

HOPE CHAPEL
(A Hawaii Nonprofit Corporation)

FINANCIAL STATEMENTS
(With Independent Auditors' Report)

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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 December 31, 2017 and 2016, 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, 2017 and 2016, 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 30, 2018

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HOPE CHAPEL

Statements of Financial Position
As of December 31, 2017 and 2016

ASSETS

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------------|-----------------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents (Notes 2, 6 and 10) | \$ 1,491,564 | \$ 1,164,723 |
| Accounts Receivable | 11,627 | 9,379 |
| Investments (Note 9) | 160,000 | 160,000 |
| Deferred Bond Issuance Costs (Note 6) | 39,758 | 42,408 |
| Prepaid Expenses | <u>11,674</u> | <u>9,748</u> |
| Total Current Assets | 1,714,623 | 1,386,258 |
| FIXED ASSETS (Notes 2 and 6) | | |
| Buildings | 8,655,273 | 8,655,273 |
| Site Improvements | 3,126,897 | 3,126,897 |
| Land | 2,220,000 | 2,220,000 |
| Equipment | 1,291,952 | 1,286,228 |
| Furniture | 139,946 | 139,946 |
| Auto | <u>28,463</u> | <u>28,463</u> |
| | 15,462,531 | 15,456,807 |
| Accumulated Depreciation | <u>(4,738,881)</u> | <u>(4,394,722)</u> |
| Net Fixed Assets | <u>10,723,650</u> | <u>11,062,085</u> |
| TOTAL ASSETS | <u><u>\$ 12,438,273</u></u> | <u><u>\$ 12,448,343</u></u> |

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Statements of Financial Position

As of December 31, 2017 and 2016

LIABILITIES AND NET ASSETS

| | <u>2017</u> | <u>2016</u> |
|--|---------------------------------|---------------------------------|
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 5,523 | \$ 14,510 |
| Interest Payable | 89,818 | 92,129 |
| Other Current Liabilities | 5,471 | 11,455 |
| Accrued Payroll and Taxes | 59,270 | 31,974 |
| Current Portion of First Mortgage Bonds (Note 6) | <u>283,000</u> | <u>274,000</u> |
| Total Current Liabilities | 443,082 | 424,068 |
| First Mortgage Bonds (Note 6) | 6,199,000 | 6,482,000 |
| Discount on Bonds Payable (Note 6) | <u>(219,540)</u> | <u>(234,176)</u> |
| Total Long-term Liabilities | <u>5,979,460</u> | <u>6,247,824</u> |
| Total Liabilities | 6,422,542 | 6,671,892 |
| NET ASSETS (Note 3) | | |
| Unrestricted Net Assets | 5,328,412 | 5,278,433 |
| Elder Designated Capital Maintenance Reserve | 141,000 | 52,000 |
| Temporarily Restricted Net Assets - Building | 99,552 | 45,467 |
| Temporarily Restricted Net Assets - Other | 446,767 | 400,551 |
| Permanently Restricted Net Assets | <u>-</u> | <u>-</u> |
| Total Net Assets | <u>6,015,731</u> | <u>5,776,451</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 12,438,273</u></u> | <u><u>\$ 12,448,343</u></u> |

