

HARVEST BIBLE CHAPEL

Financial Statements  
With Independent Auditors' Report

December 31, 2013 and 2012

# HARVEST BIBLE CHAPEL

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## **INDEPENDENT AUDITORS' REPORT**

Board of Elders  
Harvest Bible Chapel  
Rolling Meadows, Illinois

We have audited the accompanying financial statements of Harvest Bible Chapel, which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities 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 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 Harvest Bible Chapel as of December 31, 2013 and 2012, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

Wheaton, Illinois  
March 19, 2014

# HARVEST BIBLE CHAPEL

## Statements of Financial Position

	December 31,	
	2013	2012
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 7,043,958	\$ 8,171,253
Accounts receivable and other assets	1,495,740	1,870,549
Inventory, net	145,249	194,115
Land, buildings and equipment – net of accumulated depreciation	148,010,550	146,508,749
	<u>\$ 156,695,497</u>	<u>\$ 156,744,666</u>
<b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,097,531	\$ 2,207,521
Construction payable	1,063,922	-
Long-term debt	56,458,844	59,440,087
	<u>59,620,297</u>	<u>61,647,608</u>
Net assets:		
Unrestricted:		
Equity in land, buildings and equipment	90,487,784	87,068,662
Board designated	411,172	155,990
Available at Board discretion	4,996,256	4,142,182
	<u>95,895,212</u>	<u>91,366,834</u>
Temporarily restricted:		
Capital campaign	880,283	3,459,125
Benevolent fund	31,660	32,489
School	11,836	64,110
Walk in the Word	256,209	174,500
	<u>1,179,988</u>	<u>3,730,224</u>
	<u>97,075,200</u>	<u>95,097,058</u>
	<u>\$ 156,695,497</u>	<u>\$ 156,744,666</u>

See notes to financial statements

# HARVEST BIBLE CHAPEL

## Statements of Activities

	Year Ended December 31,					
	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE:</b>						
Contributions	\$ 28,105,572	\$ 5,006,691	\$ 33,112,263	\$ 30,487,579	\$ 6,744,303	\$ 37,231,882
Ministry revenue	1,446,622	-	1,446,622	1,687,085	-	1,687,085
Tuition and fees	4,011,415	-	4,011,415	3,576,030	-	3,576,030
Sales	2,538,731	-	2,538,731	2,365,255	-	2,365,255
Interest and other income	427,822	-	427,822	520,024	-	520,024
	<u>36,530,162</u>	<u>5,006,691</u>	<u>41,536,853</u>	<u>38,635,973</u>	<u>6,744,303</u>	<u>45,380,276</u>
<b>RECLASSIFICATIONS:</b>						
Net assets released from restrictions upon:						
Satisfaction of purpose restrictions	7,556,927	(7,556,927)	-	4,156,337	(4,156,337)	-
	<u>7,556,927</u>	<u>(7,556,927)</u>	<u>-</u>	<u>4,156,337</u>	<u>(4,156,337)</u>	<u>-</u>
<b>EXPENSES:</b>						
Compensation	13,829,215	-	13,829,215	13,621,876	-	13,621,876
Ministry	14,258,485	-	14,258,485	15,326,298	-	15,326,298
Facilities	2,116,649	-	2,116,649	2,554,969	-	2,554,969
Depreciation	4,565,833	-	4,565,833	4,307,738	-	4,307,738
Administration	1,668,494	-	1,668,494	1,705,456	-	1,705,456
Interest expense	3,120,035	-	3,120,035	4,159,772	-	4,159,772
	<u>39,558,711</u>	<u>-</u>	<u>39,558,711</u>	<u>41,676,109</u>	<u>-</u>	<u>41,676,109</u>
Change in Net Assets	4,528,378	(2,550,236)	1,978,142	1,116,201	2,587,966	3,704,167
Net Assets, Beginning of Year	91,366,834	3,730,224	95,097,058	90,250,633	1,142,258	91,392,891
Net Assets, End of Year	<u>\$ 95,895,212</u>	<u>\$ 1,179,988</u>	<u>\$ 97,075,200</u>	<u>\$ 91,366,834</u>	<u>\$ 3,730,224</u>	<u>\$ 95,097,058</u>

