

# HARVEST BIBLE CHAPEL

Consolidated Financial Statements  
With Independent Auditors' Report

December 31, 2021 and 2020

# HARVEST BIBLE CHAPEL

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## INDEPENDENT AUDITORS' REPORT

Board of Elders  
Harvest Bible Chapel  
Rolling Meadows, Illinois

### ***Opinion***

We have audited the accompanying consolidated financial statements of Harvest Bible Chapel, which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Harvest Bible Chapel, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Harvest Bible Chapel's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Board of Elders  
Harvest Bible Chapel  
Rolling Meadows, Illinois

***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Harvest Bible Chapel's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Harvest Bible Chapel's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Capin Crouse LLP*

Naperville, Illinois  
April 25, 2022

# HARVEST BIBLE CHAPEL

## Consolidated Statements of Financial Position

	December 31,	
	2021	2020
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 7,134,118	\$ 5,480,203
Investments	2,013,840	2,013,503
Accounts receivable and other assets	693,391	332,056
Property held for sale	2,000,000	-
Land, buildings and equipment – net	104,641,132	115,602,198
<b>Total Assets</b>	<b>\$ 116,482,481</b>	<b>\$ 123,427,960</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 2,138,920	\$ 2,270,919
Notes payable	36,419,078	38,341,432
<b>Total Liabilities</b>	<b>38,557,998</b>	<b>40,612,351</b>
<b>Net assets:</b>		
<b>Without donor restrictions:</b>		
Noncontrolling interests in subsidiaries	3,730,000	3,730,000
Available at board discretion	72,426,827	77,256,907
	76,156,827	80,986,907
With donor restrictions	1,767,656	1,828,702
<b>Total Net Assets</b>	<b>77,924,483</b>	<b>82,815,609</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 116,482,481</b>	<b>\$ 123,427,960</b>

See notes to consolidated financial statements

# HARVEST BIBLE CHAPEL

## Consolidated Statements of Activities

	Year Ended December 31,		2020	
	2021	2020	Without Donor Restrictions	With Donor Restrictions
<b>SUPPORT, REVENUE, AND LOSSES:</b>				
Contributions	\$ 13,166,826	\$ 375,627	\$ 13,701,143	\$ 1,045,399
Gift-in-kind contributions	-	737,646	-	-
Ministry revenue	720,320	-	832,355	-
Tuition and fees, net	3,600,876	-	3,189,487	-
Sales	28,170	-	13,986	-
Investment and other income	666,956	-	766,364	-
Loss on exit of subsidiary	-	-	(103,556)	-
Loss on settlement	-	-	(1,348,113)	-
Employee Retention Credit grant	2,846,683	-	-	-
Paycheck Protection Program loan forgiveness	2,556,200	-	-	-
Total Support, Revenue, and Losses	23,586,031	1,113,273	17,051,666	1,045,399
	1,174,319	(1,174,319)	1,349,736	(1,349,736)
	19,879,083	-	18,941,191	-
	3,251,718	-	3,409,494	-
	53,955	-	50,464	-
Total expenses before assets granted to church plant	23,184,756	-	22,401,149	-
Assets granted to church plant	-	-	892,767	-
Total Expenses	23,184,756	-	23,293,916	-
Change in Net Assets from Continuing Operations	1,575,594	(61,046)	(4,892,514)	(304,337)
Loss on Discontinued Operations (Note 16)	(6,405,674)	-	(911,992)	-
Change in Net Assets	(4,830,080)	(61,046)	(5,804,506)	(304,337)
Net Assets, Beginning of Year	80,986,907	1,828,702	90,291,413	2,133,039
Purchase of subsidiary shares from noncontrolling shareholders	-	-	(3,500,000)	-
Net Assets, End of Year	76,156,827	1,767,656	80,986,907	1,828,702

