

**HARVEST COMMUNITY CHURCH, INC.**  
**FINANCIAL STATEMENTS - UNAUDITED**  
**YEAR ENDED JUNE 30, 2022**

# SMITH, BERTOCCHI, ARBAUGH & HALL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## 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, 2022, 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.

**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.

**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.

*Smith, Bertoch, Arbaugh & Hall, P.C.*

May 17, 2023



**HARVEST COMMUNITY CHURCH, INC.**  
**STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS – MODIFIED CASH BASIS**  
**JUNE 30, 2022**

**ASSETS**

**CURRENT ASSETS**

Cash on Hand and in Banks	
Petty Cash .....	\$ 176
Prepaid Cards.....	5,682
Online .....	9,152
Operating .....	36,819
Emergency Fund.....	4,008
Savings.....	<u>101,697</u>
Total Cash on Hand and in Banks .....	157,534
Advances for Mission Trips, etc. ....	1,238
Advance for Mission Coffee & Tea Co. ....	35,304
Miscellaneous Receivable.....	671
Brokerage Account - Edward Jones .....	25,856
Investments .....	<u>541,591</u>
Total Current Assets .....	<u>762,194</u>

**DEPRECIABLE ASSETS**

Land, Buildings and Improvements .....	6,755,330
Leasehold Improvements .....	90,593
Furniture and Equipment .....	1,044,501
Vehicles.....	12,154
Loan Financing Costs.....	<u>43,464</u>
	7,946,042
Less: Accumulated Depreciation .....	<u>(848,505)</u>
Total Depreciable Assets .....	<u>7,097,537</u>
<b>TOTAL ASSETS .....</b>	<b><u>\$ 7,859,731</u></b>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Student Accounts & Event Deposits .....	\$ 3,838
Payroll Taxes Payable .....	4,046
Credit Cards.....	7,333
Current Portion of Long-Term Debt.....	<u>107,436</u>
Total Current Liabilities.....	<u>122,653</u>

**LONG-TERM LIABILITIES**

Notes Payable .....	17,068
Mortgages.....	4,790,984
Installment loans payable, less current portion .....	<u>(107,436)</u>
Total Long-Term Liabilities.....	<u>4,700,616</u>
<b>TOTAL LIABILITIES.....</b>	<b>4,823,269</b>

<b>UNRESTRICTED NET ASSETS.....</b>	<b><u>3,036,462</u></b>
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<b>TOTAL LIABILITIES AND NET ASSETS .....</b>	<b><u>\$ 7,859,731</u></b>
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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, 2022**

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**CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:**

**REVENUES**

Offerings.....	\$ 1,896,641
Daycare.....	509,885
Grants .....	222,629
Non-Cash Donations .....	26,553
Fundraising.....	121,358
Miscellaneous .....	12,069
Interest Income .....	<u>21,447</u>

**TOTAL REVENUE.....** 2,810,582

**EXPENSES**

Program Services.....	2,300,555
Management and General.....	179,399
Fundraising.....	<u>28,877</u>

**TOTAL EXPENSES.....** 2,508,831

**EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES.....** 301,751

**OTHER INCOME AND EXPENSE**

Gain (Loss) on Debt Extinguishment.....	(875)
Gain (Loss) on Disposal of Assets .....	(25,679)
Unrealized Gain (Loss) on Brokerage Account .....	<u>(1,197)</u>

**TOTAL OTHER INCOME AND EXPENSE .....** (27,751)

**CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS.....** 274,000

**NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR .....** 2,762,462

**NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR .....** \$ 3,036,462

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, 2022**

**OPERATING ACTIVITIES**

Increase (decrease) in net assets .....	\$ 274,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization .....	175,630
Loss on extinguishment of debt .....	(875)
Loss on disposal of assets .....	(25,679)
Decrease in advances .....	4,197
Increase in Mission Coffee & Tea Co. advances .....	(35,304)
Increase in brokerage account .....	(25,856)
Increase in prepaid insurance .....	(671)
Decrease in installment sale receivable .....	147,000
Increase in investments .....	(21,133)
Increase in payroll liabilities .....	1,324
Decrease in student accounts and event deposits .....	(1,527)
Decrease in credit cards .....	(3,903)
Net Cash Provided by Operating Activities .....	<u>213,203</u>

