HARVEST BIBLE CHAPEL

Financial Statements
With Independent Auditors' Report

December 31, 2014 and 2013

CAPINCROUSE LLP
Certified Public Accountants

HARVEST BIBLE CHAPEL

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CapinCrouse LLP
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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, 2014 and 2013, 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, 2014 and 2013, 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 13, 2015

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Statements of Financial Position

	December 31, 2014	December 31, 2013
ASSETS:		
Cash and cash equivalents	$ 7,315,335	$ 7,043,958
Accounts receivable and other assets	1,559,592	1,495,740
Inventory, net	144,959	145,249
Broadcast time receivable	11,237,500	-
Land, buildings and equipment – net of accumulated depreciation	129,542,195	148,010,550
	$ 149,799,581	$ 156,695,497
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	$ 2,487,354	$ 2,097,531
Construction payable	-	1,063,922
Long-term debt	49,649,037	56,458,844
	52,136,391	59,620,297
Net assets:		
Unrestricted:		
Equity in land, buildings and equipment	79,893,158	90,487,784
Board designated	273,971	411,172
Available at Board discretion	15,828,055	4,996,256
	95,995,184	95,895,212
Temporarily restricted:		
Capital campaign	830,936	880,283
Scholarship fund	730,685	-
School	86,263	11,836
Benevolent fund	20,122	31,660
Walk in the Word	-	256,209
	1,668,006	1,179,988
	97,663,190	97,075,200
	$ 149,799,581	$ 156,695,497

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Statements of Activities

	Year Ended December 31,					
	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	$ 25,834,473	$ 5,691,986	$ 31,526,459	$ 28,105,572	$ 5,006,691	$ 33,112,263
Ministry revenue	1,264,192	-	1,264,192	1,446,622	-	1,446,622
Tuition and fees	3,985,945	-	3,985,945	4,011,415	-	4,011,415
Sales	1,612,268	-	1,612,268	2,538,731	-	2,538,731
Interest and other income	178,169	-	178,169	427,822	-	427,822
	32,875,047	5,691,986	38,567,033	36,530,162	5,006,691	41,536,853
RECLASSIFICATIONS:						
Net assets released from restrictions upon:						
Satisfaction of purpose restrictions	5,203,968	(5,203,968)	-	7,556,927	(7,556,927)	-
EXPENSES:						
Compensation	12,289,220	-	12,289,220	13,829,215	-	13,829,215
Ministry	14,783,053	-	14,783,053	14,258,485	-	14,258,485
Facilities	2,112,507	-	2,112,507	2,116,649	-	2,116,649
Depreciation	4,187,852	-	4,187,852	4,565,833	-	4,565,833
Administration	1,919,017	-	1,919,017	1,668,494	-	1,668,494
Interest expense	2,687,394	-	2,687,394	3,120,035	-	3,120,035
	37,979,043	-	37,979,043	39,558,711	-	39,558,711
Change in Net Assets	99,972	488,018	587,990	4,528,378	(2,550,236)	1,978,142
Net Assets, Beginning of Year	95,895,212	1,179,988	97,075,200	91,366,834	3,730,224	95,097,058
Net Assets, End of Year	$ 95,995,184	$ 1,668,006	$ 97,663,190	$ 95,895,212	$ 1,179,988	$ 97,075,200

See notes to financial statements

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Statements of Cash Flows

	Year Ended December 31, 2014	Year Ended December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 587,990	$ 1,978,142
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,187,852	4,565,833
Broadcast rights recognized and used	362,500	-
Loss on disposal of land, buildings and equipment	-	4,776
Changes in:		
Accounts receivable and other assets	(63,852)	374,809
Inventory	290	48,866
Accounts payable and accrued expenses	(674,099)	953,932
Net Cash Provided by Operating Activities	4,400,681	7,926,358
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of land, buildings and equipment	4,000,000	-
Purchases of land, buildings and equipment	(1,319,497)	(6,072,410)
Net Cash Provided (Used) by Investing Activities	2,680,503	(6,072,410)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(6,809,807)	(2,981,243)
Net Cash Used by Financing Activities	(6,809,807)	(2,981,243)
Net Change in Cash and Cash Equivalents	271,377	(1,127,295)
Cash and Cash Equivalents, Beginning of Year	7,043,958	8,171,253
Cash and Cash Equivalents, End of Year	$ 7,315,335	$ 7,043,958
Supplemental information:		
Cash paid for interest	$ 2,571,303	$ 3,028,003
Payoff of old debt with issuance of new debt	$ 3,600,000	$ 2,805,000
Receivable from sale of land, buildings and equipment	$ 11,600,000	$ -
Disposal of fully depreciated equipment	$ -	$ 2,608,944

See notes to financial statements

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Notes to Financial Statements
December 31, 2014 and 2013

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.