See notes to consolidated financial statements

# HARVEST BIBLE CHAPEL

## Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (4,891,126)	\$ (6,108,843)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	4,073,797	4,296,653
Loss on disposal of land, buildings and equipment	-	98,113
Loss on disposal of property held for sale	-	1,000,000
Impairment loss on land, buildings and equipment	5,663,565	-
Contributions received for investment in land, buildings and equipment	-	(103,717)
Paycheck Protection Program loan forgiveness	(2,556,200)	-
Changes in:		
Accounts receivable and other assets	(361,335)	81,215
Accounts payable and accrued expenses	(131,999)	(497,204)
Net Cash Provided (Used) by Operating Activities	1,796,702	(1,233,783)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(337)	(2,013,503)
Purchases of land, buildings and equipment	(776,296)	(426,183)
Proceeds from the sale of land, buildings and equipment	-	5,025,000
Net Cash (Used) Provided by Investing Activities	(776,633)	2,585,314
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions received for investment in land, buildings and equipment	-	103,717
Purchase of subsidiary shares from noncontrolling shareholders	-	(3,500,000)
Proceeds from Paycheck Protection Program loan	2,000,000	2,556,200
Principal payments on notes payable	(1,366,154)	(2,598,268)
Net Cash Provided (Used) by Financing Activities	633,846	(3,438,351)
Net Change in Cash, Cash and Cash Equivalents	1,653,915	(2,086,820)
Cash and Cash Equivalents, Beginning of Year	5,480,203	7,567,023
Cash and Cash Equivalents, End of Year	\$ 7,134,118	\$ 5,480,203
<b>Supplemental information:</b>		
Cash paid for interest	\$ 2,444,816	\$ 2,549,533
Loan forgiveness recognized as revenue	\$ 2,556,200	\$ -
Land, buildings and equipment moved to property held for sale	\$ 2,000,000	\$ -

See notes to consolidated financial statements

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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, and digital engagement. HBC has six campuses in Illinois: Rolling Meadows, 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.



# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### 1. NATURE OF ORGANIZATION, continued:

#### BASIS OF CONSOLIDATION, continued

- 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.
- 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.

#### 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, 2021 and 2020, HBC's cash balances exceeded federally insured limits by \$5,703,182 and \$4,320,122, 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.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### 2. SIGNIFICANT ACCOUNTING POLICIES:

#### 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 consolidated statements of activities. Investment income and realized and unrealized gains and losses are included in investment 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

In 2021, HBC entered into a purchase-sale agreement to sell its Camp Harvest property and operations located in Michigan to another unrelated ministry for \$2,000,000. Property held for sale is reported at the lower of its carrying amount or fair value less estimated selling costs. As this property was originally donated to HBC to be used as a Camp, HBC sought to locate another ministry to carry on this use. The final closing on this property occurred in March 2022. As a result of the sale, HBC recognized an impairment loss on the property of \$5,663,565 during the year ended December 31, 2021. This loss is recorded in the consolidated statements of activities as part of the loss on discontinued operations. See Note 16 for more details on the discontinued operations. Upon completion of the sale, HBC paid off its note payable due on this property of approximately \$1,200,000.

#### LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION

Items over \$2,500 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. The capitalization policy for the year ended December 31, 2020 was \$5,000.

#### 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.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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.

Gift-in-kind contributions are recorded at their estimated fair market value at the time of donation, and primarily consist of food and hygiene donations made towards the Hope Center, a ministry of HBC, currently located on three campuses. The primary goal of the Hope Center is to provide tangible help and hope in Jesus to all those who are in need.

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.

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 \$1,579,797 and \$1,508,147 during the years ended December 31, 2021 and 2020, 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.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CONTRIBUTIONS, REVENUES AND EXPENSES, continued

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

	Tuition and Fees	Other	Total
Balance, December 31, 2019	\$ 314,004	\$ 17,373	\$ 331,377
Revenue recognized	(314,004)	(17,373)	(331,377)
Payments received for future performance obligations	352,544	9,824	362,368
Balance, December 31, 2020	352,544	9,824	362,368
Revenue recognized	(352,544)	(9,824)	(362,368)
Payments received for future performance obligations	545,458	25,632	571,090
Balance, December 31, 2021	\$ 545,458	\$ 25,632	\$ 571,090

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

RECLASSIFICATIONS

Certain prior year balances have been reclassified to conform with the current year presentation. On the 2020 consolidated statement of financial position, HBC reclassified the operating activities of Camp Harvest to the loss on discontinued operations (see Note 16). These reclassifications had no effect on the change in net assets for the year ended December 31, 2020.

