

MIRACLE HILL MINISTRIES, INC.

FINANCIAL STATEMENTS

June 30, 2015

(With Independent Auditors' Report Thereon)

MIRACLE HILL MINISTRIES, INC.
June 30, 2015

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Miracle Hill
MINISTRIES

P.O. Box 2546 • Greenville, SC 29602

864.268.4357 • www.miraclehill.org

August 14, 2015

Management Responsibility

We are pleased to submit the annual Financial Report of Miracle Hill Ministries, Inc. for the fiscal year ended June 30, 2015. We are stewards of God's gifts from our donors and we take the responsibility of that stewardship very seriously. Management is responsible for the objectivity and integrity of the accompanying financial statements and notes, which have been prepared in conformance with accounting standards generally accepted in the United States of America, and include certain amounts that are based on management's best estimates and judgments.

Management is responsible for maintaining the Ministries' system of internal control that includes careful selection and development of staff, proper division of duties, and written policies and procedures. Although there are inherent limitations to the effectiveness of any system of accounting controls, management believes that the Ministries' system provides reasonable assurance that assets are safeguarded from unauthorized use or disposition and that the accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with generally accepted accounting principles.

Our independent auditors, Martin Smith & Company, CPAs, provide an objective independent audit of the consolidated financial statement. Their resulting report of fiscal 2015 is included.

The Board of Directors, composed exclusively of independent, outside directors, meets annually with the independent auditors and through the audit committee meets regularly with the independent auditors to review accounting and internal control matters. Part of these meetings are conducted with no staff present. The audit committee also recommends to the Board the appointment of the independent auditors.

Respectfully submitted,

Reid Lehman
President/CEO

Wayne Copeland
Chief Financial Officer

Marilyn Folio
Controller



MARTIN · SMITH

& COMPANY CPAs

INDEPENDENT AUDITORS' REPORT

Board of Directors
Miracle Hill Ministries, Inc.

We have audited the accompanying statement of financial position of Miracle Hill Ministries, Inc. as of June 30, 2015 and the related statements of activities, cash flows and functional expenses for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Miracle Hill Ministries, Inc. as of June 30, 2015, 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.

Martin Smith & Company CPAs PA

August 14, 2015

Member: American Institute of Certified Public Accountants • South Carolina Association of Certified Public Accountants

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MIRACLE HILL MINISTRIES, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS

Cash and cash equivalents	\$ 676,124
Receivables	212,131
Prepaid expenses	10,154
Investments	947,056
Assets whose use is limited:	
Temporarily restricted cash and cash equivalents	1,779,806
Temporarily restricted investments	1,281,576
Temporarily restricted property held for sale	73,961
Permanently restricted investments	4,780,430
Property held for sale	512,100
Property and equipment, net	<u>17,217,512</u>
 Total assets	 <u><u>\$ 27,490,850</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 69,532
Annuity liability	660,677
Accrued expenses	266,161
Notes payable	<u>5,459,293</u>
Total liabilities	<u>6,455,663</u>
 Net assets	
Unrestricted	13,780,091
Temporarily restricted:	
Restricted for endowment	425,177
Restricted for annuities	269,683
Restricted for capital projects	<u>1,779,806</u>
	2,474,666
Permanently restricted for endowment	4,780,430
Total net assets	<u>21,035,187</u>
 Total liabilities and net assets	 <u><u>\$ 27,490,850</u></u>

See accompanying notes to financial statements.

