

WORLD Magazine Interview Transcript

11/15/18

Dan from World Mag: Okay. And so I understand the policy a little bit. Um, uh, who, who on your either elder board or I need to get that like an executive leadership team who actually, um, um, is able to see or set, Pastor MacDonald's salary.

Jeff Smith: I do, Dan. This is Jeff Smith and I'm the treasurer of the church and also on the executive committee. The way that works is, that the executive committee itself reviews all the information regarding James' salary, So that's something we take seriously and document and review every year at the same time. And that's the way it works.

Dan from World Mag: Okay.

Jeff Smith: And, and just so you know, als o, it's not something that the same group of guys does every time over years and

years, we have new people come onto the executive committee. And so as a function of that, you have new eyes looking at this and so there's a refreshing of it and there's a vetting of it that we all see.

And, I can say James does not participate in that. We come to all of our assessments and conclusions just among ourselves.

Dan from World Mag:

Okay, that's helpful. Thank you. You recently filed a lawsuit against the Evangelical Christian Credit Union. Right? Can you explain the reasoning for that?

Jeff Smith:

Sure. Dan. Let me take that one. That's kind of in my court as the treasurer. Just a little bit of background. I've been with, as an elder at Harvest for the past six years. And I'm currently as I said on the executive committee as the treasurer. Pastor James, by the way, is not involved in the finances of our church. We have people that do that. I'm one of them.

From: Jeff Smith [REDACTED]
Sent: Wednesday, January 9, 2019 9:24 PM
To: Sharon Kostal
Subject: Statement on current Harvest governance structure

Sharon:

Here are my thoughts on the governance structure of Harvest including internal controls and reporting requirements

Harvest Bible Chapel is an organization that is staff-led and elder-governed.

Elders: Article 7 of the Bylaws outlines the structure of our governance which includes the elders and leadership of the church. This is in accordance with the Scriptures and all elders are selected in accordance with their qualifications according to 1 Pet. 5:1-5; 1 Tim. 3 and Titus 1.

Executive Committee: The Executive Committee of the Elder Board has been established to hold the Senior Staff accountable on behalf of the entire Elder Board and partners with the Senior Pastor in leading the Elder Board as a whole. Its responsibilities are spelled out in 7.02 of the Bylaws.

Finance Committee: Regarding financial matters, the Finance Committee provides wisdom and ³hands-on² accountability to the senior financial officers of the Church including the CFO. The Finance Committee also oversees the Church's adherence to the financial portions of the Church's Conflict of Interest Policy. They provide non-vocational verification that the Church is conducting its financial affairs in a transparent manner and with integrity. While the Finance Committee has standing members, any elder may (and is encouraged to) attend any Finance Committee meeting. Finance Committee meetings are typically monthly before that month's Elder Board meeting. At Elder Board meetings, the CFO and Treasurer report on Finance Committee deliberations including cash position, care of restricted gifts, revenues and expenses, and any special capital campaign matters.

Audits: The Audit Committee of the Finance Committee works annually with the external auditor to review the Church's financial practices. The annual Audit is completed typically in the March/April timeframe and is presented by the CFO and Treasurer to the Executive Committee and also to the Elder Board. This includes detail from the management letter.

Policies: The Finance Committee establishes financial policies which help guide the financial affairs of the church. These policies are submitted to the Executive Committee for review, edit and approval. They are also communicated to the Elder Board.

Budgets: Annually, the staff drafts a church-wide budget from the bottom up. This is then debated and evaluated by the Finance Committee during the late fall and then they make a recommendation for consideration by the Executive Committee. The Executive Committee then approves the budget and it is presented to the Elders in January for consent. Monthly, revenues and expenses are measured against a seasonally adjusted plan as well as against the total budget. This information is presented to the Finance Committee and a summary version is presented to the Elder board monthly along with commentary by the CFO and Treasurer.

