

HARVEST COMMUNITY CHURCH, INC.

FINANCIAL STATEMENTS - UNAUDITED

AS OF JUNE 30, 2018

SMITH, BERTOCCHI, ARBAUGH & HALL, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To The Stockholders
HARVEST COMMUNITY CHURCH, INC.
Kittanning, Pennsylvania

Management is responsible for the accompanying financial statements of HARVEST COMMUNITY CHURCH, INC., (a Pennsylvania nonprofit corporation), which comprise the statement of assets, liabilities and net assets—modified cash basis as of June 30, 2018, and the related statements of revenues, expenses and other changes in net assets—modified cash basis, functional expenses—modified cash basis and cash flows—modified cash basis for the year then ended, and the related notes to the financial statements in accordance with the modified cash basis of accounting, and for determining that the modified cash basis of accounting is an acceptable financial reporting framework. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

We draw attention to Note A to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Smith, Bertocchi, Arbaugh & Hall, P.C.

December 28, 2018

HARVEST COMMUNITY CHURCH, INC.

STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS – MODIFIED CASH BASIS

JUNE 30, 2018

	<u>2018</u>
ASSETS	
CURRENT ASSETS	
Cash on Hand and in Banks	
Petty Cash	\$ 233
Online	11,139
Operating	116,977
Emergency Fund	158,795
Savings	<u>70,503</u>
Total Cash on Hand and in Banks	357,647
Advances for Missions Trips, etc.	3,618
Certificates of Deposit	<u>35,511</u>
Total Current Assets	<u>396,776</u>
DEPRECIABLE ASSETS	
Land, Buildings and Improvements	1,369,604
Furniture and Equipment	367,049
Vehicles	12,154
Loan Financing Costs	<u>5,523</u>
	1,754,330
Less: Accumulated Depreciation	<u>(654,336)</u>
Total Depreciable Assets	<u>1,099,994</u>
TOTAL ASSETS	<u>\$ 1,496,770</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Payroll Taxes Payable	4,854
Credit Cards	13,296
Current Portion of Long-Term Debt	<u>31,957</u>
Total Current Liabilities	<u>50,107</u>
LONG-TERM LIABILITIES	
Credit Line	82,652
Mortgages	129,703
Installment loans payable, less current portion	<u>(31,957)</u>
Total Long-Term Liabilities	<u>180,398</u>
TOTAL LIABILITIES	230,505
UNRESTRICTED NET ASSETS	<u>1,266,265</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,496,770</u>

See accompanying notes and independent accountants' review report.

HARVEST COMMUNITY CHURCH, INC.

**STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES
IN NET ASSETS - MODIFIED CASH BASIS**

FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>
REVENUES	
Offerings.....	\$ 1,491,147
Daycare.....	371,878
Miscellaneous.....	38,406
Special Missions.....	74,015
Non-cash Donations	12,154
Interest.....	<u>204</u>
TOTAL REVENUE.....	<u>1,987,804</u>
EXPENSES	
Program Services.....	1,668,932
Management and General.....	104,035
Fundraising.....	<u>44,787</u>
TOTAL EXPENSES.....	<u>1,817,754</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES.....	170,050
OTHER INCOME AND EXPENSE	
Gain (Loss) on Sale of Assets	<u>250</u>
CHANGE IN NET ASSETS.....	<u>170,300</u>
NET ASSETS, BEGINNING OF YEAR	1,091,125
PRIOR PERIOD ADJUSTMENT: CHANGE IN ACCOUNTING PRINCIPLE ADJUSTMENT FROM ACCRUAL BASIS TO MODIFIED CASH BASIS	
	<u>4,840</u>
NET ASSETS, BEGINNING OF YEAR—ADJUSTED	<u>1,095,965</u>
NET ASSETS, END OF YEAR	<u>\$ 1,266,265</u>

See accompanying notes and independent accountants' review report.

HARVEST COMMUNITY CHURCH, INC.

STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS

FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>
OPERATING ACTIVITIES	
Increase in net assets	\$ 170,300
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization.....	61,945
Gain on sale of assets.....	(250)
Non-cash donations.....	(12,154)
Decrease in advances.....	(3,064)
Increase in accounts payable	124
Increase in payroll liabilities.....	554
Decrease in credit cards.....	<u>(7,659)</u>
Net Cash Provided by Operating Activities	<u>39,496</u>
INVESTING ACTIVITIES	
Certificates of deposit	(80)
Depreciable assets	(134,505)
Non-cash donations of depreciable assets.....	12,154
Proceeds from sale of assets.....	<u>531</u>
Net Cash Provided by Investing Activities	<u>(121,900)</u>
FINANCING ACTIVITIES	
Proceeds from credit line	82,652
Repayment of debt.....	<u>(28,706)</u>
Net Cash Provided by Financing Activities	<u>53,946</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	141,842
BEGINNING CASH AND CASH EQUIVALENTS	<u>215,805</u>
ENDING CASH AND CASH EQUIVALENTS.....	<u>\$ 357,647</u>
SUPPLEMENTAL DISCLOSURES:	
Interest paid	\$ 10,743

See accompanying notes and independent accountants' review report.

HARVEST COMMUNITY CHURCH, INC.

STATEMENT OF FUNCTIONAL EXPENSES – MODIFIED CASH BASIS

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Comp and Benefits				
Pastors' Compensation	\$ 588,189	\$ 12,606	\$ 0	\$ 600,795
Staff Compensation	<u>161,268</u>	<u>23,074</u>	<u>0</u>	<u>184,342</u>
Total Comp and Benefits	749,457	35,680	0	785,137
Missions	230,868	0	0	230,868
Church Ministries	144,824	0	0	144,824
Daycare Ministry	326,415	6,782	0	333,197
Occupancy	92,456	3,719	0	96,175
Depreciation and Amortization	59,468	2,478	0	61,946
Administration	35,611	54,133	0	89,744
Repairs and Maintenance	19,520	813	0	20,333
Fundraising	0	0	44,787	44,787
Interest	<u>10,313</u>	<u>430</u>	<u>0</u>	<u>10,743</u>
Total Expenses	<u>\$ 1,668,932</u>	<u>\$ 104,035</u>	<u>\$ 44,787</u>	<u>\$ 1,817,754</u>

See accompanying notes and independent accountants' review report.

HARVEST COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Harvest Community Church ("HCC"), located in Kittanning, PA, is a Pennsylvania nonprofit corporation formed on October 15, 1998 to "proclaim the gospel of Jesus Christ throughout the world." As a church, HCC is automatically exempt from taxation under the Internal Revenue Code.

Basis of Accounting

The financial statements of the Organization have been prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Modifications to the cash basis of accounting include recording property and equipment and its related depreciation and accruing for payroll taxes. Accordingly, revenue is recognized when received rather than when earned and expenses are recorded when paid rather than when the obligation is incurred.

Basis of Presentation

HCC reports information regarding its financial position and activity according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property & Equipment

Fixed assets are comprised of land, buildings and improvements, furniture and equipment, vehicles and computers. It is the policy of HCC to capitalize expenditures for these items in excess of \$2,000. Lesser amounts are expensed. Property and equipment are carried at cost or, if donated, at fair value at the date of the donation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows: buildings and improvements over thirty-nine years; land improvements, such as paving, over fifteen years; renovations over fifteen years; furniture and equipment over ten years; vehicles over seven years; and computers over five years. One half of a year's depreciation is recognized in the years of acquisition and disposal. Loan refinancing costs totaling \$5,523 are being amortized over the respective loan terms.

Revenue Recognition

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 statement of activities as net assets released from restrictions.

Contributed Services

The Organization receives a substantial amount of services donated by its members in carrying out the Church's ministry. No amounts have been reflected in the financial statements for those services because they do not meet the criteria for recognition.

Income Taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code 501(c)(3) and Pennsylvania Nonprofit Corporation Law of 1988.

The most significant tax positions of the Organization are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business tax. All significant tax positions have been considered by management. It has been determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

NOTE B - CASH

The total cash held by the Organization, at June 30, 2018, includes \$143,158 in monies that are not covered by insurance provided by the federal government. It is the opinion of management that the solvency of the referenced financial institutions is not of particular concern at this time.

NOTE C - CERTIFICATES OF DEPOSIT

HCC has invested in three certificates of deposit with Nextier Bank. Two of the certificates were automatically renewed on October 12, 2018 at an annual percentage yield of .36% and will mature on October 12, 2019. One certificate was automatically renewed on March 27, 2018 at an annual percentage yield of .26% and will mature on March 27, 2018. As of June 30, 2018, the balances of the three certificates total \$35,511. The total values of the certificates of deposit are included in the total monies not insured by the federal government as disclosed in Note B.

