009)</u>
Net Fixed Assets	<u>11,062,085</u>	<u>11,200,304</u>
TOTAL ASSETS	<u><u>\$ 12,448,343</u></u>	<u><u>\$ 12,524,679</u></u>

HOPE CHAPEL

Statements of Financial Position
As of December 31, 2016 and 2015

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 14,510	\$ 17,820
Interest Payable	92,129	94,192
Other Current Liabilities	11,455	888
Accrued Payroll and Taxes	31,974	45,798
Current Portion of First Mortgage Bonds (Note 6)	<u>274,000</u>	<u>264,000</u>
 Total Current Liabilities	 424,068	 422,698
 First Mortgage Bonds (Note 6)	 6,482,000	 6,756,000
Discount on Bonds Payable (Note 6)	<u>(234,176)</u>	<u>(248,812)</u>
 Total Long-term Liabilities	 <u>6,247,824</u>	 <u>6,507,188</u>
 Total Liabilities	 6,671,892	 6,929,886
NET ASSETS (Note 3)		
Unrestricted Net Assets	5,278,433	5,189,840
Elder Designated Capital Maintenance Reserve	52,000	-
Temporarily Restricted Net Assets - Building	45,467	49,350
Temporarily Restricted Net Assets - Other	400,551	355,603
Permanently Restricted Net Assets	<u>-</u>	<u>-</u>
 Total Net Assets	 <u>5,776,451</u>	 <u>5,594,793</u>
TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 12,448,343</u></u>	 <u><u>\$ 12,524,679</u></u>

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Statement of Activities

For the Year Ended December 31, 2016

	General Operations			Total
	Unrestricted	Temporarily Restricted		
		Building	All Others	
PUBLIC SUPPORT and REVENUE				
General Offering	\$ 2,398,589	\$ 77,960	\$ -	\$ 2,476,549
Missions			506,700	506,700
In Kind	-			-
Designated Giving			285	285
Ministry and Other Income	36,639		113,409	150,048
Net Assets Released from Restrictions	657,289	(81,843)	(575,446)	-
Total Public Support and Revenue	3,092,517	(3,883)	44,948	3,133,582
CAFÉ and COFFEE SHOP SALES				
Sales	65,016			65,016
Cost of Sales	46,911			46,911
Gross Profit	18,105	-	-	18,105
Total Public Support, Revenue and Gross Profit	3,110,622	(3,883)	44,948	3,151,687
EXPENSES				
General Payroll Expenses	952,794			952,794
Missions	463,238			463,238
Interest Expense	399,899			399,899
General Operations	304,510			304,510
Intern Program	113,497			113,497
Outreach and Appreciation	76,733			76,733
Special Programs	75,659			75,659
Facility and Rent	55,027			55,027
Children's Ministry	38,739			38,739
Youth Ministry	34,860			34,860
Café and Coffee Shop Operations	29,998			29,998
J. Jaquess Trust Expense	20,761			20,761
Education and Training	16,335			16,335
Multi Media	15,437			15,437
General Ministries	14,888			14,888
University of Hope Expenses	10,777			10,777
General Excise Tax	4,084			4,084
Building Fund	1,080			1,080
Total Expense	2,628,316	-	-	2,628,316
Changes in Net Assets before Depreciation	\$ 482,306	\$ (3,883)	\$ 44,948	\$ 523,371
Depreciation Expense	341,713			341,713
Changes in Net Assets	\$ 140,593	\$ (3,883)	\$ 44,948	\$ 181,658

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

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Statement of Activities

For the Year Ended December 31, 2015

	General Operations			Book Store	Total
	Unrestricted	Temporarily Restricted			
		Building	All Others		
PUBLIC SUPPORT and REVENUE					
General Offering	\$ 2,219,575	\$ 56,167	\$ -	\$ -	\$ 2,275,742
Missions			506,264		506,264
Inkind	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)		-
Total Public Support and Revenue	3,357,599	(375,477)	(66,418)	-	2,915,704
BOOKSTORE					
Sales				294,448	294,448
Cost of Sales				221,939	221,939
Gross Profit	-	-	-	72,509	72,509
Total Support, Revenue and Gross Profit	3,357,599	(375,477)	(66,418)	72,509	2,988,213
EXPENSES					
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	66,004				66,004
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	2,136				2,136
Total Expense	2,624,484	-	-	135,563	2,760,047
Changes in Net Assets before Depreciation	\$ 733,115	\$ (375,477)	\$ (66,418)	\$ (63,054)	\$ 228,166
Depreciation Expense	300,579			-	300,579
Changes in Net Assets	\$ 432,536	\$ (375,477)	\$ (66,418)	\$ (63,054)	\$ (72,413)

