

WORLD HARVEST MISSION

MAY 31, 2011

Morey Nee Buck & Oswald, LLC
Accountants & Advisors

WORLD HARVEST MISSION
MAY 31, 2011

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MOREY, NEE, BUCK & OSWALD, LLC
Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
WORLD HARVEST MISSION
Jenkintown, Pennsylvania

We have audited the accompanying statement of financial position of World Harvest Mission (a non-profit organization) as of May 31, 2011 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of World Harvest Mission as of May 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Morey, Nee, Buck & Oswald, LLC

October 21, 2011

WORLD HARVEST MISSION
STATEMENT OF FINANCIAL POSITION
AS OF MAY 31, 2011

ASSETS

Assets:	
Cash and cash equivalents [note 2]	\$ 737,936
Prepaid expenses [note 5]	47,583
Accounts receivable	30,409
Advances to missionaries	70,350
Inventory [note 4]	8,733
Investments [note 3]	2,887,232
Security deposits [note 6]	99,199
Land, building, and equipment, net [note 7]	<u>115,611</u>
Total assets	\$ <u>3,997,053</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 144,984
Payroll withholdings	<u>1,793</u>
Total liabilities	<u>146,777</u>
Net assets:	
Unrestricted	3,755,780
Temporarily restricted [note 9]	<u>94,496</u>
Total net assets	<u>3,850,276</u>
Total liabilities and net assets	\$ <u>3,997,053</u>

The accompanying footnotes are an integral part of the audited financial statements.

WORLD HARVEST MISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2011

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Totals</u>
Revenues, gains & other support:			
Contributions	\$ 8,560,735	\$ 87,984	\$ 8,648,719
Discipling / tuition	41,550		41,550
Literature, tapes and books	117,598		117,598
Investment income [note 3]	375,377		375,377
Other income	32,000		32,000
Gain on sale of fixed assets	19,039		19,039
Net assets released from restrictions:			
Satisfaction of donor restrictions [note 8]	<u>125,513</u>	<u>(125,513)</u>	<u>0</u>
 Total revenues, gains and other support	 <u>9,271,812</u>	 <u>(37,529)</u>	 <u>9,234,283</u>
 Expenses and losses:			
Field operations	7,137,642		7,137,642
Sending center	1,387,612		1,387,612
Fund raising	<u>248,742</u>	<u> </u>	<u>248,742</u>
 Total expenses and losses [note 16]	 <u>8,773,996</u>	 <u>0</u>	 <u>8,773,996</u>
 Surplus (deficit) of operating revenue over expenses before inter-fund transfers	 497,816	 (37,529)	 460,287
 Inter-fund transfers	 <u>(7,550)</u>	 <u>7,550</u>	 <u>0</u>
 Change in net assets	 490,266	 (29,979)	 460,287
 Net assets at beginning of year	 <u>3,265,514</u>	 <u>124,475</u>	 <u>3,389,989</u>
 Net assets at end of year	 \$ <u>3,755,780</u>	 \$ <u>94,496</u>	 \$ <u>3,850,276</u>

The accompanying footnotes are an integral part of the audited financial statements.

WORLD HARVEST MISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2011

Cash flows from operating activities:	
Change in net assets	\$ 460,287
Adjustments to reconcile the change in net assets to net cash used by operating activities:	
Depreciation	60,722
Unrealized and realized (gains) losses on investments	(291,997)
(Gains) losses on sale of fixed assets	(19,039)
(Increase) decrease in operating assets:	
Accounts receivable	(30,540)
Inventory	16,823
Advances to missionaries	9,781
Prepaid expenses	142,628
Security deposits	(18,548)
Increase (decrease) in operating liabilities:	
Accounts payable	43,535
Payroll withholdings	(5,071)
Monies to be remitted to the field	<u>(14,690)</u>
Total adjustments	<u>(106,396)</u>
Net cash provided (used) by operating activities	<u>353,891</u>
Cash flows from investing activities:	
Proceeds from the sale of securities	140,269
Purchase of investment securities	(317,576)
Proceeds from the sale of equipment	21,881
Purchase of equipment	<u>(3,921)</u>
Net cash provided (used) by investing activities	<u>(159,347)</u>
Net increase (decrease) in cash and cash equivalents	194,544
Cash and cash equivalents, beginning of the year	<u>543,392</u>
Cash and cash equivalents, end of the year	\$ <u><u>737,936</u></u>
<u>Supplemental disclosures:</u>	
Interest paid	\$ <u><u>0</u></u>

The accompanying footnotes are an integral part of the audited financial statements.

