

HARVEST BIBLE CHAPEL

Financial Statements
With Independent Auditors' Report

December 31, 2011 and 2010

HARVEST BIBLE CHAPEL

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INDEPENDENT AUDITORS' REPORT

Board of Elders
Board of Deacons
Harvest Bible Chapel
Rolling Meadows, Illinois

We have audited the accompanying statements of financial position of Harvest Bible Chapel (HBC) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of HBC's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HBC's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Wheaton, Illinois
March 16, 2012

HARVEST BIBLE CHAPEL

Statements of Financial Position

	December 31,	
	2011	2010
ASSETS:		
Cash and cash equivalents	\$ 6,300,935	\$ 3,727,514
Accounts receivable and other assets	1,707,023	681,530
Inventory, net	249,245	171,235
Deferred bond costs	191,402	202,339
Land, buildings and equipment – net of accumulated depreciation	148,278,566	139,907,075
	<u>\$ 156,727,171</u>	<u>\$ 144,689,693</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,257,562	\$ 1,430,712
Mark-to-market liability	1,191,832	1,119,737
Long-term debt	61,884,886	64,670,538
	<u>65,334,280</u>	<u>67,220,987</u>
Net assets:		
Unrestricted:		
Equity in land, buildings and equipment	86,585,082	75,438,876
Board designated	202,859	558,158
Available at Board discretion	3,462,692	1,121,636
	<u>90,250,633</u>	<u>77,118,670</u>
Temporarily restricted:		
Capital campaign	803,823	-
Benevolent fund	32,241	35,069
School	131,694	314,967
Walk in the Word	174,500	-
	<u>1,142,258</u>	<u>350,036</u>
	<u>91,392,891</u>	<u>77,468,706</u>
	<u>\$ 156,727,171</u>	<u>\$ 144,689,693</u>

See notes to financial statements

HARVEST BIBLE CHAPEL

Statements of Activities

	Year Ended December 31,					
	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	\$ 42,871,021	\$ 2,442,885	\$ 45,313,906	\$ 42,169,070	\$ 803,200	\$ 42,972,270
Ministry revenue	1,676,935	-	1,676,935	1,257,711	-	1,257,711
Tuition and fees	3,323,883	-	3,323,883	3,259,529	-	3,259,529
Sales	2,019,683	-	2,019,683	481,231	-	481,231
Interest and other income	491,272	-	491,272	72,536	-	72,536
	<u>50,382,794</u>	<u>2,442,885</u>	<u>52,825,679</u>	<u>47,240,077</u>	<u>803,200</u>	<u>48,043,277</u>
RECLASSIFICATIONS:						
Net assets released from restrictions upon:						
Satisfaction of purpose restrictions	1,650,663	(1,650,663)	-	830,280	(830,280)	-
	<u>1,650,663</u>	<u>(1,650,663)</u>	<u>-</u>	<u>830,280</u>	<u>(830,280)</u>	<u>-</u>
EXPENSES:						
Compensation	13,047,797	-	13,047,797	9,872,943	-	9,872,943
Ministry	14,062,718	-	14,062,718	9,332,502	-	9,332,502
Facilities	2,414,890	-	2,414,890	2,162,871	-	2,162,871
Depreciation	4,097,794	-	4,097,794	3,243,896	-	3,243,896
Administration	1,077,224	-	1,077,224	974,213	-	974,213
Interest expense	4,128,976	-	4,128,976	4,396,059	-	4,396,059
Bond mark-to-market expense	72,095	-	72,095	279,516	-	279,516
	<u>38,901,494</u>	<u>-</u>	<u>38,901,494</u>	<u>30,262,000</u>	<u>-</u>	<u>30,262,000</u>
Change in Net Assets	13,131,963	792,222	13,924,185	17,808,357	(27,080)	17,781,277
Net Assets, Beginning of Year	77,118,670	350,036	77,468,706	59,310,313	377,116	59,687,429
Net Assets, End of Year	<u>\$ 90,250,633</u>	<u>\$ 1,142,258</u>	<u>\$ 91,392,891</u>	<u>\$ 77,118,670</u>	<u>\$ 350,036</u>	<u>\$ 77,468,706</u>