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

HOPE CHAPEL

Statement of Activities

For the Year Ended December 31, 2017

| | General Operations | | | Total |
|---|--------------------|------------------------|------------------|-------------------|
| | Unrestricted | Temporarily Restricted | | |
| | | Building | All Others | |
| PUBLIC SUPPORT and REVENUE | | | | |
| General Offering | \$ 2,602,283 | \$ 54,085 | \$ - | \$ 2,656,368 |
| Missions | | | 440,038 | 440,038 |
| Designated Giving | | | 6,896 | 6,896 |
| Ministry and Other Income | 19,313 | | 202,776 | 222,089 |
| Net Assets Released from Restrictions | 603,494 | - | (603,494) | - |
| Total Public Support and Revenue | 3,225,090 | 54,085 | 46,216 | 3,325,391 |
| CAFÉ and COFFEE SHOP SALES (Note 11) | | | | |
| Sales | 668 | | | 668 |
| Cost of Sales | 367 | | | 367 |
| Gross Profit | 301 | - | - | 301 |
| Total Public Support, Revenue and Gross Profit | 3,225,391 | 54,085 | 46,216 | 3,325,692 |
| EXPENSES | | | | |
| General Payroll Expenses | 1,029,269 | | | 1,029,269 |
| Missions | 498,425 | | | 498,425 |
| Interest Expense | 384,724 | | | 384,724 |
| General Operations | 311,804 | | | 311,804 |
| Intern Program | 121,495 | | | 121,495 |
| Special Programs | 81,442 | | | 81,442 |
| Outreach and Appreciation | 79,228 | | | 79,228 |
| Facility and Rent | 74,242 | | | 74,242 |
| Children's Ministry | 39,760 | | | 39,760 |
| Youth Ministry | 35,450 | | | 35,450 |
| Education and Training | 25,117 | | | 25,117 |
| Multi Media | 22,659 | | | 22,659 |
| J. Jaquess Trust Expense | 19,748 | | | 19,748 |
| General Ministries | 12,108 | | | 12,108 |
| University of Hope Expenses | 5,243 | | | 5,243 |
| Café and Coffee Shop Operations | 1,331 | | | 1,331 |
| Building Fund | 208 | | | 208 |
| Total Expense | 2,742,253 | - | - | 2,742,253 |
| Changes in Net Assets before Depreciation | \$ 483,138 | \$ 54,085 | \$ 46,216 | \$ 583,439 |
| Depreciation Expense | 344,159 | | | 344,159 |
| Changes in Net Assets | \$ 138,979 | \$ 54,085 | \$ 46,216 | \$ 239,280 |

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

HOPE CHAPEL

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 |
| 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 |
| BOOKSTORE (Note 11) | | | | |
| Sales | 65,016 | | | 65,016 |
| Cost of Sales | 46,911 | | | 46,911 |
| Gross Profit | 18,105 | - | - | 18,105 |
| Total 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 | 308,594 | | | 308,594 |
| 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 |
| Bookstore 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 |
| 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 Changes in Net Assets
For the Years Ended December 31, 2017 and 2016

| | General Operations | | | Total |
|---|----------------------------|-------------------------|--------------------------|----------------------------|
| | Unrestricted | Temporarily Restricted | | |
| | | Building | All Others | |
| Net Assets as of December 31, 2015 | \$ 5,189,840 | \$ 49,350 | \$ 355,603 | \$ 5,594,793 |
| Change in Net Assets - 2016 | <u>140,593</u> | <u>(3,883)</u> | <u>44,948</u> | <u>181,658</u> |
| Net Assets as of December 31, 2016 | \$ 5,330,433 | \$ 45,467 | \$ 400,551 | \$ 5,776,451 |
| Change in Net Assets - 2017 | <u>138,979</u> | <u>54,085</u> | <u>46,216</u> | <u>239,280</u> |
| Net Assets as of December 31, 2017 | <u>\$ 5,469,412</u> | <u>\$ 99,552</u> | <u>\$ 446,767</u> | <u>\$ 6,015,731</u> |

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Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

| CASH FLOWS FROM OPERATING ACTIVITIES | <u>2017</u> | <u>2016</u> |
|---|----------------------------|----------------------------|
| Cash Received from Members | \$ 3,325,391 | \$ 3,133,582 |
| Cash Received from Sales | 668 | 65,016 |
| Cash Paid for Interest | (367,438) | (379,374) |
| Cash Paid to Employees and Vendors | <u>(2,352,056)</u> | <u>(2,273,127)</u> |
| Net Cash Provided by Operating Activities (Note 5) | 606,565 | 546,097 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Construction in Process | - | (139,946) |
| Purchase of Buildings and Equipment | (5,724) | (63,548) |
| Purchase of Certificate of Deposit | <u>-</u> | <u>(160,000)</u> |
| Net Cash Used by Investing Activities | (5,724) | (363,494) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal Payments on Notes Payable and Redemption of Bonds | <u>(274,000)</u> | <u>(264,000)</u> |
| Net Cash Used by Financing Activities | <u>(274,000)</u> | <u>(264,000)</u> |
| Net Increase (Decrease) in Cash for the Year | 326,841 | (81,397) |
| CASH BALANCE, BEGINNING OF YEAR | <u>1,164,723</u> | <u>1,246,120</u> |
| CASH BALANCE, END OF YEAR | <u><u>\$ 1,491,564</u></u> | <u><u>\$ 1,164,723</u></u> |
| Supplemental Non-Cash Financing Activities | | |
| Construction in Process Transferred into Buildings | \$ - | \$ 53,531 |

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

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Notes to the Financial Statements December 31, 2017 and 2016

Note 1. NATURE OF ORGANIZATION

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.