Expense Review: Expenses are reviewed in aggregate budget categories monthly by the Finance Committee. All checks > \$500 are reviewed by the Asst. Treasurer in addition to the CFO. We are currently drafting a policy for the approval process of credit card transactions. For those expenses that are discretionary by the Senior Pastor's office, both budgeted and unbudgeted, these are reviewed monthly by the Treasurer.

External accreditation: In addition to the internal policies, practices and reviews of financial matters at Harvest, we hold ourselves accountable to ECFA (Evangelical Council for Financial Accountability) standards. These are well-documented into 7 primary areas and Harvest must attest to our adherence to these

- e. Cash Flow Forecast reporting was expanded mid-year
 - f. September contributions were up 9% year over year
 - g. The question was asked about mentioning tithing in a weekend message and it was noted that tithing will be addressed this weekend
4. 2018 Budget Version 2 Review (see handout #4)
- a. Budget has been built at \$500,000 per week in accordance with the recommendations of the Finance Committee
 - b. Cash flow reserves have not been built into the \$500,000 weekly budget. However, all contributions raised in excess of the \$500,000 budget will be used to replenish the reserve.
 - c. Finance Committee agreed that we should move forward with a \$500,000 weekly budget in 2018 and present to the EC in December.
 - d. Per the Finance Committee's request, Jeff Sharda and Scott Milholland will bring areas (buckets) that can be cut, if circumstances necessitate these cuts, to next month's meeting.
5. Discuss Financial Governance Document (see handout #5)
- a. Review and/or approve check register for all entities. Finance Committee inquired of controls around the disbursement process.
 - i. Each Wednesday a check register is given to Joe Martin and Jeff Sharda online for approval for FICA, HBC, WITW and FIBF checks
 - ii. After checks are approved they are mailed on Friday
 - iii. Bank accounts are reconciled by staff that are not involved in the disbursement process
 - iv. Blessing/Separate Fund: Jeff Smith and Scott Milholland are overseers. Scott writes the checks and Jeff Smith subsequently reviews and provides accountability surrounding the expenditures.
 - v. Wire Transfers: One of three accounting staff input wire transfer requests into the bank system and then another individual must approve in order to complete the transfer. COO and/or CFO verbally approve all wire transfers before they are processed
 - b. Paul suggested that at each meeting an Accounting Control be presented for discussion and it was agreed that this is best practice
6. Next Meeting
- a. Thursday, November 9 at 4:30pm in the Rolling Meadows Boardroom

1 in the winter of -- you know, the time frame that
2 James was terminated because they had some --
3 because I had some questions.

4 He was like: "Yeah, I told them to just
5 call Fred and ask him," and Robert said: "Nobody
6 wanted to, so I just called you."

7 That's basically what he said.

8 He said: "What was the thing with" --
9 you know, I think it was Mo's motorcycle or
10 something like that, and so I told him the story
11 behind the motorcycle.

12 He said: "Okay. Great. That's all I
13 needed."

14 And then we talked, you know, chitchat
15 talk, not strategy talk but chitchat talk for five
16 minutes, you know, just catching up: "How are you
17 doing," dah, dah, dah, dah, and probably three or
18 four minutes on, you know, sort of like divesting
19 everything.

20 Q. That brings me to something else. I've
21 heard of this thing called the blessing fund which
22 was a set amount of money which James could use to
23 bestow blessings on people in he church or related
24 to the church to bring them closer to God or reward

1 them for good works.

2 Is that an accurate description?

3 A. So here's the thing, and, again, the
4 fund, the account, it had lots of different names,
5 right?

6 If you go back and look at the budget
7 sheets, like in terms of what was presented and
8 prepared in the budget, there would be line items,
9 for sure, for benevolences.

10 It wouldn't be benevolence, but, for
11 sure, on the payroll summary page there would be
12 actual line items for development expense, for
13 awards, for retreats, for bonuses, and I believe it
14 was like bonuses and blessings.