See notes to financial statements

# HARVEST BIBLE CHAPEL

## Statements of Cash Flows

	Year Ended December 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,978,142	\$ 3,704,167
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,565,833	4,307,738
Contribution of property	-	(200,000)
Loss on early extinguishment of debt	-	191,402
Loss on disposal of land, buildings and equipment	4,776	38,301
Changes in:		
Accounts receivable and other assets	374,809	(163,526)
Inventory	48,866	55,130
Accounts payable and accrued expenses	953,932	(50,041)
Mark-to-market liability	-	(1,191,832)
Net Cash Provided by Operating Activities	7,926,358	6,691,339
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from the sale of land, buildings and equipment	-	20,000
Purchases of land, buildings and equipment	(6,072,410)	(2,396,222)
Net Cash Used by Investing Activities	(6,072,410)	(2,376,222)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	(2,981,243)	(2,444,799)
Net Cash Used by Financing Activities	(2,981,243)	(2,444,799)
Net Change in Cash and Cash Equivalents	(1,127,295)	1,870,318
Cash and Cash Equivalents, Beginning of Year	8,171,253	6,300,935
Cash and Cash Equivalents, End of Year	\$ 7,043,958	\$ 8,171,253
<b>Supplemental information:</b>		
Cash paid for interest	\$ 3,028,003	\$ 3,957,944
Payoff of old debt with issuance of new debt	\$ 2,805,000	\$ 40,000,000
Disposal of fully depreciated equipment	\$ 2,608,944	\$ -

See notes to financial statements

# HARVEST BIBLE CHAPEL

## Notes to Financial Statements

December 31, 2013 and 2012

### 1. NATURE OF ORGANIZATION:

Harvest Bible Chapel (HBC) is a religious organization incorporated in the State of Illinois within the meaning of Section 501(c)(3) of the Internal Revenue Code (the Code). It is exempt from federal and state income taxes and contributions by the public are deductible for income tax purposes. HBC is not a private foundation under section 509(a)(1) of the Code.

HBC seeks to glorify God through the fulfillment of the great commission (Matthew 28:19) in the spirit of the great commandment (Matthew 22:37-38). The commission is fulfilled as disciples of Jesus Christ are made (II Timothy 2:2). HBC has a multi-ministry outreach consisting of missions, worship, evangelism, prayer, community, youth, fellowship, caring, Christian education, camp, radio and a resource center.

### 2. SIGNIFICANT ACCOUNTING POLICIES:

#### BASIS OF ACCOUNTING

The financial statements have been prepared using the accrual basis of accounting. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates. The more significant accounting policies are summarized below.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, checking, money market accounts and certificates of deposit. From time to time, the balance in these accounts may exceed federal deposit insurance limits; however, HBC has not experienced any losses on these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

#### ACCOUNTS RECEIVABLE AND OTHER ASSETS

Accounts receivable primarily consists of amounts due from HBC affiliates, school receivables, contributions receivable and prepaid expenses. No allowance for doubtful accounts has been established, as balances due are from HBC affiliates and unconditional promises to give, and management believes the amounts to be fully collectible.

#### INVENTORY

Inventory is valued at the lower of cost or market on a first-in, first-out (FIFO) basis and consists of resource center merchandise including Bibles, books, CD's, DVD's and adult ministry small group materials. Included in inventory is a reserve for obsolescence of \$108,389 and \$56,440 for the years ended December 31, 2013 and 2012, respectively.

#### LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION

Items over \$5,000 are capitalized at cost or, in situations where historical cost is not available or the asset was contributed, at estimated fair market value. Donated assets are capitalized at their fair market value on the date of donation. Depreciation expense is recorded on the straight-line method over the estimated useful lives of the assets, ranging from eighteen months to forty years.

# HARVEST BIBLE CHAPEL

## Notes to Financial Statements

December 31, 2013 and 2012

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### CLASSES OF NET ASSETS

Net assets are classified in the financial statements as follows:

*Unrestricted* amounts are those currently available at the discretion of the Board for use in HBC's operations, those designated by the Board for specific purposes and those resources invested in land, buildings and equipment.

*Temporarily restricted* amounts are those stipulated by donors for specific operating purposes or for acquisition of land, buildings and equipment or those with timing restrictions.

#### CONTRIBUTIONS, REVENUES AND EXPENSES

Contributions are reported as income when made, which may be when cash is received, unconditional promises are made or when ownership of donated assets is transferred. All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to legal restrictions. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Gifts of land, buildings and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions must specify how the assets are to be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In 2012, \$200,000 of land and buildings in Galena, Illinois were donated to HBC and are included in unrestricted contributions on the statements of activities.

Individuals routinely provide voluntary services to the ministries of HBC. These services have a significant impact on making the ministry effective. However, the value of these services is not reflected in the financial statements because they do not meet the necessary accounting criteria.

