

WORLD HARVEST MISSION

MAY 31, 2010

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HOLMES & OSWALD, PC
Certified Public Accountants

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, 2010 and the related statements of activities and cash flows for the five-month period 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, 2010, and the changes in its net assets and its cash flows for five-month period then ended in conformity with accounting principles generally accepted in the United States of America.

Holmes & Oswald, PC

February 3, 2011

WORLD HARVEST MISSION
STATEMENT OF FINANCIAL POSITION
AS OF MAY 31, 2010

ASSETS

Assets:	
Cash and cash equivalents [note 2]	\$ 543,392
Prepaid expenses [note 5]	190,211
Accounts receivable	(131)
Advances to missionaries	66,141
Inventory [note 4]	25,556
Investments [note 3]	2,417,932
Security deposits [note 6]	80,651
Land, building, and equipment, net [note 7]	<u>175,254</u>
 Total assets	 \$ <u>3,499,006</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 101,453
Payroll withholdings	6,864
Monies to be remitted to the field	<u>700</u>
 Total liabilities	 <u>109,017</u>
Net assets:	
Unrestricted	3,265,514
Temporarily restricted [note 9]	<u>124,475</u>
 Total net assets	 <u>3,389,989</u>
 Total liabilities and net assets	 \$ <u>3,499,006</u>

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

WORLD HARVEST MISSION
STATEMENT OF ACTIVITIES
FOR THE FIVE MONTHS ENDED MAY 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
Revenues, gains & other support:			
Contributions	\$ 3,216,012	\$ 65,577	\$ 3,281,589
Discipling / tuition	27,599		27,599
Literature, tapes and books	73,684		73,684
Investment income [note 3]	13,689		13,689
Other income	9,133		9,133
Net assets released from restrictions:			
Satisfaction of donor restrictions [note 8]	<u>81,496</u>	<u>(81,496)</u>	<u>0</u>
 Total revenues, gains and other support	 <u>3,421,613</u>	 <u>(15,919)</u>	 <u>3,405,694</u>
 Expenses and losses:			
Field operations	2,757,421		2,757,421
Sending center	716,592		716,592
Fund raising	<u>85,348</u>	<u> </u>	<u>85,348</u>
 Total expenses and losses [note 17]	 <u>3,559,361</u>	 <u>0</u>	 <u>3,559,361</u>
 Surplus (deficit) of operating revenue over expenses before inter-fund transfers	 (137,748)	 (15,919)	 (153,667)
 Inter-fund transfers	 <u>(28,060)</u>	 <u>28,060</u>	 <u>0</u>
 Change in net assets	 (165,808)	 12,141	 (153,667)
 Net assets at beginning of year	 <u>3,431,322</u>	 <u>112,334</u>	 <u>3,543,656</u>
 Net assets at end of year	 \$ <u>3,265,514</u>	 \$ <u>124,475</u>	 \$ <u>3,389,989</u>

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

WORLD HARVEST MISSION
STATEMENT OF CASH FLOWS
FOR THE FIVE MONTHS ENDED MAY 31, 2010

Cash flows from operating activities:	
Change in net assets	\$ <u>(153,667)</u>
Adjustments to reconcile the change in net assets to net cash used by operating activities:	
Depreciation	37,393
Unrealized and realized (gains) losses on investments	13,429
(Increase) decrease in operating assets:	
Inventory	1,810
Advances to missionaries	(21,277)
Prepaid expenses	(134,011)
Security deposits	(15,011)
Increase (decrease) in operating liabilities:	
Accounts payable	(63,050)
Payroll withholdings	3,112
Monies to be remitted to the field	<u>(23,425)</u>
Total adjustments	<u>(201,030)</u>
Net cash provided (used) by operating activities	<u>(354,697)</u>
Cash flows from investing activities:	
Proceeds from the sale of securities	300,000
Purchase of investment securities	(38,974)
Purchase of equipment	<u>(44,750)</u>
Net cash provided (used) by investing activities	<u>216,276</u>
Net increase (decrease) in cash and cash equivalents	(138,421)
Cash and cash equivalents, beginning of the year	<u>681,813</u>
Cash and cash equivalents, end of the year	\$ <u><u>543,392</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, 2010