**INVESTING ACTIVITIES**

Net increase in depreciable assets .....	(2,883,024)
Net decrease in depreciation on disposal of assets .....	(95,307)
Loss from disposition of assets .....	<u>26,554</u>
Net Cash Used by Investing Activities .....	<u>(2,951,777)</u>

**FINANCING ACTIVITIES**

Repayment of note payable .....	(3,271)
Increase in construction loan .....	<u>2,015,407</u>
Net Cash Provided by Financing Activities .....	<u>2,012,136</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** ..... (452,438)

**BEGINNING CASH AND CASH EQUIVALENTS** ..... 609,972

**ENDING CASH AND CASH EQUIVALENTS** ..... \$ 157,534

**SUPPLEMENTAL DISCLOSURES:**

Interest paid .....	\$ 1,301
Construction interest paid (capitalized) .....	\$ 172,113

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, 2022**

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	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Comp and Benefits				
Pastors' Compensation	\$ 630,655	\$ 57,635	\$ 0	\$ 688,290
Other Staff Compensation	<u>336,654</u>	<u>40,172</u>	<u>21,600</u>	<u>398,426</u>
Total Comp and Benefits	967,309	97,807	21,600	1,086,716
 Missions	114,738	0	0	114,738
Church Ministries	146,634	0	0	146,634
Daycare Ministry	474,582	9,044	0	483,626
Occupancy	184,205	7,675	0	191,880
Repairs and Maintenance	16,640	693	0	17,333
Depreciation and Amortization	168,604	7,025	0	175,629
Administration (Office & Tech)	61,366	50,218	0	111,584
Miscellaneous	0	0	7,277	7,277
Interest	<u>166,477</u>	<u>6,937</u>	<u>0</u>	<u>173,414</u>
 Total Expenses	<u>\$ 2,300,555</u>	<u>\$ 179,399</u>	<u>\$ 28,877</u>	<u>\$ 2,508,831</u>

See accompanying notes and independent accountants' review report.



# **HARVEST COMMUNITY CHURCH, INC.**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022**

### **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.

#### 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 HCC 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. Loan refinancing costs totaling \$43,464 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, 2022, is \$151,676 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, 2022 the church has \$157,534 cash and equivalents available to meet needs for general expenditures consisting of cash of \$151,852 and \$5,682 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 and one-third months operating expenses.

### **NOTE D - BROKERAGE ACCOUNT**

A brokerage account was opened with Edward Jones for the purpose of receiving non-cash donations of stock. The balance in the account was \$25,855.72 as of June 24, 2022.

### **NOTE E - 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 former certificates of deposit \$35,682 were also invested. Interest in the amount of \$55,909 has been earned to date, resulted in a balance of \$541,591 in the HIS Fund investment as of June 30, 2022.

## NOTE F - 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 .....	\$ 171,100	\$ 0
Buildings and improvements .....	6,584,230	593,452
Leasehold improvements .....	90,593	20,912
Furniture and equipment .....	1,044,501	223,607
Vehicles.....	12,154	7,813
Loan Financing Costs .....	43,464	2,721
	<u>\$ 7,946,042</u>	<u>\$ 848,505</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 activities until the pledges are collected.

## NOTE H - NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2022, there were no restrictions on net assets.

## NOTE I - 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 \$19,590.23 for the year ended June 30, 2022.

## NOTE J - LEASES

The Organization entered into a 39-month finance lease for its copier on June 21, 2022. At the end of the lease the company has the option to purchase the equipment at Fair Market Value. The monthly lease payment is \$296.13. The lease may be extended on 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 \$48.26 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 company has the option to purchase the equipment at Fair Market Value. The monthly lease payment is \$430.88.



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 company has the option to purchase the equipment at Fair Market Value. The monthly lease payment is \$251.80.

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, 2022, rent payments were \$17,600. Minimum lease payments under the operating lease are:

Years Ending June 30	
2023	18,800
2024	20,000
2025	21,200
2026	22,400
2027	7,600
	<u>\$ 90,000</u>

The Organization entered into a Facility Use agreement with Grace United Methodist Church for the use of their facility in Natrona Heights as the Allegheny North campus (formerly the Freeport campus). The lease began on June 1, 2021, and runs through May 31, 2022, with the option to renew if both parties agree. The monthly rent is \$750 plus half the previous month's gas and electric bills. The Facility Use agreement was extended through July 31, 2022.

