

OPEN ARMS OF MINNESOTA
AUDITED FINANCIAL STATEMENTS
June 30, 2020 and 2019

Mark D. Harrington, CPA
Wayne A. Langer, CPA
Nichole Fairbanks, CPA
Jesse Fraley, CPA
Anna Anderson, CPA



Gregory W. Heck, CPA, CVA
Greg L. Emmerich, CPA
Michael Belknap, CPA
Benjamin J. Roff, CPA, CVA

563 PHALEN BOULEVARD • ST. PAUL, MN 55130
phone 651.481.1128 • fax 651.481.0982

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management
Open Arms of Minnesota
Minneapolis, Minnesota

We have audited the accompanying financial statements of Open Arms of Minnesota (a non-profit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, cash flows, and functional expenses for the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Open Arms of Minnesota as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Harrington Langer & Associates

December 14, 2020

OPEN ARMS OF MINNESOTA
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,443,651	\$ 213,102
Accounts receivable	110,826	212,280
Contributions receivable	604,694	80,000
Inventory	191,260	184,239
Prepaid expenses	16,651	6,507
TOTAL CURRENT ASSETS	2,367,082	696,128
PROPERTY AND EQUIPMENT, net	4,686,906	4,820,722
OTHER ASSETS		
Beneficial interest in charitable remainder trust	111,494	110,387
Contributions receivable, net of current portion and discount	132,005	19,121
TOTAL OTHER ASSETS	243,499	129,508
TOTAL ASSETS	\$ 7,297,487	\$ 5,646,358
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 187,038	\$ 146,434
Notes payable, current portion	40,831	645,473
Accrued expenses	218,227	129,818
Line of credit	150,000	150,000
Deferred revenue	-	26,259
TOTAL CURRENT LIABILITIES	596,096	1,097,984
LONG-TERM LIABILITIES		
Notes payable, net of current portion	481,319	-
TOTAL LIABILITIES	1,077,415	1,097,984
NET ASSETS		
Without donor restrictions	4,818,283	4,289,868
With donor restrictions	1,401,789	258,506
TOTAL NET ASSETS	6,220,072	4,548,374
TOTAL LIABILITIES AND NET ASSETS	\$ 7,297,487	\$ 5,646,358

OPEN ARMS OF MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020
(With Comparative Totals for the Six Months ended June 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Six Months Total 2019
REVENUE AND SUPPORT				
Contributions	\$ 1,795,863	\$ 282,068	\$ 2,077,931	\$ 624,250
Capital campaign contributions	274,305	1,008,228	1,282,533	90,450
Government grants	1,523,508	-	1,523,508	412,017
Special events, net of direct costs of \$70,758 and \$145,608, respectively	187,904	-	187,904	334,486
In-kind donations	95,022	-	95,022	5,744
Earned income	96,669	-	96,669	51,680
Service contracts	1,617,595	-	1,617,595	716,119
Miscellaneous	2,923	-	2,923	894
Change in value of beneficial interest in charitable remainder trust	-	1,108	1,108	2,182
Net assets released from restrictions	148,121	(148,121)	-	-
TOTAL REVENUE AND SUPPORT	5,741,910	1,143,283	6,885,193	2,237,822
EXPENSES				
Program services	4,337,856	-	4,337,856	1,936,611
Management and general	232,427	-	232,427	101,422
Fundraising	643,212	-	643,212	243,517
TOTAL EXPENSES	5,213,495	-	5,213,495	2,281,550
CHANGE IN NET ASSETS	528,415	1,143,283	1,671,698	(43,728)
NET ASSETS, BEGINNING OF YEAR	4,289,868	258,506	4,548,374	4,592,102
NET ASSETS, END OF YEAR	\$ 4,818,283	\$ 1,401,789	\$ 6,220,072	\$ 4,548,374

