HARVEST BIBLE CHAPEL

Consolidated Financial Statements
With Independent Auditors' Report

December 31, 2017 and 2016

CAPINCROUSE LLP

HARVEST BIBLE CHAPEL

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CAPINCROUSE LLP

INDEPENDENT AUDITORS' REPORT

Audit Committee
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, 2017 and 2016, 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, 2017 and 2016, 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.

Capin Crouse LLP

Wheaton, Illinois
April 6, 2018

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HARVEST BIBLE CHAPEL

Consolidated Statements of Financial Position

	December 31, 2017	December 31, 2016
ASSETS:		
Cash and cash equivalents	$ 5,588,829	$ 8,639,251
Accounts receivable and other assets	2,606,288	3,287,800
Inventory, net	297,899	147,899
Broadcast time receivable	6,887,500	8,337,500
Land, buildings and equipment – net	134,424,663	134,964,435
Total Assets	$ 149,805,179	$ 155,376,885
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	$ 4,629,211	$ 3,777,935
Long-term debt	43,970,185	46,438,526
	48,599,396	50,216,461
Net assets:		
Unrestricted:		
Noncontrolling interests in subsidiaries	7,330,000	7,330,000
Equity in land, buildings and equipment	90,203,077	88,174,068
Board designated	379,861	985,289
Available at board discretion	1,890,071	6,173,441
	99,803,009	102,662,798
Temporarily restricted:		
Capital campaign	-	1,342,820
Scholarship fund	803,720	796,920
Camp fund	233,753	230,037
Benevolent fund	239,762	127,849
Church planting	125,539	-
	1,402,774	2,497,626
	101,205,783	105,160,424
Total Liabilities and Net Assets	$ 149,805,179	$ 155,376,885

See notes to consolidated financial statements

HARVEST BIBLE CHAPEL

Consolidated Statements of Activities

	Year Ended December 31,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	$ 33,353,022	$ 2,560,881	$ 35,913,903	$ 33,265,342	$ 1,752,689	$ 35,018,031
Contributions - net assets acquired from affiliate	-	2,301,145	2,301,145	-	-	-
Ministry revenue	1,892,750	-	1,892,750	1,965,405	-	1,965,405
Tuition and fees	4,530,718	-	4,530,718	4,624,939	-	4,624,939
Sales	883,264	-	883,264	974,171	-	974,171
Interest and other income	620,883	-	620,883	199,275	-	199,275
Total support and revenue	41,280,637	4,862,026	46,142,663	41,029,132	1,752,689	42,781,821
RECLASSIFICATIONS:						
Net assets released from restrictions upon:						
Satisfaction of purpose restrictions	5,956,878	(5,956,878)	-	1,219,136	(1,219,136)	-
EXPENSES:						
Compensation	16,857,962	-	16,857,962	14,522,881	-	14,522,881
Ministry	19,840,927	-	19,840,927	16,736,634	-	16,736,634
Facilities	2,719,993	-	2,719,993	2,634,535	-	2,634,535
Depreciation	4,412,064	-	4,412,064	4,164,554	-	4,164,554
Administration	2,969,520	-	2,969,520	1,982,888	-	1,982,888
Interest expense	2,556,081	-	2,556,081	2,638,960	-	2,638,960
Total expenses before assets granted to church plant	49,356,547	-	49,356,547	42,680,452	-	42,680,452
Assets granted to church plant (Note 1)	740,757	-	740,757	-	-	-
Total expenses	50,097,304	-	50,097,304	42,680,452	-	42,680,452
Change in net assets before current year capital contributions to subsidiaries	(2,859,789)	(1,094,852)	(3,954,641)	(432,184)	533,553	101,369
Current year capital contributions to subsidiaries (Note 1)	-	-	-	3,830,000	-	3,830,000
Current year capital acquisitions from subsidiary (Note 1)	-	-	-	(200,000)	-	(200,000)
Change in Net Assets	(2,859,789)	(1,094,852)	(3,954,641)	3,197,816	533,553	3,731,369
Net Assets, Beginning of Year	102,662,798	2,497,626	105,160,424	99,464,982	1,964,073	101,429,055
Net Assets, End of Year	$ 99,803,009	$ 1,402,774	$ 101,205,783	$ 102,662,798	$ 2,497,626	$ 105,160,424

