

MIRACLE HILL MINISTRIES, INC.

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

(With Independent Auditors' Report Thereon)

MIRACLE HILL MINISTRIES, INC.
June 30, 2019

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Miracle Hill
MINISTRIES

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August 16, 2019

Management Responsibility

We are pleased to submit the annual Financial Report of Miracle Hill Ministries, Inc. for the fiscal year ended June 30, 2019. 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 consolidated financial statements and notes, which have been prepared in conformity 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 2019 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

Richard Ingram
Chief Financial Officer

Laura Finley
Accounting Manager



MARTIN · SMITH

& COMPANY CPAs

INDEPENDENT AUDITORS' REPORT

Board of Directors
Miracle Hill Ministries, Inc.

We have audited the accompanying consolidated statement of financial position of Miracle Hill Ministries, Inc. and its subsidiary as of June 30, 2019 and the related consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Miracle Hill Ministries, Inc. and its subsidiary as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Martin Smith and Company CPAs PA

August 16, 2019

MIRACLE HILL MINISTRIES, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

Cash and cash equivalents	\$	288,617
Receivables		405,726
Inventories		900,107
Prepaid expenses		228,412
Investments		1,502,489
Assets whose use is limited:		
Donor restricted cash and cash equivalents		2,212,709
Donor restricted investments		6,379,278
Property held for sale		8,000
Property and equipment, net		<u>18,833,020</u>
 Total assets		 <u><u>\$ 30,758,358</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$	288,879
Annuity liability		252,230
Accrued expenses		749,500
Notes payable		<u>6,476,281</u>
Total liabilities		<u>7,766,890</u>
 Net assets:		
Without donor restrictions		14,651,711
With donor restrictions:		
Restricted for endowment	\$	425,176
Restricted for annuities		256,135
Restricted for capital projects		2,212,709
Restricted for permanent endowment		<u>5,445,737</u>
		<u>8,339,757</u>
 Total net assets		 <u>22,991,468</u>
 Total liabilities and net assets		 <u><u>\$ 30,758,358</u></u>

See accompanying notes to consolidated financial statements.

MIRACLE HILL MINISTRIES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support:			
Contributions and bequests	\$ 5,263,368	\$ 2,386,327	\$ 7,649,695
Contractual funding	2,804,061	-	2,804,061
Room and board fees	415,480	-	415,480
Thrift store sales	8,038,860	-	8,038,860
In-kind contributions - thrift stores	7,311,233	-	7,311,233
Miscellaneous income	22,104	-	22,104
Investment income	119,840	16,985	136,825
Realized gain on sale of investments	516,561	73,380	589,941
Unrealized loss on investments	(368,934)	(52,409)	(421,343)
Loss on sale of assets	(3,633)	-	(3,633)
Change in value of annuities	279,300	-	279,300
Net assets released from restrictions	1,231,936	(1,231,936)	-
	<u>25,630,176</u>	<u>1,192,347</u>	<u>26,822,523</u>
Employment services revenue	<u>4,158,626</u>	<u>-</u>	<u>4,158,626</u>
Total revenue and support	<u>29,788,802</u>	<u>1,192,347</u>	<u>30,981,149</u>
Expenses:			
Program services:			
Greenville Rescue Mission	834,741	-	834,741
Thrift Operations	14,343,338	-	14,343,338
Children's Home	1,973,937	-	1,973,937
Boys' Shelter	704,668	-	704,668
Homes for Life	366,897	-	366,897
Foster Care	1,220,895	-	1,220,895
Shepherd's Gate	578,904	-	578,904
Renewal	504,296	-	504,296
Overcomers	944,173	-	944,173
Rescue Mission - Cherokee Co.	385,255	-	385,255
Rescue Mission - Spartanburg	685,027	-	685,027
Total program services	<u>22,542,131</u>	<u>-0-</u>	<u>22,542,131</u>
Supporting services:			
General and administrative	2,102,286	-	2,102,286
Fundraising	1,364,022	-	1,364,022
Total supporting services	<u>3,466,308</u>	<u>-0-</u>	<u>3,466,308</u>
Employment services expenses	<u>4,038,323</u>	<u>-</u>	<u>4,038,323</u>
Total expenses	<u>30,046,762</u>	<u>-0-</u>	<u>30,046,762</u>
Changes in net assets	(257,960)	1,192,347	934,387
Net assets at beginning of year	<u>14,909,671</u>	<u>7,147,410</u>	<u>22,057,081</u>
Net assets at end of year	<u>\$ 14,651,711</u>	<u>\$ 8,339,757</u>	<u>\$ 22,991,468</u>

See accompanying notes to consolidated financial statements.

