

MIRACLE HILL MINISTRIES, INC.

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

(With Independent Auditors' Report Thereon)

MIRACLE HILL MINISTRIES, INC.
Consolidated Financial Statements
June 30, 2021

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Miracle Hill
MINISTRIES

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August 31, 2021

Management Responsibility

We are pleased to submit the annual Financial Report of Miracle Hill Ministries, Inc. for the fiscal year ended June 30, 2021. 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 2021 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,

Ryan Duerk
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.

Report on the Financial Statements

We have audited the accompanying consolidated statement of financial position of Miracle Hill Ministries, Inc. ("the Ministries") and its subsidiary as of June 30, 2021 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, 2021, 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 31, 2021

MIRACLE HILL MINISTRIES, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2021

ASSETS

Cash and cash equivalents	\$ 5,491,103
Receivables	627,967
Inventories	670,644
Prepaid expenses and other assets	139,933
Investments	3,079,673
Assets whose use is limited:	
Donor restricted cash and cash equivalents	383,059
Donor restricted investments	6,286,587
Donor restricted property	72,666
Property held for sale	36,500
Property and equipment, net	<u>18,047,965</u>
Total assets	<u><u>\$ 34,836,097</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 256,290
Annuity liability	225,903
Accrued expenses	624,754
Notes payable	<u>6,780,171</u>
Total liabilities	<u>7,887,118</u>
Net assets:	
Without donor restrictions	20,432,568
With donor restrictions:	
Restricted for endowment	\$ 425,176
Restricted for annuities	260,639
Restricted for capital projects	383,059
Restricted for permanent endowment	<u>5,447,537</u>
	<u>6,516,411</u>
Total net assets	<u>26,948,979</u>
Total liabilities and net assets	<u><u>\$ 34,836,097</u></u>

See accompanying notes to consolidated financial statements.

MIRACLE HILL MINISTRIES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Contributions	\$ 7,355,841	\$ 467,874	\$ 7,823,715
Contractual funding	1,055,270	-	1,055,270
Room and board fees	416,653	-	416,653
Thrift store sales	9,339,922	-	9,339,922
In-kind contributions - thrift stores	8,960,535	-	8,960,535
Miscellaneous income	107,617	-	107,617
Investment income	192,052	21,907	213,959
Realized gain on sale of investments	595,067	69,236	664,303
Unrealized gain on investments	1,061,359	120,745	1,182,104
Net assets released from restrictions	741,607	(741,607)	-
	<u>29,825,923</u>	<u>(61,845)</u>	<u>29,764,078</u>
Employment and landscape services revenues	<u>2,812,386</u>	<u>-</u>	<u>2,812,386</u>
Total revenues and support	<u>32,638,309</u>	<u>(61,845)</u>	<u>32,576,464</u>
Expenses:			
Program services:			
Greenville Rescue Mission	1,027,307	-	1,027,307
Thrift Operations	16,496,996	-	16,496,996
Foster Care Community	328,458	-	328,458
Boys' Shelter	505,658	-	505,658
Homes for Life	71,625	-	71,625
Foster Care	1,339,017	-	1,339,017
Shepherd's Gate	599,771	-	599,771
Renewal	632,042	-	632,042
Overcomers	1,025,382	-	1,025,382
Rescue Mission - Cherokee Co.	416,794	-	416,794
Rescue Mission - Spartanburg	925,905	-	925,905
Food Warehouse	572,176	-	572,176
Total program services	<u>23,941,131</u>	<u>-0-</u>	<u>23,941,131</u>
Supporting services:			
Administrative and general	2,169,009	-	2,169,009
Fundraising	1,363,214	-	1,363,214
Total supporting services	<u>3,532,223</u>	<u>-0-</u>	<u>3,532,223</u>
Employment and landscape services expenses	<u>2,697,526</u>	<u>-</u>	<u>2,697,526</u>
Total expenses	<u>30,170,880</u>	<u>-0-</u>	<u>30,170,880</u>
Changes in net assets before non-recurring item	2,467,429	(61,845)	2,405,584
Non-recurring item: contribution for forgiveness of PPP loan	<u>1,869,300</u>	<u>-</u>	<u>1,869,300</u>
Changes in net assets	4,336,729	(61,845)	4,274,884
Reclassification of net asset balances	<u>918,963</u>	<u>(918,963)</u>	<u>-</u>
Net assets at beginning of year	<u>15,176,876</u>	<u>7,497,219</u>	<u>22,674,095</u>
Net assets at end of year	<u>\$ 20,432,568</u>	<u>\$ 6,516,411</u>	<u>\$ 26,948,979</u>