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, 2016 and 2015

	General Operations			Book Store Unrestricted	Total
	Unrestricted	Temporarily Restricted			
		Building	All Others		
Net Assets as of December 31, 2014	\$ 4,594,004	\$ 424,827	\$ 422,021	\$ 226,354	\$ 5,667,206
Change in Net Assets - 2015	432,536	(375,477)	(66,418)	(63,054)	(72,413)
Transfer (Note 1)	163,300			(163,300)	-
Net Assets as of December 31, 2015	\$ 5,189,840	\$ 49,350	\$ 355,603	\$ -	\$ 5,594,793
Change in Net Assets - 2016	140,593	(3,883)	44,948	-	181,658
Net Assets as of December 31, 2016	\$ 5,330,433	\$ 45,467	\$ 400,551	\$ -	\$ 5,776,451

HOPE CHAPEL

Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

CASH FLOWS FROM OPERATING ACTIVITIES	2016	2015
Cash Received from Members	\$ 3,133,582	\$ 2,906,983
Cash Received from Sales	25,426	279,825
Cash Paid for Interest	(379,374)	(386,629)
Cash Paid to Employees and Vendors	(2,233,537)	(2,513,520)
Net Cash Provided by Operating Activities (Note 5)	546,097	286,659
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Construction in Process	(139,946)	(44,810)
Purchase of Buildings and Equipment	(63,548)	(418,219)
Purchase of Certificate of Deposit	(160,000)	-
Net Cash Used by Investing Activities	(363,494)	(463,029)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Notes Payable and Redemption of Bonds	(264,000)	(258,000)
Net Cash Used by Financing Activities	(264,000)	(258,000)
Net Increase (Decrease) in Cash for the Year	(81,397)	(434,370)
CASH BALANCE, BEGINNING OF YEAR	1,246,120	1,680,490
CASH BALANCE, END OF YEAR	\$ 1,164,723	\$ 1,246,120
Supplemental Non-Cash Financing Activities		
Construction in Process Transferred into Buildings	\$ 53,531	\$ 103,704
In Kind Donation of Buildings	\$ -	\$ 8,721

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

HOPE CHAPEL

Notes to the Financial Statements December 31, 2016 and 2015

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 2015, the Church closed the bookstore and the unrestricted net assets relating to the bookstore 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 items in the café and coffee shop 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.

Accounts Receivable: Management reviews Accounts Receivables on a periodic basis to determine if an allowance for doubtful assessments is necessary. Management has determined an allowance for doubtful assessments is not necessary as of December 31, 2016 and 2015, based on past collection history and the current composition of the Accounts Receivable balance.

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.

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Notes to the Financial Statements December 31, 2016 and 2015

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 \$3,322 and \$13,389 as of December 31, 2016 and 2015, respectively.

Reclassification: Certain items from the 2015 statement of activities have been reclassified to match 2016 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>2016</u>	<u>2015</u>
Jaquess Trust Fund	\$ 213,532	\$ 236,929
Missions	127,465	78,213
Capital Projects	45,467	49,350
Others	24,160	22,108
Benevolence	<u>35,394</u>	<u>18,353</u>
	<u>\$ 446,018</u>	<u>\$ 404,953</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, 2016 and 2015.

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Notes to the Financial Statements December 31, 2016 and 2015

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

	<u>2016</u>	<u>2015</u>
Changes in Net Assets	\$ 181,658	\$ (72,413)
Adjustments to Reconcile:		
Add back Depreciation	341,713	300,579
In-Kind Donation of Construction In Process	-	(8,721)
Net Bond Discount/Issuance Amortization	22,588	11,985
Change in Accounts Receivable	7,321	(14,623)
Change in Inventory	-	129,591
Change in Prepaid Expenses	1,447	(11,195)
Change in Accounts and Interest Payable	5,194	(51,718)
Change in Accrued Payroll and Taxes	<u>(13,824)</u>	<u>3,174</u>
Net Cash Provided by Operating Activities	<u>\$ 546,097</u>	<u>\$ 286,659</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.

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Notes to the Financial Statements December 31, 2016 and 2015

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, 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	<u>\$3,183,000</u>	6.00%
October 1, 2020	\$155,000	4.50%			
April 1, 2021	\$158,000	4.75%			
October 1, 2021	\$162,000	5.00%		<u>\$6,756,000</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 \$169,798 and \$167,272 at December 31, 2016 and 2015, 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 April 28, 2017, 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 years 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.

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Notes to the Financial Statements December 31, 2016 and 2015

Note 9. FAIR VALUE

The Church implemented *ASC 820-10-50-1* which establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

This fair value hierarchy consists of three broad levels.

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets and have the highest priority.
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs consist of significant unobservable inputs and include situations where there is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies and appraisals.

Fair values of assets measured on a recurring basis are as follows as of December 31, 2016, there are no liabilities or other assets measured at fair value on a recurring or non-recurring basis.

Assets	Total	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Life Insurance Annuity	\$ 150,000	\$ 150,000	\$ -	\$ -
Certificates of Deposit	10,000	10,000	-	-
Total	<u>\$ 160,000</u>	<u>\$ 160,000</u>	<u>\$ -</u>	<u>\$ -</u>