

HARVEST COMMUNITY CHURCH, INC.
FINANCIAL STATEMENTS - UNAUDITED
YEAR ENDED JUNE 30, 2020

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

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To The Board Members
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, 2020, 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.

February 8, 2021

HARVEST COMMUNITY CHURCH, INC.

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

JUNE 30, 2020

	<u>2020</u>
ASSETS	
CURRENT ASSETS	
Cash on Hand and in Banks	
Petty Cash	\$ 210
Prepaid Cards.....	1,059
Online	24,176
Operating	414,648
Emergency Fund.....	77,212
Savings.....	<u>216,760</u>
Total Cash on Hand and in Banks	734,065
Advances for Missions Trips, etc.	844
Certificates of Deposit	0
Investments	<u>500,186</u>
Total Current Assets	<u>1,235,095</u>
DEPRECIABLE ASSETS	
Land, Buildings and Improvements	1,525,341
Furniture and Equipment	432,108
Vehicles	12,154
Loan Financing Costs	<u>5,523</u>
	1,975,126
Less: Accumulated Depreciation	<u>(734,633)</u>
Total Depreciable Assets	<u>1,240,493</u>
TOTAL ASSETS	<u>\$ 2,475,588</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Payroll Taxes Payable	\$ 6,558
Credit Cards.....	7,794
Current Portion of Long-Term Debt	<u>14,775</u>
Total Current Liabilities	<u>29,127</u>
LONG-TERM LIABILITIES	
Credit Line.....	0
Notes Payable.....	249,200
Mortgages.....	83,319
Installment loans payable, less current portion	<u>(14,775)</u>
Total Long-Term Liabilities	<u>317,744</u>
TOTAL LIABILITIES	346,871
UNRESTRICTED NET ASSETS	<u>2,128,717</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,475,588</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, 2020

	<u>2020</u>
REVENUES	
Offerings.....	\$ 1,718,489
Daycare.....	401,210
Miscellaneous.....	60,348
Special Missions.....	7,326
Interest.....	<u>9,971</u>
TOTAL REVENUE.....	<u>2,197,344</u>
EXPENSES	
Program Services.....	1,773,412
Management and General.....	119,935
Fundraising.....	<u>26,560</u>
TOTAL EXPENSES.....	<u>1,919,907</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES.....	277,437
OTHER INCOME AND EXPENSE.....	<u>0</u>
CHANGE IN NET ASSETS.....	<u>277,437</u>
NET ASSETS, BEGINNING OF YEAR.....	<u>1,851,280</u>
NET ASSETS, END OF YEAR.....	<u>\$ 2,128,717</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, 2020

	<u>2020</u>
OPERATING ACTIVITIES	
Increase in net assets	\$ 277,437
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization.....	70,586
Gain on sale of assets.....	0
Non-cash donations.....	0
Decrease in advances	4,198
Decrease in certificates of deposit.....	35,608
Increase in investments.....	(500,186)
Increase in payroll liabilities.....	33
Decrease in credit cards	(12,360)
Net Cash Provided by Operating Activities	<u>(402,121)</u>
INVESTING ACTIVITIES	
Depreciable assets	(193,210)
Non-cash donations of depreciable assets.....	0
Proceeds from sale of assets.....	0
Net Cash Provided by Investing Activities	<u>(193,210)</u>
FINANCING ACTIVITIES	
SBA PPP Loan	249,200
Repayment of credit line	(49,240)
Repayment of debt.....	(14,119)
Net Cash Provided by Financing Activities	<u>185,841</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(132,053)
BEGINNING CASH AND CASH EQUIVALENTS	<u>866,118</u>
ENDING CASH AND CASH EQUIVALENTS.....	<u>\$ 734,065</u>
SUPPLEMENTAL DISCLOSURES:	
Interest paid	<u>\$ 5,407</u>

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, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Comp and Benefits				
Pastors' Compensation	\$ 532,897	\$ 49,420	\$ 0	\$ 582,317
Staff Compensation	<u>242,157</u>	<u>33,417</u>	<u>21,560</u>	<u>297,134</u>
Total Comp and Benefits	775,054	82,837	21,560	879,451
Missions	223,043	0	0	223,043
Church Ministries	125,727	0	0	125,727
Daycare Ministry	392,477	7,468	0	399,945
Occupancy	111,916	4,703	0	116,619
Depreciation and Amortization	67,762	2,824	0	70,586
Administration	58,992	21,335	0	80,327
Repairs and Maintenance	13,250	552	0	13,802
Fundraising	0	0	5,000	5,000
Interest	<u>5,191</u>	<u>216</u>	<u>0</u>	<u>5,407</u>
Total Expenses	<u>\$ 1,773,412</u>	<u>\$ 119,935</u>	<u>\$ 26,560</u>	<u>\$ 1,919,907</u>

See accompanying notes and independent accountants' review report.

HARVEST COMMUNITY CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

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, 2020, includes \$482,796 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 had invested in three certificates of deposit with Nextier Bank. Two of the certificates matured on October 12, 2019. The certificates were cashed out at \$25,523. One certificate matured on March 27, 2020. It was cashed out at \$10,159. As of June 30, 2020, the certificates total \$0.