MIRACLE HILL MINISTRIES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support:				
Contributions and bequests	\$ 4,596,071	\$ 1,989,293	\$ 523,191	\$ 7,108,555
Contractual funding	2,125,672	-	-	2,125,672
Room and board fees	354,536	-	-	354,536
Thrift sales	7,075,142	-	-	7,075,142
Miscellaneous income	6,263	-	-	6,263
Investment income	138,665	-	-	138,665
Realized gain on sale of investments	-	332,121	-	332,121
Unrealized loss on investments	-	(191,816)	-	(191,816)
Gain on sale of assets	23,432	-	-	23,432
Change in value of annuities	(20,164)	-	-	(20,164)
Net assets released from restrictions	1,104,856	(1,104,856)	-	-
Total revenue and support	<u>15,404,475</u>	<u>1,024,742</u>	<u>523,191</u>	<u>16,952,407</u>
Expenses:				
Program services:				
Greenville Rescue Mission	883,866	-	-	883,866
Thrift Operations	5,985,869	-	-	5,985,869
Children's Home	1,537,491	-	-	1,537,491
Boys' Shelter	632,230	-	-	632,230
Homes for Life	337,432	-	-	337,432
Foster Care	596,255	-	-	596,255
Family Support Services	25,573	-	-	25,573
Shepherd's Gate	519,856	-	-	519,856
Renewal	500,405	-	-	500,405
Overcomers	872,121	-	-	872,121
Rescue Mission - Cherokee Co.	319,567	-	-	319,567
Rescue Mission - Spartanburg	603,232	-	-	603,232
Total program services	<u>12,813,897</u>	<u>-0-</u>	<u>-0-</u>	<u>12,813,897</u>
Supporting services:				
General and administrative	1,626,001	-	-	1,626,001
Fundraising	1,317,534	-	-	1,317,534
Total supporting services	<u>2,943,535</u>	<u>-0-</u>	<u>-0-</u>	<u>2,943,535</u>
Total expenses	<u>15,757,432</u>	<u>-0-</u>	<u>-0-</u>	<u>15,757,432</u>
Changes in net assets	(352,957)	1,024,742	523,191	1,194,976
Net assets at beginning of year	<u>14,133,048</u>	<u>1,449,924</u>	<u>4,257,239</u>	<u>19,840,211</u>
Net assets at end of year	<u>\$ 13,780,091</u>	<u>\$ 2,474,666</u>	<u>\$ 4,780,430</u>	<u>\$ 21,035,187</u>

See accompanying notes to financial statements.

MIRACLE HILL MINISTRIES, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Increase in net assets	\$ 1,194,976
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	1,224,564
Noncash donation of property	(500,000)
Unrealized loss on investments	191,816
Gain on sale of assets	(23,432)
Actuarial adjustment of annuity liability	20,164
Contributions restricted for long-term investments and debt reduction	(899,128)
(Increase) decrease in assets:	
Accounts receivable	189,856
Prepaid expenses	34,984
Increase (decrease) in liabilities:	
Accounts payable	(38,435)
Accrued expenses	57,828
Net cash provided by operating activities	<u>1,453,193</u>
 Cash flows from investing activities:	
Purchases of investments, net	(688,626)
Purchases of property and equipment	<u>(3,173,025)</u>
Net cash used in investing activities	<u>(3,861,651)</u>
 Cash flows from financing activities:	
Contributions restricted for long-term investments and debt reduction	899,128
Proceeds from lines of credit, net	2,683,108
Proceeds from sale of property and equipment	226,427
Payments on notes payable	(136,466)
Payments on annuities payable	(88,336)
Net cash provided by financing activities	<u>3,583,861</u>
 Net increase in cash and cash equivalents	1,175,403
 Cash and cash equivalents at beginning of year	<u>1,280,527</u>
 Cash and cash equivalents at end of year	<u>\$ 2,455,930</u>
 Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	<u>\$ 110,002</u>
 Noncash investing and financing activities:	
During the year ended June 30, 2015, the Ministries received property with a fair market value of \$500,000.	

See accompanying notes to financial statements.

