

HOPE CHAPEL
(A Hawaii Nonprofit Corporation)

FINANCIAL STATEMENTS
(With Independent Auditors' Report)

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

INDEPENDENT AUDITORS' REPORT

To the Elders
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, 2018 and 2017, and the related statements of activities, changes in net assets, functional expenses 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, 2018 and 2017, 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
May 20, 2019

HOPE CHAPEL

Statements of Financial Position
As of December 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and Cash Equivalents (Notes 2, 6 and 10)	\$ 1,706,444	\$ 1,491,564
Accounts Receivable	2,522	11,627
Note Receivable (Note 13)	647,500	-
Investments (Note 9)	160,000	160,000
Deferred Bond Issuance Costs (Note 6)	37,107	39,758
Prepaid Expenses	<u>14,372</u>	<u>11,674</u>
Total Current Assets	2,567,945	1,714,623
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	1,375,355	1,291,952
Furniture	139,946	139,946
Auto	<u>28,463</u>	<u>28,463</u>
	15,545,934	15,462,531
Accumulated Depreciation	<u>(5,082,103)</u>	<u>(4,738,881)</u>
Net Fixed Assets	<u>10,463,831</u>	<u>10,723,650</u>
TOTAL ASSETS	<u><u>\$ 13,031,776</u></u>	<u><u>\$ 12,438,273</u></u>

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

HOPE CHAPEL

Statements of Financial Position
As of December 31, 2018 and 2017

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 38,191	\$ 5,523
Interest Payable	87,074	89,818
Other Current Liabilities	9,556	5,471
Accrued Payroll and Taxes	75,770	59,270
Current Portion of First Mortgage Bonds (Note 6)	<u>295,000</u>	<u>283,000</u>
 Total Current Liabilities	 505,591	 443,082
 First Mortgage Bonds (Note 6)	 5,904,000	 6,199,000
Discount on Bonds Payable (Note 6)	<u>(204,904)</u>	<u>(219,540)</u>
 Total Long-term Liabilities	 <u>5,699,096</u>	 <u>5,979,460</u>
 Total Liabilities	 6,204,687	 6,422,542
 NET ASSETS (Note 3)		
Without Donor Restrictions:		
Elder Designated for Capital Reserve	103,796	141,000
Undesignated	<u>5,562,514</u>	<u>5,328,412</u>
Total Without Donor Restrictions:	<u>5,666,310</u>	<u>5,469,412</u>
With Donor Restrictions:		
Building	171,329	99,552
Others	<u>989,450</u>	<u>446,767</u>
Total With Donor Restrictions:	<u>1,160,779</u>	<u>546,319</u>
Total Net Assets	<u>6,827,089</u>	<u>6,015,731</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 13,031,776</u></u>	 <u><u>\$ 12,438,273</u></u>

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Statement of Activities

For the Year Ended December 31, 2018

	General Operations			Total
	Without Donor Restriction	With Donor Restriction		
		Building	All Others	
PUBLIC SUPPORT and REVENUE				
General Offering	\$ 2,590,126	\$ 71,777	\$ -	\$ 2,661,903
Missions	-	-	266,601	266,601
Ministry and Other Income	102,769	-	300,138	402,907
Donated Note Receivable (Note 13)	147,500	-	500,000	647,500
Net Assets Released from Restrictions	524,056	-	(524,056)	-
Total Public Support and Revenue	3,364,451	71,777	542,683	3,978,911
EXPENSES				
Salaries and Wages	792,186	-	-	792,186
Insurance, Taxes, Staff Development and Benefits	314,438	-	-	314,438
Mortgage Interest	373,112	-	-	373,112
General Operations	318,702	-	-	318,702
Facilities - Maintenance and Equipment	98,401	-	-	98,401
Facilities - Repair and Capital Replacements	45,225	-	-	45,225
Global Missions	269,756	-	-	269,756
Local Missions, Ministries and Outreach	303,771	-	-	303,771
Intern Program	121,726	-	-	121,726
Youth Ministry	84,753	-	-	84,753
Children's Ministry	59,889	-	-	59,889
Worship and Multi Media	42,372	-	-	42,372
Total Expense	2,824,331	-	-	2,824,331
Changes in Net Assets before Depreciation	\$ 540,120	\$ 71,777	\$ 542,683	\$ 1,154,580
Depreciation Expense	343,222	-	-	343,222
Changes in Net Assets	\$ 196,898	\$ 71,777	\$ 542,683	\$ 811,358