OPEN ARMS OF MINNESOTA
STATEMENT OF ACTIVITIES
For the Six Months Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Six Months Total
REVENUE AND SUPPORT			
Contributions	\$ 516,131	\$ 108,119	\$ 624,250
Capital campaign contributions	70,450	20,000	90,450
Government grants	412,017	-	412,017
Special events, net of direct costs of \$145,608	334,486	-	334,486
In-kind donations	5,744	-	5,744
Earned income	51,680	-	51,680
Service contracts	716,119	-	716,119
Miscellaneous	894	-	894
Change in value of beneficial interest in charitable remainder trust	-	2,182	2,182
Net assets released from restrictions	116,000	(116,000)	-
	2,223,521	14,301	2,237,822
EXPENSES			
Program services	1,936,611	-	1,936,611
Management and general	101,422	-	101,422
Fundraising	243,517	-	243,517
	2,281,550	-	2,281,550
CHANGE IN NET ASSETS	(58,029)	14,301	(43,728)
NET ASSETS, BEGINNING OF YEAR	4,347,897	244,205	4,592,102
NET ASSETS, END OF YEAR	\$ 4,289,868	\$ 258,506	\$ 4,548,374

OPEN ARMS OF MINNESOTA
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2020 and
for the Six Months ended June 30, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,671,698	\$ (43,728)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	196,504	97,168
Discount to present value	17,996	5,879
Change in value of beneficial interest in charitable remainder trust	(1,108)	(2,182)
(Increase) Decrease in:		
Accounts receivable	(11,430)	(103,929)
Contributions receivable	(542,690)	(19,776)
Inventory	(7,021)	(8,625)
Prepaid expenses	(10,144)	676
(Decrease) Increase in:		
Accounts payable	40,604	(23,425)
Accrued expenses	88,409	7,180
Deferred revenue	(26,259)	(23,891)
	1,416,559	(114,653)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(61,104)	(18,748)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	75,000
Principal payments on notes payable	(124,906)	(30,608)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(124,906)	44,392
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,230,549	(89,009)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	213,102	302,111
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,443,651	\$ 213,102
SUPPLEMENTAL CASH FLOWS DISCLOSURES		
Interest paid	\$ 38,643	\$ 21,891
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES		
Notes payable refinanced	\$ 529,244	\$ -

OPEN ARMS OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020
(With Comparative Totals for the Six Months ended June 30, 2019)

	Program Services	Management and General	Fundraising	Total 2020	Six Months Total 2019
Salaries and taxes	\$1,941,003	\$ 149,308	\$ 398,154	\$2,488,465	\$1,076,715
Benefits	251,881	13,993	13,993	279,867	125,047
 Total Personnel Expenses	 2,192,884	 163,301	 412,147	 2,768,332	 1,201,762
Containers and paper costs	222,902	-	-	222,902	96,979
Food and pantry	1,147,364	-	-	1,147,364	519,214
Furniture and equipment, rental and maintenance	147,318	8,184	8,184	163,686	51,131
Insurance	26,852	1,492	1,492	29,836	14,112
Kitchen supplies	78,547	-	-	78,547	34,968
Miscellaneous	6,504	19,512	104,066	130,082	55,553
Occupancy	81,863	5,457	3,638	90,958	59,775
Office expense	112,706	6,261	6,261	125,228	31,728
Open Farms	8,162	-	-	8,162	7,245
Postage	12,832	906	1,359	15,097	9,098
Printing	18,838	1,773	1,551	22,162	22,468
Professional fees	67,475	8,193	88,193	163,861	59,611
Staff mileage and travel	12,398	689	689	13,776	5,365
Telephone and internet	15,958	939	1,877	18,774	8,663
Volunteer expenses	18,224	-	-	18,224	6,710
Depreciation and amortization	167,029	15,720	13,755	196,504	97,168
Special events	-	-	70,758	70,758	145,608
 Total Expenses by Function	 4,337,856	 232,427	 713,970	 5,284,253	 2,427,158
Less expenses included with revenues on the statement of activities					
Special events	-	-	(70,758)	(70,758)	(145,608)
 Total expenses included in the expense section on the statement of activities	 <u>\$4,337,856</u>	 <u>\$ 232,427</u>	 <u>\$ 643,212</u>	 <u>\$5,213,495</u>	 <u>\$2,281,550</u>

OPEN ARMS OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
For the Six Months Ended June 30, 2019