15 There would be dollar amounts on each of
16 those line items.

17 Where we spend the money from, whether it
18 was the checkbook I had or out of the corporate that
19 went through, you know, a different review process,
20 depended a little bit or maybe a lot on who the gift
21 was going to and for what purpose.

22 So, for example, when Mo got his
23 motorcycle, it was a bonus that he got from the
24 church.

1 Q. Who is Mo now?

2 A. Mohan Zachariah was the campus pastor of
3 Harvest Bible Chapel Niles.

4 So because it was a payroll item, that
5 went through my account because less people saw it
6 and only the people -- Diane Birkenstock, again, who
7 was in charge of HR and in the accounting
8 department, she saw the check because she reconciled
9 the account and she would actually write the checks
10 and I would sign them.

11 You know, so those would be the types of
12 things. Now, you know, that one could have been a
13 wire, but the point being, those transactions,
14 again, were, in general, approved in the overall
15 comp budget, right, and then specifically enacted
16 through different accounts.

17 So, quote, unquote, the blessing account,
18 James had a bunch of different -- like he would
19 refer to it as the blessing account.

20 I knew I just had to carry a dollar
21 figure sufficient cover, you know, bonuses,
22 blessings, et cetera, you know, in that account.

23 Q. So is it fair to say that James had
24 discretion to decide to use some of those funds in a

1 manner that he saw fit even though the specific gift
2 or blessing wasn't authorized by the elders?

3 A. He had the ability to decide with the
4 condition that it would be reviewed by the EC.
5 There was no requirement for prior approval.

6 Now, I was -- and, again, I was in the
7 room several times when I heard James talking to
8 Jeff Smith or to Robert Jones about: "Hey, I
9 want to get a motorcycle for Rick. What do you
10 think?"

11 "Oh, that's a great idea."

12 That would be the answer he would get in
13 that context, so then James would go out would and
14 execute on getting a motorcycle.

15 It's like within the -- again, staff is
16 authorized to spend the budget, the total budget
17 that was approved.

18 It was within the total budget, and,
19 again, we did a great job of managing our expenses
20 to make sure that we always came in under-spent at
21 the end of the year and over-collected.

22 Q. Well, I always hear that motorcycle story
23 brought up by adversaries of James as an example of
24 un-Godly spending.

1 The person who that was given to, that's
2 an employee of the church, right?

3 A. And it was included in his Box 1 on his
4 W-2.

5 Q. So he had to pay taxes on it?

6 A. Uh-huh.

7 Q. Income tax?

8 A. Uh-huh.

9 Q. And it was also essentially a bonus to an
10 employee?

11 A. Correct.

12 Q. And how much did the motorcycle cost?

13 A. I'm guessing fifteen-to-twenty thousand.
14 I don't remember.

15 Q. And do you have a recollection of what
16 the individual's salary was?

17 A. I'd say 90 to 110,000, somewhere in that
18 range.

19 Q. So somewhere between a 10-to-15 percent
20 bonus?

21 A. Max 20 percent, yeah.

22 Q. Did that raise any eyes when it was
23 actually done by the elders or anybody that reviewed
24 the checkbook?

1 A. No.

2 So James would come back -- James would
3 meet with the EC. He'd come back and say: "Hey, I
4 talked to the EC."

5 We had well-established patterns of like
6 how information was supposed to flow. I was in the
7 room multiple times. The EC agreed.

8 The EC meets with James, not with Scott
9 and I, but with James.

10 James comes back and tells us, you know,
11 what the outcomes are or "Hey, this is what we're
12 going to do."

13 So James would come back. I could check
14 anything if it sounded odd, like: "What do you mean
15 we're buying, you know, an island in the Bahamas?
16 I'll have to call Jeff."

17 But, certainly, we had given multiple
18 motorcycles away over the course of five or eight
19 years, I think, you know, to Rick Donald, Kent Shaw,
20 maybe Kevin Decker.

21 So the fact of Mo getting a motorcycle
22 was not outside of the ordinary, and, again, bonuses
23 were not given to the same person.

24 They were given -- in Rick's case, it was