

HARVEST COMMUNITY CHURCH, INC.

**FINANCIAL STATEMENTS – MODIFIED CASH BASIS
FOR THE YEAR ENDED
JUNE 30, 2023
&
INDEPENDENT ACCOUNTANTS' REVIEW REPORT**



McCALL SCANLON & TICE, LLC
Certified Public Accountants

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McCall Scanlon & Tice, LLC
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board Members
Harvest Community Church, Inc.
Kittanning, Pennsylvania

We have reviewed 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, 2023, 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the modified cash basis of accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Harvest Community Church, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the modified cash basis of accounting.

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Basis of Accounting

We draw attention to Note A in 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. Our conclusion is not modified with respect to this matter.

McCall Scanlon & Tice, LLC

Kittanning, PA
February 20, 2024

HARVEST COMMUNITY CHURCH, INC.

STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2023

ASSETS

CURRENT ASSETS:

Cash on hand and in banks:	
Petty cash	\$ 126
Prepaid cards	3,179
Online	6,853
Operating	171,426
Emergency fund	30,023
Savings	34,631
Total cash on hand and in banks	<u>246,238</u>
 Advances for mission trips, events, etc.	7,501
Advance to Sharing Truth, Inc.	76,361
Miscellaneous receivable	3,237
Brokerage account - Edward Jones	33,610
Investments	436,729
Total current assets	<u>803,676</u>

PROPERTY AND EQUIPMENT:

Land, buildings and improvements	7,565,813
Leasehold improvements	90,593
Furniture and equipment	1,107,583
Vehicles	12,154
	<u>8,776,143</u>
Less: accumulated depreciation	(1,145,919)
Property and equipment, net	<u>7,630,224</u>

TOTAL ASSETS	<u><u>\$ 8,433,900</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Student accounts and event deposits	\$ 22,156
Payroll taxes payable	17,808
Credit cards	20,425
Long-term liabilities, current portion	187,297
Total current liabilities	<u>247,686</u>

LONG-TERM LIABILITIES:

Note payable	13,695
Mortgages payable	5,511,622
Less: long-term liabilities, current portion	(187,297)
Total long-term liabilities	<u>5,338,020</u>

TOTAL LIABILITIES	5,585,706
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NET ASSETS, without donor restrictions	<u>2,848,194</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 8,433,900</u></u>
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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, 2023**

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:

REVENUES:

Offerings	\$ 2,006,214
Daycare	681,058
Grants	120,970
Non-cash donations	6,102
Fundraising	60,283
Miscellaneous	7,477
Interest income	<u>20,349</u>

Total revenue 2,902,453

EXPENSES:

Program services	2,874,590
Management and general	195,082
Fundraising	<u>22,701</u>

Total expenses 3,092,373

EXCESS (DEFICIENCY) OF REVENUES OVER
EXPENSES (189,920)

OTHER INCOME AND EXPENSE:

Unrealized gain (loss) on brokerage account	<u>1,652</u>
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Total other income and expense 1,652

CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS (188,268)

NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR 3,036,462

NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR \$ 2,848,194

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, 2023**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Compensation and benefits:				
Pastors' compensation	\$ 692,243	\$ 61,996	\$ -	\$ 754,239
Other staff compensation	400,904	37,760	22,701	461,365
Total compensation and benefits	<u>1,093,147</u>	<u>99,756</u>	<u>22,701</u>	<u>1,215,604</u>
Missions	91,942	-	-	91,942
Church ministries	189,411	-	-	189,411
Daycare ministry	667,524	9,250	-	676,774
Occupancy	206,310	8,596	-	214,906
Repairs and maintenance	16,479	687	-	17,166
Depreciation	288,130	12,005	-	300,135
Administration (office and tech)	65,925	54,133	-	120,058
Miscellaneous	-	-	-	-
Interest	<u>255,722</u>	<u>10,655</u>	<u>-</u>	<u>266,377</u>
Total expenses	<u>\$ 2,874,590</u>	<u>\$ 195,082</u>	<u>\$ 22,701</u>	<u>\$ 3,092,373</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, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets without donor restrictions	\$ (188,268)
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:	
Depreciation	300,135
Unrealized (gain) loss on brokerage account	(1,652)
Donated stock	(6,102)
Amortization of debt issuance costs	2,073
(Increase) decrease in:	
Advances for mission trips, events, etc.	(6,263)
Advance to Sharing Truth, Inc.	(41,057)
Miscellaneous receivable	(2,566)
Increase (decrease) in:	
Student accounts and event deposits	18,318
Payroll taxes payable	13,762
Credit cards	13,093

Net cash provided by operating activities 101,473

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment	(873,565)
Proceeds from sales of investments	125,030
Purchases of investments	(20,168)

Net cash used in investing activities (768,703)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from mortgages payable	879,016
Principal payments on note payable	(3,373)
Principal payments on mortgages payable	(119,709)

Net cash provided by financing activities 755,934

NET INCREASE (DECREASE) IN CASH 88,704

CASH, BEGINNING OF YEAR 157,534

CASH, END OF YEAR \$ 246,238

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,

Interest paid \$ 264,304

See accompanying notes and independent accountants' review report.

