

CATHEDRAL OF HOPE, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2015



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CATHEDRAL OF HOPE, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Stewards
Cathedral of Hope, Inc.

We have audited the accompanying financial statements of Cathedral of Hope, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Cathedral of Hope, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Carr, Riggs & Ingram, LLC

CARR, RIGGS & INGRAM, LLC

**Dallas, Texas
December 1, 2016**

CATHEDRAL OF HOPE, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015

Assets	
Current assets:	
Cash and cash equivalents	\$ 739,690
UCCCF investments	1,346,194
Inventory	58,705
Prepaid expenses	<u>1,400</u>
Total current assets	2,145,989
Property and equipment, net	<u>12,415,540</u>
Total assets	<u><u>\$ 14,561,529</u></u>
 Liabilities and net assets	
Current liabilities:	
Accounts payable and accrued expenses	\$ 62,557
Mortgage note payable - current	<u>110,935</u>
Total current liabilities	173,492
Mortgage note payable - noncurrent	<u>5,326,802</u>
Total liabilities	5,500,294
Net assets:	
Unrestricted	7,490,351
Temporarily restricted (See Note E)	<u>1,570,884</u>
Total net assets	<u>9,061,235</u>
Total liabilities and net assets	<u><u>\$ 14,561,529</u></u>

The accompanying notes are an integral part of this statement.

CATHEDRAL OF HOPE, INC.

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Unrestricted	Temporarily restricted	Total
Revenues and support:			
Contributions	\$ 2,204,851	\$ 1,375,163	\$ 3,580,014
Rental income	106,815	-	106,815
Bookstore revenues, net of cost of sales of \$21,602	19,279	-	19,279
Other income	63,520	58,890	122,410
Total revenues and support before net assets released from restrictions	2,394,465	1,434,053	3,828,518
Net assets released from restrictions	204,312	(204,312)	-
Total revenues and support after net assets released from restrictions	2,598,777	1,229,741	3,828,518
Expenses:			
Program services	1,449,179	-	1,449,179
Supporting services	1,445,186	-	1,445,186
Total expenses	2,894,365	-	2,894,365
Change in net assets	(295,588)	1,229,741	934,153
Net assets:			
Beginning of year	7,785,939	341,143	8,127,082
End of year	\$ 7,490,351	\$ 1,570,884	\$ 9,061,235

The accompanying notes are an integral part of this statement.

CATHEDRAL OF HOPE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

Cash flows from operating activities:	
Change in net assets	\$ 934,153
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	414,537
Changes in operating assets and liabilities:	
Inventory	(13,508)
Accounts payable and accruals	<u>28,151</u>
Net cash provided by operating activities	<u>1,363,333</u>
Cash flows from investing activities:	
Expenditures for property and equipment	(33,647)
Purchase of UCCCF investments	<u>(1,342,634)</u>
Net cash used by investing activities	<u>(1,376,281)</u>
Cash flows from financing activities:	
Proceeds provided from mortgage note refinancing	787,356
Principal payments on mortgage note	<u>(89,965)</u>
Net cash provided by financing activities	<u>697,391</u>
Net increase in cash and cash equivalents	684,443
Cash and cash equivalents:	
Beginning of year	<u>55,247</u>
End of year	<u><u>\$ 739,690</u></u>
Supplemental disclosure of cash flow information:	
Interest paid	<u><u>\$ 250,438</u></u>

The accompanying notes are an integral part of this statement.

CATHEDRAL OF HOPE, INC.**NOTES TO FINANCIAL STATEMENTS****Note A - Organization:**

Cathedral of Hope, Inc. (the “Church”) was incorporated in the state of Texas in 1990 as a nonprofit religious organization under Section 501(c)(3) of the United States Internal Revenue Code. The Church is a liberal, inclusive community whose purpose is to provide a place to worship God in the congregational Christian tradition of the United Church of Christ and serve the community through outreach, service and charitable work and to grow through education in the science and philosophy of theology and kindred subjects for the propagation of the teaching and philosophy of the Christian faith. The Church is affiliated with the North Texas Association of the South Central Conference of the United Church of Christ. The Church is supported primarily through contributions from its congregation.

Note B - Summary of significant accounting policies:**Basis of accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Basis of presentation

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

Unrestricted net assets - Net assets not subject to donor-imposed stipulations. This category of net assets includes amounts designated by the Board of Stewards for specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations due to purpose, time, or time and purpose.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse, thus requiring the funds to be maintained permanently by the Church. The Church has no permanently restricted net assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and cash deposited in banks with original maturities of three months or less when purchased. The Church maintains its cash balances in high credit quality financial institutions located in the United States, in accounts which at times may exceed federally insured limits. Cash restricted for long-term purposes or cash received with donor-imposed restrictions limiting its use to long-term purposes is not considered cash for purposes of the statements of cash flows.

UCCCF Investments

The Church maintains various investments with the United Church of Christ Cornerstone Fund, Inc. (“UCCCF”), a financial institution that serves the United Church of Christ. The investments include “flexible demand notes” and “term notes” as defined by the UCCCF which are very similar to bank money market accounts, although not FDIC insured. The initial maturities vary from due on demand up to eighteen months. Included in the UCCCF investments at December 31, 2015, is \$342,626 that represents remaining funds in a mortgage reserve account required by the lender to be used to service the mortgage note through October 2016 (See Note D). These investments are reflected as UCCCF investments and included in current assets in the accompanying financial statements.

CATHEDRAL OF HOPE, INC.

NOTES TO FINANCIAL STATEMENTS

Note B - Summary of significant accounting policies (continued):

Inventory

Inventory, which consists of books and bookstore materials, is stated at the lower of cost (first-in, first-out) or market. A reserve is established for excess, obsolete and slow-moving inventory. At December 31, 2015, the inventory reserve was \$12,756.