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.

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, 2017 and 2016, 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, 2017 and 2016

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 \$937 and \$3,322 as of December 31, 2017 and 2016, respectively.

Reclassification: Certain items from the 2016 statement of activities have been reclassified to match 2017 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>2017</u> | <u>2016</u> |
|--------------------|-------------------|-------------------|
| Jaquess Trust Fund | \$ 195,631 | \$ 213,532 |
| Hope for Maui | 100,000 | - |
| Capital Projects | 99,552 | 45,467 |
| Missions | 69,472 | 127,465 |
| Benevolence | 46,642 | 35,394 |
| Others | 35,022 | 24,160 |
| | <u>\$ 546,319</u> | <u>\$ 446,018</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, 2017 and 2016.

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Notes to the Financial Statements December 31, 2017 and 2016

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. 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>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Changes in Net Assets | \$ 239,280 | \$ 181,658 |
| Adjustments to Reconcile: | | |
| Add back Depreciation | 344,159 | 341,713 |
| Net Bond Discount/Issuance Amortization (Note 6) | 17,286 | 22,588 |
| Change in Accounts Receivable | (2,248) | 7,321 |
| Change in Prepaid Expenses | (1,926) | 1,447 |
| Change in Accounts and Interest Payable | (17,282) | 5,194 |
| Change in Accrued Payroll and Taxes | 27,296 | (13,824) |
| Net Cash Provided by Operating Activities | <u>\$ 606,565</u> | <u>\$ 546,097</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, 2017 and 2016

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, 2018 | \$140,000 | 3.75% | April 1, 2022 | \$166,000 | 5.00% |
| October 1, 2018 | \$143,000 | 4.00% | October 1, 2022 | \$170,000 | 5.00% |
| April 1, 2019 | \$146,000 | 4.00% | April 1, 2023 | \$175,000 | 5.25% |
| October 1, 2019 | \$149,000 | 4.25% | October 1, 2023 | \$179,000 | 5.50% |
| April 1, 2020 | \$152,000 | 4.25% | April 1, 2024 | \$184,000 | 5.50% |
| October 1, 2020 | \$155,000 | 4.50% | April 1, 2027 | \$1,220,000 | 5.75% |
| April 1, 2021 | \$158,000 | 4.75% | April 1, 2033 | <u>\$3,183,000</u> | 6.00% |
| October 1, 2021 | \$162,000 | 5.00% | | | |
| | | | | <u>\$6,482,000</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 \$171,948 and \$169,798 at December 31, 2017 and 2016, 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 30, 2018, the date the financial statements were available for use.

Note 8. POWER PURCHASE AGREEMENT

During 2014, the Church entered into a power purchase 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, 2017 and 2016

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, 2017 and 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 | \$ 160,000 | \$ 10,000 | \$ 150,000 | \$ - |

NOTE 10. CONCENTRATION OF CREDIT RISK

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. Financial instruments that potentially subject the Church to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. At December 31, 2017 and 2016, the Church had \$1,066,816 and \$742,124 in excess of the FDIC insured limit.

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Notes to the Financial Statements
December 31, 2017 and 2016

Note 11. DISCONTINUED OPERATION

During 2015, the Church closed substantially all operations of the bookstore and the unrestricted net assets relating to the bookstore were transferred into the unrestricted general operations. Total revenue from this operation was \$668 and \$65,016 for the years ended December 31, 2017 and 2016, respectively.

Note 12. OPERATING LEASES

The Church leases vehicles under three operating leases expiring in 2020. In accordance with the vehicle lease agreements, the Church is responsible for maintenance and operating costs. Total lease expense applicable to these operating leases were \$20,264 and \$11,677 for the years ended December 31, 2017 and 2016, respectively.

The Church leases two copiers under one operating lease expiring in 2020. The lease expenses applicable to the copier lease agreement were \$23,250 and \$24,806 for the years ended December 31, 2017 and 2016, respectively.

The future minimum rental payments required under these lease commitments are as follows for the year ending December 31:

| | |
|------|----------|
| 2018 | \$28,024 |
| 2019 | \$28,024 |
| 2020 | \$9,677 |