

HARVEST BIBLE CHAPEL

Consolidated Financial Statements
With Independent Auditors' Report

December 31, 2020 and 2019

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, 2020 and 2019, 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.

Board of Elders
Harvest Bible Chapel
Rolling Meadows, Illinois

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, 2020 and 2019, 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

Naperville, Illinois
April 30, 2021

HARVEST BIBLE CHAPEL

Consolidated Statements of Financial Position

	December 31,	
	2020	2019
ASSETS:		
Cash and cash equivalents	\$ 5,480,203	\$ 5,274,081
Investments	2,013,503	-
Accounts receivable and other assets	332,056	413,271
Property held for sale	-	1,000,000
Restricted cash	-	2,292,942
Assets held for deferred compensation	-	3,199,409
Land, buildings and equipment – net	115,602,198	124,595,781
Total Assets	\$ 123,427,960	\$ 136,775,484
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,270,919	\$ 2,768,123
Deferred compensation liability	-	3,199,409
Notes payable	38,341,432	38,383,500
Total Liabilities	40,612,351	44,351,032
Net assets:		
Without donor restrictions:		
Noncontrolling interests in subsidiaries	3,730,000	7,230,000
Available at board discretion	77,256,907	83,061,413
	80,986,907	90,291,413
With donor restrictions	1,828,702	2,133,039
	82,815,609	92,424,452
Total Liabilities and Net Assets	\$ 123,427,960	\$ 136,775,484

See notes to consolidated financial statements

HARVEST BIBLE CHAPEL

Consolidated Statements of Activities

	Year Ended December 31,					
	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND LOSSES:						
Contributions	\$ 13,714,063	\$ 1,045,399	\$ 14,759,462	\$ 18,868,538	\$ 1,278,608	\$ 20,147,146
Ministry revenue	1,133,448	-	1,133,448	1,677,246	-	1,677,246
Tuition and fees	3,189,487	-	3,189,487	3,794,670	-	3,794,670
Sales	13,986	-	13,986	69,847	-	69,847
Interest and other income	767,434	-	767,434	1,109,678	-	1,109,678
Loss on exit of subsidiary	(103,556)	-	(103,556)	-	-	-
Loss on settlement	(1,348,113)	-	(1,348,113)	-	-	-
Impairment loss on land, buildings and equipment	-	-	-	(279,128)	-	(279,128)
Total support, revenue, and losses	<u>17,366,749</u>	<u>1,045,399</u>	<u>18,412,148</u>	<u>25,240,851</u>	<u>1,278,608</u>	<u>26,519,459</u>
RECLASSIFICATIONS:						
Net assets released from restrictions upon:						
Satisfaction of purpose restrictions	<u>1,349,736</u>	<u>(1,349,736)</u>	<u>-</u>	<u>549,758</u>	<u>(549,758)</u>	<u>-</u>
EXPENSES:						
Program services	20,105,156	-	20,105,156	24,216,690	-	24,216,690
Supporting activities:						
General and administrative	3,472,306	-	3,472,306	5,089,146	-	5,089,146
Fundraising	<u>50,762</u>	<u>-</u>	<u>50,762</u>	<u>158,515</u>	<u>-</u>	<u>158,515</u>
Total expenses before assets granted to church plant	23,628,224	-	23,628,224	29,464,351	-	29,464,351
Assets granted to church plant	892,767	-	892,767	322,185	-	322,185
Total expenses	<u>24,520,991</u>	<u>-</u>	<u>24,520,991</u>	<u>29,786,536</u>	<u>-</u>	<u>29,786,536</u>
Change in Net Assets from Continuing Operations	<u>(5,804,506)</u>	<u>(304,337)</u>	<u>(6,108,843)</u>	<u>(3,995,927)</u>	<u>728,850</u>	<u>(3,267,077)</u>

(continued)

See notes to consolidated financial statements

HARVEST BIBLE CHAPEL

Consolidated Statements of Activities (continued)