WORLD HARVEST MISSION
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

World Harvest Mission is a Pennsylvania Corporation recognized as a non-profit religious corporation exempt from federal income tax under the provisions of Section 501 (c) (3) of the Internal Revenue Code.

World Harvest Mission (WHM) is a mission sending agency founded in 1983; today, we have more than 164 missionaries in 12 countries. We believe the motive and power for mission is the gospel of grace at work in the life of a believer. Our vision is to see movements of churches empowered by grace for the world's good and God's glory. We pursue this vision through incarnational ministry, with an emphasis on church planting, incarnating mercy, and equipping church leaders. WHM exists to see individuals, families, communities, and cultures so changed and renewed by the gospel of grace that they passionately pursue their role in the great story of redemption.

New Accounting Pronouncements

New guidance established the Financial Accounting Standards Board Accounting Standards Codification (FASBASC) as the source of authoritative US accounting and reporting standards for nongovernmental entities (GAAP). The Codification effectively organizes accounting and reporting guidance by subject matter without regard to the original standard setter or standard from which the guidance was derived. Use of the Codification has no impact on the Organization's financial condition or results of operations. In connection with the use of the Codification, this report no longer makes reference to specific accounting standards by number or title.

Fund Accounting

Resources available to World Harvest Mission are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Board Designated Funds are allocated to specific purposes by action of the Board of Directors. Externally restricted funds may only be utilized in accordance with the purpose established by the source of such funds, and are in contrast with Board Designated Funds over which the Board of Directors retains full control to use in achieving any of its specified purposes.

Basis of Presentation

Financial presentation follows the recommendations of the Financial Accounting Standards Board Under which the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

WORLD HARVEST MISSION
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2011

Cash and Cash Equivalents

For purposes of the statement of cash flows, World Harvest Mission considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Funds held in money market accounts by external investment managers are reported as investments.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Investments

World Harvest Mission carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Property and Equipment and Depreciation

Property and equipment are recorded at cost, or if donated, at fair market value at the date of the gift. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets ranging from three to thirty years.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Expense Allocation

Expenses are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Accounting for Uncertainty in Income Taxes

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires World Harvest Mission to report information regarding its exposure to various tax positions taken. Management has performed their evaluation and believes there are no unrecognized tax positions that are required to be disclosed.

WORLD HARVEST MISSION
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2011

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework includes a hierarchy which prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1- Fair value is based on unadjusted quoted prices in active markets that are accessible to the Organization for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2- Fair Value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3- Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

Fair Value Option for Financial Assets and Financial Liabilities

The Fair Value Option for Financial Assets and Financial Liabilities permits organizations to make an irrevocable election to value certain financial assets and liabilities, on an instrument-by-instrument basis, at fair value and include the change in fair value within change in net assets from operating activities. World Harvest Mission did not elect the fair value option for eligible items.

The adoption had no effect on the change in unrestricted net assets or the carrying value of the Organization's financial instruments.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are summarized below:

Business checking	\$ 309,389
Money market	<u>428,547</u>
Total cash and cash equivalents	\$ <u>737,936</u>

At the end of the year, \$94,496 was restricted for various purposes dependent upon the donor's intent.

