

HEAVEN SOUTH, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

DRAFT

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Equivalents

Cash and equivalents include cash and short-term investments with an initial maturity date of three months or less. Cash and equivalents as of December 31, 2021 and 2020 that were permanently restricted by donors for endowment purposes totaled \$60,529 and \$60,498, respectively. Since these funds are not available for current operations, they are included in the non-current asset, assets restricted for endowment, in the statement of financial position.

Inventories

Food inventories include donated and purchased food. Donated food received from food companies, grocery stores and food drives are valued at the estimated fair value of the items donated at the date of the gift. Purchased inventory is reported at average cost which approximates the lower of cost or net realizable value. The donated and purchased items are recognized as program service expenses when distributed.

Investments

Investments consist of equity funds including mutual funds. Investments in marketable securities with readily determinable fair values and all investments in equity securities are reported at their fair values as of the last business day of the reporting period in the statements of financial position.

The Organization classifies its investments at fair value based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority and are based on significant unobservable inputs.

The Organization uses appropriate valuation techniques based on available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs would be used only when Level 1 or Level 2 inputs were not available.

Interest and dividends, as well as realized and unrealized gains and losses, on investments without donor restrictions are recognized currently and are included in the change in net assets without donor restrictions in the statements of activities. Interest, dividends and realized and unrealized gains and losses on investments with donor restrictions are recognized currently and are included in the change in net assets with donor restrictions in the statement of activities.

Other Receivables

Other receivables consist of donations made through the Organization's online platform that have not been processed by and received from the merchant vendor, amounts earned but not yet received from a granting agency under a reimbursable grant, and dividends declared and issued but not received on investments. The merchant vendor typically releases the donations to the Organization within one week of the donation date. The other receivables are stated at the amount management expects to collect from balances outstanding at year-end. The Organization has estimated the allowance for doubtful accounts to be \$-0- as of both December 31, 2021 and 2020.

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NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, Net

The Organization capitalizes all property and equipment expenditures with a cost of \$500 or more and having an estimated useful life of more than one year. Property and equipment are recorded at cost or, for donated items, at fair value as of the date received. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense when incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statement of activities for the respective period.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, based on the Organization's depreciation policy, as follows:

Building and improvements	39 years
Equipment	5 – 7 years
Computers and Software	5 years
Vehicles	5 years
Website	3 years

Contributions of long-lived assets or contributions restricted for acquisition of long-lived assets are reported as increases in net assets without donor restrictions unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as net assets with donor restrictions. When restrictions are considered met, an appropriate amount is reclassified to net assets without donor restrictions. The expiration of donor restrictions is recognized when the donated or acquired long-lived assets are placed in service.

For the years ended December 31, 2021 and 2020, the Organization received the contribution of in-kind equipment donations for use in operating The Store with an estimated fair value of \$-0- and \$5,000, respectively.

Revenue and Support

ASU No. 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made requires three classifications of contributions received: conditional, unconditional with donor restrictions, or unconditional without donor restrictions.

Conditional contributions, including conditional promises to give, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Unconditional contributions, including unconditional promises to give, are recognized as revenue in the period received. A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

Grants awarded by various agencies are generally considered nonreciprocal transactions restricted by sponsors for certain purposes. Grant revenue is recognized when the conditions upon which it depends are substantially met, which primarily is when qualifying expenses occur. Payments received in advance of conditions being met are recorded as deferred revenue on the statements of financial position.

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NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Support (continued)

A summary of these classifications as they relate to grants and contributions received for the years ending December 31, 2021 and 2020 is as follows:

	2021	2020
Conditional	\$ 100,000	\$ -
Unconditional with donor restrictions	\$ 55,000	\$ 50,000
Unconditional without donor restrictions	\$ 1,177,838	\$ 1,703,858

The conditional contributions reflected in the deferred revenue on the statements of financial position as of both December 31, 2021 and 2020 totaled \$-0- as all conditions were met.