	Year Ended December 31,					
	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Major Line Items from Discontinued Operations:						
Support and Revenue:						
Contributions	-	-	-	596,887	-	596,887
Sales	-	-	-	29,625	-	29,625
Other income (loss)	-	-	-	(7,284)	-	(7,284)
	-	-	-	619,228	-	619,228
Expenses:						
Program services	-	-	-	1,089,285	-	1,089,285
Supporting activities:						
General and administrative	-	-	-	183,178	-	183,178
Fundraising	-	-	-	212,721	-	212,721
	-	-	-	1,485,184	-	1,485,184
Discontinued Operations	-	-	-	(865,956)	-	(865,956)
Change in Net Assets	(5,804,506)	(304,337)	(6,108,843)	(4,861,883)	728,850	(4,133,033)
Net Assets, Beginning of Year	90,291,413	2,133,039	92,424,452	95,153,296	1,404,189	96,557,485
Purchase of subsidiary shares from noncontrolling shareholders	(3,500,000)	-	(3,500,000)	-	-	-
	86,791,413	2,133,039	88,924,452	95,153,296	1,404,189	96,557,485
Net Assets, End of Year	\$ 80,986,907	\$ 1,828,702	\$ 82,815,609	\$ 90,291,413	\$ 2,133,039	\$ 92,424,452

See notes to consolidated financial statements

HARVEST BIBLE CHAPEL

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (6,108,843)	\$ (4,133,033)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	4,296,653	4,564,465
Loss on disposal of land, buildings and equipment	98,113	214,196
Loss on disposal of property held for sale	1,000,000	-
Contributions received for investment in land, buildings and equipment	(103,717)	(773,212)
Broadcast time recognized and used	-	241,666
Impairment loss on land, buildings and equipment	-	279,128
Changes in:		
Accounts receivable and other assets	81,215	205,454
Accounts payable and accrued expenses	(497,204)	(1,068,783)
Net Cash Used by Operating Activities	(1,233,783)	(470,119)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,013,503)	-
Purchases of land, buildings and equipment	(426,183)	(162,250)
Proceeds from the sale of land, buildings and equipment	5,025,000	81,000
Proceeds from the sale of broadcast time intangible asset	-	4,100,000
Net Cash Provided by Investing Activities	2,585,314	4,018,750
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received for investment in land, buildings and equipment	103,717	773,212
Purchase of subsidiary shares from noncontrolling shareholders	(3,500,000)	-
Proceeds from Paycheck Protection Program loan	2,556,200	-
Principal payments on notes payable	(2,598,268)	(3,794,592)
Net Cash Used by Financing Activities	(3,438,351)	(3,021,380)
Net Change in Cash, Cash Equivalents and Restricted Cash	(2,086,820)	527,251
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	7,567,023	7,039,772
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 5,480,203	\$ 7,567,023
Supplemental information:		
Cash paid for interest	\$ 2,549,533	\$ 2,930,199
Land, buildings and equipment moved to property held for sale	\$ -	\$ 1,000,000

See notes to consolidated financial statements

HARVEST BIBLE CHAPEL

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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 outreach, discipleship, missions, worship, evangelism, prayer, youth, fellowship, Christian education, camp, and digital engagement. In addition, HBC has five 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, Elgin, and Aurora. In 2019, HBC moved towards the planting of its Niles campus as an independent church, and this transition was completed in February 2020 when CityLine Bible Church (CLBC) purchased the Niles property from HBC, and HBC granted full governance control to CLBC.

BASIS OF CONSOLIDATION

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

- Harvest Bible Chapel North Shore, LLC (NSLLC) was formed in June 2015 with its sole purpose 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 was effective through July 31, 2019. Beginning in August 2019, it is currently on a month-to-month agreement. Monthly rental payments are \$22,250. HBC is the sole Class A member and manager of the NSLLC, 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, of which \$950,000 was also from HBC. The NSLLC 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 NSLLC is passed through to its members. In March 2020, HBC purchased \$3,500,000 of Class B shares at par, now being the sole member in NSLLC.
- Harvest Bible Chapel Aurora, LLC (AULLC) was formed in March 2016 with its sole purpose 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 was effective through May 31, 2020. Beginning in June 2020, it is currently on a month-to-month agreement. Monthly rental payments are \$20,250. 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, of which \$270,000 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.