Property and equipment

Property and equipment are stated at cost if purchased or fair value as of the date donated, less accumulated depreciation. Maintenance, repairs and replacement which do not improve or extend the lives of the respective assets are charged to operations when incurred. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation are removed, and any gain or loss is included in operations. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Building and improvements	10 to 40 years
Furniture, fixtures and equipment	5 to 10 years

Impairment of long-lived assets

The Church evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. The Church determined that no long-lived assets were impaired at December 31, 2015.

Contributed materials and services

The Church received various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. No amounts for contributed materials or services have been reflected in the accompanying financial statements as they did not meet the criteria for recognition.

Income taxes

The Church is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code, with the exception of net income from sources unrelated to the Church's exempt purpose, which is subject to unrelated business income tax. For the year ended December 31, 2015, unrelated business income did not result in any material net taxable income; therefore no provision for income tax has been provided in the accompanying financial statements.

Donor-imposed restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or for specific purposes by the donor are reported as temporarily restricted or permanently restricted support.

Unmet restrictions are recorded as temporarily restricted at fiscal year-end. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

CATHEDRAL OF HOPE, INC.

NOTES TO FINANCIAL STATEMENTS

Note B - Summary of significant accounting policies (continued):

Compensated absences

Employees of the Church are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Church's policy is to recognize the costs of compensated absences when actually paid to employees.

Fair value measurements

The Church defines the fair value of financial instruments as the amount at which the instruments could be exchanged in a current transaction between willing parties. Financial instruments included in the financial statements include cash and cash equivalents, UCCCF investments and the mortgage note. Unless otherwise disclosed in the notes to financial statements, the carrying value of financial instruments is considered to approximate fair value due to the maturity and characteristics of those instruments.

Subsequent events

Subsequent events have been evaluated through December 1, 2016, which is the date the financial statements were available to be issued.

Note C - Property and equipment:

Property and equipment consist of the following at December 31:

Land	\$ 2,768,541
Buildings and improvements	13,030,806
Furniture fixtures and equipment	760,726
Artwork	<u>161,000</u>
	16,721,073
Less accumulated depreciation	<u>(4,305,533)</u>
Property and equipment, net	<u>\$ 12,415,540</u>

Depreciation expense for the year ended December 31, 2015 totaled \$414,537.

Note D - Mortgage note:

Effective April 24, 2015, the Church entered into a note agreement with UCCCF, to refinance its previous debt with a financial institution. The original amount of the note was \$5,500,000 which after payoff of previous debt provided additional funds to the Church totaling \$787,356. The note requires monthly payments of \$31,131 including interest at 4.875% on a 26-year amortization, with all unpaid principal and interest due at maturity in May 2020. The maturity date of the note automatically extends for five years upon maturity if payment is not demanded by UCCCF. As of December 31, 2015, the Church had \$5,437,737 outstanding under the note. The note is secured by certain property of the Church. Under the terms of the note agreement, the Church was required to establish a deposit with UCCCF at closing of the note totaling \$560,350 which is to be used to service the mortgage note for eighteen months ending October 2016. Interest expense incurred under the note and previous debt for the year ended December 31, 2015 was \$250,438.

CATHEDRAL OF HOPE, INC.

NOTES TO FINANCIAL STATEMENTS

Note D - Mortgage note (continued):

Future maturities of the note are as follows:

Year ending December 31,	Amount
2016	\$ 110,935
2017	116,465
2018	122,272
2019	128,368
2020	<u>4,959,697</u>
	<u>\$ 5,437,737</u>

Note E - Temporarily restricted net assets:

The following table provides a summary of the activity within temporarily restricted net assets for the year ended December 31, 2015:

	Capital Projects	Designated Programs	Total
Balance, December 31, 2014	\$ 105,974	\$ 235,169	\$ 341,143
Contributions	238,971	1,195,082	1,434,053
Restrictions released	<u>(132,506)</u>	<u>(71,806)</u>	<u>(204,312)</u>
Balance, December 31, 2015	<u>\$ 212,439</u>	<u>\$ 1,358,445</u>	<u>\$ 1,570,884</u>

All temporarily restricted amounts at December 31, 2015 are restricted for purpose only.

Note F - Commitments:

The Church leases various computer and office equipment and real estate under non-cancelable operating leases which expire in 2018. Rent expense was \$17,157 for the year ended December 31, 2015. Future minimum lease payments are as follows:

Year ending December 31,	Amount
2016	\$ 59,985
2017	61,780
2018	<u>18,000</u>
	<u>\$ 139,765</u>

CATHEDRAL OF HOPE, INC.

NOTES TO FINANCIAL STATEMENTS

Note G - Rental income:

The Church rents certain adjacent properties it owns to various tenants on a month-to-month basis. Two Church properties are leased under non-cancellable operating agreements which expire December 2016 and August 2026, respectively. The lease expiring in August 2026 has escalating monthly payments every five years, as further defined in the agreement. The lease also has a termination option that the tenant can exercise at the 10th, 15th and 20th year anniversaries for fixed payment amounts, as further defined in the agreement. Future expected rental payments to be received under these two non-cancellable leases are as follows:

Year ending December 31,	Amount
2016	\$ 120,609
2017	77,294
2018	77,294
2019	77,294
2020	77,294
2021 and thereafter	476,644
	<u>\$ 906,429</u>

Note H - Concentrations:

The Church's support is derived primarily from members who are concentrated in the geographic area where the Church is located.

At December 31, 2015, the Church maintained cash balances in banking institutions of \$487,856 in excess of the federal insured amounts of \$250,000 for each institution.