NOTE D - INVESTMENTS

On July 25, 2019 the Organization purchased a Church Note through Heritage Investment Services Fund (HIS Fund). The amount of the Note is \$450,000 for a term of 5 years and is to pay an interest rate of 4%, compounded quarterly. The note is an unsecured promissory note. The certificates of deposit balances of \$25,523 and \$10,159 were deposited to this investment. Those together with interest in the amount of \$14,504 resulted in a balance of \$500,186 in the HIS Fund investment as of June 30, 2020.

NOTE E - 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	1,342,160	488,901
Leasehold improvements	68,837	12,979
Furniture and equipment	432,108	223,937
Vehicles.....	12,154	4,341
Loan Financing Costs.....	<u>5,523</u>	<u>4,475</u>
	<u>\$ 1,975,126</u>	<u>\$ 734,633</u>

The property at 143 Reed Road in Kittanning, PA at cost of \$1,214,783 has been pledged as collateral for a bank line of credit loan and mortgages at Indiana First Savings Bank.

NOTE F - 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 G - RESTRICTIONS ON NET ASSETS

As of June 30, 2020, there were no restrictions on net assets.

NOTE H - RETIREMENT ARRANGEMENT WITH STAFF EMPLOYEES

HCC 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 \$19,044.73 for the year ended June 30, 2020.

NOTE I - LEASES

The Organization entered into a 36 month operating lease for its copier on April 5, 2020. At the end of the lease the company has the option to purchase the equipment at Fair Market Value. The monthly lease payment is \$271.11. The lease has been extended on a month to month basis.

The Organization entered into a 36 month operating lease for four (4) Apple Desktop Computers on July 14, 2017. At the end of the lease the company has the option to purchase the equipment at Fair Market Value. The monthly lease payment is \$265.09.

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, 2020, rent payments were \$14,400. Minimum lease payments under the operating lease are:

Years Ending June 30

2021	16,300
2022	17,500
2023	18,700
2024	19,900
2025	21,100
Thereafter	<u>31,800</u>
	<u>\$ 125,300</u>

NOTE J - LINE OF CREDIT

HCC had a line of credit with Indiana First Savings Bank dated July 14, 2017 with a maximum credit limit of \$150,000. The line of credit was paid off on June 16, 2020 and closed. The outstanding balance of the credit line as of June 30, 2020 is \$0.

NOTE K – PAYCHECK PROTECTION PROGRAM LOAN

On April 8, 2020 the Organization entered into a loan agreement in the amount of \$249,200 through the Paycheck Protection Program. The loan carries a term of 2 years with deferred payments for the first 6 months at an interest rate of 1%. Certain payments made within the 8 or alternative 24 week period may qualify for loan forgiveness. The balance of the loan as of June 30, 2020 is \$249,200.

NOTE L - DEBT

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, 2020 is \$83,319.

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

2021	14,774
2022	15,453
2023	<u>53,092</u>
	<u>\$ 83,319</u>

NOTE M - 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 N - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 8, 2021, the date which the financial statements were available to be issued.

COVID-19

In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The ultimate impact of COVID-19 on the financial performance of the Fund's investments is not reasonably estimable at this time.

Paycheck Protection Program

On November 11, 2020 the Organization received full forgiveness in the amount of \$249,200 on the loan through the Paycheck Protection Program. The balance owed through this program is \$0 as of November 11, 2020.

Sale of Freeport Campus Building

Freeport (recently renamed the Allegheny North) campus building was sold on August 12, 2020 for \$135,000 as an installment land contract payable at \$1,000 per month beginning September 12, 2020, for 24 months with balance due September 12, 2022. The building is currently being leased by HCC at \$1,000 per month for one year. This amount is being deducted from the installment land contract. If HCC wishes to rent a second year on a month-to-month basis, the lease will be at \$2,000 per month plus real estate taxes and insurance.

Construction Loan

On August 20, 2020, a construction loan was executed for a three phase construction project at the Kittanning campus. The note paid off a balance of \$82,652.79 remaining on the mortgage at Indiana First Savings Bank. The loan was made through WatersEdge Ministry Services for \$4,100,000. Interest will accrue on advances made during the construction period and will be billed monthly. Loan repayment will be over 20 years beginning September 15, 2022, and is subject to more than one variable interest rate based on three payment streams described below. The interest rates will not be lower than 4.25%, and they will not be higher than the lesser of 10% and the maximum rate allowed by applicable law.

Payment stream 1 is for interest during the construction period, accrued beginning with the date of each advance, at a variable rate (initial rate 4.50%) based on an index which is the current rate of interest for similar church building loans as established by WaterEdge Ministry Services. The variable interest rate for payment stream 1 will not change more than once per year.

Payment stream 2 begins September 15, 2022. It bears interest at a variable rate (currently 5.0%) based on an index which is the current rate of interest for similar church building loans as established by WaterEdge Ministry Services. The interest rate for payment stream 2 will not change more than once each 5 years. The interest rate may not increase more than 5 percentage points at one time. Initial monthly payment amount beginning September 15, 2022, is \$27,066.80 per month.

Payment stream 3 is the final payment of \$27,068.69 on August 15, 2042.