HARVEST COMMUNITY CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Harvest Community Church (the "Organization"), 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, the Organization 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, various advances, certain payables, long-term debt 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.

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 building improvements, land improvements, renovations, furniture and equipment, vehicles, and computers. It is the policy of the Organization to capitalize expenditures for these items with a cost of \$5,000 or more, closely related assets may be aggregated and capitalized if aggregate cost is \$5,000 or more. 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 building 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.

HARVEST COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

Revenue Recognition

Contributions received are recorded as increases in net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a 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 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 on Hand and in Banks

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

Investments

The Organization's investments are acquired in accordance with the Organization's investment policy and are presented at fair value.

The Organization's investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with these investments and the level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the financial statements. However, the Organization's investments, by policy, are kept within limits designed to prevent risks caused by concentration.

HARVEST COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

Debt Issuance Costs

Debt issuance costs represent costs associated with financing long-term debt. Accounting standards require that debt issuance costs be shown net of the related long-term debt. The costs are amortized over the term of the related debt and recorded as interest expense. Accumulated amortization was \$4,794 as of June 30, 2023. Amortization of debt issuance costs was \$2,073 for the year ended June 30, 2023.

NOTE B - CASH

The total cash held by the Organization as of June 30, 2023, is \$242,933 in monies that are 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 - LIQUIDITY

At June 30, 2023, the church has \$246,238 cash on hand and in banks available to meet needs for general expenditures consisting of cash of \$243,059 and \$3,179 of prepaid cards. None of the financial assets are subject to donor or other contractual restrictions. Accordingly, all such funds are available to meet the cash needs of the church in the next 12 months. The church manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. Cash needs of the church are expected to be met on a monthly basis from offerings. In general, the church maintains sufficient financial assets on hand to meet one month of operating expenses.

NOTE D - BROKERAGE ACCOUNT AND INVESTMENTS

A brokerage account was opened with Edward Jones for the purpose of receiving non-cash donations of stock. The balance in the account was \$33,610 as of June 30, 2023.

On July 25, 2019, the Organization purchased a Church Note through Heritage Investment Services Fund ("HIS Fund"). The amount of the Note was \$450,000 for a term of 5 years and was to pay an interest rate of 4%, compounded quarterly. The note is an unsecured promissory note. The former certificates of deposit \$35,682 were also invested. Interest in the amount of \$76,077 has been earned to date and drawings of \$125,030 including fees were taken for operating expenses, which resulted in a balance of \$436,729 in the HIS Fund investment as of June 30, 2023.

HARVEST COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

The fair values of investments held by the Organization are classified as of June 30, 2023 as Level 1 assets within the fair value hierarchy. Fair values for Level 1 financial instruments are determined by quoted prices in the active market for identical financial instruments. Fair values for Level 2 financial instruments are determined by other significant observable inputs (quoted prices for similar financial instruments, interest rates, prepayment speeds, credit risk, etc.). Fair values for Level 3 financial instruments are determined by significant unobservable inputs, including the Organization's own assumptions in determining the fair value of financial instruments. The Organization did not hold Level 2 or 3 financial instruments as of June 30, 2023.

NOTE E – ADVANCE TO SHARING TRUTH, INC.

On July 21, 2022, the Organization filed with the Pennsylvania Department of State Bureau of Corporations and Charitable Organizations to form a for-profit corporation named Sharing Truth, Inc. This new corporation operates under the name Mission Coffee & Tea Co. On October 8, 2022, Mission Coffee & Tea Co. began operating the café and bookstore. Harvest shirts and hats are being sold, also. Any profits from the Mission Coffee & Tea Co. are to be donated to the Harvest Community Church to be used for ministry purposes. The advance in the for-profit corporation as of June 30, 2023 was \$76,361.

NOTE F - PROPERTY AND EQUIPMENT

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

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 178,000	\$ -
Buildings and improvements	7,387,813	781,914
Leasehold improvements	90,593	25,240
Furniture and equipment	1,107,583	329,216
Vehicles	<u>12,154</u>	<u>9,549</u>
Total	<u>\$ 8,776,143</u>	<u>\$ 1,145,919</u>

NOTE G - 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 revenues, expenses, and changes in net assets – modified cash basis until the pledges are collected.