#### **NOTE K - DEBT**

On October 20, 2020, HCC entered into a loan with Wells Fargo Equipment Finance for HVAC equipment at the Indiana location. The original amount of the loan is \$21,906.00 and bears interest at 7.71% over 72 months at a payment of \$380.95 per month. The balance as of June 30, 2022 was \$17,068.36. The loan is secured by the HVAC equipment.

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. On October 8, 2021, the construction loan was re-financed for \$5,500,000 to cover costs to complete the construction project at the Kittanning campus. As of June 30, 2022, the outstanding balance of the loan was \$4,790,983.53 with an escrow remaining of \$709,016.47. The mortgage is secured by the building.

Interest will accrue on advances made during the construction period and will be billed monthly. Loan repayment will be over 20 years beginning November 15, 2022, and is subject to more than one variable interest rate based on three payment streams described below. The variable interest rates will not be lower than 4.25%, and they will not be higher than the lesser of 9.9% and the maximum rate allowed by applicable law. The maximum increase will not exceed 5 percentage points at any one time.

Payment stream 1 is for interest during the construction period, accrued beginning with the date of each advance, at a variable rate (currently 4.40%) based on an index which is the current rate of interest for similar church building loans as established by WatersEdge Ministry Services. The variable interest rate for payment stream 1 will not change more than once per year.



Payment stream 2 begins November 15, 2022. It consists of 239 monthly payments. It bears interest at a variable rate (currently 4.90%) based on an index which is the current rate of interest for similar church building loans as established by WatersEdge Ministry Services. The interest rate for payment stream 2 will not change more than once each 5 years. The initial monthly payment amount beginning November 15, 2022, was to be \$36,038.79 per month. It has adjusted to \$36,042.16 per month.

Payment stream 3 is the final payment of \$36,037.87 on October 15, 2042. The amount is subject to change due to the timing of payments and due to the variable interest rate.

Maturities of long-term debt are as follows:

Years Ending June 30	
2023	107,436
2024	175,561
2025	184,468
2026	193,829
2027	201,029
Thereafter	<u>4,654,745</u>
	<u>\$5,517,068</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 activities. 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 May 17, 2023, 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.

#### **Construction Progress**

The construction was planned to take place in three phases. In July 2021, phase one (the new sanctuary and parking lot) was completed and the first services in the new sanctuary took place on July 25, 2021. Phase two of the construction includes the exterior building structure (three additions) for new classrooms, offices, kitchen and storage areas. The offices in Phase two were completed on June 17, 2022. Phase three includes the interior finishing of the three additions and added parking. The remainder of Phase two and Phase three were completed on August 15, 2022.

### The Construction Loan

The construction loan entered the “permanent financing phase” on October 8, 2022. The first full payment in the amount of \$36,042.16, was due November 15, 2022. The final draw on the construction loan was taken on September 27, 2022. The outstanding loan balance as of that date was \$5,500,000, with no construction escrow remaining.

### Building Purchase

On May 16, 2022, the Organization entered in an agreement with Calvary Baptist Church of Tarentum for the purchase of their church building for \$220,000 with \$1,000 hand money given. At closing on July 6, 2022, \$49,000 cash was paid. The balance is a mortgage financed by the seller for \$170,000 payable at \$1,200 per month at zero percent interest rate for 60 months with the remaining balance (\$98,000) due at the end of the 60 months. The mortgage is a Purchase Money Mortgage secured by the building. An agreement was given to Calvary Baptist Church that they may continue to use the property for worship services for one year beginning July 6, 2022, when Harvest is not using the premises. The first Harvest service in the new building was on August 7, 2022.

Maturities of that building purchase debt are as follows:

Years Ending June 30

2023	2,400
2024	14,400
2025	14,400
2026	14,400
2027	14,400
2028	<u>110,000</u>
	<u>\$ 170,000</u>

### New For-Profit Corporation Formed

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 will operate 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 Harvest Community Church to be used for ministry purposes.