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 155 missionaries in 11 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

World Harvest Mission has adopted new guidance that 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, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 Organization adopted the additional disclosure requirements relating to accounting for uncertainty in income taxes which includes nonpublic entities. Organizations are now required to disclose positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date. Generally speaking, a nonprofit organization's exposure to the additional disclosure requirement is limited to tax positions taken which would affect their tax-exempt status and / or the reporting of unrelated business income.

Management is unaware of any positions taken that would affect its tax-exempt status or require it to file and report unrelated business income.

WORLD HARVEST MISSION
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2010

Fair Value Measurements

The Organization adopted certain disclosure requirements which established a framework for measuring fair value under accounting principles generally accepted in the United States of America, and enhances disclosures about fair value measurements. The adoption did not have a material effect on the financial statements, but expanded disclosure with respect to fair value measurement. 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 Organization adopted “The Fair Value Option for Financial Assets and Financial Liabilities” which 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. The Organization 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.

WORLD HARVEST MISSION
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2010

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are summarized below:

Business checking	\$ <u>543,392</u>
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At the end of the year, \$124,475 was restricted for various purposes dependent upon the donor's intent.

3. INVESTMENTS

Investments are summarized below:

Cash and money markets	\$ 389,228
Bond funds	737,126
Mutual index funds	628,667
Equity funds	<u>662,911</u>
Total investments	\$ <u>2,417,932</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	\$ 27,117
Realized gains (losses)	101
Unrealized gains (losses)	<u>(13,529)</u>
Total investment returns	\$ <u>13,689</u>

4. INVENTORY

Inventories consist primarily of literature, books, and tapes held for resale and are valued at the lower of actual cost or market. Cost is determined using the FIFO method.

WORLD HARVEST MISSION
 NOTES TO THE FINANCIAL STATEMENTS
 MAY 31, 2010

5. PREPAID EXPENSES

Prepaid expenses consisted of the following:

Prepaid airfare, conferences, and retreats	\$ <u>190,211</u>
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6. SECURITY DEPOSITS

Security deposits consisted of the following:

Chile	\$ 628
Ireland	2,096
London	25,651
Home office	20,000
Spain	9,456
Kenya	4,572
Czech Republic	5,250
Austria	10,699
North Africa	<u>2,299</u>

Total security deposits	\$ <u>80,651</u>
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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	\$ 217,917	\$ 20,510	\$ 180,993	\$ 36,924
Vehicles	188,112	6,213	137,667	50,445
Land & buildings	<u>242,858</u>	<u>10,670</u>	<u>154,973</u>	<u>87,885</u>
Totals	\$ <u>648,887</u>	\$ <u>37,393</u>	\$ <u>473,633</u>	\$ <u>175,254</u>

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

WORLD HARVEST MISSION
 NOTES TO THE FINANCIAL STATEMENTS
 MAY 31, 2010

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	\$	6,455
Kenya Famine Relief Fund		6,291
Bundibugyo (Christ) School		67,361
Mother Child Survival Project		31
Dr Jonah Memorial Leadership Fund		66
Kule Family Care Fund		1,194
Ireland Church Planters		<u>98</u>
Total restrictions released	\$	<u>81,496</u>

9. NET ASSETS: TEMPORARILY RESTRICTED

Temporarily restricted net assets are available for the following purposes:

Field operations:

Kianga Kids Diaconal	\$	19,954
Mother Child Survival Project		416
Kenya Famine Relief		(704)
Bundibugyo (Christ) School		12,868
Dr Jonah Memorial Leadership Fund		25,327
Kule Family Care Fund		53,722
Ireland Church Planters		12,752
London Capital		<u>140</u>
Total net assets: temporarily restricted	\$	<u>124,475</u>

WORLD HARVEST MISSION
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2010

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, 2010:

	Quoted Prices in Active Markets (Level 1)	Other Observable inputs (Level 2)
Assets:		
Mutual funds- fixed income	\$ 662,911	
Mutual funds- index funds	628,667	
Bond funds	_____	\$ <u>737,126</u>
Total	\$ <u>1,291,578</u>	\$ <u>737,126</u>

The carrying amounts of cash and cash equivalents and accounts payable approximate fair value at May 31, 2010 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, which are considered Level 1 inputs.