MIRACLE HILL MINISTRIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

Cash flows from operating activities:	
Increase in net assets	\$ 934,387
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	1,582,918
Noncash inventory contributions, net	107,454
Noncash contribution of property	(1,100,000)
Unrealized loss on investments	421,343
Loss on sale of assets	3,632
Actuarial adjustment of annuity liability	(256,454)
Contributions restricted for long-term investments and debt reduction	(1,376,170)
(Increase) decrease in assets:	
Accounts receivable	(124,497)
Prepaid expenses	(66,638)
Increase (decrease) in liabilities:	
Accounts payable	160,096
Accrued expenses	405,127
Net cash provided by operating activities	<u>691,198</u>
 Cash flows from investing activities:	
Purchases of investments, net	140,560
Proceeds from sale of property and equipment	1,504
Purchases of property and equipment	(562,400)
Net cash used in investing activities	<u>(420,336)</u>
 Cash flows from financing activities:	
Contributions restricted for long-term investments and debt reduction	1,376,170
Payments on notes payable	(524,080)
Payments on annuities payable	(58,220)
Net cash provided by financing activities	<u>793,870</u>
 Net increase in cash and cash equivalents	1,064,732
 Cash and cash equivalents at beginning of year	<u>1,436,594</u>
 Cash and cash equivalents at end of year	<u>\$ 2,501,326</u>
 Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	<u>\$ 250,385</u>
 Noncash investing and financing activities:	
During the year the Ministries received property with a fair market value of \$1,100,000 to be used in operations.	

See accompanying notes to consolidated financial statements.

MIRACLE HILL MINISTRIES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	Program Services										Supporting Services				Total
	Greenville										Administrative and Fund Employment				
	Rescue Mission	Thrift Operations	Children's Home	Boys' Shelter	Homes for Life	Foster Care	Shepherd's Gate	Renewal	Over-comers	Rescue Mission Cherokee	Rescue Mission Spartanburg	General	Fund Raising	Employment Services	
Client care/assistance	\$ 19,372	\$ 69,445	\$ 101,306	\$ 31,806	\$ 3,971	\$ 45,460	\$ 15,473	\$ 20,170	\$ 27,526	\$ 19,264	\$ 14,513	\$ 24,450	\$ -	\$ -	\$ 392,756
Compensation	314,885	3,359,536	1,188,125	424,525	235,309	814,674	335,400	220,983	356,696	187,349	318,835	867,496	431,374	3,762,105	12,817,292
Retirement	1,840	27,989	10,729	2,489	825	8,523	4,306	1,836	5,311	2,685	4,456	23,550	7,249	-	101,788
Other employee benefits	49,033	414,645	154,755	57,957	13,019	117,198	26,989	16,168	47,533	19,795	18,787	172,587	45,658	-	1,154,124
Payroll taxes	19,158	241,048	81,414	27,015	14,158	55,458	21,501	14,275	21,971	10,204	13,016	104,823	33,665	26,860	684,566
Professional fees	2,249	126,817	16,962	81	352	1,688	45	1,586	8,079	45	6,245	120,538	14,335	25,810	324,832
Advertising	78	70,709	146	-	-	1,251	22	404	613	781	12	8,163	94,926	5,255	182,360
Office expenses	41,879	219,274	57,992	27,899	9,021	25,981	17,778	29,328	43,578	21,802	49,020	113,153	33,833	11,630	702,168
Information technology	2,590	70,043	14,837	6,276	9,350	15,940	8,962	2,825	3,371	1,390	2,172	63,059	87,746	20,706	309,267
Occupancy	158,811	1,209,503	132,830	46,969	32,465	13,412	69,729	71,649	133,328	60,901	147,455	107,425	13,007	5,550	2,203,034
Travel	30,126	130,631	76,185	23,018	12,899	43,685	5,541	9,372	40,276	9,522	11,032	37,090	11,642	15,765	456,784
Interest	-	113,891	-	-	-	-	-	-	-	-	-	136,494	-	-	250,385
Depreciation	179,732	290,533	90,833	39,514	24,606	36,632	59,624	105,463	246,336	42,659	90,681	216,511	159,794	-	1,582,918
Insurance	6,362	137,707	27,793	10,118	6,378	15,801	7,500	5,304	6,910	2,788	5,518	22,339	10,151	62,326	326,995
Fundraising	-	27,814	-	-	-	0	-	-	-	39	-	867	388,252	-	416,972
Training	4,763	3,983	12,882	2,759	2,123	-	3,676	2,254	-	3,892	615	21,673	19,240	167	78,027
Dues and subscriptions	1,071	460	2,181	1,419	1,419	2,291	1,012	1,011	1,282	1,208	1,071	5,605	1,530	-	21,560
Other expenses	2,792	11,359	4,967	2,823	1,002	22,901	1,346	1,668	1,363	931	1,599	56,463	11,620	102,149	222,983
Cost of goods sold	-	7,817,951	-	-	-	-	-	-	-	-	-	-	-	-	7,817,951
	<u>\$ 834,741</u>	<u>\$ 14,343,338</u>	<u>\$ 1,973,937</u>	<u>\$ 704,668</u>	<u>\$ 366,897</u>	<u>\$ 1,220,895</u>	<u>\$ 578,904</u>	<u>\$ 504,296</u>	<u>\$ 944,173</u>	<u>\$ 385,255</u>	<u>\$ 685,027</u>	<u>\$ 2,102,286</u>	<u>\$ 1,364,022</u>	<u>\$ 4,038,323</u>	<u>\$ 30,046,762</u>