	Program Services	Management and General	Fundraising	Six Months Total
Salaries and taxes	\$ 839,838	\$ 64,603	\$ 172,274	\$ 1,076,715
Benefits	112,543	6,252	6,252	125,047
Total Personnel Expenses	952,381	70,855	178,526	1,201,762
Containers and paper costs	96,979	-	-	96,979
Food and pantry	519,214	-	-	519,214
Furniture and equipment, rental and maintenance	46,017	2,557	2,557	51,131
Insurance	12,700	706	706	14,112
Kitchen supplies	34,968	-	-	34,968
Miscellaneous	2,778	8,333	44,442	55,553
Occupancy	53,797	3,587	2,391	59,775
Office expense	28,556	1,586	1,586	31,728
Open Farms	7,245	-	-	7,245
Postage	7,733	546	819	9,098
Printing	19,098	1,797	1,573	22,468
Professional fees	53,649	2,981	2,981	59,611
Staff mileage and travel	4,829	268	268	5,365
Telephone and internet	7,364	433	866	8,663
Volunteer expenses	6,710	-	-	6,710
Depreciation and amortization	82,593	7,773	6,802	97,168
Special events	-	-	145,608	145,608
Total Expenses by Function	1,936,611	101,422	389,125	2,427,158
Less expenses included with revenues on the statement of activities				
Special events	-	-	(145,608)	(145,608)
Total expenses included in the expense section on the statement of activities	\$ 1,936,611	\$ 101,422	\$ 243,517	\$ 2,281,550

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Mission: With open arms we nourish body, mind, and soul.

Vision: We see a world of abundance where people won't go hungry.

Nature of Activities:

Open Arms of Minnesota (the Organization) accomplishes its mission by preparing and delivering safe, healthy, delicious, and nutritious meals to people living with chronic and progressive diseases including HIV/AIDS, breast cancer, multiple sclerosis (MS) and amyotrophic lateral sclerosis (ALS). The food service program provides two meals, plus a meal enhancement and some breakfast items each day, Monday through Friday, the equivalent of 12 meals per week. The Organization delivered 545,493 and 251,954 meals for the year ended June 30, 2020 and the six months ended June 30, 2019, respectively. Clients are referred to the Organization through a doctor, caseworker, or social worker. The Organization serves people living with disease along with their dependent children and/or affected caregivers throughout the Twin Cities metropolitan area.

Basis of Presentation:

The financial statements of Open Arms of Minnesota have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statements of Activities.

Year End Change:

During 2019, the Organization changed its fiscal year end from December 31 to June 30.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Revenue Recognition:

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

A portion of the Organization's revenue is derived from cost-reimbursable state and county contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization has received cost-reimbursable grants of approximately \$1,537,944 that have not been recognized at June 30, 2020 because qualifying expenditures have not yet been incurred.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

The Organization recognizes revenue from exchange transactions, primarily meal delivery, event income, facilities rental, catering and food product sales, as the goods and services are provided to the client or customer.

The Organization periodically hosts fundraising events. The funds raised from these events are used for the Organization's primary activity and general operations.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in these financial statements. Actual results could differ from those estimates.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Tax-Exempt Status:

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar Minnesota Statutes, except to the extent it has taxable income that is not related to its tax-exempt purpose. Unrelated business income is taxed at federal and state corporate income tax rates. The receipt from income from non-exempt rentals, other food and catering items are subject to taxation as unrelated business income. The Organization did not incur any income tax from unrelated business income.

The Organization has been classified as an Organization that is not a private foundation under the IRC and charitable contributions by donors are tax deductible.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) for uncertain position that more likely than not would not be sustained upon examination by the applicable tax authorities. Federal and state tax authorities generally have the right to examine the current and three previous years of income tax returns. The Organization is not currently under examination by any taxing jurisdiction.

Cash and Cash Equivalents:

For the purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash balances at a financial institution insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2020 and 2019, the Organization had uninsured cash balances of approximately \$1,203,000 and \$0, respectively.

Receivables:

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding receivables. At June 30, 2020 and 2019, management considered all outstanding amounts to be fully collectible. Accordingly, there was no allowance for doubtful accounts.

Inventories:

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Property and Equipment:

All major expenditures for property and equipment are capitalized at cost. Equipment and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair market values at the date they are received. Depreciation is provided on the straight-line method over the estimated useful lives of the assets of 3-39 years. Whenever assets are retired or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in the financial statements for the period. The cost of maintenance and repairs is charged to expense as incurred.

Deferred Revenue:

Deferred revenue represents special event fees which have been received, but for which the prescribed services have not yet been completed. These fees will be recognized as income when these services are provided.

