

# HARVEST BIBLE CHAPEL

Consolidated Financial Statements  
With Independent Auditors' Report

December 31, 2016 and 2015

# HARVEST BIBLE CHAPEL

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## INDEPENDENT AUDITORS' REPORT

Board of Elders  
Harvest Bible Chapel  
Rolling Meadows, Illinois

We have audited the accompanying consolidated financial statements of Harvest Bible Chapel, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Harvest Bible Chapel as of December 31, 2016 and 2015, and the changes in its consolidated net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Capin Crouse LLP".

Wheaton, Illinois  
March 17, 2017

# HARVEST BIBLE CHAPEL

## Consolidated Statements of Financial Position

	December 31,	
	2016	2015
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 8,639,251	\$ 8,293,432
Accounts receivable and other assets	3,287,800	1,906,532
Inventory, net	147,899	157,762
Broadcast time receivable	8,337,500	9,787,500
Land, buildings and equipment – net	134,964,435	133,176,957
<b>Total Assets</b>	<b>\$ 155,376,885</b>	<b>\$ 153,322,183</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 3,777,935	\$ 3,544,201
Long-term debt	46,438,526	48,348,927
	50,216,461	51,893,128
<b>Net assets:</b>		
<b>Unrestricted:</b>		
Noncontrolling interests in subsidiaries	7,330,000	3,700,000
Equity in land, buildings and equipment	88,174,068	84,375,749
Board designated	985,289	572,355
Available at board discretion	6,173,441	10,816,878
	102,662,798	99,464,982
<b>Temporarily restricted:</b>		
Capital campaign	1,342,820	904,470
Scholarship fund	796,920	823,620
Camp fund	230,037	151,093
Benevolent fund	127,849	84,890
	2,497,626	1,964,073
	105,160,424	101,429,055
<b>Total Liabilities and Net Assets</b>	<b>\$ 155,376,885</b>	<b>\$ 153,322,183</b>

See notes to consolidated financial statements

# HARVEST BIBLE CHAPEL

## Consolidated Statements of Activities

Year Ended December 31,

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE:</b>						
Contributions	\$ 33,265,342	\$ 1,752,689	\$ 35,018,031	\$ 29,936,324	\$ 4,168,715	\$ 34,105,039
Ministry revenue	1,965,405	-	1,965,405	1,918,851	-	1,918,851
Tuition and fees	4,624,939	-	4,624,939	4,012,719	-	4,012,719
Sales	974,171	-	974,171	1,577,886	-	1,577,886
Interest and other income	199,275	-	199,275	147,676	-	147,676
	41,029,132	1,752,689	42,781,821	37,593,456	4,168,715	41,762,171
<b>RECLASSIFICATIONS:</b>						
Net assets released from restrictions upon:						
Satisfaction of purpose restrictions	1,219,136	(1,219,136)	-	3,872,648	(3,872,648)	-
	1,219,136	(1,219,136)	-	3,872,648	(3,872,648)	-
<b>EXPENSES:</b>						
Compensation	14,522,881	-	14,522,881	14,058,255	-	14,058,255
Ministry	16,736,634	-	16,736,634	16,648,852	-	16,648,852
Facilities	2,634,535	-	2,634,535	2,473,905	-	2,473,905
Depreciation	4,164,554	-	4,164,554	3,923,393	-	3,923,393
Administration	1,982,888	-	1,982,888	2,070,286	-	2,070,286
Interest expense	2,638,960	-	2,638,960	2,521,615	-	2,521,615
	42,680,452	-	42,680,452	41,696,306	-	41,696,306
Change in net assets before current year capital contributions to subsidiaries	(432,184)	533,553	101,369	(230,202)	296,067	65,865
Current year capital contributions to subsidiaries (Note 1)	3,830,000	-	3,830,000	3,700,000	-	3,700,000
Current year capital acquisitions from subsidiary (Note 1)	(200,000)	-	(200,000)	-	-	-
	3,197,816	533,553	3,731,369	3,469,798	296,067	3,765,865
Change in Net Assets	3,197,816	533,553	3,731,369	3,469,798	296,067	3,765,865
Net Assets, Beginning of Year	99,464,982	1,964,073	101,429,055	95,995,184	1,668,006	97,663,190
Net Assets, End of Year	\$ 102,662,798	\$ 2,497,626	\$ 105,160,424	\$ 99,464,982	\$ 1,964,073	\$ 101,429,055