See accompanying notes to consolidated financial statements.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

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 seek 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.

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 Co. – 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.

b) **Basis of Accounting**

The accompanying consolidated financial statements include the accounts of Miracle Hill Ministries, Inc. and its wholly owned subsidiary Miracle Hill Enterprises, Inc. (“MHE”). Entities in which the Ministries has a relationship that meets the consolidation criteria in applicable accounting literature are included in the accompanying consolidated financial statements. The accompanying consolidated 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. All significant intercompany balances and transactions have been eliminated in consolidation.

Miracle Hill Enterprises, Inc. is a for-profit organization incorporated in 2018 under the laws of South Carolina, with the Ministries as its sole shareholder. MHE has organized BridgeWorks LLC, a limited liability company. BridgeWorks LLC performs employment services as a traditional staffing and recruiting firm. It also seeks to provide meaningful, long-term employment opportunities for participants in the Ministries’ various programs.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

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

c) **Financial Statement Presentation**

These consolidated financial statements have been prepared to focus on the Ministries 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 Ministries 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 two 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:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations and currently available for operating purposes under the direction of the Board of Directors (“the Board”), designated by the Board for specific purposes, or invested in property and equipment.

Net assets with donor restrictions - 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. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities as net assets released from restrictions.

The net asset classification of donor-restricted endowment funds is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). As a result, the investment return from donor-restricted endowment funds is classified as net assets with donor restrictions until appropriated for expenditure. Note 10 provides additional information about the Ministries’ endowment.

The Board has designated estates and certain other funds to be used solely as endowment; however, under the requirements of the FASB ASC these amounts are included as net assets without donor restrictions, rather than net assets with donor restrictions, even though it is the intention of the Board that they be used for no other purpose.

d) **Contributions and Revenue**

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence of any donor restrictions. Contributions are recognized when received or when the donor makes an unconditional promise to give to the Ministries. Contributions which are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon the satisfaction of the time or purpose restrictions.

Noncash contributions are recorded as support at the estimated fair value of the donation. Such donations are reported as net assets without donor restrictions 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 net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Ministries reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated inventory items for the thrift stores are recorded at estimated fair market value as determined by management using a calculation based on factors such as estimated sales and inventory turnover. When donated inventory items are sold in the thrift stores, they are reflected in the cost of goods sold of thrift operations.

e) **Cash and Cash Equivalents**

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

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.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

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

g) Inventories

Inventories consist of items donated for sale in the Ministries' thrift stores and are valued at estimated fair market value as determined by management using a calculation based on factors such as estimated sales and inventory turnover.

h) 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 net assets without donor restrictions unless explicit donor stipulations restrict their use. Interest and dividend income is recognized when earned.

i) Property Held for Sale

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

j) 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 \$5,000 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.

k) 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.

l) Donated Services

A number of individuals have donated a significant amount of time to the Ministries' programs; however, no amounts have been reflected for donated services.

m) 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.