See accompanying notes to consolidated financial statements.

MIRACLE HILL MINISTRIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021

Cash flows from operating activities:	
Increase in net assets	\$ 4,274,884
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	1,576,101
Noncash inventory contributions, net	245,943
Noncash contribution recorded for forgiveness of PPP loan	(1,869,300)
Unrealized gain on investments	(1,182,104)
Actuarial adjustment of annuity liability	23,798
Contributions restricted for long-term investments and debt reduction	(140,165)
(Increase) decrease in assets:	
Accounts receivable	(131,461)
Prepaid expenses	15,198
Increase (decrease) in liabilities:	
Accounts payable	(401,861)
Accrued expenses	280,920
Net cash provided by operating activities	<u>2,691,953</u>
Cash flows from investing activities:	
Purchases of investments, net	(599,952)
Purchases of property and equipment	<u>(1,181,048)</u>
Net cash used in investing activities	<u>(1,781,000)</u>
Cash flows from financing activities:	
Contributions restricted for long-term investments and debt reduction	140,165
Proceeds from borrowings under notes payable	750,000
Payments on notes payable	(373,436)
Payments on capital lease obligations	(16,868)
Payments on annuities payable	<u>(37,420)</u>
Net cash provided by financing activities	<u>462,441</u>
Net increase in cash and cash equivalents	1,373,394
Cash and cash equivalents at beginning of year	<u>4,500,768</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,874,162</u></u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	<u><u>\$ 170,956</u></u>
Noncash investing and financing activities:	
None	

See accompanying notes to consolidated financial statements.