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Notes to Consolidated Financial Statements

December 31, 2020 and 2019

1. NATURE OF ORGANIZATION, continued:

BASIS OF CONSOLIDATION, continued

- In September 2018, Harvest Bible Chapel Naples, Inc., a local church in Naples, Florida, granted control to the Elders of HBC. The granting of control to HBC resulted in a contribution of net assets to HBC of approximately \$91,000, consisting primarily of cash and cash equivalents. Due to other events occurring in early 2019, HBC granted control of Harvest Bible Chapel Naples, Inc. back to its local Elders in February 2019, transferring net assets of approximately \$322,000, consisting primarily of cash and cash equivalents raised locally between September 2018 and February 2019, and equipment.
- CLBC was formed in 2019 as a religious organization incorporated in the State of Illinois. It is exempt from federal and state income taxes and is not a private foundation under section 509(a)(1) of the Code. The governing members of CLBC were the Elders of HBC until February 28, 2020, when HBC's Elders granted full and independent governance authority to the newly appointed Elders of CLBC. The granting of control to CLBC resulted in the transfer of net assets of \$893,000, consisting primarily of cash and cash equivalents, which represented the donor-restricted contributions raised by the Niles campus through February 1, 2020, for the purchase of its building. As part of this transfer of control, CLBC purchased real and personal property from HBC for \$5,025,000. Upon completion of the sale, HBC paid off its note payable due on this property of approximately \$1,700,000. The decrease in the asset value based on the sale in 2020 resulted in an impairment loss of approximately \$280,000, which was recognized during the year ended December 31, 2019.
- Walk in the Word is a religious organization incorporated in the State of Illinois within the meaning of Section 501(c)(3) of the Code. It is exempt from federal and state income taxes and is not a private foundation under section 509(a)(1) of the Code. The governing members of Walk in the Word were the Elders of HBC. As a result of binding arbitration with its former Senior Pastor, HBC transferred control of Walk in the Word to an independent ministry in August 2020. This transfer resulted in the granting of cash under the control of Walk in the Word totaling approximately \$104,000 to the other ministry, which is recorded as a loss on exit of subsidiary on the consolidated statements of activities, during the year ended December 31, 2020.

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

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.

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Notes to Consolidated Financial Statements

December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, checking, money market accounts and certificates of deposit with original maturities of three months or less. At December 31, 2020 and 2019, HBC's cash balances exceeded federally insured limits by \$4,320,122 and \$5,880,307, respectively. 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.

RESTRICTED CASH

Restricted cash consists of proceeds from HBC's sale of the broadcast time intangible asset during the year ended December 31, 2019. These proceeds were placed into a restricted mortgage reserve account by HBC's lender, and were used to pay HBC's monthly mortgage obligations until the funds were fully applied during the year ended December 31, 2020.

Cash, cash equivalents, and restricted cash consists of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 5,480,203	\$ 5,274,081
Restricted cash	-	2,292,942
	<u>\$ 5,480,203</u>	<u>\$ 7,567,023</u>

INVESTMENTS

Investments in money market funds and certificates of deposit with readily determinable fair values are recorded at fair value with gains and losses reported in the statements of activities. Investment income and realized and unrealized gains and losses are included in interest and other income without donor restrictions unless a donor or law temporarily or permanently restricts their use.

ACCOUNTS RECEIVABLE AND OTHER ASSETS

Accounts receivable and other assets primarily consists of school receivables, prepaid expenses, and inventory. Management has assessed all receivables and written off any believed to be uncollectible. All other amounts are believed to be fully collectible.

PROPERTY HELD FOR SALE

HBC listed a parcel of vacant land for sale in Crystal Lake, Illinois. Property held for sale is reported at the lower of its carrying amount or fair value less estimated selling costs. This land was transferred to Walk in the Word in accordance with the binding arbitration that concluded in 2020. The loss on disposal has been recorded in the consolidated statements of activities as a loss on settlement.

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Notes to Consolidated Financial Statements

December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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:

Net assets without donor restrictions 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 interests in subsidiaries.