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
	Without Donor	With Donor Restriction		
		Building	All Others	
PUBLIC SUPPORT and REVENUE				
General Offering	\$ 2,544,880	\$ 54,085	\$ -	\$ 2,598,965
Missions	-	-	322,166	322,166
Ministry and Other Income	89,045	-	315,516	404,561
Net Assets Released from Restrictions	591,466	-	(591,466)	-
Total Public Support and Revenue	3,225,391	54,085	46,216	3,325,692
EXPENSES				
Salaries and Wages	781,031	-	-	781,031
Insurance, Taxes, Staff Development and Benefits	267,362	-	-	267,362
Mortgage Interest	384,724	-	-	384,724
General Operations	313,135	-	-	313,135
Facilities - Maintenance and Equipment	74,242	-	-	74,242
Facilities - Repair and Capital Replacements	208	-	-	208
Global Missions	403,425	-	-	403,425
Local Missions, Ministries and Outreach	169,451	-	-	169,451
Intern Program	121,495	-	-	121,495
Youth Ministry	101,978	-	-	101,978
Children's Ministry	53,535	-	-	53,535
Worship and Multi Media	71,667	-	-	71,667
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

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Statement of Changes in Net Assets
For the Years Ended December 31, 2018 and 2017

	General Operations			Total
	Without Donor Restriction	With Donor Restriction		
		Building	All Others	
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	\$ 5,469,412	\$ 99,552	\$ 446,767	\$ 6,015,731
Change in Net Assets - 2018	<u>196,898</u>	<u>71,777</u>	<u>542,683</u>	<u>811,358</u>
Net Assets as of December 31, 2018	<u>\$ 5,666,310</u>	<u>\$ 171,329</u>	<u>\$ 989,450</u>	<u>\$ 6,827,089</u>

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

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Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services	Supporting Services		2018 Totals
		Management and General	Fundraising	
EXPENSES				
Salaries and Wages	\$ 686,876	\$ 105,310	\$ -	\$ 792,186
Insurance, Taxes, Staff Development and Benefits	272,638	41,800	-	314,438
Mortgage Interest	365,867	7,245	-	373,112
General Operations	312,514	6,188	-	318,702
Facilities - Maintenance and Equipment	96,490	1,911	-	98,401
Facilities - Repair and Capital Replacements	44,347	878	-	45,225
Global Missions	269,756	-	-	269,756
Local Missions, Ministries and Outreach	303,771	-	-	303,771
Intern Program	121,726	-	-	121,726
Youth Ministry	75,580	-	9,173	84,753
Children's Ministry	59,889	-	-	59,889
Worship and Multi Media	42,372	-	-	42,372
Total Expenses	<u>\$ 2,651,826</u>	<u>\$ 163,332</u>	<u>\$ 9,173</u>	<u>\$ 2,824,331</u>

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Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services	Supporting Services		2017 Totals
		Management and General	Fundraising	
EXPENSES				
Salaries and Wages	\$ 672,731	\$ 108,300	\$ -	\$ 781,031
Insurance, Taxes, Staff Development and Benefits	230,289	37,073	-	267,362
Mortgage Interest	377,254	7,470	-	384,724
General Operations	307,055	6,080	-	313,135
Facilities - Maintenance and Equipment	72,800	1,442	-	74,242
Facilities - Repair and Capital Replacements	204	4	-	208
Global Missions	403,425	-	-	403,425
Local Missions, Ministries and Outreach	169,451	-	-	169,451
Intern Program	121,495	-	-	121,495
Youth Ministry	95,095	-	6,883	101,978
Children's Ministry	53,535	-	-	53,535
Worship and Multi Media	71,667	-	-	71,667
Total Expenses	<u>\$ 2,575,001</u>	<u>\$ 160,369</u>	<u>\$ 6,883</u>	<u>\$ 2,742,253</u>