See notes to consolidated financial statements

# HARVEST BIBLE CHAPEL

## Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 3,731,369	\$ 3,765,865
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,164,554	3,923,393
Contributions received for investment in land, buildings and equipment	(932,767)	(1,248,167)
Broadcast rights recognized and used	1,450,000	1,450,000
Donated land, buildings and equipment	-	(223,000)
Changes in:		
Accounts receivable and other assets	(1,381,268)	72,307
Inventory	9,863	(12,803)
Accounts payable and accrued expenses	233,734	437,600
Net Cash Provided by Operating Activities	7,275,485	8,165,195
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of land, buildings and equipment	(5,952,032)	(7,135,155)
Net Cash Used by Investing Activities	(5,952,032)	(7,135,155)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions received for investment in land, buildings and equipment	932,767	1,248,167
Principal payments on long-term debt	(1,910,401)	(1,300,110)
Net Cash Used by Financing Activities	(977,634)	(51,943)
Net Change in Cash and Cash Equivalents	345,819	978,097
Cash and Cash Equivalents, Beginning of Year	8,293,432	7,315,335
Cash and Cash Equivalents, End of Year	\$ 8,639,251	\$ 8,293,432
<b>Supplemental information:</b>		
Cash paid for interest (none capitalized)	\$ 2,249,995	\$ 2,387,034
Payoff of old debt with issuance of new debt	\$ 2,317,042	\$ -

See notes to consolidated financial statements

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### 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, television, web, radio and a resource center. In addition, HBC has six regional campuses that conduct worship services and act as an extension of the main campus. These campuses are located in Chicago, Highland Park, Crystal Lake, Niles, Elgin and Aurora.

### BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of HBC and the following other entities:

Harvest Bible Chapel North Shore, LLC (LLC) was formed in June 2015 to acquire, own, and lease property located at 1731 Deerfield Road, Highland Park, Illinois, to HBC. The lease agreement was entered into on August 1, 2015, and is effective through July 31, 2019, with monthly payments of \$23,500. HBC is the sole Class A member and manager of the LLC, and made a capital contribution of \$550,000 during 2015. There are six Class B members who made combined capital contributions of \$4,450,000 during 2015, of which \$750,000 was also from HBC. The LLC is not a taxpaying entity for federal income tax purposes, and thus no income tax expense has been recorded in the consolidated statements. Income of the LLC is passed through to its members. During the year ended December 31, 2016, HBC purchased two of the Class B members' interests totaling \$200,000.

Harvest Bible Chapel Aurora, LLC (AULLC) was formed in March 2016 to acquire, own, and lease property located at 101 S. Barnes Road, Aurora, Illinois, to HBC. The lease agreement was entered into on June 1, 2016, and is effective through May 31, 2020, with monthly payments of \$21,250. HBC is the sole Class A member and manager of the AULLC, and made a capital contribution of \$160,000 during 2016. There are nine Class B members who made combined capital contributions of \$4,000,000 during 2016, of which \$170,000 was also from HBC. The AULLC is not a taxpaying entity for federal income tax purposes, and thus no income tax expense has been recorded in the consolidated statements. Income of the AULLC is passed through to its members.

Harvest Bible Chapel Chicago West (Chicago West) is a nonprofit church plant governed and supported by HBC. It is incorporated in the State of Illinois within the meaning of Section 501(c)(3) of the Code. HBC's intention is to support Chicago West until it becomes self-sustaining.

Intercompany transactions and balances have been eliminated for consolidated financial statement purposes.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### 2. SIGNIFICANT ACCOUNTING POLICIES:

#### BASIS OF ACCOUNTING

The consolidated financial statements have been prepared using the accrual basis of accounting. The preparation of consolidated 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, prepaid expenses and assets held in a Rabbi Trust. No allowance for doubtful accounts has been established, as balances due are from HBC affiliates, 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 \$64,700 for both the years ended December 31, 2016 and 2015.