Net assets with donor restrictions 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 use without donor restriction, unless specifically restricted by the donor or subject to legal restrictions. Gifts of cash and other assets are reported as support with donor restriction 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 support with donor restriction.

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 ministry revenue, tuition and fees, sales and interest are recorded when earned. Ministry revenue consists of amounts paid for various activities, retreats, conferences and camp fees.

HARVEST BIBLE CHAPEL

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CONTRIBUTIONS, REVENUES AND EXPENSES, continued

Revenues from tuition and fees are earned in the fiscal year in which educational services are provided. Payments for tuition are due in monthly, semi-annual, or annual installments. Institutional aid, in the form of scholarships, multi-child, member and other discounts, reduces the published price of tuition for students receiving such aid and is reported as a reduction of tuition and fees revenue. As such, institutional aid is referred to as a tuition discount and represents the difference between the stated charge for tuition and fees and the amount that is billed the student. Institutional aid provided to students was \$1,508,147 and \$1,518,508 during the years ended December 31, 2020 and 2019, respectively.

HBC hosts various retreat events throughout the year. Revenue for each event and camp is recognized ratably over the event period, which typically range from 1-7 days. HBC also hosts several summer camps at its camp in Michigan. Revenue from these summer camps is earned in the year in which the services are provided to the campers. For merchandise sales, revenue is recognized at the point of sale.

Expenses are recorded when incurred.

The activity and balances for unearned revenue from contracts with customers are shown in the following table:

	<u>Tuition and Fees</u>	<u>Other</u>	<u>Total</u>
Balance, December 31, 2018	\$ 546,334	\$ 29,739	\$ 576,073
Revenue recognized	(546,334)	(29,739)	(576,073)
Payments received for future performance obligations	<u>314,004</u>	<u>17,373</u>	<u>331,377</u>
Balance, December 31, 2019	314,004	17,373	331,377
Revenue recognized	(314,004)	(17,373)	(331,377)
Payments received for future performance obligations	<u>352,544</u>	<u>9,824</u>	<u>362,368</u>
Balance, December 31, 2020	<u>\$ 352,544</u>	<u>\$ 9,824</u>	<u>\$ 362,368</u>

The unearned revenue from contracts with customers shown above is included in accounts payable and accrued expenses in the consolidated statements of financial position.

HARVEST BIBLE CHAPEL

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

As of January 1, 2020, HBC adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Made*. The new standard provides a framework for determining whether a particular transaction is an exchange transaction or a contribution, and guidance to assist entities in determining whether a contribution is either conditional or unconditional. The ASU has been applied on a modified retrospective basis for agreements that were incomplete as of the ASU's effective date or that were entered into after the effective date. Adoption of this standard had no effect on change in net assets or net assets in total.

3. INVESTMENTS:

Investments consist of:

	December 31,	
	2020	2019
At fair value:		
Money market mutual funds	\$ 1,513,503	\$ -
Certificates of deposit	500,000	-
	<u>\$ 2,013,503</u>	<u>\$ -</u>

4. LAND, BUILDINGS AND EQUIPMENT, NET:

Land, buildings and equipment consist of the following:

	December 31,	
	2020	2019
Land and land improvements	\$ 30,464,507	\$ 31,407,409
Buildings and improvements	125,402,875	130,462,044
Furniture and fixtures	2,452,760	2,450,148
Office equipment	222,936	228,926
Computer equipment and software	4,445,464	4,460,445
Sound and video equipment	4,182,803	4,150,504
Other equipment	1,698,613	2,207,025
	<u>168,869,958</u>	<u>175,366,501</u>
Less accumulated depreciation	(53,358,548)	(50,770,720)
Construction in progress	90,788	-
	<u>\$ 115,602,198</u>	<u>\$ 124,595,781</u>

HARVEST BIBLE CHAPEL

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

5. NOTES PAYABLE:

Notes payable consist of the following:

	December 31,	
	2020	2019
Mortgage payable of \$30,119,000, to a bank, monthly principal and interest payments of \$201,434, an increase due to a scheduled rate reset in August 2018, current rate of 6.375%. Unpaid principal and interest is due in August 2022. This note is secured by real property in Elgin and Chicago, Illinois.	\$ 24,995,559	\$ 25,408,379
Mortgage payable of \$11,572,000, payable to a bank, monthly principal and interest payments of \$74,852, an increase due to a scheduled rate reset in April 2018, current rate of 6.25%. Unpaid principal and interest is due in March 2023. This note is secured by real property in Rolling Meadows, Illinois.	9,411,163	9,710,914
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 was due in July 2020. This note was secured by real property in Niles, Illinois, and was paid off in February 2020.	-	1,738,877
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.	1,431,900	1,608,447
As part of the response to the impact of COVID-19, HBC applied for a Paycheck Protection Program (PPP) loan, administered by the Small Business Administration (SBA), under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law in March 2020. HBC was approved for a loan in the amount of \$2,556,200 in April 2020. The PPP loan provides for potential forgiveness up to the full amount of the loan provided HBC meets certain loan stipulations. If the loan is not forgiven, it bears annual interest of 1% and repayment is due in full in April 2022.	2,556,200	-
Loan origination fees, net	38,394,822 (53,390)	38,466,617 (83,117)
	\$ 38,341,432	\$ 38,383,500

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Notes to Consolidated Financial Statements

December 31, 2020 and 2019

5. NOTES PAYABLE, continued:

Notes payable mature as follows for the year ending December 31:

2021	\$ 1,444,120
2022	27,168,145
2023	9,065,640
2024	253,998
2025	262,261
Thereafter	<u>200,658</u>
	<u>\$ 38,394,822</u>

The loans listed above with 2019 balances are cross-collateralized by the same lender. Notes payable agreements contain certain covenants. HBC was in compliance with all covenants as of the date the consolidated financial statements were available to be issued.

6. CAPITAL LEASES:

HBC has capital lease agreements for office and IT equipment. The leases commenced in 2018 and have various expiration dates through 2023 and require monthly payments ranging from \$801 to \$17,043. Payments on these leases totaled \$360,633 and \$386,625 for the years ended December 31, 2020 and 2019, respectively. The obligation summarized below is included in accounts payable and accrued expenses in the consolidated statements of financial position.

	<u>2020</u>
Equipment	\$ 1,336,970
Less accumulated depreciation	<u>(677,357)</u>
Net book value	<u>\$ 659,613</u>

Future minimum lease payments under the terms of the capital lease agreements as of December 31, 2020, are:

2021	\$ 384,223
2022	377,016
2023	<u>313,825</u>
	1,075,064
Less amount representing maintenance fees	(198,168)
Less amount representing interest	<u>(77,299)</u>
Present value of minimum capital lease payments	<u>\$ 799,597</u>

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Notes to Consolidated Financial Statements

December 31, 2020 and 2019

7. FUNCTIONAL ALLOCATION OF EXPENSES:

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of HBC, which are primarily allocated on estimates of time and effort and square footage. The following table presents the functional allocation of expenses for the year ended December 31, 2020.

	Program Services	Management and General	Fundraising	2020 Total
Compensation	\$ 9,481,275	\$ 2,068,175	\$ 30,633	\$ 11,580,083
Depreciation	4,085,341	202,954	8,358	4,296,653
Interest	2,429,820	115,131	4,582	2,549,533
Facilities	528,589	41,761	2,165	572,515
Events	127,368	-	-	127,368
Church planter support	17,100	-	-	17,100
Professional and banking fees	-	491,631	-	491,631
Utilities	866,532	43,783	1,824	912,139
Information technology supplies and services	349,102	349,102	-	698,204
Educational curriculum and other supplies	722,509	-	-	722,509
Travel	130,781	6,883	-	137,664
Vertical Worship album production and management	186,637	-	-	186,637
Insurance	371,911	78,702	2,264	452,877
Assets granted to church plant	892,767	-	-	892,767
Other	808,191	74,184	936	883,311
Total Expenses	\$ 20,997,923	\$ 3,472,306	\$ 50,762	\$ 24,520,991

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Notes to Consolidated Financial Statements

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7. FUNCTIONAL ALLOCATION OF EXPENSES, continued:

The following table presents the functional allocation of expenses for the year ended December 31, 2019.