WORLD HARVEST MISSION
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2011

3. INVESTMENTS

Investments are summarized below:

Cash and money markets	\$ 498,151
Bond funds	863,141
Mutual index funds	724,937
Equity funds	<u>801,003</u>
Total investments	\$ <u>2,887,232</u>

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

The following schedule summarizes the investment return and its classification in the statement of activities for the five-months then ended:

	<u>Unrestricted</u>
Investment income, net of fees	\$ 83,380
Realized gains (losses)	818
Unrealized gains (losses)	<u>291,179</u>
Total investment returns	\$ <u>375,377</u>

4. INVENTORY

Inventory consists of literature, books, and tapes to the Resources program. Effective June 1, 2011 the Organization partnered with New Growth Press to act as official publisher for the resources produced by World Harvest Mission's ministry. World Harvest Mission ceased operations of fulfilling orders of resource materials and teamed with New Growth Press and transferred those responsibilities to them. Minimal inventory is kept on site; the value of the unsold inventory on site at year-end was \$8,733.

5. PREPAID EXPENSES

Prepaid expenses consisted of the following:

Prepaid airfare, conferences, and retreats	\$ <u>47,583</u>
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WORLD HARVEST MISSION
 NOTES TO THE FINANCIAL STATEMENTS
 MAY 31, 2011

6. SECURITY DEPOSITS

Security deposits consisted of the following:

Chile	\$ 1,116
Ireland	4,587
London	25,620
Home office	20,000
Spain	11,060
Kenya	4,590
Czech Republic	6,874
Austria	20,522
North Africa	3,263
India	1,117
USA	<u>450</u>
Total security deposits	\$ <u>99,199</u>

When a missionary is sent overseas he or she lives in a rented apartment. Most often a security deposit is needed at the signing of the lease. The above amounts represent the amounts currently outstanding as a security deposit on the relevant rental.

7. LAND, BUILDINGS AND EQUIPMENT, NET

Fixed assets and accumulated depreciation accounts are composed of the following:

<u>Description</u>	<u>Cost</u>	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Furniture & equipment	\$ 209,449	\$ 20,206	\$ 188,810	\$ 20,639
Vehicles	131,177	14,912	98,486	32,691
Land & buildings	<u>242,858</u>	<u>25,604</u>	<u>180,577</u>	<u>62,281</u>
Totals	\$ <u>583,484</u>	\$ <u>60,722</u>	\$ <u>467,873</u>	\$ <u>115,611</u>

Currently, there are no planned major maintenance activities in the upcoming year.

WORLD HARVEST MISSION
 NOTES TO THE FINANCIAL STATEMENTS
 MAY 31, 2011

8. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors. Purpose for which restrictions were accomplished:

Field Operations:

Kianga Kids Diaconal	\$ 18,190
Kenya Famine Relief Fund	1,072
Bundibugyo (Christ) School	80,012
Mother Child Survival Project	14
Dr Jonah Memorial Leadership Fund	9,822
Kule Family Care Fund	6,063
Ireland Church Planters	<u>10,340</u>
 Total restrictions released	 \$ <u>125,513</u>

9. NET ASSETS: TEMPORARILY RESTRICTED

Temporarily restricted net assets are available for the following purposes:

Field operations:

Kianga Kids Diaconal	\$ 2,594
Kenya Famine Relief	(1,351)
Bundibugyo (Christ) School	6,465
Dr Jonah Memorial Leadership Fund	27,749
Kule Family Care Fund	49,748
Ireland Church Planters	6,991
London Capital	140
Uganda Water Projects	<u>2,160</u>
 Total net assets: temporarily restricted	 \$ <u>94,496</u>

WORLD HARVEST MISSION
 NOTES TO THE FINANCIAL STATEMENTS
 MAY 31, 2011

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization measures its investments on a recurring basis at fair value. These items were measured using the following inputs as of May 31, 2011:

	Quoted Prices in Active Markets <u>(Level 1)</u>	Other Observable inputs <u>(Level 2)</u>
Assets:		
Mutual funds- fixed income	\$ 801,003	
Mutual funds- index funds	724,937	
Bond funds	<u> </u>	\$ <u>863,141</u>
Total	\$ <u>1,525,940</u>	\$ <u>863,141</u>

The carrying amounts of cash and cash equivalents and accounts payable approximate fair value at May 31, 2011 due to short-term nature of those instruments.

