

MIRACLE HILL MINISTRIES, INC.

FINANCIAL STATEMENTS

June 30, 2011

(With Independent Auditors' Report Thereon)

MIRACLE HILL MINISTRIES, INC.
June 30, 2011

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Miracle Hill
MINISTRIES

*Providing shelter,
food and hope
since 1937.*

August 19, 2011

Management Responsibility

We are pleased to submit the annual Financial Report of Miracle Hill Ministries, Inc. for the fiscal year ended June 30, 2011. 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 2011 is included.

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

Respectfully submitted,

Reid Lehman
President/CEO

Wayne Copeland
Chief Financial Officer

Marilyn Folio
Controller

MARTIN SMITH & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, PA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Miracle Hill Ministries, Inc.

We have audited the accompanying statement of financial position of Miracle Hill Ministries, Inc., as of June 30, 2011, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Ministry's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Miracle Hill Ministries, Inc., as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

August 19, 2011

Martin Smith & Company CPAs PA

MIRACLE HILL MINISTRIES, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2011

ASSETS

Cash and cash equivalents	\$	161,827
Receivables		229,069
Prepaid expenses		31,733
Investments		465,093
Assets whose use is limited:		
Temporarily restricted cash and cash equivalents		551,324
Temporarily restricted investments		1,267,567
Permanently restricted investments		3,953,732
Property held for sale		236,300
Property and equipment, net		<u>14,149,370</u>
 Total assets	 \$	 <u><u>21,046,015</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$	147,658
Annuity liability		686,970
Accrued expenses		210,636
Notes payable		<u>2,065,369</u>
Total liabilities		<u><u>3,110,633</u></u>
 Net assets		
Unrestricted		12,849,730
Temporarily restricted:		
Restricted for endowment		425,177
Restricted for annuities		393,485
Restricted for capital projects		<u>313,259</u>
		1,131,921
Permanently restricted for endowment		<u>3,953,732</u>
Total net assets		<u><u>17,935,383</u></u>
 Total liabilities and net assets	 \$	 <u><u>21,046,015</u></u>

See accompanying notes to financial statements.

MIRACLE HILL MINISTRIES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support:				
Contributions and bequests	\$ 3,660,775	\$ 1,553,720	\$ 215,605	\$ 5,430,100
Contractual funding	1,385,525	-	-	1,385,525
Room and board fees	236,383	-	-	236,383
Industrial sales	3,658,552	-	-	3,658,552
Miscellaneous income	1,607	-	-	1,607
Investment income	136,136	-	-	136,136
Realized gain on sale of investments	238,702	-	-	238,702
Unrealized gain on investments	664,959	-	-	664,959
Gain on sale of assets	166,621	-	-	166,621
Change in value of annuities	(73,916)	-	-	(73,916)
Net assets released from restrictions	1,711,151	(1,711,151)	-	-
Total revenue and support	<u>11,786,497</u>	<u>(157,431)</u>	<u>215,605</u>	<u>11,844,670</u>
Expenses:				
Program services:				
Greenville Rescue Mission/Overcomers	588,280	-	-	588,280
Emergency Relief	178,377	-	-	178,377
Thrift Operations	3,043,987	-	-	3,043,987
Children's Home	1,263,814	-	-	1,263,814
Boys' Shelter	583,058	-	-	583,058
Foster Care	164,716	-	-	164,716
Shepherd's Gate	413,779	-	-	413,779
Renewal	446,174	-	-	446,174
Overcomers	421,965	-	-	421,965
Rescue Mission - Cherokee Co.	311,327	-	-	311,327
Rescue Mission - Spartanburg	583,449	-	-	583,449
Total program services	<u>7,998,926</u>	<u>-0-</u>	<u>-0-</u>	<u>7,998,926</u>
Supporting services:				
General and administrative	1,108,816	-	-	1,108,816
Fundraising	1,133,430	-	-	1,133,430
Total supporting services	<u>2,242,246</u>	<u>-0-</u>	<u>-0-</u>	<u>2,242,246</u>
Total expenses	<u>10,241,172</u>	<u>-0-</u>	<u>-0-</u>	<u>10,241,172</u>
Changes in net assets	1,545,325	(157,431)	215,605	1,603,499
Net assets at beginning of year	<u>11,304,405</u>	<u>1,289,352</u>	<u>3,738,127</u>	<u>16,331,884</u>
Net assets at end of year	<u>\$ 12,849,730</u>	<u>\$ 1,131,921</u>	<u>\$ 3,953,732</u>	<u>\$ 17,935,383</u>

See accompanying notes to financial statements.