Other revenues, including fees, sales and interest are recorded when earned. Fees consist of amounts paid for various activities, retreats, conferences and camp fees sponsored by HBC. Expenses are recorded when incurred.

Our auditors have reviewed the policies and procedures related to compensation and issued a separate letter summarizing that review.

#### UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of December 31, 2013 and 2012, HBC had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

# HARVEST BIBLE CHAPEL

## Notes to Financial Statements

December 31, 2013 and 2012

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

The Financial Accounting Standards Board (FASB) recently issued an accounting standards update to the *Statement of Cash Flows—Overall—Other Presentation Matters* topic of the Accounting Standards Codification (ASC). The amendments in this update require classification of cash receipts from the sale of donated financial assets (e.g., debt or equity instruments) by a not-for-profit that, upon receipt of the donated financial assets, are directed for sale without any limitations and are converted nearly immediately into cash as (1) operating cash flows, or (2) if the donor has restricted the use of the securities to a long-term purpose, as financing cash flows. The amendments require classification as investing cash flows of all other cash receipts resulting from the sale of debt and equity securities not meeting the foregoing conditions for classification within operating or financing cash flows. The amendments are effective for fiscal years beginning after June 15, 2013, with early adoption permitted. HBC has adopted this update and has restated prior year financial statements for comparability. The effect of this restatement was to increase net cash provided by operating activities and decrease net cash used by investing activities by \$360,621.

### 3. LAND, BUILDINGS AND EQUIPMENT:

Land, buildings and equipment consist of the following:

	2013	2012
Land and land improvements	\$ 33,582,988	\$ 33,250,440
Buildings and improvements	132,710,222	128,114,594
Furniture and fixtures	1,209,631	1,392,349
Office equipment	228,926	379,386
Computer equipment	235,719	910,044
Sound and video equipment	5,310,266	6,130,256
Other equipment	2,233,582	1,875,574
	<u>175,511,334</u>	<u>172,052,643</u>
Less accumulated depreciation	<u>(27,500,784)</u>	<u>(25,543,894)</u>
	<u>\$ 148,010,550</u>	<u>\$ 146,508,749</u>

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## Notes to Financial Statements

December 31, 2013 and 2012

4. LONG-TERM DEBT:

Long-term debt consists of the following:

	2013	2012
<p>Term mortgage payable (refinanced in 2013) of \$30,119,000, to a bank, monthly principal and interest payments of \$171,784 at an initial rate of 4.75%, with a rate adjustment every five years beginning on August 1, 2018, at a rate equal to the 5 year Treasury Constant Maturity as published in the FRB H.15 Statistical Release plus 3.5%, but in no event shall the interest rate be less than 4.75% or greater than 8.25%. Unpaid principal and interest is due in August 2022. This note is secured by the building and property at 1000 North Randall Road, Elgin, Illinois and the building and property at 935 North Dearborn, Chicago, Illinois.</p>	\$ 29,861,943	\$ 30,407,869
<p>Mortgage line of credit (refinanced in 2013) of \$11,572,000, payable to a bank, monthly principal and interest payments of \$66,003 at an initial rate of 4.75%, with a rate adjustment every five years beginning on April 1, 2018, at a rate equal to the 5 year Treasury Constant Maturity as published in the FRB H.15 Statistical Release plus 3.5%, but in no event shall the interest rate be less than 4.75% or greater than 8.25%. Unpaid principal and interest is due in March 2023. This note is secured by the building and property at 800 Rohlwing Road, Rolling Meadows, Illinois.</p>	11,390,908	11,603,911
<p>Term mortgage payable (modified in 2013) of \$9,360,000, to a bank, monthly principal and interest payments of \$53,451 at a fixed rate of 4.75%, with a one-time rate adjustment on February 1, 2018, at a rate equal to the 5 year Treasury Constant Maturity as published in the FRB H.15 Statistical Release plus 3.5%, but in no event shall the interest rate be less than 4.75% or greater than 8.25%. Unpaid principal and interest is due in August 2022. This note is secured by the building and property at 2880 Vision Court, Aurora, Illinois.</p>	8,726,192	9,306,427
<p>Mortgage line of credit of \$4,500,000, payable to a bank, monthly interest only payments were made through April 2008. Thereafter, monthly principal and interest payments of \$28,376 began, with total principal due June 1, 2016. Fixed interest rate of 6.50%. This note is secured by the buildings and property at 6829 East 72nd Street, Newaygo, Michigan.</p>	3,752,307	4,235,004