NOTE D - PROPERTY AND EQUIPMENT

The fixed assets are valued at original cost. The following is a summary of property, building and improvements, leasehold improvements, furniture and equipment and vehicles, and related accumulated depreciation:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 114,344	\$ 0
Buildings and improvements	1,186,423	414,469
Leasehold improvements	68,837	7,223
Furniture and equipment	367,049	227,532
Vehicles.....	12,154	868
Loan Financing Costs.....	5,523	4,244
	<u>\$ 1,754,330</u>	<u>\$ 654,336</u>

The property at 143 Reed Road in Kittanning, PA at cost of \$1,118,881 has been pledged as collateral for a bank line of credit loan and mortgages at Indiana First Savings Bank.

NOTE E - INTENTIONS TO GIVE

Faith promises and pledges do not meet the criteria for revenue recognition; therefore, they are not reflected as contributions in the statement of activities until the pledges are collected.

NOTE F - RESTRICTIONS ON NET ASSETS

As of June 30, 2018, there were no restrictions on net assets.

NOTE G - RETIREMENT ARRANGEMENT WITH STAFF EMPLOYEES

Harvest has a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers active employees of the organization that are at least 18 years of age and have worked a minimum average of 20 hours per week for 6 consecutive months. The organization matches contributions up to 3% of gross salaries to the plan for qualified employees who continue to work a minimum average of 20 hours per week. Employees may make contributions up to the maximum amount allowed by the Internal Revenue Code, if they wish. Plan expenses were \$13,735 for the year ended June 30, 2018.

NOTE H - LEASES

The Organization has an operating lease for its copier that will expire on April 27, 2019. At the end of the lease the company has the option to purchase the equipment at Fair Market Value. The monthly lease payment is \$218.52.

The Organization has an operating lease for its Indiana, PA location. The lease term expires on October 31, 2026. The lease can be cancelled by the tenant with 90 days written notice. Minimum lease payments under the operating lease are:

Years Ending June 30	
2019	\$ 14,400
2020	15,200
2021	16,400
2022	17,600
2023	18,800
Thereafter	<u>71,200</u>
	<u>\$ 153,600</u>

NOTE I - LINE OF CREDIT

HCC has a line of credit with Indiana First Savings Bank dated July 14, 2017 with a maximum credit limit of \$150,000. The interest rate on the line of credit is currently 5.75%. The rate is based on the Wall Street Journal Prime plus 0.500% floating monthly. The line of credit is collateralized by the church property located at 143 Reed Road, Kittanning, PA. The credit line renews annually. The maturity date is April 14, 2020. The outstanding balance of the credit line as of June 30, 2018 is \$82,652.

NOTE J - DEBT

HCC has a commercial loan agreement with Indiana First Savings Bank dated March 19, 2008 in the amount of \$488,243. The note bore interest at a fixed rate of 5.75% over the first sixty months. On March 19, 2013, the fixed rate of interest was reset to 5.0% for the next sixty months. On March 19, 2018, the fixed rate of interest was reset to 5.375% for the remainder of the loan. The interest rate was reset each sixty months, based on the most recent current index, defined as the Pittsburgh Federal Home Loan Bank five year non-amortizing borrowing index taken on the first business day of each month, plus 2.50%. The note is collateralized by the church property located at 143 Reed Road, Kittanning, PA. The outstanding balance of this note as of June 30, 2018 is \$18,757.

HCC executed a new loan with Indiana First Savings Bank on January 20, 2016, consolidating several outstanding obligations. The initial amount of the note was \$146,500, and bears interest at a fixed rate of 4.50% over the first sixty months. The interest rate will reset each sixty months thereafter, based on the most recent current index, defined as the Pittsburgh Federal Home Loan Bank five year non-amortizing borrowing index taken on the first business day of each month, plus 3.75%. The note is collateralized by the church property located at 143 Reed Road, Kittanning, PA. The outstanding balance of this note as of June 30, 2018 is \$110,946.

Principal maturities on these mortgages for the years ending June 30:

2019	\$ 32,262
2020	14,125
2021	14,774
2022 and thereafter	<u>68,542</u>
	\$ 129,703

NOTE K - FUNCTIONAL ALLOCATION OF EXPENSE

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE L - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 28, 2018, the date which the financial statements were available to be issued.

NOTE M - CHANGE IN ACCOUNTING METHOD

The Organization made a change from the accrual basis of accounting to the modified cash basis of accounting. The change was made to simplify the accounting process and better match the budgeting process and financial reporting processes used by the organization. The cumulative effect on Net Assets was \$4,840.