#### BROADCAST TIME RECEIVABLE

Receivable consists of broadcast time due from the TBN Family of Networks related to HBC's sale of real and personal property located in Aurora, Illinois. Broadcast time will be received over an eight year period, concluding in June 2022. HBC received \$1,450,000 of broadcast time during each of the years ended December 31, 2016 and 2015.

#### LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION

Items over \$5,000 are capitalized at cost, or if donated, at the fair market value on the date of the gift. Depreciation expense is recorded on the straight-line method over the estimated useful lives of the assets, ranging from eighteen months to forty years.

#### CLASSES OF NET ASSETS

Net assets are classified in the consolidated 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, and noncontrolling interest in subsidiary.



# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### CLASSES OF NET ASSETS, continued

*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 consolidated 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.

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 consolidated 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 consolidated financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated 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 consolidated statements of activities. As of December 31, 2016 and 2015, HBC had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

HBC files information and tax returns in the U.S. and various states. HBC is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2013.

#### RECLASSIFICATIONS

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

3. LAND, BUILDINGS AND EQUIPMENT, NET:

Land, buildings and equipment consist of the following:

	2016	2015
Land and land improvements	\$ 33,737,650	\$ 31,130,203
Buildings and improvements	127,945,948	125,928,611
Furniture and fixtures	1,826,523	1,697,657
Office equipment	228,926	228,926
Computer equipment	2,742,895	1,716,534
Sound and video equipment	3,840,681	3,725,692
Other equipment	2,081,037	1,923,901
	172,403,660	166,351,524
Software in progress	-	100,104
	172,403,660	166,451,628
Less accumulated depreciation	(37,439,225)	(33,274,671)
	\$ 134,964,435	\$ 133,176,957

4. LONG-TERM DEBT:

Long-term debt consists of the following:

	2016	2015
Term mortgage payable 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.	\$ 27,792,922	\$ 28,511,715
Mortgage payable 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.	10,583,272	10,863,902

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

4. LONG-TERM DEBT, continued:

Long-term debt consists of the following, continued:

	2016	2015
Mortgage payable of \$3,600,000, payable to a bank, with monthly principal and interest payments of \$21,583 at a fixed rate of 5.25%. Unpaid principal and interest is due in July 2019. This note is secured by the buildings and property at 7333-7343 North Caldwell Ave., Niles, Illinois.	3,318,839	3,498,819
Mortgage payable 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 was secured by the buildings and property at 6829 East 72nd Street, Newaygo, Michigan. This note was paid off in 2016 with issuance of a new mortgage payable.	-	2,889,653
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, Crystal Lake, Illinois.	2,508,547	2,584,838
Mortgage payable of \$2,317,042, payable to a bank, with monthly principal and interest payments of \$22,645 at a fixed rate of 3.25%. Unpaid principal and interest is due in July 2026. This note is secured by the buildings and property at 6829 East 72nd Street, Newaygo, Michigan.	2,234,946	-
	\$ 46,438,526	\$ 48,348,927

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

2017	\$ 1,449,501
2018	3,859,867
2019	4,534,229
2020	1,462,115
2021	1,528,578
Thereafter	33,604,236
	\$ 46,438,526

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 Consolidated Financial Statements

December 31, 2016 and 2015

5. RETIREMENT PLANS:

HBC contributes to a 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 3% of annual base salary. During 2015, HBC matched employee contributions up to 2% of annual base salary. Employees are fully vested immediately upon participation. Contributions to the 403(b) plan during 2016 and 2015 were \$326,060 and \$112,783, respectively. In November 2013, HBC temporarily suspended employer contributions into the plan, but reinstated employer contributions in October 2015.

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, 2016 and 2015, HBC made contributions to the plan of \$52,949 and \$50,215, respectively.

HBC established a Rabbi Trust for the purpose of paying ministry staff upon retirement, death or disability. The trust is invested in mutual funds (equities and cash). As of December 31, 2016, the portfolio's allocation was as follows: 70% in equity mutual funds and 30% in bond mutual funds. The equity mutual funds are Level 1 assets in accordance with fair value disclosure requirements. Rabbi Trust assets are offset by a liability included in accounts payable and accrued expenses in the consolidated statements of financial position.