See notes to consolidated financial statements

HARVEST BIBLE CHAPEL

Consolidated Statements of Cash Flows

	Year Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (3,954,641)	$ 3,731,369
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,412,064	4,164,554
Loss on disposal of land, buildings and equipment	24,238	-
Contributions received for investment in land, buildings and equipment	(47,202)	(932,767)
Broadcast rights recognized and used	1,450,000	1,450,000
Donated land, buildings and equipment	(2,313,165)	-
Changes in:		
Accounts receivable and other assets	681,512	(1,381,268)
Inventory	(150,000)	9,863
Accounts payable and accrued expenses	851,276	233,734
Net Cash Provided by Operating Activities	954,082	7,275,485
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, buildings and equipment	(1,759,127)	(5,952,032)
Proceeds from the sale of land, buildings and equipment	175,762	-
Net Cash Used by Investing Activities	(1,583,365)	(5,952,032)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received for investment in land, buildings and equipment	47,202	932,767
Principal payments on long-term debt	(2,468,341)	(1,910,401)
Net Cash Used by Financing Activities	(2,421,139)	(977,634)
Net Change in Cash and Cash Equivalents	(3,050,422)	345,819
Cash and Cash Equivalents, Beginning of Year	8,639,251	8,293,432
Cash and Cash Equivalents, End of Year	$ 5,588,829	$ 8,639,251
Supplemental information:		
Cash paid for interest	$ 2,556,081	$ 2,638,960
Payoff of old debt with issuance of new debt	$ -	$ 2,317,042

See notes to consolidated financial statements

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 also 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 also 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 through August 2017. It is incorporated in the State of Illinois within the meaning of Section 501(c)(3) of the Code. Effective September 1, 2017, consistent with our initial plan, all control for Chicago West was transferred to the governance structure of Chicago West. As part of this process, HBC transferred approximately $643,000 of cash to Chicago West and paid approximately $98,000 of expenses on behalf of Chicago West. These gifts had been held through August 31, 2017 for Chicago West.

1. NATURE OF ORGANIZATION, continued:

BASIS OF CONSOLIDATION, continued

Harvest Bible Fellowship (HBF) is a 501(c)(3) organization that has a multi-ministry outreach consisting of church planting, pastoral training and member church support. After HBC voluntarily removed itself from leadership of the 170-church HBF, HBF appointed new leadership, and all other churches were released from sending support to HBF. Effective July 1, 2017, HBC became the only church responsible for contributing to HBF obligations; therefore, HBF is required to be consolidated by HBC in accordance with Topic 810 of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC).

As the sole supporter of HBF operations from July 1-December 31, 2017, HBC contributed $1,218,914 of cash contributions toward ongoing operations of HBF (i.e. church planters from 2016, training center 2017, international missionary support commitments, advance support returned to HBF churches by request, and HBF staff severance). In addition, HBC provided $1,150,000 of shared services to HBF in 2017, none of which was reimbursed to HBC, all of which was funded by HBC.

The liabilities assumed by HBC on July 1, 2017, consisted of accounts payable totaling $876,305. The assets assumed included cash totaling $364,203 and non-cash assets totaling $2,813,247, of which more than $1,600,000 was the Michigan training center that was funded through efforts of HBC and not paid for by other HBF churches. Asset and liability amounts are taken directly from the HBF June 30, 2017, independently audited financial statements. The consolidation of HBF resulted in an accrual basis contribution of net assets to HBC, due to the inclusion of the Michigan training center. However, on a cash basis the HBF consolidation was a net loss to HBC.