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Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2018</u>	<u>2017</u>
Cash Received from Members	\$ 3,331,411	\$ 3,325,391
Cash Received from Sales	-	668
Cash Paid for Interest	(358,569)	(367,438)
Cash Paid to Employees and Vendors	<u>(2,391,559)</u>	<u>(2,352,056)</u>
Net Cash Provided by Operating Activities (Note 5)	581,283	606,565
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	<u>(83,403)</u>	<u>(5,724)</u>
Net Cash Used by Investing Activities	(83,403)	(5,724)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Notes Payable and Redemption of Bonds	<u>(283,000)</u>	<u>(274,000)</u>
Net Cash Used by Financing Activities	<u>(283,000)</u>	<u>(274,000)</u>
Net Increase in Cash for the Year	214,880	326,841
CASH BALANCE, BEGINNING OF YEAR	<u>1,491,564</u>	<u>1,164,723</u>
CASH BALANCE, END OF YEAR	<u><u>\$ 1,706,444</u></u>	<u><u>\$ 1,491,564</u></u>
 Supplemental Non-Cash Investing Activities		
Donated Note Receivable	\$ 647,500	\$ -

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

HOPE CHAPEL

Notes to the Financial Statements December 31, 2018 and 2017

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, 2018 and 2017, 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.

HOPE CHAPEL

Notes to the Financial Statements December 31, 2018 and 2017

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition: Contributions received are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions (Note 3). Unconditional promises to donate due in the next year are reflected as current promises to give and are recorded at their net realizable value. Grants and other contributions of cash are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restricted net assets are reclassified to without donor restricted net assets and reported in the statement of activities as net assets released from 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.

Use of 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 costs as they incur. Advertising expense were \$975 and \$937 as of December 31, 2018 and 2017, respectively.

Reclassifications: Certain account balances in the 2017 financial statements were reclassified for comparative purposes to conform to the 2018 financial statement presentation. The reclassifications have no effect on previously changes in net assets.

Note 3. NET ASSETS AND NEW ACCOUNTING PRONOUNCEMENTS

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Hope Chapel has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the periods presented. The new standards change the following aspects of the Church's financial statements:

The temporarily restricted net asset class has been renamed net assets with donor restrictions. The unrestricted net asset class has been renamed net assets without donor restrictions.

Net assets, revenue, and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions include all resources that are not subject to donor-imposed stipulations or contributions with donor-imposed restrictions that are met during the same year as the contribution is made. Net assets without donor restrictions denoted as property and equipment represent equity in such property and equipment. The Elders have designated \$103,796 and \$141,000 at December 31, 2018 and 2017, respectively, for the purpose of capital reserve maintenance expenditure.

HOPE CHAPEL

Notes to the Financial Statements December 31, 2018 and 2017

Note 3. NET ASSETS AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Net assets with donor restriction include amounts that the donor subjects to restrictions in perpetuity and amounts subject to legal or donor-imposed stipulations that may or will be met either by actions of the Church and/or passage of time. The following are net assets with donor restrictions at December 31:

	2018	2017
Donated Note Receivable	\$ 500,000	\$ -
Jaquess Trust Fund	192,513	195,631
Building Fund	171,329	99,552
World Missions	89,417	69,472
Benevolence	85,885	46,642
Hope for Home	57,441	-
Local Missions	33,394	100,000
Others	30,800	35,022
Total	\$ 1,160,779	\$ 546,319

The financial statements include a new statement of Functional Expenses. Functional expenses are allocated to program related and administrative functions. Expense allocations are generally computed based on the number of employees or contractors performing program or administrative functions.

The financial statements include a new disclosure about liquidity and availability of resources (Note 14).