Marketable equity securities are valued at the closing price reported on the active market on which the individual securities are traded which are considered Level 1 inputs.

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. World Harvest is also responsible for paying for all related utilities. The amount of rent paid for the five-months ended May 31, 2010 was \$ 85,103. The agreement runs through June 2013 and requires the following rent payments:

Fiscal Year 2011	206,182
Fiscal Year 2012	210,824
Fiscal Year 2013	215,469
Fiscal Year 2014	18,182

WORLD HARVEST MISSION
SUPPLEMENTAL INFORMATION
MAY 31, 2010

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 \$ 89,090 to the plan during the five-months then ended.

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. The \$250,000 amount is in effect through December 31, 2013. On January 1, 2014, the standard insurance amount will return to \$ 100,000 per depositor for all account categories except IRAs and other certain retirement accounts, which will remain at \$ 250,000 per depositor. 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 \$5,779 during the five-months then ended.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 3, 2011, the date which the financial statements were available to be issued.

16. CHANGE IN YEAR END REPORTING

During the year December 31, 2009, the Board voted to change their yearend from a calendar year to a fiscal yearend reporting date of May 31st. This is the first financial report reflecting the change in reporting for the five months ending on May 31, 2010.

WORLD HARVEST MISSION
SUPPLEMENTAL INFORMATION
MAY 31, 2010

17. EXPENSES

Expenses for the five-months then ended were as follows:

	<u>Field Operations</u>	<u>Sending Center</u>	<u>Fund Raising</u>	<u>Total</u>
Wages, taxes, benefits	\$ 1,688,732	\$ 473,786	\$ 37,570	\$ 2,200,088
Rent	44,503	94,658		139,161
Foreign National Wages	9,001			9,001
Computer equipment, maintenance & repair	2,127	2,608		4,735
Computer hardware & software	17,141	3,587		20,728
Supplies and cleaning	40,311	5,880	417	46,608
Insurance	243			243
Professional services	10,770	9,884	32,500	53,154
Other outside service	15,901	21,283	249	37,433
Cost of goods sold	12,591			12,591
Postage	5,862	10,986	5,265	22,113
Diaconal Needs	9,042			9,042
Project expenses	52,435			52,435
Grants to foreign organizations	112,348			112,348
Travel	424,222	42,215	446	466,883
Medical expenses & supplies	6,004	129		6,133
Ministry account	37,310			37,310
Set up costs	18,104			18,104
Outreach	5,993			5,993
Education and schooling	77,400	570		77,970
Retreats and conference	40,900	185		41,085
Vehicle	9,106			9,106
Printing	9,876	7,853	4,357	22,086
Books and other literature	3,746	1,111		4,857
Dues and subscriptions	680	2,815		3,495
Board meetings		2,650		2,650
Business meals	12,718	5,889	526	19,133
Shipping and freight	20,642			20,642
Depreciation	16,883	20,510		37,393
Service charges, penalties	4,589	129		4,718
Advertising and promotions		(127)	631	504
Sponsoring confer/education	5,985			5,985
Utilities	25,100	5,366		30,466
COBRA expense		2,898		2,898
Merchant discounts	10,740	173		10,913
Other	<u>6,416</u>	<u>1,554</u>	<u>3,387</u>	<u>11,357</u>
Totals - 2010	\$ <u>2,757,421</u>	\$ <u>716,592</u>	\$ <u>85,348</u>	\$ <u>3,559,361</u>