MIRACLE HILL MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015

	Greenville			Family						Rescue	Rescue	Administrative		Fund	
	Rescue	Thrift	Children's	Boys'	Homes	Foster	Support	Shepherd's	Over-	Mission	Mission	and	Fund		
	<u>Mission</u>	<u>Operations</u>	<u>Home</u>	<u>Shelter</u>	<u>for Life</u>	<u>Care</u>	<u>Services</u>	<u>Gate</u>	<u>Renewal</u>	<u>comers</u>	<u>Cherokee</u>	<u>Spartanburg</u>	<u>General</u>	<u>Raising</u>	<u>Total</u>
Client care/assistance	\$ 43,770	\$ 234,102	\$ 72,868	\$ 89,515	\$ 12,204	\$ 17,843	\$ 4,404	\$ 22,314	\$ 21,173	\$ 47,857	\$ 6,427	\$ 17,609	\$ -	\$ -	\$ 590,086
Compensation	344,418	2,731,409	970,598	346,427	199,185	387,288	10,119	286,643	225,997	278,286	153,544	234,626	628,190	462,101	7,258,831
Retirement	8,172	48,788	9,819	4,625	1,320	6,985	1,856	4,454	6,504	7,427	9,245	5,591	73,591	14,479	202,856
Other employee benefits	44,805	350,257	107,022	37,452	23,659	35,865	-	32,803	16,283	41,350	9,323	22,697	122,802	42,798	887,116
Payroll taxes	18,893	196,837	65,825	23,380	12,825	27,404	-	18,011	14,235	16,902	5,807	10,968	54,573	33,641	499,301
Professional fees	1,079	139,454	9,647	490	4,002	207	-	-	2,379	10,197	75	1,210	81,851	33,397	283,988
Advertising	-	123,752	587	175	241	10,946	-	-	235	75	1,023	30	13,482	119,541	270,087
Office expenses	42,730	234,151	47,744	18,145	10,078	10,593	490	24,653	35,606	50,584	15,121	43,306	118,536	35,049	686,786
Information technology	2,716	7,169	6,192	3,615	2,614	14,796	-	1,739	1,421	2,983	2,654	2,147	61,680	25,858	135,584
Occupancy	153,802	1,078,501	102,470	39,934	18,008	25,864	2,290	65,276	63,892	118,323	48,057	109,194	53,256	1,036	1,879,903
Travel	27,382	123,154	41,901	20,595	15,681	26,058	-	3,442	7,456	27,153	12,187	14,074	38,341	15,272	372,696
Interest	-	34,390	-	-	-	-	-	-	-	-	-	-	136,444	-	170,834
Depreciation	186,503	179,142	75,935	33,772	22,209	5,876	6,414	51,564	94,513	263,684	50,611	128,062	126,279	-	1,224,564
Insurance	3,684	49,770	13,050	7,214	3,710	4,116	-	3,244	2,502	2,826	1,296	2,474	7,458	4,160	105,504
Fundraising	-	-	-	-	-	-	-	-	-	-	-	-	-	511,706	511,706
Training	2,494	4,171	7,404	3,524	9,010	2,681	-	3,120	5,750	-	2,873	8,287	41,092	15,196	105,602
Dues and subscriptions	991	213	2,807	1,235	795	842	-	1,296	1,111	1,741	1,273	1,159	4,174	1,360	18,997
Other expenses	2,427	10,142	3,622	2,132	1,891	18,891	-	1,297	1,348	2,733	51	1,798	64,252	1,940	112,524
Industrial supplies	-	440,467	-	-	-	-	-	-	-	-	-	-	-	-	440,467
	<u>\$ 883,866</u>	<u>\$ 5,985,869</u>	<u>\$ 1,537,491</u>	<u>\$ 632,230</u>	<u>\$ 337,432</u>	<u>\$ 596,255</u>	<u>\$ 25,573</u>	<u>\$ 519,856</u>	<u>\$ 500,405</u>	<u>\$ 872,121</u>	<u>\$ 319,567</u>	<u>\$ 603,232</u>	<u>\$ 1,626,001</u>	<u>\$ 1,317,534</u>	<u>\$ 15,757,432</u>

See accompanying notes to financial statements.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Nature of Organization

Miracle Hill Ministries, Inc. (“the Ministries”) is a non-profit organization incorporated under the laws of South Carolina and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Ministries seeks to help individuals and families in upstate South Carolina victimized by poverty, broken homes, or other problems through temporary and long-term physical and spiritual assistance.

Operational Activities - The following describes the operational activities of the Ministries:

Greenville Rescue Mission – A program for homeless men and families which provides emergency housing, meals and clothing, gospel services, personal counseling, and GED training.

Thrift Operations – A program which operates thrift stores to support other programs of the Ministries and which provides sheltered employment to train and equip mission clients to return to the job market.

Children’s Home – A program which provides a home environment to care for children of dysfunctional homes while seeking to reunite these families.

Boys’ Shelter – A program providing shelter and care for boys, ages 11-16, who have been removed from their homes because of abuse, neglect or abandonment.