MIRACLE HILL MINISTRIES, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011

Cash flows from operating activities:	\$ 1,603,499
Increase in net assets	
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	856,181
Unrealized gain on investments	(664,959)
Gain on sale of assets	(166,621)
Actuarial adjustment of annuity liability, net	(6,931)
Contributions restricted for long-term investments and debt reduction	(994,491)
(Increase) decrease in assets:	
Accounts receivable	(92,526)
Prepaid expenses	(31,733)
Increase (decrease) in liabilities:	
Accounts payable	121,924
Accrued expenses	55,345
Net cash provided by operating activities	<u>679,688</u>
 Cash flows from investing activities:	
Purchases of investments, net	(295,157)
Proceeds from sale of assets	207,491
Purchases of property and equipment	(1,316,362)
Purchases of property held for sale	(9,000)
Net cash used in investing activities	<u>(1,413,028)</u>
 Cash flows from financing activities:	
Contributions restricted for long-term investments and debt reduction	994,491
Borrowings under line of credit, net	94,000
Borrowings under mortgage loan	674,272
Payments on long-term debt	(1,083,849)
Net cash provided by financing activities	<u>678,914</u>
 Net decrease in cash and cash equivalents	(54,426)
 Cash and cash equivalents at beginning of year	<u>767,577</u>
 Cash and cash equivalents at end of year	<u>\$ 713,151</u>
 Supplemental disclosure of cash flow information:	
Cash paid during the year for interest, net of \$14,394 of capitalized interest	<u>\$ 82,433</u>
 Noncash investing and financing activities:	
None.	

See accompanying notes to financial statements.

MIRACLE HILL MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011

	Greenville												
	Rescue Mission	Emergency Relief	Thrift Operations	Children's Home	Boys Shelter	Foster Care	Shepherd's Gate	Renewal Overcomers	Cherokee Mission	Rescue Mission Spartanburg	Administrative and General	Fund raising	Total
Client care/assistance	\$ 29,936	\$ 46,979	\$ 18,013	\$ 65,815	\$ 26,419	\$ 7,820	\$ 5,992	\$ 18,653	\$ 7,753	\$ 14,984	\$ -	\$ -	\$ 272,316
Compensation	202,729	74,272	1,593,553	700,301	362,303	108,733	235,096	170,880	130,274	210,397	472,504	374,310	4,850,397
Retirement	2,740	1,241	14,912	7,806	2,013	1,681	1,353	1,801	3,460	3,024	27,440	4,400	74,245
Other employee benefits	15,920	10,513	232,709	116,310	40,422	15,617	23,011	14,651	13,100	24,555	79,681	28,728	642,521
Payroll taxes	7,552	4,798	111,116	56,012	24,840	7,215	15,765	10,491	4,450	9,377	45,172	32,463	343,078
Professional fees	-	-	144,905	2,343	1,072	28	-	1,126	495	-	58,605	46,587	258,658
Advertising	95	-	6,412	2,266	864	508	62	315	343	143	10,635	91,609	113,712
Office expenses	27,442	3,207	151,001	33,040	8,755	1,232	9,190	19,961	13,314	22,658	47,883	160,497	511,836
Information technology	11,952	2,183	16,456	14,313	5,435	1,572	8,161	6,840	5,902	9,061	77,134	10,691	173,383
Occupancy	129,708	17,909	402,338	101,449	43,248	6,553	60,747	42,308	54,926	118,780	34,028	408	1,051,167
Travel	20,985	9,369	79,963	45,197	13,683	6,219	6,118	6,845	13,304	12,580	28,497	10,294	267,190
Interest	-	-	13,576	28	-	-	-	38,535	-	9	55,190	-	113,600
Depreciation	131,202	6,036	108,945	90,658	38,058	-	40,808	105,585	55,503	148,153	81,905	1,270	856,181
Insurance	2,130	835	30,055	11,787	5,479	2,124	3,150	2,500	4,634	1,855	5,327	3,850	75,686
Fundraising	-	-	1,919	21	-	-	-	-	134	-	1,488	355,732	359,294
Training	2,588	99	4,788	11,455	8,776	-	2,246	1,923	1,967	3,734	21,551	10,520	69,647
Dues and subscriptions	522	450	-	1,811	1,053	520	804	673	610	667	9,783	1,547	19,102
Other expenses	2,779	486	11,543	3,202	638	4,894	1,276	3,087	816	3,472	50,748	524	86,131
Industrial supplies	-	-	101,783	-	-	-	-	-	-	-	1,245	-	103,028
	<u>\$ 588,280</u>	<u>\$ 178,377</u>	<u>\$ 3,043,987</u>	<u>\$ 1,263,814</u>	<u>\$ 583,058</u>	<u>\$ 164,716</u>	<u>\$ 413,779</u>	<u>\$ 446,174</u>	<u>\$ 311,327</u>	<u>\$ 583,449</u>	<u>\$ 1,108,816</u>	<u>\$ 1,133,430</u>	<u>\$ 10,241,172</u>