	Program Services	Management and General	Fundraising	2019 Total
Compensation	\$ 11,510,766	\$ 2,793,691	\$ 202,546	\$ 14,507,003
Broadcast expense - Radio and TV	405,682	23,864	47,727	477,273
Depreciation	4,339,762	202,467	22,236	4,564,465
Interest	2,796,703	121,014	12,482	2,930,199
Facilities	1,338,796	75,306	9,367	1,423,469
Broadcast rights amortization	241,667	-	-	241,667
Events	173,838	-	-	173,838
Church planter support	348,941	-	-	348,941
Professional and banking fees	-	1,212,094	64,747	1,276,841
Utilities	1,025,729	48,587	5,399	1,079,715
Information technology supplies and services	462,735	462,735	-	925,470
Educational curriculum and other supplies	979,796	-	-	979,796
Travel	118,697	6,247	-	124,944
Vertical Worship album production and management	148,398	-	-	148,398
Insurance	287,201	86,807	3,778	377,786
Assets granted to church plant	322,185	-	-	322,185
Other	1,127,264	239,512	2,954	1,369,730
Total Expenses	<u>\$ 25,628,160</u>	<u>\$ 5,272,324</u>	<u>\$ 371,236</u>	<u>\$ 31,271,720</u>

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Depreciation and occupancy-related costs are allocated on a square footage basis. Costs of other categories are allocated on the basis of estimates of time and effort.

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Notes to Consolidated Financial Statements

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8. FAIR VALUE MEASUREMENTS:

HBC uses appropriate valuation techniques to determine fair value based on inputs available. 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 only used when Level 1 or Level 2 inputs were not available. 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 table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Money market funds	\$ 1,513,503	\$ 1,513,503	\$ -	\$ -
Certificates of deposit	500,000	-	500,000	-
	<u>\$ 2,013,503</u>	<u>\$ 1,513,503</u>	<u>\$ 500,000</u>	<u>\$ -</u>

The table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2019:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets held for deferred compensation:				
Equity mutual funds	\$ 3,199,409	\$ 3,199,409	\$ -	\$ -

The following methods and assumptions were used by HBC to estimate the fair value of each class of financial instruments at December 31, 2020 and 2019:

Investments - The fair values for money market funds are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of certificates of deposit are based on yields currently available on comparable securities of issuers with similar credit ratings.

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9. 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 currently matches employee contributions up to 3% of annual base salary. Employees are fully vested over a period of five years. Contributions to the 403(b) plan during 2020 and 2019 were \$131,641 and \$113,667, respectively. In March 2019, HBC suspended its match, and reinstated the match in February 2020.

HBC established a deferred compensation plan for the purpose of paying certain ministry staff upon retirement, death or disability. As of December 31, 2020 and 2019, the portfolio was invested 100% in equity mutual funds. The equity mutual funds are Level 1 assets in accordance with fair value disclosure requirements. Assets held for deferred compensation totaled approximately \$1,655 and \$3,199,000 at December 31, 2020 and 2019, respectively, and are offset by a liability of the same amount in the consolidated statements of financial position. The primary reason for the substantial decrease in the balance at December 31, 2020, is due to a transfer of deferred compensation assets to another entity for the benefit of HBC's former Senior Pastor as a result of binding arbitration that concluded in 2020. The asset and offsetting liability as of December 31, 2020 are included in accounts receivable and other assets and accounts payable and accrued expenses in the consolidated statements of financial position.

10. MEDICAL INSURANCE:

HBC operates a self-funded health insurance plan for qualified employees. As of December 31, 2020 and 2019, 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, 2020 and 2019, the reserve for unpaid claims, including those incurred but not reported, totaled approximately \$190,000 and \$173,000, 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, 2020.