Homes for Life – A program providing shelter and support to homeless young men ages 17-21.

Foster Care – A program which provides care for children and teens from four Upstate South Carolina counties who are in need of a loving family environment.

Family Support Services – A program which provides critical family strengthening supports during times of crisis and throughout the transition to family stability.

Shepherd’s Gate – A program for homeless women and children which provides emergency housing, meals and clothing, personal counseling, a personal growth program, GED training, and gospel services.

Renewal - A 6 month program for women in need of a structured, long-term approach to dealing with addiction and other life-dominating problems.

Overcomers – This program provides a seven-month residential program for men in need of a more structured, longer-term approach to dealing with life-dominating addictions.

Rescue Mission – Cherokee Co. – A program for homeless men, women, and families in Cherokee County which provides emergency housing, meals and clothing, personal counseling, gospel services and GED training.

Rescue Mission - Spartanburg – A program for homeless men, women and families in Spartanburg County which provides emergency housing, meals and clothing, personal counseling, gospel services and GED training.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2015

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

b) **Basis of Accounting**

The accompanying financial statements of the Ministries have been prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

c) **Financial Statement Presentation**

These financial statements have been prepared to focus on the organization as a whole and to present transactions according to the existence or absence of donor-imposed restrictions in conformity with recommendations of the Financial Accounting Standards Board (FASB) in the *Accounting Standards Codification* (ASC). This guidance requires that unconditional promises to give be recorded as receivables and revenues and requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. It establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Ministries and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Ministries and/or the passage of time. If a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Ministries. Generally, the donors of these assets permit the Ministries to use all or part of the income earned on any related investments for general or specific purposes.

The Board has designated estates and certain other funds to be used solely as endowment; however, under the requirements of the Financial Accounting Standards Board in the *Accounting Standards Codification* these amounts are included as unrestricted net assets, rather than temporarily or permanently restricted, even though it is the intention of the Board that they be used for no other purpose.

d) **Contributions and Revenue**

The Ministries records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose of restrictions.

Contributions are recognized when received. Contributions which are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions and are reclassified to unrestricted net assets and reported in the Statement of Activities as restricted contributions expended as the restrictions expire.

Noncash contributions are recorded as support at their estimated fair value at the date they are placed into service or are sold. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support.

e) **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, cash balances in depository institutions, and money market balances.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2015

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

f) Receivables

Accounts receivables are stated at the amount management expects to collect from outstanding balances. No allowance for uncollectible accounts receivable or pledges receivable has been provided; all receivables are considered to be collectible

g) Investments

Investments comprise primarily equity, debt securities, and mutual funds. Investments are reported at fair value, using the three-level hierarchy established under the *Fair Value Measurement* topic of the FASB ASC. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized gains and losses are recognized at the date of disposition based on the difference between the net proceeds received and the purchased value of the investment sold, using the specific identification method. Unrealized gains and losses are recognized for the change in fair value between reporting periods. Net realized and unrealized gains and losses on investments generally are reported as increases and decreases in unrestricted net assets unless explicit donor stipulations restrict their use. Interest and dividend income is recognized when earned.

h) Property Held for Sale

From time to time, the Ministries receives gifts of property. In accordance with donor intent, the Ministries lists the property for sale.

i) Property and Equipment

Property and equipment are stated at cost if purchased or fair market value at the date of donation. Additions of assets valued over \$3,000 are capitalized and major items retired are removed from the accounts. Replacements, maintenance, and repairs, which do not improve or extend the life of the respective assets, are expensed currently. Straight-line depreciation is taken on the recorded value of the property and equipment at annual rates ranging from 2% to 20%. No depreciation is taken on land, land improvements, or construction in progress.