The changes have the following effect on net assets at December 31, 2017:

Net Asset Class	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted Net Assets	\$ 5,469,412	\$ -
Temporarily Restricted Net Assets	546,319	-
Net Assets Without Donor Restriction	-	5,469,412
Net Assets With Donor Restriction	-	546,319
Total Net Assets	\$ 6,015,731	\$ 6,015,731

HOPE CHAPEL

Notes to the Financial Statements December 31, 2018 and 2017

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 Note 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>2018</u>	<u>2017</u>
Changes in Net Assets	\$ 811,358	\$ 239,280
Adjustments to Reconcile:		
Add back Depreciation	343,222	344,159
Net Bond Discount/Issuance Amortization (Note 6)	17,287	17,286
Donated Note Receivable (Note 13)	(647,500)	-
Change in Accounts Receivable	9,105	(2,248)
Change in Prepaid Expenses	(2,698)	(1,926)
Change in Accounts and Interest Payable	34,009	(17,282)
Change in Accrued Payroll and Taxes	16,500	27,296
Net Cash Provided by Operating Activities	<u>\$ 581,283</u>	<u>\$ 606,565</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, 2018 and 2017

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, 2019	\$146,000	4.00%	April 1, 2022	\$166,000	5.00%
October 1, 2019	\$149,000	4.25%	October 1, 2022	\$170,000	5.00%
April 1, 2020	\$152,000	4.25%	April 1, 2023	\$175,000	5.25%
October 1, 2020	\$155,000	4.50%	October 1, 2023	\$179,000	5.50%
April 1, 2021	\$158,000	4.75%	April 1, 2024	\$184,000	5.50%
October 1, 2021	\$162,000	5.00%	April 1, 2027	\$1,220,000	5.75%
			April 1, 2033	<u>\$3,183,000</u>	6.00%
				<u>\$6,199,000</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 \$176,280 and \$171,948 at December 31, 2018 and 2017, 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 May 20, 2019, 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.

HOPE CHAPEL

Notes to the Financial Statements December 31, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, the Church had \$1,277,364 and \$1,066,816 in excess of the FDIC insured limit. During 2019, the Church mitigated this risk by opening accounts at three different institutions totaling \$720,000 (a savings account and two certificates of deposit).

HOPE CHAPEL

Notes to the Financial Statements
December 31, 2018 and 2017

Note 11. 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 \$13,973 and \$20,264 for the years ended December 31, 2018 and 2017, respectively.

The Church leases two copiers under one operating lease expiring in 2020. The lease expenses applicable to the copier lease agreement were \$24,515 and \$23,250 for the years ended December 31, 2018 and 2017, respectively.

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

2019	\$28,024
2020	\$9,677

Note 12. RELATED PARTY TRANSACTIONS

The Church purchased sound equipment from a Company owned by an Elder of the Church. The Elder recused himself from voting and discussions related to this vendor. Total expense related to these purchases was \$20,783 and \$2,800 in 2018 and 2017, respectively.

Note 13. NOTE RECEIVABLE

On December 14, 2018, a donor granted to Hope Chapel a note receivable. The total amount assigned to the Church was \$647,500. The donor instructed \$500,000 to be restricted to pay down the Church's existing debt. The remaining portion can be used at the discretion of the Elders. On March 29, 2019, the Church received full payment for the note.

HOPE CHAPEL

Notes to the Financial Statements December 31, 2018 and 2017

Note 14. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Management's policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Financial Assets available at December 31, 2018	\$ 2,513,944
Less those unavailable for general expenditures within one year due to:	
Accounts, Interest and Other Payable	(134,821)
Accrued Payroll and Taxes	(75,770)
Current Portion of First Mortgage Bonds	(295,000)
Restricted by donor with purpose restriction	<u>(1,160,779)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 847,574</u>

Included in financial assets available is a Note Receivable of \$647,500 at December 31, 2018, see Note 13.

Note 15. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, Leases, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, Leases, and makes other conforming amendments to U.S. GAAP. ASU 2016-02, requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability as well as additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Church's fiscal years beginning after December 15, 2019, but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Church's fiscal year ending December 31, 2020. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements, but expects ASU 2016-02 to add significant right-of-use assets and lease liabilities to the statement of financial position.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The provisions are effective for the Church's fiscal year ending December 31, 2019. The amendments should be applied using a retrospective transition method to each period presented. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

HOPE CHAPEL

Notes to the Financial Statements December 31, 2018 and 2017

Note 15. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the entity for annual periods in fiscal years beginning after December 15, 2018 (as amended in August 2015 by ASU 2015-14, Deferral of the Effective Date). The provisions are effective for the Church's fiscal year ending December 31, 2019. Management does not expect the adoption of these provisions to have a significant impact on the financial statements.