See notes to financial statements

HARVEST BIBLE CHAPEL

Statements of Cash Flows

	Year Ended December 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 13,924,185	\$ 17,781,277
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,108,730	3,254,832
Contribution of land, buildings and equipment	(11,500,000)	(19,100,745)
Donated stock	(192,403)	(144,506)
Changes in:		
Accounts receivable and other assets	(1,025,493)	(116,467)
Inventory	(78,010)	8,284
Accounts payable and accrued expenses	826,850	280,955
Mark-to-market liability	72,095	279,516
Net Cash Provided by Operating Activities	6,135,954	2,243,146
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of donated stock	192,403	144,506
Purchases of land, buildings and equipment	(969,284)	(602,097)
Net Cash Used by Investing Activities	(776,881)	(457,591)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on bonds payable, included with long-term debt	-	(555,000)
Principal payments on long-term debt	(2,785,652)	(1,576,474)
Net Cash Used by Financing Activities	(2,785,652)	(2,131,474)
Net Change in Cash and Cash Equivalents	2,573,421	(345,919)
Cash and Cash Equivalents, Beginning of Year	3,727,514	4,073,433
Cash and Cash Equivalents, End of Year	\$ 6,300,935	\$ 3,727,514
Supplemental information:		
Cash paid for interest	\$ 4,093,626	\$ 4,408,170

See notes to financial statements

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Notes to Financial Statements

December 31, 2011 and 2010

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 bookstore.

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 bookstore merchandise including Bibles, books, CD's, DVD's and adult ministry small group materials. Included in inventory is a reserve for obsolescence of \$126,000 and \$0 for the years ended December 31, 2011 and 2010, respectively.

HARVEST BIBLE CHAPEL

Notes to Financial Statements

December 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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 three to forty years.

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 December 2011, \$11,500,000 of land and buildings in Chicago, Illinois were donated to HBC and are included in unrestricted contributions on the statements of activities. In 2010, \$19,100,745 of land, buildings and equipment in Aurora, Illinois were donated to HBC and are included in unrestricted contributions on the statements of activities.

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Notes to Financial Statements

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2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CONTRIBUTIONS, REVENUES AND EXPENSES, continued

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.

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, 2011, HBC had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

3. LAND, BUILDINGS AND EQUIPMENT:

Land, buildings and equipment consist of the following:

	2011	2010
Land and land improvements	\$ 33,250,440	\$ 27,249,414
Buildings and improvements	126,479,021	120,312,376
Furniture and fixtures	1,340,894	1,267,743
Office equipment	388,329	388,329
Computer equipment	789,784	789,785
Sound and video equipment	5,519,393	5,400,748
Other equipment	1,827,867	1,718,049
	<u>169,595,728</u>	<u>157,126,444</u>
Less accumulated depreciation	<u>(21,317,162)</u>	<u>(17,219,369)</u>
	<u>\$ 148,278,566</u>	<u>\$ 139,907,075</u>

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Notes to Financial Statements

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4. LONG-TERM DEBT:

Long-term debt consists of the following:

	2011	2010
Adjustable Rate Demand Educational Facility Revenue Bonds, Series 2004	\$ 14,160,000	\$ 14,160,000
Mortgage line of credit of \$12,330,000, payable to a bank, monthly interest only payments were made through April 2008. Thereafter, monthly principal and interest payments of \$77,749 began, with total principal due June 1, 2016. Fixed interest rate of 6.50%. This note is secured by the building and property at 800 Rohlwing Road, Rolling Meadows, Illinois.	11,772,368	11,928,089
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.	4,296,485	4,353,317
Mortgage line of credit of \$20,000,000, payable to a bank, monthly interest only payments through August 2010. Thereafter, monthly principal and interest payments of \$136,522, with total principal due September 1, 2012. Fixed interest rate of 7.25%. This note is secured by the buildings and property at 1000 North Randall Road in Elgin, Illinois.	19,761,558	19,951,743
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.	5,596,142	5,770,725