The Ministries reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset is less than the carrying value.

j) Annuity Liability

The Ministries have been made aware of the receipt of certain unconditional promises to provide future contributions in the form of deferred giving arrangements including charitable remainder annuity trusts, charitable remainder unitrusts and pooled income funds. The various deferred giving agreements stipulate the payment of stated annuity amounts as well as the requirements for the eventual use of the principal of the donated funds.

k) Donated Services and Materials

A number of individuals have donated a significant amount of time to the Ministries' programs; however, no amounts have been reflected for donated services. For the year ended June 30, 2014, various materials have been donated. The value of these materials is considered immaterial and no amounts have been recorded in the financial statements.

l) Income Taxes

The Ministries is exempt from Federal and state income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code. The Ministries has adopted the provisions of the *Accounting for Uncertainty in Income Taxes* topic of FASB ASC. This guidance addresses the accounting uncertainty in income taxes recognized in an organization's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. It also provides related guidance on measurement classification, interest and penalties, and disclosure. As a result of the implementation of this guidance, the Ministries has determined that it has no uncertain tax positions requiring accrual and disclosure.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2015

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

m) Food Costs

The Ministries operates a food warehouse that receives food donations from the community. The value of these food donations has not been recorded in the financial statements. For the year ended June 30, 2015, 65.5% of the food distributed from the food warehouse went to the Ministries' facilities. The remainder was distributed to other organizations that provide food relief. A total of \$102,168 was allocated from the food warehouse expenses, based on the number of boxes that went to the Ministries' facilities. In addition, the Ministries purchased supplemental food in the amount of \$62,442, which is included in the statement of activities and statement of functional expenses. For the year ended June 30, 2015, the total cost of food for the various facilities was \$164,610.

n) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

o) Functional Allocation of Expenses

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.

p) Statement of Financial Position Presentation

Assets and liabilities presented in the Statement of Financial Position are recorded in order of liquidity or nearness to conversion to cash.

2) **CASH AND CASH EQUIVALENTS**

The Ministries maintains cash balances at several financial institutions located in South Carolina. Accounts at each institution are protected by depository insurance up to \$250,000 by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. At June 30, 2015, the Ministries had uninsured cash and cash equivalents balances of \$2,067,111.

Included in the Ministries' cash and cash equivalents balance is \$1,779,806 of temporarily restricted cash to be used for subsequent years' activities.

3) **RECEIVABLES**

Receivables consist of the following at June 30, 2015:

State grant funds	\$ 154,891
Trade receivables	26,296
Mortgages receivable	24,497
Employee advances and other receivables	6,447
	<u>\$ 212,131</u>

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2015

4) INVESTMENTS

The cost and fair market value of investments at June 30, 2015 are as follows:

	Cost	Unrealized Gain	Fair Value
Equities	\$ 3,669,471	\$ 826,425	\$ 4,495,896
Bonds	1,468,344	21,303	1,489,647
Mutual funds	937,026	86,493	1,023,519
Total investments	6,074,841	934,221	7,009,062
Cash and cash equivalents included in endowment funds	757,289	-	757,289
Total endowment funds	\$ 6,832,130	\$ 934,221	\$ 7,766,351

Investments with a fair value of \$1,281,576 as of June 30, 2015, are temporarily restricted to be used for subsequent years' activities. Investments with a fair value of \$4,780,430 as of June 30, 2015, are permanently restricted.

5) PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2015 are summarized as follows:

Furniture and fixtures	\$ 1,378,052
Equipment	1,369,660
Vehicles	1,028,611
Land	1,704,506
Buildings	23,503,447
Construction in progress	96,185
	29,080,461
Less accumulated depreciation	(11,862,949)
Total property and equipment, net	\$ 17,217,512

Depreciation expense for the year ended June 30, 2015 was \$1,224,564.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2015

6) NOTES PAYABLE

Notes and mortgages payable as of June 30, 2015 consist of the following:

Line of credit payable to banking institution, secured by real property, due in monthly payments of principal and interest of \$7,212, starting November 2014, with interest at 3.85%, balloon payment of balance due October 2018.	\$ 256,670
Note payable to banking institution, secured by real property, due in 60 monthly payments of principal and interest of \$5,843, with interest fixed at 3.60%.	115,994
Note payable to banking institution, secured by vehicles, due in 36 monthly payments of principal and interest of \$2,126, with interest fixed at 4.51%.	12,593
Line of credit payable to banking institution, secured by real property, with interest payable monthly at the rate of LIBOR + 2.25%, balance due December 2015, total line availability of \$1,000,000	143,161
Note payable to banking institution, secured by real property, due in 120 monthly payments of principal and interest of \$27,917, starting October 2015, with interest fixed at 4.65%, interest only payments due through September 2015	2,675,000
Federal Home Loan Bank of Atlanta, secured by real property	1,000,000
Federal Home Loan Bank of Atlanta, secured by real property	1,000,000
Mortgage loan payable to South Carolina Housing Authority, secured by real property	<u>255,875</u>
Total notes and mortgages payable	<u>\$ 5,459,293</u>