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 for both the years ended December 31, 2014 and 2013, respectively.

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 $362,500 of broadcast time during the year ended December 31, 2014.

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Notes to Financial Statements
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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 eighteen months 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.

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.

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Notes to Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 2014 and 2013, 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:

	2014	2013
Land and land improvements	$ 28,490,214	$ 33,582,988
Buildings and improvements	122,459,424	132,710,222
Furniture and fixtures	1,223,527	1,209,631
Office equipment	228,926	228,926
Computer equipment	1,181,210	235,719
Sound and video equipment	3,548,916	5,310,266
Other equipment	1,785,079	2,233,582
	158,917,296	175,511,334
Less accumulated depreciation	(29,375,101)	(27,500,784)
	$ 129,542,195	$ 148,010,550

4. LONG-TERM DEBT:
Long-term debt consists of the following:

	2014	2013
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.	$ 29,200,880	$ 29,861,943

4. LONG-TERM DEBT, continued:

Long-term debt consists of the following, continued:

	2014	2013
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.	11,132,906	11,390,908
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. in Niles, Illinois.	3,571,065	-
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 is secured by the buildings and property at 6829 East 72nd Street, Newaygo, Michigan.	3,086,874	3,752,307
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.	2,657,312	2,727,494

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4. LONG-TERM DEBT, continued:

Long-term debt consists of the following, continued:

	2014	2013
Term mortgage payable 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. This note was paid off in 2014 with proceeds from the Aurora property sale, and issuance of a new mortgage payable.	-	8,726,192
	$ 49,649,037	$ 56,458,844

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

2015	$ 1,280,408
2016	4,127,532
2017	1,244,113
2018	3,644,220
2019	4,427,661
Thereafter	34,925,103
	$ 49,649,037

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

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 2014 and 2013 were $0 and $298,834, 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, 2014 and 2013, HBC made contributions to the plan of $41,875 and $47,299, respectively.

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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 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 significant control over HBF to require consolidation under technical accounting standards. During the years ended December 31, 2014 and 2013, HBC contributed $1,014,256 and $711,356, respectively, to HBF. In addition, HBF owed HBC $78,075 and $17,363 as of December 31, 2014 and 2013, respectively. HBC also owed HBF $303,900 and $0 for the year ended December 31, 2014 and 2013, 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, 2014 and 2013, are as follows:

	2014	2013
Program services	$ 29,425,779	$ 30,857,346
Supporting activities:		
General and administrative	7,454,394	7,480,479
Fund-raising	1,098,870	1,220,886
	$ 37,979,043	$ 39,558,711

8. OPERATING LEASES:

HBC has several lease agreements, primarily for various office equipment and use of facilities. These leases have various expiration dates through 2022. Rental expense was $482,760 and $452,614 for the years ended December 31, 2014 and 2013, respectively.

Future minimum lease payments under operating leases, including the Aurora lease detailed in Footnote 9, that have remaining lease terms in excess of one year as of December 31, 2014, are:

2015	$ 414,718
2016	330,952
2017	119,464
2018	79,845
2019	66,879
Thereafter	150,000
	$ 1,161,858

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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. As of December 31, 2014, the rent expense relating to this transaction totaled $30,000.

Future minimum payments under the terms of the lease agreement are as follows for year ending December 31:

2015	$	60,000
2016		60,000
2017		60,000
2018		60,000
2019		60,000
Thereafter		150,000
	$	450,000

10. 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, 2014 and 2013, 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, 2014.

11. SUBSEQUENT EVENTS:

On January 7, 2015, HBC entered into a real estate purchase agreement for a permanent home for the North Shore campus. Subject to terms and conditions of the contract, the closing date is estimated to be sometime in the summer, 2015.

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.