NOTE H - NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2023, there were no restrictions on net assets.

NOTE I - RETIREMENT ARRANGEMENT WITH STAFF EMPLOYEES

The Organization 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. The Organization's contributions to the plan were \$21,749 for the year ended June 30, 2023.

NOTE J - LEASES

The Organization entered into a 39-month finance lease with De Lage Landen Financial Services for its copier on June 21, 2022. At the end of the lease the Organization has the option to purchase the equipment at fair market value. The monthly lease payment is \$296. The lease may be extended on a consecutive 60-day basis.

The Organization entered into a 36-month lease agreement with Apple Financial Services for two Apple MAC mini desktop computers on August 24, 2021. The monthly lease payment is \$48 with an option to purchase the equipment at fair market value at the end of the lease.

The Organization entered into a 36-month lease agreement with CIT Bank payable to Direct Capital EDI for Apple Computers on September 30, 2020. At the end of the lease the Organization has the option to purchase the equipment at fair market value. The monthly lease payment is \$431.

The Organization entered into another 36-month lease agreement with CIT Bank payable to Direct Capital EDI for Apple Computers on October 27, 2021. At the end of the lease the Organization has the option to purchase the equipment at fair market value. The monthly lease payment is \$252.

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. For the year ending June 30, 2023, rent payments were \$18,800. Minimum lease payments under the operating lease are:

HARVEST COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

Years ending June 30:

2024	\$	20,000
2025		21,200
2026		22,400
2027		<u>7,600</u>
	\$	<u><u>71,200</u></u>

NOTE K – LONG-TERM LIABILITIES

The Organization entered into a loan agreement with WatersEdge Ministry Services to provide \$5,500,000 to finance the expansion of the Kittanning campus, with a variable interest rate of 4.90% as of June 30, 2023. The note is payable in monthly installments of \$36,042. The loan is collateralized by the building. Final payment is due October 2042.

\$ 5,394,692

The Organization entered into a loan agreement with Wells Fargo Equipment Finance to provide \$21,906 to finance the purchase of HVAC equipment at the Indiana campus, with interest at 7.71%. The note is payable in monthly installments of \$381. The loan is collateralized by the HVAC equipment. Final payment is due October 2026.

13,695

The Organization entered into a loan agreement with Calvary Baptist Church of Tarentum for the purchase of their church building for \$220,000 with \$50,000 paid at signing, with interest at 0.00%. The note is payable in monthly installments of \$1,200 with a balloon payment of \$98,000 due at maturity. The loan is collateralized by the building. Final payment is due July 2027.

155,600

Total 5,563,987

Less current portion 187,297

Less debt issuance costs 38,670

Long-term liabilities \$ 5,338,020

HARVEST COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

Maturities of the three long-term liabilities are as follows:

Years ending June 30:

2024	\$ 187,297
2025	196,159
2026	205,477
2027	212,624
2028	304,249
Thereafter	<u>4,458,181</u>
	<u><u>\$ 5,563,987</u></u>

NOTE L - FUNCTIONAL ALLOCATION OF EXPENSE

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

NOTE M - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 20, 2024, the date which the financial statements were available to be issued.

Calvary Baptist Church

When the Tarentum church building was purchased on July 6, 2022, an agreement was given to Calvary Baptist Church that they could continue to use the property for worship services for one year when the Organization was not using the premises. The agreement has been extended through July 31, 2024. Calvary Baptist Church has agreed to pay \$400 per month rent January 1, 2024, through July 31, 2024.

New Computer Lease

The Organization entered into a new 36-month lease agreement with First Citizens Bank payable to Leasing Services EDI for Apple Computers on September 13, 2023. At the end of the lease the Organization has the option to purchase the equipment at fair market value. The monthly lease payment is \$119.

The Tarentum Building

Plans are being made for renovations to begin at the Tarentum Building. Remodeling is to be done to the basement, HVAC system, and other building components. The initial budget for the renovations is estimated to be \$60,000.

HARVEST COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

Line of Credit

On August 28, 2023, the Organization extended a standard Line of Credit to the for-profit corporation, Sharing Truth, Inc, which is owned by the Organization. Sharing Truth, Inc. operates the café and bookstore as Mission Coffee & Tea Co. Sharing Truth, Inc. is to use the line of credit to reimburse the start-up costs funded by the Organization. The maximum amount that may be drawn on this line of credit is \$99,000, and it was requested in full as of December 31, 2023. Beginning January 5, 2024, interest is due monthly on the outstanding balance of the line of credit at the annual rate of 5.00%. On January 5, 2034, the outstanding principal balance of the credit line is due as a balloon payment. The line of credit is secured by the furniture, fixtures, equipment, inventory, goods, and cash of the Mission Coffee & Tea Co.