Total investment by HBC into HBF in 2017 was:

July 1 - December 31, 2017, cash contributions ($1,000,000 of which was covered by a special internal fund transfer by Walk in the Word)	$	1,218,914
Shared services provided		1,150,000
January 1 - June 30, 2017, cash contributions		650,000
	$	3,018,914

Prior to consolidation of HBF, during the six-month period and year ended June 30, 2017 and December 31, 2016, HBC contributed $650,000 and $1,246,000, respectively, to HBF. During the six-month period and year ended June 30, 2017 and December 31, 2016, HBF granted $263,211 and $1,005,004, respectively, to HBC for church plant acceleration efforts. In addition, HBF owed HBC $1,101,277 as of December 31, 2016.

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

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. Management has assessed all receivables and written off any believed to be uncollectible. All other amounts are believed 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, 2017 and 2016.

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, 2017 and 2016.

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.

2. <u>SIGNIFICANT ACCOUNTING POLICIES, continued:</u>

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.

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.

3. LAND, BUILDINGS AND EQUIPMENT, NET:

Land, buildings and equipment consist of the following:

	2017	2016
Land and land improvements	$ 33,889,314	$ 33,737,650
Buildings and improvements	130,369,766	127,945,948
Furniture and fixtures	2,351,800	1,826,523
Office equipment	228,926	228,926
Computer equipment and software	3,354,450	2,742,895
Sound and video equipment	3,918,905	3,840,681
Other equipment	2,107,037	2,081,037
	176,220,198	172,403,660
Less accumulated depreciation	(41,851,289)	(37,439,225)
Construction in progress	55,754	-
	$ 134,424,663	$ 134,964,435

4. LONG-TERM DEBT:

Long-term debt consists of the following:

	2017	2016
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 real property in Elgin and Chicago, Illinois.	$ 27,035,426	$ 27,792,922
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 real property in Rolling Meadows, Illinois.	10,287,592	10,583,272

4. LONG-TERM DEBT, continued:

Long-term debt consists of the following, continued:

	2017	2016
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 real property in Niles, Illinois.	2,184,869	3,318,839
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 real property in Crystal Lake, Illinois.	2,429,443	2,508,547
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 real property in Newaygo, Michigan.	2,032,855	2,234,946
	$ 43,970,185	$ 46,438,526

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

2018	$ 3,929,965
2019	3,457,212
2020	1,489,822
2021	1,561,273
2022	24,203,347
Thereafter	9,328,566
	$ 43,970,185

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

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. Employees are fully vested immediately upon participation. Contributions to the 403(b) plan during 2017 and 2016 were $344,228 and $326,060, 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. HBC made contributions to the plan totaling $52,949 for each of the years ended December 31, 2017 and 2016.

HBC established a Rabbi Trust for the purpose of paying ministry staff upon retirement, death or disability. The trust is revocable by HBC. As of December 31, 2017, the portfolio was invested 100% in equity 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. 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, 2017 and 2016, are as follows:

	2017	2016
Program services	$ 40,620,204	$ 34,553,072
Supporting activities:		
General and administrative	7,703,861	6,795,852
Fund-raising	1,773,239	1,331,528
	$ 50,097,304	$ 42,680,452

7. 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 $471,575 and $497,721 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments under operating leases that have remaining lease terms in excess of one year as of December 31, 2017, are:

2018	$ 387,040
2019	214,212
2020	82,384
2021	9,321
2022	2,330
	$ 695,287

8. 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 for the year ending December 31, 2016.

9. MEDICAL INSURANCE:

HBC operates a self-funded health insurance plan for qualified employees. As of December 31, 2017 and 2016, the self-funded plan has an annual stop-loss limit of $85,000 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, 2017 and 2016, the reserve for unpaid claims, including those incurred but not reported, totaled approximately $309,000 and $232,000, 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, 2017.

10. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through April 6, 2018, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.