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## Notes to Financial Statements

December 31, 2013 and 2012

4. LONG-TERM DEBT, continued:

Long-term debt consists of the following, continued:

	2013	2012
Mortgage payable of \$2,805,000, payable to a bank, with monthly principal and interest payments of \$14,834 at a fixed rate of 4.0%. Unpaid principal and interest is due in October 2018. This note is secured by the buildings and property at 551 Congress Parkway in Crystal Lake, Illinois.	2,727,494	-
Mortgage line of credit of \$6,100,000, payable to a bank, monthly interest only payments were made through November 2008. Thereafter, monthly principal and interest payments of \$45,780 began, with total principal due October 31, 2013. Fixed interest rate of 6.50%. This note is secured by the buildings and property at 551 Congress Parkway in Crystal Lake, Illinois. This note was paid off in 2013 with issuance of a new mortgage payable.	-	3,886,876
	\$ 56,458,844	\$ 59,440,087

Long-term debt matures as follows for the year ending December 31:

2014	\$	1,045,637
2015		1,100,838
2016		4,581,659
2017		1,095,600
2018		3,491,023
Thereafter		45,144,087
	\$	56,458,844

Long-term debt agreements contained certain administrative covenants. HBC was in compliance with all covenants as of the date of this report.

# HARVEST BIBLE CHAPEL

## Notes to Financial Statements

December 31, 2013 and 2012

5. RETIREMENT PLAN:

In 2003, HBC implemented a 403(b) plan. HBC contributes to the 403(b) plan on behalf of all full-time employees (working at least 1,000 hours per year) participating through elective salary reductions. HBC matches employee contributions up to 6% of annual base salary. Employees are fully vested immediately upon participation. Contributions to the 403(b) plan during 2013 and 2012 were \$298,834 and \$287,260, respectively. In November 2013, HBC temporarily suspended employer contributions into the plan.

HBC has a Variable Universal Life Insurance program for its ministry staff that provides a life insurance package and a retirement fund. Participants contribute between 1% and 9% of their base salary. HBC matches between ½% and 11% of the participant's contribution as defined by the plan documents. For the years ended December 31, 2013 and 2012, HBC made contributions to the plan of \$47,299 and \$45,047, respectively.

6. RELATED PARTY TRANSACTIONS:

In February 2002, HBC formed the Elder Council, now known as Harvest Bible Fellowship (HBF). HBF serves HBC and all plant churches by providing temporary governance to all new plant churches. HBF is a separate 501(c)(3) entity and the churches are represented on the Elder Council by elders or pastors of many HBC church plants. HBC does not exercise any control over HBF to require consolidation under technical accounting standards. During the years ended December 31, 2013 and 2012, HBC contributed \$711,356 and \$811,695, respectively, to HBF. In addition, HBF owed HBC \$17,363 and \$66,276 as of December 31, 2013 and 2012, respectively.

7. FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing various program services and supporting activities have been summarized on a functional basis. Accordingly, certain costs, such as depreciation and salaries, have been allocated among the program services and supporting activities. Functional expenses for the years ended December 31, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Program services	\$ 30,857,346	\$ 32,273,883
Supporting activities:		
General and administrative	7,480,479	8,133,399
Fund-raising	1,220,886	1,268,827
	<u>\$ 39,558,711</u>	<u>\$ 41,676,109</u>

# HARVEST BIBLE CHAPEL

## Notes to Financial Statements

December 31, 2013 and 2012

8. OPERATING LEASES:

HBC has several lease agreements, primarily for various office equipment and use of facilities. These leases have various expiration dates through 2019. Rental expense was \$452,614 and \$370,552 for the years ended December 31, 2013 and 2012, respectively.

Future minimum lease payments under operating leases that have remaining lease terms in excess of one year as of December 31, 2013, are:

2014	\$	388,711
2015		280,705
2016		237,026
2017		38,040
2018		2,940
Thereafter		<u>735</u>
	\$	<u>948,157</u>

9. MEDICAL INSURANCE:

HBC operates a self-funded health insurance plan for qualified employees. The plan uses an outside third-party administrator to process all claims. As of December 31, 2013 and 2012, the reserve for unpaid claims, including those incurred but not reported, totaled \$200,000 and is included in accounts payable and accrued expenses. This reserve is based on an estimate of outstanding claims at December 31; however, the actual liability is unknown and exposure to losses in excess of the accrued reserve may exist. Management believes that the liability reflected in the statements of financial position is adequate to cover future losses as of December 31, 2013

10. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.