Restricted contributions whose restrictions are met or accrued in the period the contributions are received are reported as contributions without donor restrictions. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions of assets and specialized services are recorded at their estimated fair value. Donated services are recognized if the services create or enhance non-financial assets or require specialized skills, are performed by people with those skills, and would have otherwise been purchased by the Organization. Contributions of professional accounting and bookkeeping services used in conjunction with general operations of the Organization and recognized as income and expense for the years ended December 31, 2021 and 2020 totaled \$-0- and \$30,000, respectively.

The Organization holds fundraising events where tickets to an event are sold at a predetermined price and attendees receive certain benefits at the event including items such as meals, drinks and entertainment. Attendees make payment for the ticket either before or at the time of the event. A portion of the ticket sales will generally be considered a contribution while the portion that is considered payment for tangible benefits received by the attendee are considered an exchange transaction (a contract with a customer) under *Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers* ("ASU 2014-09"). The Organization meets its performance obligations, and therefore recognizes revenue, related to these benefits at the point in time when the event occurs. The contracts with customers related to the fundraising events do not have a significant financing component, and there were no uncompleted contracts with customers as of both December 31, 2021 and 2020 that would result in a contract asset or liability. The Organization does not have any other revenue streams that are considered exchange transactions under ASU 2014-09. The Organization had no revenue streams during the years ended December 31, 2021 and 2020 that were from contracts with customers resulting in no receivables from contracts with customers as of both December 31, 2021 and 2020.

Functional Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services, management and general and fundraising functional categories. Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and non-financial data or reasonable subjective methods determined by management. Some expenses are allocated based on time and effort of the people working in the program.

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NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses (continued)

Program expenses were mainly related to the operation of The Store as a free grocery store to its referred clients in need of food security. Management and general expenses relate to the overall direction of the Organization and are not identifiable with a particular program or with fundraising but are indispensable to the conduct of those activities and are essential to the Organization including management, recordkeeping, budgeting, finance and other administrative activities. Fundraising expenses included costs of activities directed toward appeals for financial support, including special events.

Income Taxes

The Organization is a not-for-profit organization that is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) whereby only unrelated business income, as defined in Section 512(a)(1) of the Code, is subject to federal income tax. With few exceptions, the Organization is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2018, and to state tax authorities for years before 2016.

The Organization has evaluated its tax positions for all open tax years. Based on this evaluation, management believes all tax positions taken would be upheld under an examination; therefore, no provision for the effects of uncertain positions has been recorded for the years ended December 31, 2021 and 2020.

Advertising Costs

The Organization expenses the cost of non-direct responsive advertising as incurred. For the years ended December 31, 2021 and 2020, advertising costs totaled \$3,196 and \$5,635, respectively.

NOTE B – OTHER RECEIVABLES

Other receivables consist of the following as of December 31, 2021 and 2020:

	2021	2020
Contributions held by third party merchant vendor	\$ 55,545	\$ 58,609
Reimbursements due from granting agency	47,894	7,130
Dividends receivable for investments	790	-
Total other receivables	<u>\$ 104,229</u>	<u>\$ 65,739</u>

NOTE C – INVESTMENTS

Investments are stated at fair value and are summarized as follows as of December 31, 2021 and 2020:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Equity securities - Investments	\$ 1,503,342	\$ 1,596,733	\$ 922,293	\$ 951,260
Equity securities - Assets restricted for donor endowment	<u>1,350,775</u>	<u>1,586,126</u>	<u>1,219,965</u>	<u>1,358,718</u>
Total investments	<u>\$ 2,854,117</u>	<u>\$ 3,182,859</u>	<u>\$ 2,142,258</u>	<u>\$ 2,309,978</u>

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NOTE C – INVESTMENTS (CONTINUED)

Investment income from interest and dividends net of expenses for the years ended December 31, 2021 and 2020 totaled \$163,642 and \$41,942, respectively. Unrealized gains included in investments and assets restricted for donor endowment totaled \$328,743 and \$167,720 as of December 31, 2021 and 2020, respectively. During the years ended December 31, 2021 and 2020, the change in unrealized gain on investments totaled \$161,023 and \$167,720, respectively.