Functional Expenses:

Expenses are charged to program services based on direct expenditures incurred whenever possible. Any expenditures not directly chargeable are allocated to program services based on management's analysis and estimates of direct personnel hours and labor-related costs. These estimates are revised by management, as necessary, to reflect the current state of the Organization and to provide accurate expense allocations.

Change in Accounting Principles:

FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

Subsequent Events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 14, 2020, the date the financial statements were available to be issued.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

COVID-19:

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in the U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S and international economies and, as such, the Organization is unable to determine if it will have a material impact to its operations.

NOTE 2. CONTRIBUTIONS RECEIVABLE

Outstanding contributions from various foundations and individuals at June 30, 2020 and 2019 were as follows:

	2020	2019
Contributions due in:		
Less than one year	\$ 604,694	\$ 80,000
One to five years	150,000	25,000
	754,694	105,000
Less: discount to net present value	(17,995)	(5,879)
	\$ 736,699	\$ 99,121

The present value of contributions receivable has been calculated using an interest rate of 5.50%, which approximates the Organization borrowing rate.

NOTE 3. INVENTORY

At June 30, 2020 and 2019, inventory consisted of the following:

	2020	2019
Food inventory	\$ 156,315	\$ 150,454
Packaging and supplies	34,945	33,785
	\$ 191,260	\$ 184,239

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 4. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets available for general expenditure within one year.

	<u>2020</u>	<u>2019</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 1,443,651	\$ 213,102
Accounts receivable	110,826	212,280
Contributions receivable	<u>604,694</u>	<u>80,000</u>
 Total financial assets	 2,159,171	 505,382
 Less amounts not available to be used within one year		
Net assets with donor restrictions	1,269,784	258,506
Less net assets with restrictions to be met in less than one year	<u>(1,269,784)</u>	<u>(258,506)</u>
 Financial assets available to meet general expenditures within one year	 <u><u>\$ 2,159,171</u></u>	 <u><u>\$ 505,382</u></u>

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses.

NOTE 5. BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUST

The Organization has been named as one of three beneficiaries of a charitable remainder trust. This trust will terminate and the principal will be distributed upon the death of the donor. This is an irrevocable trust recorded at net present value. The recordable interest is as follows at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Principal value of trust	\$ 155,000	\$ 155,000
Less: discount at 4%	<u>(43,506)</u>	<u>(44,613)</u>
 Present value of trust	 <u><u>\$ 111,494</u></u>	 <u><u>\$ 110,387</u></u>

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 6. PROPERTY AND EQUIPMENT

At June 30, 2020 and 2019, property and equipment consisted of the following:

	2020	2019
Land	\$ 705,000	\$ 705,000
Building and building improvements	5,442,114	5,408,468
Furniture and equipment	178,665	155,461
Kitchen equipment	248,697	244,443
Vehicles	52,668	52,668
Farm equipment	12,823	12,823
	6,639,967	6,578,863
Less: accumulated depreciation	(1,953,061)	(1,758,141)
	\$ 4,686,906	\$ 4,820,722

Depreciation expense was \$195,967 and \$96,363 for the year ended June 30, 2020 and the six months ended June 30, 2019, respectively.

NOTE 7. FAIR VALUE MEASUREMENT

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad 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 (Level 1). Level 3 inputs are unobservable and have the lowest priority. The Organization uses appropriate valuation techniques based on the 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 2 inputs are used for when Level 1 inputs are not available. Level 3 inputs would only be used if Level 1 or Level 2 inputs were not available.

Investments are stated at fair value, which is based on quoted market prices at June 30, 2020 and 2019. All investments are Level 3 assets.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 7. FAIR VALUE MEASUREMENT (continued)

The table below presents information about the changes in the beneficial interest in charitable remainder trust which is measured at fair value on a recurring basis using significant unobservable inputs. These unobservable inputs include an estimated discount rate of 4%, as well as an estimated life expectancy of the donor, which is derived from the Social Security Administration actuarial life expectancy table.