MIRACLE HILL MINISTRIES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2021

	Program Services												Supporting Services				
	Greenville										Rescue			Administrative		Employment	
	Rescue Mission	Thrift Operations	Foster Care Community	Boys' Shelter	Homes for Life	Foster Care	Shepherd's Gate	Renewal	Over-comers	Rescue Mission Cherokee	Rescue Mission Spartanburg	Food Warehouse	and General	Fund Raising	and Landscape Services	Total	
Client care/assistance	\$ 37,971	\$ 1,436	\$ 5,931	\$ 5,527	\$ 1,201	\$ 22,461	\$ 16,154	\$ 32,911	\$ 23,913	\$ 634	\$ 34,221	\$ 132,509	\$ 19,863	\$ -	\$ -	\$ 334,732	
Compensation	392,734	3,640,201	70,418	235,056	7,860	924,527	327,298	277,242	385,897	216,413	406,182	231,380	847,269	486,478	1,977,913	10,426,868	
Retirement	2,955	44,395	-	2,792	-	24,976	7,581	5,968	9,509	6,576	9,010	4,987	67,483	13,146	-	199,378	
Other employee benefits	46,707	399,629	1,967	23,509	54	127,712	37,264	24,127	55,619	17,871	36,734	28,079	183,107	56,518	118,213	1,157,110	
Payroll taxes	23,342	286,492	10,042	13,161	1,520	62,623	19,174	19,332	21,846	10,887	18,515	16,606	116,884	39,233	177,852	837,509	
Professional fees	259	172,640	5,652	-	-	-	-	1,783	24,237	-	550	1,164	49,219	42,716	164,757	462,977	
Advertising	53	86,554	-	138	5	507	-	181	22	197	72	358	4,705	134,093	7,265	234,150	
Office expenses	66,955	264,323	17,851	30,346	5,233	23,882	22,163	40,946	53,329	20,728	63,186	16,787	139,731	36,420	7,902	809,782	
Information technology	3,072	84,712	44	3,015	-	36,185	2,301	6,689	3,238	2,113	5,943	2,768	101,528	94,587	13,569	359,764	
Occupancy	222,590	1,261,987	117,797	138,670	26,033	21,854	80,217	95,167	190,453	80,853	207,365	43,470	146,070	38,226	9,735	2,680,487	
Travel	20,086	113,290	13,206	9,521	7,159	19,034	5,428	9,059	23,777	11,436	15,136	27,093	25,423	4,037	6,125	309,810	
Interest	-	79,285	-	-	-	-	-	-	-	-	-	-	105,724	-	-	185,009	
Depreciation	194,501	258,571	80,549	36,076	22,359	36,632	71,258	105,408	222,775	43,864	113,841	56,230	236,572	71,632	25,833	1,576,101	
Insurance	6,170	113,819	641	4,183	-	14,327	5,438	5,334	7,537	2,458	5,543	5,961	19,766	8,837	12,739	212,753	
Fundraising	-	635	-	-	-	496	-	-	0	42	-	119	2,147	310,669	-	314,108	
Training	5,736	4,094	27	295	-	-	3,214	1,586	-	1,338	5,901	680	25,817	16,955	807	66,450	
Dues and subscriptions	540	7,899	-	-	-	6,773	389	240	568	455	300	120	17,032	6,452	-	40,768	
Other expenses	3,636	15,511	4,333	3,369	201	17,028	1,892	6,069	2,662	929	3,406	3,865	60,669	3,215	149,011	275,796	
Cost of goods sold	-	9,661,523	-	-	-	-	-	-	-	-	-	-	-	-	25,805	9,687,328	
	\$ 1,027,307	\$ 16,496,996	\$ 328,458	\$ 505,658	\$ 71,625	\$ 1,339,017	\$ 599,771	\$ 632,042	\$ 1,025,382	\$ 416,794	\$ 925,905	\$ 572,176	\$ 2,169,009	\$ 1,363,214	\$ 2,697,526	\$ 30,170,880	

See accompanying notes to consolidated financial statements.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

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.

Foster Care Community – 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 six-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.

Food Warehouse – A program providing food to all those who are hungry. The Food Warehouse provides food for all the Ministries' programs and serves as a community food pantry for those in need.

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 MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

b) Basis of Accounting, Continued

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 performing employment services as a traditional staffing and recruiting firm. MHE also owns Front Office LLC, a limited liability company providing staffing services and Creation Works LLC, a limited liability company providing landscaping services. These service companies seek to provide meaningful, long-term employment opportunities for participants in the Ministries' various programs.

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.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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. The Ministries provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Ministries' estimate is based on historical experience, current economic conditions, a review of the current status of trade accounts receivable, and management's assessment of the collectability of specific customer accounts. It is reasonably possible that the Ministries' estimate of the allowance for doubtful accounts will change. Receivables are presented net of an allowance for doubtful accounts of \$35,159 at June 30, 2021.

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 are 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.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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. Income tax expense of \$59,702 is included in employment and landscape services expenses in the Consolidated Statement of Activities and income taxes payable of \$22,500 is included in the Consolidated Statement of Financial Position.

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, 2021, 60.50% 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 \$63,530 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 \$64,140, which is included in the Consolidated Statement of Activities and the Consolidated Statement of Functional Expenses. For the year ended June 30, 2021, the total cost of food for the various facilities was \$425,506.

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, 2021, advertising expense was \$234,150.

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.

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, 2021, the Ministries had uninsured cash and cash equivalents balances of \$5,197,789.