The equity securities are shown in the statements of financial position as investments and the endowment is shown as the non-current asset, assets restricted for donor endowment.

All investments are measured under Level 1 of the fair value hierarchy as of December 31, 2021 and 2020.

NOTE D – ASSETS RESTRICTED FOR DONOR ENDOWMENT

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. During both of the years ended December 31, 2021 and 2020, the Organization received donor gifts restricted for endowment purposes totaling \$50,000. The assets restricted for donor endowment as of December 31, 2021 and 2020 consist of the following:

	2021	2020
Cash	\$ 60,529	\$ 60,498
Dividends receivable	993	-
Equity securities - mutual funds	1,525,597	1,298,220
Total assets held for donor endowment	<u>\$ 1,587,119</u>	<u>\$ 1,358,718</u>

All of the endowment net assets are considered donor restricted. The changes in endowment net assets are as follows for the years ended December 31, 2021 and 2020.

	2021	2020
Balance, beginning of year	\$ 1,358,718	\$ 1,200,000
Contributions	50,000	50,000
Investment income, net	81,803	32,410
Unrealized gains related to investments still held at the reporting date	96,598	138,753
Amounts appropriated for expenditure	-	(62,445)
Balance, end of year	<u>\$ 1,587,119</u>	<u>\$ 1,358,718</u>

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NOTE D – ASSETS RESTRICTED FOR DONOR ENDOWMENT (CONTINUED)

Return objectives and risk parameters of the endowment

The Organization adopted an investment policy to establish objectives and guidelines that assist the Board of Directors and the Finance Committee in supervising, monitoring, and evaluating The Store Investment Fund (the “Fund”). The primary long-term objective of the Fund is to increase the real value of the portfolio, maintain purchasing power and exceed The Organization’s funding requirements plus long-term inflation (as indicated by the Consumer Price Index) plus management and administrative costs. The short to medium term objective is to increase the real value of the Fund while allowing for the appropriate distributions consistent with the spending policies of the Organization. The Organization has set a targeted annual percentage draw from endowment funds that is intended to allow them to grow in value, while also supporting the Organization’s general purposes and objectives of the Organization.

Strategies employed for achieving objectives

The Board of Directors prefers a moderate total return approach to investment and portfolio management to mitigate cyclicity and to provide investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization has set a targeted asset mix to meet the long-term objectives that includes cash, fixed income and equity securities.

Spending practice and how the investment objectives relate to spending practice

The Organization’s endowment policy sets a draw from endowment funds appropriate for distribution in subsequent fiscal years as needed by the Organization to meet its needs in order to prudently preserve capital in a difficult economic environment. The Organization has set a targeted annual distribution from the fund of 5% of the portfolio value as of December 31 of the prior year. The distributions that were made during the years ended December 31, 2021 and 2020 totaled \$-0- and \$62,445, respectively.

Interpretation of relevant law in relation to the agency endowment

The Organization has interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) as requiring the preservation of the fair value of the original donations. As a result of this interpretation, the Organization classifies as net assets with donor restrictions at (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 donor gift instrument at the time the accumulation is added to the fund.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization 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) The investment policies of the Organization

The contribution and distribution activity in the endowment during the years ended December 31, 2021 and 2020 and the balance as of December 31, 2021 and 2020 are as follows:

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NOTE D – ASSETS RESTRICTED FOR DONOR ENDOWMENT (CONTINUED)

Balance as of December 31, 2019	\$ 1,200,000
Contributions	50,000
Distributions	<u>(62,445)</u>
Balance as of December 31, 2020	1,187,555
Contributions	50,000
Distributions	<u>-</u>
Balance as of December 31, 2021	<u>\$ 1,237,555</u>