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Notes to Consolidated Financial Statements

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11. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consist of the following:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Building fund - Niles campus	\$ -	\$ 773,212
Scholarship fund	805,520	805,520
School fund	231,500	92,546
Camp fund	178,842	178,842
Benevolence fund	449,840	282,919
Hope Centers	112,000	-
Debt reduction	51,000	-
	<u>\$ 1,828,702</u>	<u>\$ 2,133,039</u>

12. LIQUIDITY AND FUNDS AVAILABLE:

HBC's financial assets available to meet cash needs for general expenditures within one year are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,651,501	\$ 3,141,042
Accounts receivable	80,761	137,409
	<u>\$ 3,732,262</u>	<u>\$ 3,278,451</u>

HBC is substantially supported by contributions, which at times are received with donor restrictions. Those contributions with donor restriction require resources to be used in a particular manner or in a future period. HBC must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of HBC's liquidity management, HBC has established guidelines for making decisions related to managing short term cash reserves and other investments in a prudent manner. Management strives to maintain 2 months of expenses as a reasonable cash reserve on an ongoing basis.

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Notes to Consolidated Financial Statements

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13. DISCONTINUED OPERATIONS:

In February 2019, the Senior Pastor's employment was terminated by the Board of Elders. In line with the termination, the Elders suspended all digital, radio, and television broadcasts by HBC's ministry, Walk in the Word. HBC stopped accepting contributions for this internal ministry as of March 1, 2019. As a result, the change in net assets from this segment of HBC's ministry is shown as discontinued operations on the consolidated statements of activities during the year ended December 31, 2019.

14. LEGAL MATTERS:

In February 2019, the former Senior Pastor's employment was terminated by the Board of Elders. Subsequently, the former Senior Pastor filed for Christian arbitration against HBC in May 2019. The binding arbitration concluded in August 2020. As a result of the arbitration, control of Walk in the Word was transferred to an independent board of directors, including certain equipment, with a net book value of \$98,113. Additionally, HBC transferred title to real property in Crystal Lake, Illinois to Walk in the Word, with a net book value of \$1,000,000, and made cash payments totaling \$250,000 to Walk in the Word. The transfer of these assets is shown as a loss on settlement on the consolidated statements of activities during the year ended December 31, 2020.

15. LOSS ON EXIT OF SUBSIDIARY:

As a result of binding arbitration with its former Senior Pastor as noted above, HBC transferred control of Walk in the Word to an independent ministry in August 2020. This transfer resulted in the granting of cash under the control of Walk in the Word totaling \$103,556 to the other ministry, which is shown as a loss on exit of subsidiary on the consolidated statements of activities during the year ended December 31, 2020.

16. RISKS AND UNCERTAINTIES:

In March of 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant declines and volatility in financial markets. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of HBC for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve. As described in Note 5, HBC received a PPP loan totaling \$2,556,200.

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17. SUBSEQUENT EVENTS:

In January 2021, HBC received \$2,000,000 through a second draw from the PPP of the CARES Act. Under the current guidance of the SBA, the loan agreement provides for partial or full loan forgiveness subject to the organization meeting various conditions. Any amount not forgiven is due in monthly installments beginning 10 months after the end of the covered period, with the final payment due in January 2026, and incurs interest at a rate of 1%.

Late in 2019, HBC was notified that the property tax exemption of its property held by NSLLC was revoked. In March 2020, HBC was notified that its appeal for property tax exemption for this property for 2019 was denied by Lake County. Along with denying the property tax exemption application, the taxing authorities also notified HBC that it was assessing back taxes on this property. The estimated unpaid taxes owed on this property for 2016-2019 were \$502,000. The rental agreement between HBC and NSLLC obligates the lessee (HBC) to pay all taxes associated with the property (as opposed to the other members of NSLLC); therefore, HBC recorded this as a liability as of December 31, 2019, and subsequently paid this amount during 2020. In 2020, HBC appealed the ruling that this property was classified as nonexempt from property taxes in Lake County. In January 2021, HBC was notified by Lake County that NSLLC was retroactively granted property tax exemption for 2017-2019, and has received exemption for 2020 and forward as well. As this exemption was not approved by Lake County until 2021, and therefore did not provide evidence about conditions that existed on or before December 31, 2020, no receivable has been established for amounts expected to be refunded.

Subsequent events have been evaluated through April 30, 2021, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.