Aggregate maturities of long-term debt are summarized as follows for the years ended June 30:

2016	\$ 639,496
2017	272,142
2018	233,370
2019	244,455
2020	256,068
Thereafter	<u>3,813,762</u>
	<u>\$ 5,459,293</u>

Interest expense totaled \$110,002 for the year ended June 30, 2015.

The Ministries entered into an Affordable Housing Program agreement with the Federal Home Loan Bank of Atlanta (the "FHLB") and received \$1,000,000 for renovations of its Greenville Rescue Mission. These funds are dedicated to the project as a grant, with no interest charged on the outstanding principal balance. These funds will be forgiven if the Ministries remains in compliance with the terms of the agreement with FHLB for its fifteen year duration. Because the loan is due immediately upon the default of compliance with the loan agreements, this loan has been recorded as debt. Once the Ministries has satisfied the terms of the loan agreements, this amount will be recognized as grant revenue. The Ministries was in compliance with the terms of the agreement as of June 30, 2015.

The Ministries entered into an Affordable Housing Program agreement with the Federal Home Loan Bank of Atlanta (the "FHLB") and received \$1,000,000 for renovations of its Spartanburg Rescue Mission. These funds are dedicated to the project as a grant, with no interest charged on the outstanding principal balance. These funds will be forgiven if the Ministries remains in compliance with the terms of the agreement with FHLB for its fifteen year duration. Because the loan is due immediately upon the default of compliance with the loan agreements, this loan has been recorded as debt. Once the Ministries has satisfied the terms of the loan agreements, this amount will be recognized as grant revenue. The Ministries was in compliance with the terms of the agreement as of June 30, 2015.

The Ministries assumed a mortgage loan agreement with the South Carolina Housing Authority (the "SCHA") with a remaining principal balance of \$255,875 and received property in which it operates its Homes for Life program. These funds are dedicated to the project as a grant, with no interest charged on the outstanding principal balance. These funds will be forgiven if the Ministries remains in compliance with the terms of the agreement with SCHA for the remaining fifteen year duration. Once the Ministries has satisfied the terms of the loan agreements, this amount will be recognized as grant revenue. The Ministries was in compliance with the terms of the agreement as of June 30, 2015.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2015

7) NET ASSET DESIGNATIONS AND RESTRICTIONS

Temporarily restricted net assets total \$2,474,666 as of June 30, 2015. Of these net assets, \$425,177 is restricted for endowment, \$269,683 is restricted for annuities, and \$1,779,806 is restricted for capital projects.

Releases from restrictions of \$1,104,856 for the year ended June 30, 2015, represent funds used for debt reduction and capital projects from prior years' contributions.

Permanently restricted net assets of \$4,780,430 as of June 30, 2015, consist of endowment fund assets that must be held indefinitely. The income earned from these assets may be used for current year operations.

8) RETIREMENT PLAN

The Ministries sponsors a defined contribution retirement savings plan in compliance with Section 401(k) of the Internal Revenue Code. The Plan covers all employees who work at least twenty hours per week and have been employed for at least one year. Participants may make contributions to the Plan, subject to IRS limitations. The Ministries may make a matching contribution, at its discretion. For the year ended June 30, 2015, the retirement plan expense for the Ministries totaled \$202,856.

9) FAIR VALUES OF FINANCIAL INSTRUMENTS

The Ministries has adopted the provisions of the *Fair Value Measurement and Disclosures* topic of FASB ASC. This guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. Level 1 inputs represent fair values obtained using quoted prices in active markets. Level 2 inputs represent fair values obtained from observable market data but not from quoted market prices. Level 3 inputs represent unobservable inputs that are supported by little or no market activity and are generally based on the entity's own assumptions.

The following methods and assumptions are used to estimate the fair value of each financial instrument:

Cash and cash equivalents, accounts payable, accrued expenses, prepaid expenses - the carrying values approximate fair value due to their short maturities.