The Ministries provides for income taxes for MHE according to the *Accounting for Income Taxes* topic of FASB ASC. This guidance requires an asset and liability approach in accounting for income taxes. Income tax expense includes federal and state taxes currently payable and any deferred taxes arising from temporary differences between income for financial reporting and income tax purposes. (MHE has no temporary differences for the year ended June 30, 2019.) Income tax expense of \$23,700 is included in employment services expenses in the Consolidated Statement of Activities.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

n) 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 Consolidated Financial Statements. For the year ended June 30, 2019, 61.60% 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 \$42,206 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 \$81,160, which is included in the Consolidated Statement of Activities and the Consolidated Statement of Functional Expenses. For the year ended June 30, 2019, the total cost of food for the various facilities was \$389,524.

o) 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.

p) Advertising

The Ministries expenses advertising costs as incurred. For the year ended June 30, 2019, advertising expense was \$182,360.

q) Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Consolidated Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

r) Consolidated Statement of Financial Position Presentation

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

s) New Accounting Pronouncement

During the year ended June 30, 2019, the Ministries elected to adopt the requirements of the FASB ASC No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14)* (“the Update”). This Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by the Update is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (see Footnote 12).

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 (“FDIC”) or the Securities Investor Protection Corporation (“SIPC”). At June 30, 2019, the Ministries had uninsured cash and cash equivalents balances of \$2,076,587.

Included in the Ministries' cash and cash equivalents balance is \$2,212,709 of cash with donor restrictions to be used for subsequent years' activities.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

3) RECEIVABLES

Receivables consist of the following at June 30, 2019:

State grant funds	\$ 78,904
Trade receivables	274,894
Mortgages receivable	13,154
Employee advances and other receivables	940
Employment services trade receivables	<u>37,834</u>
	<u>\$ 405,726</u>

BridgeWorks LLC has entered into a factoring agreement whereby it agreed to sell certain employment services trade receivables to a factoring firm at face value less applicable fees. All transactions under the agreement were subject to standard provisions for advances, payments, administrative fees, and other fees. Because the receivable sales were without recourse, the transactions have been accounted for as sales and the related trade receivable balances reduced.

4) INVESTMENTS

The cost and fair market value of investments at June 30, 2019 are as follows:

	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Fair Value</u>
Equities	\$ 4,544,760	\$ 793,953	\$ 5,338,713
Bonds	1,578,866	5,259	1,584,125
Mutual funds	<u>866,376</u>	<u>92,553</u>	<u>958,929</u>
Total investments	6,990,002	891,765	7,881,767
Cash and cash equivalents included in endowment funds	<u>280,806</u>	<u>-</u>	<u>280,806</u>
Total endowment funds	<u>\$ 7,270,808</u>	<u>\$ 891,765</u>	<u>\$ 8,162,573</u>

Investments with a fair value of \$933,541 as of June 30, 2019, are donor restricted to be used for subsequent years' activities. Investments with a fair value of \$5,445,737 as of June 30, 2019, are donor restricted for endowment.

5) PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 are summarized as follows:

Furniture and fixtures	\$ 1,629,840
Equipment	1,993,612
Vehicles	1,177,564
Land	2,317,006
Buildings	28,297,403
Construction in progress	<u>530,508</u>
	35,945,933
Less accumulated depreciation	<u>(17,112,913)</u>
Total property and equipment, net	<u>\$ 18,833,020</u>

Depreciation expense for the year ended June 30, 2019 was \$1,582,918.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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6) NOTES PAYABLE

Notes and mortgages payable as of June 30, 2019 consist of the following:

Note payable to banking institution, secured by real property, due in 119 monthly payments of principal and interest of \$9,879, with interest at 4.40%, maturing in June 2028.	\$ 2,252,501
Note payable to banking institution, secured by real property, due in 120 monthly payments of principal and interest of \$16,745, with interest fixed at 4.22%, maturing in August 2027.	1,966,273
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 SC Housing Authority, secured by real property	255,875
Note payable to banking institution, secured by equipment, due in 36 monthly payments of principal and interest of \$1,638, with interest fixed at 4.27%.	<u>1,632</u>
Total notes and mortgages payable	<u>\$ 6,476,281</u>

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

2020	\$ 230,185
2021	228,553
2022	228,553
2023	228,553
2024	228,553
Thereafter	<u>5,331,884</u>
	<u>\$ 6,476,281</u>

Interest expense totaled \$250,385 for the year ended June 30, 2019.