Included in the Ministries' cash and cash equivalents balance is \$383,059 of cash with donor restrictions to be used for subsequent years' activities. Also, included is \$1,025,000 of cash designated by the Board for operating and workers' compensation reserves.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

3) RECEIVABLES

Receivables consist of the following at June 30, 2021:

State grant funds	\$ 303,885
Trade receivables	74,834
Mortgage receivables	6,839
Employment and landscape services receivables, net	<u>242,409</u>
	<u>\$ 627,967</u>

4) INVESTMENTS

The cost and fair market value of investments at June 30, 2021 are as follows:

	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Fair Value</u>
Equities	\$ 4,390,843	\$ 2,002,046	\$ 6,392,889
Bonds	1,809,852	23,269	1,833,121
Mutual funds	<u>915,228</u>	<u>225,022</u>	<u>1,140,250</u>
Total investments	7,115,923	2,250,337	9,366,260
Cash and cash equivalents included in endowment funds	<u>443,797</u>	<u>-</u>	<u>443,797</u>
Total endowment funds	<u>\$ 7,559,720</u>	<u>\$ 2,250,337</u>	<u>\$ 9,810,057</u>

Investments with a fair value of \$839,050 as of June 30, 2021, are donor restricted to be used for subsequent years' activities. Investments with a fair value of \$5,447,537 as of June 30, 2021, are donor restricted for endowment.

5) PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2021 are summarized as follows:

Furniture and fixtures	\$ 1,629,840
Equipment	2,266,340
Vehicles	1,202,619
Land	2,317,674
Buildings	<u>30,772,421</u>
	38,188,894
Less accumulated depreciation	<u>(20,140,929)</u>
Total property and equipment, net	<u>\$ 18,047,965</u>

Depreciation expense for the year ended June 30, 2021 was \$1,576,101. Property with a net book value of \$72,666 as of June 30, 2021, is donor restricted to be used for subsequent years' activities.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

6) NOTES PAYABLE

Notes and mortgages payable as of June 30, 2021 consist of the following:

Note payable to banking institution, secured by real property, due in 120 monthly payments of principal and interest of \$34,690, with interest at 3.375% (rate reduced from 4.0% in April 2021), maturing in April 2030	\$ 3,774,296
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
Federal Home Loan Bank of Pittsburgh, secured by real property	750,000
Mortgage loan payable to SC Housing Authority, secured by real property	<u>255,875</u>
Total notes and mortgages payable	<u>\$ 6,780,171</u>

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

2022	\$ 277,397
2023	287,039
2024	296,732
2025	307,331
2026	318,014
Thereafter	<u>5,293,658</u>
	<u>\$ 6,780,171</u>

Interest expense totaled \$185,009 for the year ended June 30, 2021.

The Ministries has a \$2,000,000 line of credit with a banking institution. There were borrowings against the line during the year ended June 30, 2021; however, there was no balance due as of June 30, 2021. The line bears interest at the rate of prime less 1.00%, with interest payable monthly. The line is secured by accounts receivable, furniture and equipment, and inventory and matures in October 2021.

In a previous year, 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, 2021.

In a previous year, 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, 2021.

In a previous year, the Ministries assumed a mortgage loan agreement with the South Carolina Housing Authority ("the SCH") 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 SCH for the remaining six-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, 2021.

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

6) NOTES PAYABLE, Continued

During the year ended June 30, 2021, the Ministries entered into an Affordable Housing Program agreement with the Federal Home Loan Bank of Pittsburgh (“the FHLB”) and received \$1,000,000 for its Homes for Life project. 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, 2021.

In a previous year, the Ministries borrowed \$1,869,300 through the Paycheck Protection Program (“PPP”) under the Corona Aid, Relief, and Economic Security Act (“CARES”). The Ministries expended the funds in such a manner that it met the requirements for full forgiveness of the loan, and the loan was forgiven during the year ended June 30, 2021. See Note 13 for further discussion.