3. INVESTMENTS:

Investments consist of:

	December 31,	
	2021	2020
At fair value:		
Money market mutual funds	\$ 514,032	\$ 1,513,503
Certificates of deposit	1,499,808	500,000
	\$ 2,013,840	\$ 2,013,503

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

4. LAND, BUILDINGS AND EQUIPMENT, NET:

Land, buildings and equipment consist of the following:

	December 31,	
	2021	2020
Land and land improvements	\$ 27,347,655	\$ 30,464,507
Buildings and improvements	118,992,101	125,402,875
Furniture and fixtures	2,274,793	2,452,760
Office equipment	213,301	222,936
Computer equipment and software	3,821,803	4,445,464
Sound and video equipment	4,480,121	4,182,803
Other equipment	1,539,836	1,698,613
	158,669,610	168,869,958
Less accumulated depreciation	(54,028,478)	(53,358,548)
Construction in progress	-	90,788
	\$ 104,641,132	\$ 115,602,198

5. NOTES PAYABLE:

Notes payable consist of the following:

	December 31,	
	2021	2020
<p>Mortgage payable of \$30,119,000, to a bank, monthly principal and interest payments of \$201,434, at a 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.</p>	\$ 24,147,434	\$ 24,995,559
<p>Mortgage payable of \$11,572,000, payable to a bank, monthly principal and interest payments of \$74,852, at a 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.</p>	9,092,144	9,411,163
<p>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, and was paid off in March 2022.</p>	1,203,164	1,431,900

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

5. NOTES PAYABLE, continued:

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, and a second loan in the amount of \$2,000,000 in January 2021. HBC received notice from its lender in July 2021 that the full amount of the \$2,556,200 loan had been forgiven. The PPP loan program 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 January 2026.

Loan origination fees, net

	December 31,	
	2021	2020
	2,000,000	2,556,200
	36,442,742	38,394,822
	(23,664)	(53,390)
	\$ 36,419,078	\$ 38,341,432

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

2022	\$ 24,690,530
2023	9,033,291
2024	253,999
2025	262,261
2026	2,202,661
	\$ 36,442,742

The loans listed above (excluding the PPP loans) 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.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

6. EMPLOYEE RETENTION CREDIT:

HBC claimed a tax credit of \$2,846,683 through the Employee Retention Credit (ERC) program offered through the CARES Act. The credit is claimed in relation to qualified wages owed for the year ended December 31, 2021. The full amount of the credit was recognized as grant revenue. Laws and regulations concerning government programs, including the ERC, established by the CARES Act are complex and subject to varying interpretation. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge HBC's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon HBC. However, management believes HBC is a fully eligible and qualified recipient of these funds.

7. 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 \$8,537 to \$17,043. Payments on these leases totaled \$384,223 and \$360,633 for the years ended December 31, 2021 and 2020, respectively. The obligation summarized below is included in accounts payable and accrued expenses in the consolidated statements of financial position.

	<u>December 31, 2021</u>
Equipment	\$ 1,336,970
Less accumulated depreciation	<u>(943,864)</u>
Net book value	<u>\$ 393,106</u>

Future minimum lease payments under the terms of the capital lease agreements as of December 31, 2021, are:

2022	\$ 377,016
2023	313,825
	<u>690,841</u>
Less amount representing maintenance fees	(128,112)
Less amount representing interest	<u>(33,752)</u>
Present value of minimum capital lease payments	<u>\$ 528,977</u>

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

8. 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, 2021:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2021 Total</u>
Compensation	\$ 9,318,504	\$ 1,719,260	\$ 33,675	\$ 11,071,439
Depreciation	3,585,600	183,348	7,913	3,776,861
Interest	2,287,754	109,800	4,442	2,401,996
Facilities	562,088	45,667	2,473	610,228
In-kind food donations to others	684,623	-	-	684,623
Events	109,680	-	-	109,680
Church planter support	18,080	-	-	18,080
Professional and banking fees	-	667,463	-	667,463
Utilities	786,058	41,144	1,808	829,010
Information technology supplies and services	328,564	328,564	-	657,128
Educational curriculum and other supplies	933,153	-	-	933,153
Travel	187,367	9,861	-	197,228
Vertical Worship album production and management	172,398	-	-	172,398
Insurance	394,139	69,966	2,332	466,437
Other	511,075	76,645	1,312	589,032
Total Expenses	<u>\$ 19,879,083</u>	<u>\$ 3,251,718</u>	<u>\$ 53,955</u>	<u>\$ 23,184,756</u>



# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

8. FUNCTIONAL ALLOCATION OF EXPENSES, continued:

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	\$ 9,125,055	\$ 2,047,166	\$ 30,633	\$ 11,202,853
Depreciation	3,737,073	184,624	8,358	3,930,055
Interest	2,382,884	112,661	4,582	2,500,127
Facilities	413,865	35,723	2,165	451,753
Events	119,527	-	-	119,527
Church planter support	17,100	-	-	17,100
Professional and banking fees	-	491,631	-	491,631
Utilities	789,617	39,735	1,824	831,176
Information technology supplies and services	310,530	347,072	-	657,602
Educational curriculum and other supplies	722,509	-	-	722,509
Travel	82,089	4,320	-	86,409
Vertical Worship album production and management	186,637	-	-	186,637
Insurance	357,963	78,266	1,966	438,195
Assets granted to church plant	892,767	-	-	892,767
Other	696,342	68,297	936	765,575
<b>Total Expenses</b>	<b>\$ 19,833,958</b>	<b>\$ 3,409,494</b>	<b>\$ 50,464</b>	<b>\$ 23,293,916</b>

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.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### 9. 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, 2021:

	Total	Level 1	Level 2	Level 3
Investments:				
Money market funds	\$ 514,032	\$ 514,032	\$ -	\$ -
Certificates of deposit	1,499,808	-	1,499,808	-
	<u>\$ 2,013,840</u>	<u>\$ 514,032</u>	<u>\$ 1,499,808</u>	<u>\$ -</u>

The table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2020:

	Total	Level 1	Level 2	Level 3
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 following methods and assumptions were used by HBC to estimate the fair value of each class of financial instruments at December 31, 2021 and 2020:

*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.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

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10. 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 based on a percentage of annual base salary. Employees are fully vested over a period of five years. Contributions to the 403(b) plan during 2021 and 2020 were \$143,141 and \$131,641, respectively. In March 2019, HBC suspended its match, and reinstated the match in February 2020.

11. MEDICAL INSURANCE:

HBC operates a self-funded health insurance plan for qualified employees. As of December 31, 2021 and 2020, 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, 2021 and 2020, the reserve for unpaid claims, including those incurred but not reported, totaled approximately \$142,000 and \$190,000, 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, 2021.

HBC is a member of an offshore captive insurance holding company, Well Health Insurance Ltd. (Well Health). Well Health provides reinsurance for HBC. Once HBC has paid \$85,000 of claims on an individual in a given year, Well Health covers the next \$250,000 of claims related to that individual, with the remaining coverage paid by a stop loss provider.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### 12. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consist of the following:

	December 31,	
	2021	2020
Subject to expenditure for specified purpose:		
Scholarship fund	\$ 805,520	\$ 805,520
School fund	99,956	231,500
Camp fund	178,842	178,842
Benevolence fund	390,465	449,840
Hope Centers	169,644	112,000
Faithful Medical Decisions	72,229	-
Other purpose restrictions	51,000	51,000
Total net assets with donor restrictions	<u>\$ 1,767,656</u>	<u>\$ 1,828,702</u>

### 13. LIQUIDITY AND FUNDS AVAILABLE:

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

	December 31,	
	2021	2020
Cash and cash equivalents	\$ 5,413,620	\$ 3,651,501
Investments	2,013,840	2,013,503
Accounts receivable	310,311	80,761
Total	<u>\$ 7,737,771</u>	<u>\$ 5,745,765</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 3 months of expenses as a reasonable cash reserve on an ongoing basis.

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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. DISCONTINUED OPERATIONS:

In December 2021, HBC entered into an agreement to sell the assets and operations of Camp Harvest to an unrelated ministry. 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 years ended December 31, 2021 and 2020. The major line items from discontinued operations are as follows:

	December 31,	
	2021	2020
Support and Revenue:		
Contributions	\$ 57,396	\$ 12,920
Ministry revenue	483,900	301,093
Investment and other income	11,109	1,070
Impairment loss on land, buildings and equipment	(5,663,565)	-
	(5,111,160)	315,083
Expenses:		
Program services	1,227,936	1,163,965
Supporting activities:		
General and administrative	66,264	62,812
Fundraising	314	298
	1,294,514	1,227,075
Loss on discontinued operations	\$ (6,405,674)	\$ (911,992)

# HARVEST BIBLE CHAPEL

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

17. 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.

18. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through April 25, 2022, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.