See accompanying notes to financial statements.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Nature of Organization

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

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

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

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

Emergency Relief – A program which distributes food and the gospel to Greenville's hungry.

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

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 which provides shelter and care for boys, ages 11-18, who have been removed from their homes because of abuse, neglect or abandonment.

Foster Care – A program which provides care for children and teens from all over the state 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 – A program for homeless men, women and families in Spartanburg County which provides emergency housing, meals and clothing, personal counseling, gospel services and GED training.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

b) Basis of Accounting

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

c) Financial Statement Presentation

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

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

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

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

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

d) Contributions and Revenue

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

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

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

e) Cash and Cash Equivalents

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

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

f) Receivables

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

g) Investments

Investments are carried at fair market value, using the three-level hierarchy established under the *Fair Value Measurement* topic of the FASB ASC. Investment income or loss (including gains and losses on investments, interest and dividends) is included separately in the Statement of Activities as increases or decreases in unrestricted net assets.

h) Property Held for Sale

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

i) Property and Equipment

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

j) Split-interest Agreement

Donors establish charitable remainder trusts with a financial institution, naming the Ministries as the beneficiary. Under the terms of the split interest agreement, at the time of the donor's death, the trust assets are distributed to the Ministries. Based on donor life expectancy and the use of a 5% discount rate, the present value of future assets expected to be received by the Ministries is included in the Statement of Financial Position.

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 and Materials

A number of individuals have donated a significant amount of time (69,800 hours for the year ended June 30, 2011) to the Ministries' programs; however, no amounts have been reflected for donated services. For the year ended June 30, 2011, various materials have been donated. The value of these materials is considered immaterial and no amounts have been recorded in the financial statements.

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.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

n) Use of Estimates

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

o) Functional Allocation of Expenses

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

p) Statement of Financial Position Presentation

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

2) CASH AND CASH EQUIVALENTS

The Ministries maintains cash balances at several financial institutions located in South Carolina. Accounts at each institution are protected by depository insurance up to \$250,000 by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. At June 30, 2011, the Ministries' uninsured cash balances total \$36,645, none of which was collateralized. Based on the financial position of the institutions, management believes that the Ministries is not exposed to any significant credit risk on cash and cash equivalents.

Included in the Ministries' cash and cash equivalents balance is \$551,324 of temporarily restricted cash to be used for subsequent years' activities.

3) RECEIVABLES

Receivables consist of the following at June 30, 2011:

State grant funds	\$ 212,628
Trade	9,466
Employee advances	6,975
	<u>\$ 229,069</u>

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

4) INVESTMENTS

The cost and fair market value of investments at June 30, 2011 are as follows:

	Cost	Unrealized Gain	Fair Value
Equities	\$ 3,257,025	\$ 696,593	\$ 3,953,618
Bonds	1,302,923	71,913	1,374,836
Mutual funds	318,842	39,096	357,938
Total investments	4,878,790	807,602	5,686,392
Cash and cash equivalents included in endowment funds	286,645	-	286,645
Total endowment funds	\$ 5,165,435	\$ 807,602	\$ 5,973,037

Investments with a fair value of \$1,267,567 as of June 30, 2011, are temporarily restricted to be used for subsequent years' activities. Investments with a fair value of \$3,953,732 as of June 30, 2011, are permanently restricted.

5) PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2011 are summarized as follows:

Furniture and fixtures	\$ 1,261,400
Equipment	1,060,311
Vehicles	910,151
Land	1,666,917
Buildings	16,827,825
Construction in progress	413,927
	22,140,531
Less accumulated depreciation	(7,991,161)
	\$ 14,149,370

Depreciation expense for the year ended June 30, 2011 was \$856,181.

During a previous year, the Ministries purchased certain land and buildings for use in its 6 month Overcomers Recovery program for men. This property underwent extensive renovations to prepare it for its intended use. This project was completed and placed into service during the year ended June 30, 2011, and will allow the Ministries to expand this program from 60 to 80 men and increase the number of emergency beds by 60.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6) NOTES PAYABLE

Notes and mortgages payable as of June 30, 2011 consist of the following:

Note payable to banking institution, secured by land, due in monthly payments of principal and interest of \$5,509, with interest at 5.5% through June 2015, balloon payment of balance due June 2015.	\$ 443,548
Line of credit payable to banking institution, secured by real property, with interest payable monthly at the rate of LIBOR + 2.25%, balance due March 2012, total line availability of \$1,500,000	663,000
Note payable to banking institution, secured by real property, with interest payable monthly at the rate of LIBOR + 2.35%, balance due December 2011	676,154
Note payable to banking institution, secured by real property, due in monthly payments of principal of \$2,667 and interest at LIBOR + 2.50% through March 2015, balloon payment of balance due March 2015	<u>282,667</u>
Total notes and mortgages payable	<u>\$ 2,065,369</u>

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

2012	\$ 1,402,603
2013	65,223
2014	67,098
2015	223,744
2016	<u>306,701</u>
	<u>\$ 2,065,369</u>

Interest expense totaled \$96,827, of which \$14,394 was capitalized, for the year ended June 30, 2011.

7) NET ASSET DESIGNATIONS AND RESTRICTIONS

Temporarily restricted net assets total \$1,131,921 as of June 30, 2011. Of these net assets, \$425,177 is restricted for endowment, \$393,485 is restricted for annuities, and \$313,259 is restricted for capital projects.

Releases from restrictions of \$1,711,151 for the year ended June 30, 2011, represent funds used for debt reduction and capital projects from prior years' contributions.

Permanently restricted net assets of \$3,953,732 as of June 30, 2011, consist of endowment fund assets that must be held indefinitely. The income earned from these assets may be used for current year operations.

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

8) RETIREMENT PLAN

The Ministries sponsors a defined contribution retirement savings plan in compliance with Section 401(k) of the Internal Revenue Code. The Plan covers all employees who work at least twenty hours per week and have been employed for at least one year. Participants may make contributions to the Plan, subject to IRS limitations. The Ministries may make a matching contribution, at its discretion. For the year ended June 30, 2011, the retirement plan expense for the Ministries totaled \$74,245.

9) FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

10) ENDOWMENT FUNDS

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

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

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

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

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

The Ministries' endowment funds consist of the following at June 30, 2011:

Board designated endowment reserves	\$ 751,738
Temporarily restricted by donors for endowment	425,176
Permanently restricted by donors for endowment	3,953,732
Annuity investments held in endowment	<u>842,391</u>
 Total endowment funds	 5,973,037
 Annuity liability	 <u>(686,970)</u>
Net endowment funds	<u>\$ 5,286,067</u>

MIRACLE HILL MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

10) ENDOWMENT FUNDS, Continued

Changes in endowment assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets	\$ 4,966	\$ 1,228,936	\$ 3,738,127	\$ 4,972,029
Investment earnings	136,136	-	-	136,136
Gains (losses) on investments	664,959	238,702	-	903,661
Contributions	-	326,575	215,605	542,180
Distributed earnings	(54,323)	(526,646)	-	(580,969)
	<u>751,738</u>	<u>1,267,567</u>	<u>3,953,732</u>	<u>5,973,037</u>
Endowment net assets	\$ <u>751,738</u>	\$ <u>1,267,567</u>	\$ <u>3,953,732</u>	\$ <u>5,973,037</u>

11) SUBSEQUENT EVENTS

In preparing these financial statements, the Ministries has evaluated events and transactions for potential recognition or disclosure through August 19, 2011, the date the financial statements were available to be issued.