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Notes to Financial Statements

December 31, 2011 and 2010

4. LONG-TERM DEBT, continued:

Long-term debt consists of the following, continued:

	<u>2011</u>	<u>2010</u>
Term mortgage payable of \$10,285,500, to a bank, monthly principal and interest payments of \$125,000 for the first year, \$166,667 for the second year, \$208,333 for the third year and a balloon payment of \$4,840,000 due July 31, 2012. Fixed interest rate of 6.7%. This note is secured by the buildings and property at 1000 North Randall Road in Elgin Illinois.	<u>6,298,333</u>	<u>8,506,664</u>
	<u>\$ 61,884,886</u>	<u>\$ 64,670,538</u>

Long-term debt matures as follows:

Year ending December 31,	
2012	\$ 40,667,037
2013	5,666,763
2014	284,796
2015	303,601
2016	<u>14,962,689</u>
	<u>\$ 61,884,886</u>

The Adjustable Rate Demand Educational Facility Revenue Bonds, Series 2004, require monthly interest payments at a rate set by the remarketing agent (.19% at December 31, 2011, capped at 10%) and mature in August 2029.

The bonds are secured by a third party bank letter of credit, which expires in August 2012, at which point HBC will negotiate extensions or alternate financing. The bank letter of credit is secured by HBC's land, buildings and equipment. This bank requires that HBC maintain a depository account with them, from which they sweep the monthly interest payments. Although there is no "sinking fund" requirement, HBC must maintain a balance in this account sufficient to cover the monthly interest payments. The bonds have various accelerated tendering options; however, HBC's intention at December 31, 2011, is to service the bonds through the expiration of the bank letter of credit. Therefore, the bonds are shown to mature in 2012 in the maturity schedule.

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

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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 2011 and 2010 were \$264,395 and \$231,683, respectively.

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, 2011 and 2010, HBC made contributions to the plan of \$77,247 and \$80,009, 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, 2011 and 2010, HBC contributed \$740,704 and \$576,900, respectively, to HBF. In addition, HBF owed HBC \$22,039 and \$114,945 as of December 31, 2011 and 2010, respectively.

The senior pastor of HBC is also the CEO of a non profit radio ministry, Walk in the Word (WITW). On January 1, 2011, WITW began operating as a ministry of HBC. WITW granted \$2,464,068 of assets to HBC, and HBC assumed \$278,444 of liabilities. Although the current operations of WITW will now be a ministry of HBC, WITW will continue to exist as a separate and independent corporation.

The senior pastor of HBC is also the Board President of a non profit relief ministry, Churches Helping Churches (CHC). During the years ended December 31, 2011 and 2010, HBC contributed \$182,057 and \$374,637, respectively, to CHC. In addition, CHC owed HBC \$15,968 and \$38,040 as of December 31, 2011 and 2010, respectively.

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Notes to Financial Statements

December 31, 2011 and 2010

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, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Program services	\$ 30,123,008	\$ 24,707,118
Supporting activities:		
General and administrative	7,593,832	5,519,882
Fund-raising	1,184,654	35,000
	<u>\$ 38,901,494</u>	<u>\$ 30,262,000</u>

8. OPERATING LEASES:

HBC has several lease agreements, primarily for various office equipment and use of facilities. These leases have various expiration dates through 2015. Rental expense was \$250,861 and \$301,800 for the years ended December 31, 2011 and 2010, respectively.

Future minimum lease payments under operating leases that have remaining lease terms in excess of one year as of December 31, 2011, are:

2012	\$ 235,167
2013	68,771
2014	36,972
2015	3,946
	<u>\$ 344,856</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, 2011 and 2010, 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.