6. RELATED PARTY TRANSACTIONS:

In February 2002, HBC formed the Elder Council, now known as Harvest Bible Fellowship (HBF). HBF has a multi-ministry outreach consisting of church planting, pastoral training and member church support. HBF is a separate 501(c)(3) entity with its own board of directors. Both HBC and the plant churches are represented on the HBF board of directors by selected elders or pastors. HBC does not exercise sufficient control over HBF to require consolidation under technical accounting standards. During the years ended December 31, 2016 and 2015, HBC contributed \$1,246,000 and \$1,250,010, respectively, to HBF. In addition, HBF owed HBC \$1,101,277 and \$196,414 as of December 31, 2016 and 2015, respectively.

HBC and HBF entered into a ground lease agreement in 2016 related to the Pastors Training Facility (HBF-owned) built on HBC's Camp Harvest property in Newaygo, Michigan. This lease expires in December 2115 and has an annual lease payment of \$10. Lease income totaled \$10 during the year ended December 31, 2016.

During the year ended December 31, 2016, HBF allocated \$1,005,004 to HBC of the \$2,690,200 raised by HBC for HBF's church plant acceleration efforts. During the year ended December 31, 2015, HBF gave \$310,993 in cash contributions to HBC.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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, 2016 and 2015, are as follows:

	2016	2015
Program services	\$ 34,553,072	\$ 32,332,133
Supporting activities:		
General and administrative	6,795,852	8,148,261
Fund-raising	1,331,528	1,215,912
	\$ 42,680,452	\$ 41,696,306

8. OPERATING LEASES:

HBC has several lease agreements, primarily for various office equipment and use of facilities. These leases have various expiration dates through 2020. Rental expense was \$497,721 and \$486,080 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments under operating leases that have remaining lease terms in excess of one year as of December 31, 2016, are:

2017	\$ 385,779
2018	80,693
2019	60,920
2020	24,217
	\$ 551,609

9. SALE-LEASEBACK TRANSACTION:

In March 2014, HBC sold all of its real and personal property located in Aurora, Illinois for \$15,600,000. \$4,000,000 was received in cash, and the remaining amount is to be received over eight years. Payments will be made in the form of television broadcast time for HBC's program on the TBN Family of Networks. At the time of sale, the net proceeds were used to pay off the related mortgage payable on the property. The ministry signed an expense sharing agreement to use limited areas of the building for church services, television studio and office space from the buyer through June 2022, with the option of cancelling with 90 days written notice. The transaction does not require any special accounting treatment under U.S. generally accepted accounting principles as the ministry retained the right to use only a minor portion of the property sold. As such, the sale and the lease are treated as two separate transactions based on their respective terms. HBC cancelled this agreement in August 2016 due to the purchase of its new Aurora property. Rent expense relating to this transaction totaled \$40,000 and \$60,000 for the years ending December 31, 2016 and 2015, respectively.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### 10. MEDICAL INSURANCE:

HBC operates a self-funded health insurance plan for qualified employees. As of December 31, 2016 and 2015, the self-funded plan has an annual stop-loss limit of \$85,000 and \$70,000, respectively, for each insured individual per year. The plan also has a cumulative stop-loss limit for the entire group per year. Once either limit has been reached, the reinsurance coverage will directly pay all claims with no cap or limit. The plan has no lifetime maximum coverage limits per individual or cause. The plan uses an outside third-party administrator to process all claims.

As of December 31, 2016 and 2015, the reserve for unpaid claims, including those incurred but not reported, totaled approximately \$232,000 and \$200,000, respectively, 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 consolidated statements of financial position is adequate to cover future losses as of December 31, 2016.

### 11. FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following disclosures of estimated fair value of financial instruments as of December 31, 2016 and 2015, 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, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$ 8,639,251	\$ 8,639,251	\$ 8,293,432	\$ 8,293,432
Accounts receivable and other assets	3,287,800	3,287,800	1,906,532	1,906,532
Accounts payable and accrued expenses	3,777,935	3,777,935	3,544,201	3,544,201

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.

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

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### 11. FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS, 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.

FASB ASC also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

HBC uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, HBC measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

*Changes in methods and valuation techniques:* none

### 12. SUBSEQUENT EVENTS:

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