During the year ended June 30, 2021, the Ministries fully repaid a note payable to a banking institution for a vehicle loan and a note payable to a company for an equipment purchase.

7) NET ASSET BALANCES AND RESTRICTIONS

Net assets which are donor restricted for endowment, annuities, and capital projects total \$1,068,874 as of June 30, 2021. Of these net assets, \$425,176 is restricted for endowment, \$260,639 is restricted for annuities, and \$383,059 is restricted for capital projects. Net assets which are donor restricted for permanent endowment of \$5,447,537 as of June 30, 2021, 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 \$741,607 for the year ended June 30, 2021, represent funds used for capital projects from prior years’ contributions.

The Board of the Ministries has designated \$1,025,000 of net assets for operating and workers’ compensation reserves.

Based on a careful analysis of its net asset balances, the Ministries has recorded a reclassification between net asset classifications as of June 30, 2021. Net assets without donor restrictions increased and net assets with donor restrictions decreased by \$918,963. The reclassification had no impact on total net assets.

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, 2021, the retirement plan expense for the Ministries totaled \$199,378.

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.

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

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.

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, 2021:

	<u>Total</u>				
	<u>Fair Value</u>		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities	\$ 6,392,889	\$	6,392,889	\$ -	\$ -
Bonds	1,833,121		1,833,121	-	-
Mutual funds	<u>1,140,250</u>		<u>1,140,250</u>	-	-
	<u>\$ 9,366,260</u>	\$	<u>9,366,260</u>	<u>-0-</u>	<u>\$ -0-</u>

MIRACLE HILL MINISTRIES, INC.
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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.

The Ministries' endowment funds consist of the following at June 30, 2021:

Board designated endowment reserves	\$ 3,523,468
Restricted by donors for endowment	5,872,713
Annuity investments held in endowment	<u>413,876</u>
Total endowment funds	9,810,057
Annuity liability	<u>(225,903)</u>
Net endowment funds	<u><u>\$ 9,584,154</u></u>

MIRACLE HILL MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

10) ENDOWMENT FUNDS, Continued

Changes in endowment assets for the year ended June 30, 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning	\$ 1,821,903	\$ 6,292,437	\$ 8,114,340
Investment earnings	188,290	21,907	210,197
Gains on investments	1,632,850	189,981	1,822,831
Contributions	133,641	800	134,441
Distributed earnings	<u>(253,216)</u>	<u>(218,536)</u>	<u>(471,752)</u>
Endowment net assets, ending	<u>\$ 3,523,468</u>	<u>\$ 6,286,589</u>	<u>\$ 9,810,057</u>

11) LEASE OBLIGATIONS

The Ministries is obligated under non-cancelable operating leases for equipment and facilities. Rent expense for these leases amounted to \$510,930 for the year ended June 30, 2021. The annual minimum lease payments are as follows as of June 30:

2021	\$ 514,330
2022	498,237
2023	499,997
2024	430,995
2025	<u>61,200</u>
	<u>\$ 2,004,759</u>

During the year ended June 30, 2021, the Ministries paid off its capital lease for equipment.

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, 2021, 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	\$ 5,874,162
Receivables	627,967
Investments	9,366,260
Financial assets, at year-end	<u>15,868,389</u>
Less those unavailable for general expenditures within one year due to:	
Donor imposed restrictions:	
Restrictions by donor with purpose restrictions	(1,068,874)
Board designated net assets for endowment	<u>(5,447,537)</u>
	<u>(6,516,411)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,351,978</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) OTHER

In December 2019, an outbreak of novel coronavirus ("COVID-19") originated in China and spread to other countries, including the U.S. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. declared a state of emergency, and limited most aspects of business, education, travel, and personal physical interactions. Beginning in March 2020, the Ministries was forced to close its thrift stores for several weeks and move many of its employees in its various programs and administrative functions to remote work. Management of the Ministries carefully monitored this situation and budgeted so as to enable the Ministries to maintain its financial stability.