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Notes to Financial Statements

December 31, 2011 and 2010

10. DERIVATIVE CONTRACT:

In 2005, HBC entered into an interest rate swap agreement to manage the economic effect of variable interest obligations associated with the Adjustable Rate Demand Educational Facility Revenue Bond described in Note 4 so that the interest payable on the bond effectively becomes a fixed rate, thereby reducing the impact of future interest rate changes on future interest expense. Contractual terms at December 31 were as follows:

	2011	2010
Fixed rate	3.12%	3.12%
Variable rate	0.19%	0.17%
Remaining term of contract in years	4	5
Original bond debt balance covered by agreement (notional amount)	\$ 14,715,000	\$ 14,715,000
Notional amount outstanding at December 31	\$ 14,160,000	\$ 14,160,000

The agreement is accounted for as a fair value hedge. The unrealized gains and losses on this agreement are included on a separate line item in the statements of activities and the corresponding fair value liability is included on a separate line item in the statements of financial position.

The effects of derivative instruments on the financial statements were as follows as of December 31, 2011 and 2010, and for the years then ended:

	Statement Location	Fair Value 2011	Fair Value 2010
<i>Fair value hedge:</i>			
Interest rate swap agreement	Mark-to-market liability	\$ 1,191,832	\$ 1,119,737
<i>Effects of Derivative Instruments on Income</i>			
		Loss 2011	Loss 2010
<i>Fair value hedge:</i> Interest rate swap agreement	Bond mark-to-market expense	\$ (72,095)	\$ (279,516)

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Notes to Financial Statements

December 31, 2011 and 2010

11. DISCLOSURE OF FAIR VALUE and FAIR VALUE MEASUREMENT:

The following disclosures of estimated fair value of financial instruments as of December 31, 2011 and 2010, is made in accordance with the requirements of the *Disclosures about Fair Value of Financial Instruments* Topic of the FASB Accounting Standards Codification. The estimated fair value amounts have been determined by HBC using available market information and appropriate valuation methodologies.

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$ 6,300,935	\$ 6,300,935	\$ 3,727,514	\$ 3,727,514
Accounts receivable and other assets	1,707,023	1,707,023	681,530	681,530
Inventory	249,245	249,245	171,235	171,235
Accounts payable and accrued expenses	2,257,562	2,257,562	1,430,712	1,430,712
Mark-to-market liability	1,191,832	1,191,832	1,119,737	1,119,737
Long-term debt	61,884,886	61,884,886	64,670,538	64,670,538

Methods and assumptions used by HBC in estimating fair values are as follows:

Cash and cash equivalents and accounts receivable and other assets: The carrying amounts approximate fair value due to the short-term maturity of these instruments.

Inventory: The basis for the fair values of inventory is summarized in Note 2.

Accounts payable and accrued expenses: The carrying amounts approximate fair value due to the short-term maturity of these instruments.

Mark-to-market liability and long-term debt: The carrying amount approximates fair value due to the fact that the debt is subject to a floating interest rate that adjusts to market value.

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Notes to Financial Statements

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11. DISCLOSURE OF FAIR VALUE and FAIR VALUE MEASUREMENT, continued:

HBC adopted the provisions of the *Fair Value Measurements and Disclosure* Topic of the FASB ASC. These standards define fair value, establish a framework for measuring fair value and enhance disclosures about fair value measurements. Fair value is defined under the standards as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market between market participants on the measurement date.

The fair values of investments are based on the framework established in the standards which establishes a three-level hierarchy for determining fair value. The valuations for each of these levels are determined as follows:

Level 1 - Quoted prices for identical instruments traded in active markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets or model-based valuations where significant assumptions are observable.

Level 3 - Model-based techniques using significant assumptions that are not observable. These unobservable assumptions reflect estimates of assumptions that market participants would use.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

Level 2:

	2011	2010
Mark-to-market liability	<u>\$ 1,191,832</u>	<u>\$ 1,119,737</u>

12. 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