NOTE E – PROPERTY AND EQUIPMENT, NET

Property and equipment, net, is composed of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Computers and software	\$ 16,275	\$ 16,275
Website	1,000	1,000
Building and improvements	1,665,376	1,644,251
Vehicles	21,308	21,308
Equipment	<u>16,571</u>	<u>16,571</u>
Totals	1,720,530	1,699,405
Less: Accumulated depreciation and amortization	<u>(93,832)</u>	<u>(40,996)</u>
Total property and equipment, net	<u>\$ 1,626,698</u>	<u>\$ 1,658,409</u>

For the years ended December 31, 2021 and 2020, depreciation and amortization expenses totaled \$52,836 and \$40,669, respectively.

NOTE F – ACCRUED EXPENSES

Accrued expenses are composed of \$199 and \$146 in payroll related withholdings as of December 31, 2021 and 2020, respectively.

NOTE G – OPERATING LEASE

The Organization leases land from Belmont University, which is where The Store is located. The lease, which expires February 2044, requires annual payments of \$1.

NOTE H – NET ASSETS WITH DONOR RESTRICTIONS

Net assets that were permanently restricted by donors for endowment purposes totaled \$1,587,119 and \$1,358,718 as of December 31, 2021 and 2020, respectively.

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NOTE I – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization is supported in part by restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, some financial assets may not be available for general expenditure within one year.

The following reflects the Organization’s financial assets as of December 31, 2021 and 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the statement of financial position:

	2021	2020
Financial assets as of year-end:		
Cash and equivalents	\$ 329,130	\$ 264,094
Other receivables	104,229	65,739
Investments	1,596,733	951,260
Assets restricted for donor endowment	1,587,119	1,358,718
Deposits	-	240
Total financial assets as of year-end	3,617,211	2,640,051
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Net assets with donor imposed restrictions	(1,587,119)	(1,358,718)
Total financial assets available for general expenditures within one year	<u>\$ 2,030,092</u>	<u>\$ 1,281,333</u>

NOTE J - CONCENTRATION OF RISK

At times throughout the year, the Organization may maintain cash balances in their cash and equivalents accounts that are in excess of the Federal Deposit Insurance Corporation (“FDIC”) limit which is \$250,000 for substantially all depository accounts. As of December 31, 2021 and 2020, the Organization had \$79,330 and \$177,946, respectively, in savings deposits that were in excess of the FDIC limit.

There is a concentration in the donor base of the Organization, as approximately 26% and 20% of total revenue and support received from business and individual contributors in the years ended December 31, 2021 and 2020, respectively, was from the top five donors. An additional 27% and 16% was received from the top two grants during the years ended December 31, 2021 and 2020, respectively.

There is a concentration in the supply source for the Organization’s programs as one supplier provided 32% and 49% of the food purchases for distribution in the years ended December 31, 2021 and 2020, respectively.

NOTE K – CASH FLOW INFORMATION

During the years ended December 31, 2021 and 2020, there were no cash payments of interest or income taxes.

During the years ended December 31, 2021 and 2020, non-cash investing activities excluded from the statements of cash flows include in-kind donations of property and equipment totaling \$-0- and \$5,000, respectively.

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NOTE K – CASH FLOW INFORMATION (CONTINUED)

Reconciliations of cash and equivalents and restricted cash reported within the statements of financial position to the total of the same amounts shown in the statements of cash flows are as follows as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and equivalents	\$ 329,130	\$ 264,094
Cash included in investments	106,738	350,732
Cash restricted for donor endowment	<u>60,529</u>	<u>60,499</u>
Total cash and equivalents, cash included in investments and cash restricted for donor endowment	<u>\$ 496,397</u>	<u>\$ 675,325</u>

NOTE L - SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 15, 2022, which is the date the financial statements were available to be issued.

Management is currently evaluating the impact of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the Organization's financial position, results of its operations and cash flows, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

There have been no adjustments to the financial statements to include any subsequent transactions or events.