The Ministries has a \$1,500,000 line of credit with a banking institution. There were borrowings against the line during the year ended June 30, 2019; however, there was no balance due as of June 30, 2019. The line bears interest at the rate of LIBOR +1.73%, with interest payable monthly. The line is secured by real property and matures in January 2020.

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, 2019.

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, 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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6) NOTES PAYABLE, Continued

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 the SCHA for the remaining seven-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, 2019.

7) NET ASSET RESTRICTIONS

Net assets which are donor restricted for endowment, annuities, and capital projects total \$2,894,020 as of June 30, 2019. Of these net assets, \$425,176 is restricted for endowment, \$256,135 is restricted for annuities, and \$2,212,709 is restricted for capital projects. Net assets which are donor restricted for permanent endowment of \$5,445,737 as of June 30, 2019, consist of endowment fund assets that must be held indefinitely. The income earned from these assets may be used for current year operations.

Releases from donor restrictions of \$1,231,936 for the year ended June 30, 2019, represent funds used for capital projects from prior years’ contributions.

8) RETIREMENT PLAN

The Ministries sponsors a defined contribution retirement savings plan (“the 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, 2019, the retirement plan expense for the Ministries totaled \$101,788.

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 Consolidated 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.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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9) FAIR VALUES OF FINANCIAL INSTRUMENTS, Continued

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.

The following table sets forth, by level within the fair value hierarchy, the Ministries investment assets at fair value, at June 30, 2019:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>Fair Value</u>			
Equities	\$ 5,338,713	\$ 5,338,713	\$ -	\$ -
Bonds	1,584,125	1,584,125	-	-
Mutual funds	<u>958,929</u>	<u>958,929</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,881,767</u>	<u>\$ 7,881,767</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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. 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 donor restricted net assets for endowment (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 donor 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 donor 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.
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10) ENDOWMENT FUNDS, Continued

The Ministries' endowment funds consist of the following at June 30, 2019:

Board designated endowment reserves	\$ 1,783,295
Restricted by donors for endowment	5,870,913
Annuity investments held in endowment	<u>508,365</u>
 Total endowment funds	 8,162,573
 Annuity liability	 <u>(252,230)</u>
 Net endowment funds	 <u><u>\$ 7,910,343</u></u>

Changes in endowment assets for the year ended June 30, 2019 are as follows:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning	\$ 2,238,941	\$ 6,536,248	\$ 8,775,189
Investment earnings	119,567	16,985	136,552
Gains on investments	147,627	20,971	168,598
Contributions	180,555	1,000	181,555
Distributed earnings	<u>(903,395)</u>	<u>(195,926)</u>	<u>(1,099,321)</u>
 Endowment net assets, ending	 <u><u>\$ 1,783,295</u></u>	 <u><u>\$ 6,379,278</u></u>	 <u><u>\$ 8,162,573</u></u>

11) OPERATING LEASES

The Ministries is obligated under non-cancelable operating leases for equipment and facilities. Rent expense for these leases amounted to \$425,465 for the year ended June 30, 2019. The annual minimum lease payments are as follows as of June 30:

2019	\$ 510,930
2020	514,330
2021	526,327
2022	427,997
2023	<u>430,985</u>
	 <u><u>\$ 2,410,569</u></u>

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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12) LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Ministries' financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable because certain net assets are donor restricted (see Footnote 7). The Ministries has the following financial assets that could readily be made available within one year of the Consolidated Statement of Financial Position date to fund expenses without limitations:

Financial assets:	
Cash and cash equivalents	\$ 2,501,326
Receivables	405,726
Investments	<u>7,881,767</u>
Financial assets, at year-end	<u>10,788,819</u>
Less those unavailable for general expenditures within one year due to:	
Donor imposed restrictions:	
Restrictions by donor with purpose restrictions	(2,894,020)
Board designated net assets for endowment	<u>(5,445,737)</u>
	<u>(8,339,757)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,449,062</u>

The Ministries has a policy to structure its financial assets to be available as its general expenses, liabilities and other obligations come due. The Ministries monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash.

13) SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Ministries has evaluated events and transactions for potential recognition or disclosure through August 16, 2019, the date the consolidated financial statements were available to be issued. There were no such events requiring recording or disclosure for the year ended June 30, 2019.