In response to the pandemic, Congress passed the Corona Aid, Relief, and Economic Security Act ("CARES"), which introduced additional aid to effected organizations through the Paycheck Protection Program ("PPP"). This program allowed eligible entities to borrow up to 2.5 times the average monthly eligible payroll costs for the previous year, to be used solely for specified purposes, which include payroll expenses, rent, interest payments, and utilities. To the extent the borrower met certain requirements, the loan may be forgiven.

The Ministries determined its eligibility for PPP and borrowed \$1,869,300 under this program in May 2020. The Ministries accounted for the loan as a financial liability in accordance with FASB ASC 470 *Debt*. Based on this accounting guidance, the proceeds from the loan would remain recorded as a liability until either 1) the loan is, in part or wholly, forgiven and the Ministries has been legally released or 2) the Ministries paid off the loan.

During the year ended June 30, 2021, the Ministries met the conditions for full forgiveness of the PPP loan, applied for, and was granted such forgiveness. This forgiveness is included as a non-recurring item – contribution for forgiveness of PPP loan of \$1,869,300 in the Consolidated Statement of Activities.

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13) OTHER, Continued

With the substantial improvements in experience with Covid-19 regionally and nationally, the Ministries has been operating normally in the summer of 2021. However, there remains some uncertainty. Future significant impacts could include continued possible adjustments to the Ministries' operations and could include disruptions or restrictions on employees' ability to work. Changes in the operating environment may also increase operating costs. Management of the Ministries is carefully monitoring this situation and has budgeted so as to enable the Ministries to maintain its financial stability.

14) REVENUE RECOGNITION

The Ministries adopted the provisions of the *Revenue from Contracts with Customers* topic of FASB ASC. This guidance replaces most existing revenue recognition in U. S. GAAP and requires expanded disclosure relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by applying five steps listed in the guidance.

The adoption of this ASC did not have a significant impact on the Ministries' financial statements. Based on the Ministries' evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

As part of the adoption of the ASC, the Ministries elected to use the following transition practical expedients: (i) completed contracts that begin and end in the same annual reporting period have not been restated; (ii) the Ministries used the known transaction price for completed contracts; (iii) to exclude disclosures of transaction prices allocated to remaining performance obligations when the Ministries expects to recognize such revenue for all periods prior to the date of initial application of the ASC, and (iv) the Ministries has reflected the aggregate of all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price.

The Ministries' revenue is recognized based on the terms of the respective contracts. Revenue recognized over time primarily consists of performance obligations that are satisfied within one year or less. In addition, the Ministries's revenue streams do not contain variable consideration and contract modifications are generally minimal. For these reasons, there is not a significant impact as a result of electing these transition practical expedients.

The Ministries reports revenues under contracts with customers based on the following categories: contractual funding and room and board fees. The Ministries has determined that these categories can be used to meet the objective of the disaggregation disclosure requirements, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The following table disaggregates the Ministries's revenue based on type and on the timing of satisfaction of performance obligations for the year ended June 30, 2021:

	<u>Contractual Funding</u>	<u>Room and Board Fees</u>
Performance obligations satisfied at a point in time	\$ 1,055,270	\$ 416,653
Performance obligations satisfied over time	<u>-</u>	<u>-</u>
Total	<u>\$ 1,055,270</u>	<u>\$ 416,653</u>

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14) REVENUE RECOGNITION, Continued

Contract assets would include unbilled amounts resulting from sales under contracts when the percentage-of-completion cost-to-cost method of revenue recognition is utilized, and revenue recognized exceeds the amount billed to the customer. Contract liabilities would include billings in excess of revenue recognized. Contract assets and contract liabilities were \$-0- for the year ended June 30, 2021. Amounts receivable totaled \$303,885 as of June 30, 2021.

15) SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Ministries has evaluated events and transactions for potential recognition or disclosure through August 31, 2021, the date the consolidated financial statements were available to be issued. There were no such events requiring recording for the year ended June 30, 2021.