Receivables - the carrying values approximate fair value due to their short maturities.

Investments – the fair values are based on quoted market prices of the underlying investment securities. Investments are carried at fair value in the accompanying Statement of Financial Position.

Annuity liability – the fair values are determined by discounting the future cash flows of each instrument at rates currently offered by the Ministries for similar instruments of comparable maturities. The carrying amount of annuity liabilities approximates fair value.

Notes payable – the fair values are determined by discounting the future cash flows of each debt instrument at rates currently offered to the Ministries for similar debt instruments of comparable maturities. The carrying amount of notes payable approximates fair value.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2015

9) FAIR VALUES OF FINANCIAL INSTRUMENTS, Continued

The following table sets forth, by level within the fair value hierarchy, the Ministries investment assets at fair value, at June 30, 2015:

	Total Fair Value	Level 1	Level 2	Level 3
Equities	\$ 4,495,896	\$ 4,495,896	-	\$ -
Bonds	1,489,647	1,489,647	-	-
Mutual funds	892,182	892,182	-	-
	\$ 6,877,725	\$ 6,877,725	-	\$ -

10) ENDOWMENT FUNDS

The Ministries' endowment consists of donor-restricted funds and board designated endowment funds. Effective July 1, 2007, the state of South Carolina adopted legislation that incorporates the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The *Endowments of Not-for-Profit Organizations* topic of FASB ASC provides guidance for organizations with endowment funds subject to the UPMIFA. The Ministries has adopted the provisions of this guidance.

The Ministries' management has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted funds absent explicit donor stipulation to the contrary. The Ministries classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted net assets is classified as temporarily restricted net assets until those amounts are expended in a manner consistent with the prudence prescribed by UPMIFA. In accordance with UPMIFA, the Ministries considers the following factors in making a determination to expend or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Ministries and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Ministries
7. The investment policies of the Ministries

Board designated endowment net assets include gifts and other revenues that have been designated by the board to function as endowment. These funds may be expended at the discretion of the board. Also included are certain temporarily restricted net assets that have not been expended for their restricted purpose but are being invested and the earnings expended for the restricted purpose.

The Ministries has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. To meet its long-term rate-of-return objectives, the Ministries relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). Under this policy, actual earnings, as well as a prudent portion of realized and unrealized gains may be distributed for operational needs or in accordance with donor restrictions. The Ministries expects its endowment funds, over time, to provide an average rate of return at least equal to its spending policy requirements plus the rate of inflation. Actual returns in any given year may vary from this amount.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2015

10) ENDOWMENT FUNDS, Continued

The Ministries' endowment funds consist of the following at June 30, 2015:

Board designated endowment reserves	\$ 1,704,345
Temporarily restricted by donors for endowment	425,177
Permanently restricted by donors for endowment	4,780,430
Annuity investments held in endowment	<u>856,399</u>
 Total endowment funds	 7,766,351
 Annuity liability	 <u>(660,677)</u>
Net endowment funds	<u>\$ 7,105,674</u>

Changes in endowment assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 1,658,570	\$ 997,022	\$ 4,257,239	\$ 6,912,831
Investment earnings	134,090	-	-	134,090
Gains on investments	-	140,305	-	140,305
Contributions	-	341,619	523,191	864,810
Distributed earnings	<u>(88,315)</u>	<u>(197,370)</u>	<u>-</u>	<u>(285,685)</u>
Endowment net assets, ending	<u>\$ 1,704,345</u>	<u>\$ 1,281,576</u>	<u>\$ 4,780,430</u>	<u>\$ 7,766,351</u>

11) OPERATING LEASES

The Ministries is obligated under non-cancelable operating leases for equipment and facilities. Rent expense for these leases amounted to \$679,896 for the year ended June 30, 2015. The annual minimum lease payments are as follows as of June 30:

2016	\$ 528,809
2017	532,466
2018	548,171
2019	551,440
2020	<u>502,062</u>
	<u>\$ 2,662,948</u>

12) SUBSEQUENT EVENTS

In preparing these financial statements, the Ministries has evaluated events and transactions for potential recognition or disclosure through August 14, 2015, the date the financial statements were available to be issued.