Mutual funds are valued at the net asset value (“NAV”) of shares held by the Organization at year end.

Marketable equity securities are valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

11. OFFICE LEASE

World Harvest has entered into an agreement with ZAC Management Group LLC, to sublease office space at 101 West Avenue, Jenkintown, PA. World Harvest is also responsible for paying for all related utilities. The amount of rent paid for the fiscal year ended May 31, 2011 was \$202,519. The agreement runs through June 2013 and requires the following rent payments:

Fiscal Year 2012	\$ 210,824
Fiscal Year 2013	215,469
Fiscal Year 2014	18,182

WORLD HARVEST MISSION
NOTES TO THE FINANCIAL STATEMENTS
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12. PENSION PLAN

World Harvest Mission maintains a defined contribution plan which covers substantially all employees, as defined in the plan. World Harvest Mission contributed \$ 219,618 to the plan during the fiscal year ended May 31, 2011.

13. CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

World Harvest Mission maintains its cash balances in three financial institutions located in Pennsylvania. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000.

There are times throughout the year when the Organization's cash balances exceed the federally insured limit. The Organization considers the risk of total loss associated with exceeding the federally insured limits minimal.

14. SHIPPING AND HANDLING COSTS

All amounts relating to shipping and handling that are billed to the customer are recorded as revenue in the statement of activities. This amount totaled \$7,507 during the fiscal year ended May 31, 2011.

15. DATE OF MANAGERMENTS REVIEW

Management has evaluated subsequent events and transactions for potential recognition or disclosure through October 21, 2011, the date which the financial statements were available to be issued.

WORLD HARVEST MISSION
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2011

16. EXPENSES

Expenses for the year then ended were as follows:

	<u>Field Operations</u>	<u>Sending Center</u>	<u>Fund Raising</u>	<u>Total</u>
Wages, taxes, benefits	\$ 4,784,090	\$ 799,570	\$ 109,487	\$ 5,693,147
Rent	69,096	202,519		271,615
Foreign National Wages	23,951			23,951
Computer equipment, maintenance & repair	24,794	278		25,072
Computer hardware & software	41,417	15,556		56,973
Supplies and cleaning	67,266	15,332	243	82,841
Insurance	7,497	17,462		24,959
Professional services	32,537	19,458	82,840	134,835
Other outside service	68,619	76,742	5,219	150,580
Cost of goods sold	21,183			21,183
Postage	19,182	25,888	6,736	51,806
Diaconal Needs	14,615			14,615
Project expenses	36,784			36,784
Grants to foreign organizations	238,041			238,041
Travel	866,788	58,097	9,703	934,588
Medical expenses & supplies	23,534	4,572		28,106
Ministry account	98,190			98,190
Set up costs	73,858			73,858
Outreach	14,227			14,227
Education and schooling	200,156	4,624		204,780
Retreats and conference	80,333	4,572		84,905
Vehicle	12,691			12,691
Printing	25,464	15,515	9,459	50,438
Books and other literature	13,912	525	17	14,454
Dues and subscriptions	4,785	14,207		18,992
Board meetings		29,592		29,592
Business meals	58,801	15,810	828	75,439
Shipping and freight	60,279			60,279
Depreciation	19,834	40,888		60,722
Service charges, penalties	9,933	488		10,421
Advertising and promotions	1,476		4,610	6,086
Sponsoring confer/education	15,322		14,411	29,733
Utilities	62,940	12,070		75,010
COBRA expense		504		504
Merchant discounts	25,094	718		25,812
Other	<u>20,953</u>	<u>12,625</u>	<u>5,189</u>	<u>38,767</u>
Totals	<u>\$ 7,137,642</u>	<u>\$ 1,387,612</u>	<u>\$ 248,742</u>	<u>\$ 8,773,996</u>