	<u>Amount</u>
Balance, January 1, 2019	\$ 108,205
Change in value of beneficial trust	<u>2,182</u>
Balance, June 30, 2019	110,387
Change in value of beneficial trust	<u>1,107</u>
Balance, June 30, 2020	<u><u>\$ 111,494</u></u>

NOTE 8. LINE OF CREDIT

During the year ended June 30, 2020 and the six months ended June 30, 2019, the Organization has a \$150,000 line of credit agreement with the Propel Nonprofits which expires April 30, 2021. Advances on the line of credit are subject to interest at 5.50% per annum. The Organization had outstanding amounts of \$150,000 on this line of credit agreement at both June 30, 2020 and 2019.

NOTE 9. LOAN ORIGINATION FEES

The Organization incurred loan origination fees of \$8,055, which consist of loan costs covering interest and costs incurred securing the loan. These fees are amortized equally over the term of the loan and, for financial statement purposes, are netted against the related loan amount. Amortization expense was \$537 and \$805 for the year ended June 30, 2020 and the six months ended June 30, 2019, respectively.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 10. NOTES PAYABLE

Notes payable consisted of the following at June 30, 2020 and 2019:

	2020	2019
Note payable, Propel Nonprofit, in monthly installments of \$5,709 and a final installment of \$311,412, including a fixed interest rate of 5.5%. The note matures March 31, 2025 and is secured by land and a building.	\$ 522,150	\$ -
Note payable, Propel Nonprofit, in monthly installments of \$2,850 and a final installment of \$442,187, including a fixed interest rate of 5.5%. The note matured February 29, 2020 and was secured by land and a building.	-	447,101
Note payable, Propel Nonprofit, in monthly installments of \$5,000 and a final installment of \$92,442, including a fixed interest rate of 5.5%. The note matured February 29, 2020 and was secured by land and a building.	-	123,909
Note payable, Propel Nonprofit, interest only at 6.5%, with a final installment of \$75,000 due in July 2019. This note was secured by assets of the organization.	-	75,000
	522,150	646,010
Less: current portion	(40,831)	(645,473)
Less: loan origination fees, net	-	(537)
	\$ 481,319	\$ -

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 10. NOTES PAYABLE (continued)

Future maturities of long-term debt are as follows:

Year ending June 30	Amount
2021	\$ 40,831
2022	43,093
2023	45,524
2024	48,063
2025	<u>344,639</u>
Total	<u>\$ 522,150</u>

NOTE 11. PPP FUNDING

On April 9, 2020, the Organization received loan funds in the amount of \$466,300 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act, provides loans to qualifying businesses. The loans and accrued interest are forgivable after twenty-four weeks if the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months.

The Organization expects to meet the PPP’s eligibility criteria and therefore, has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven. As a result, the Organization has accounted for the PPP loan in accordance with ASC 958-605 as a conditional contribution. During the year ended June 30, 2020, the Organization has used the entire proceeds for purposes consistent with the PPP. Therefore, the Organization has recognized the entire loan amount as contribution revenue in the accompanying financial statements. Although there is no absolute assurance that the Organization will not take actions that could cause the Organization to be ineligible for forgiveness of the loan, in part or in whole, the Organization believes the possibility of that occurring to be remote.

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NOTE 12. NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2020 and 2019, net assets with donor restrictions consisted of the following:

	<u>2020</u>	<u>2019</u>
Specific purpose		
Capital improvements	\$ -	\$ 10,000
Provide prepared meals to clients	15,000	30,000
Capacity campaign	1,058,228	20,000
Open Farms expansion	75,000	69,119
Time restricted	<u>253,561</u>	<u>129,387</u>
	<u>\$ 1,401,789</u>	<u>\$ 258,506</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30, 2020 and the six months ended June 30, 2019:

	<u>2020</u>	<u>2019</u>
Specific purpose		
Capital improvements	\$ 10,000	\$ -
Provide prepared meals to clients	30,000	26,000
Health care program	-	10,000
Capacity campaign	20,000	10,000
Open Farms expansion	69,121	-
Time restricted	<u>19,000</u>	<u>70,000</u>
	<u>\$ 148,121</u>	<u>\$ 116,000</u>

NOTE 13. MAJOR SOURCES OF SUPPORT AND REVENUE

Approximately 34% and 46% of total support and revenue at June 30, 2020 and 2019, respectively, are from two donors.

NOTE 14. EMPLOYEE BENEFIT PLAN

The Organization has a 403(b) Retirement Plan. The plan covers those employees who meet certain eligibility requirements as defined in the plan. Employer contributions are discretionary. The Organization made no contributions to the plan for the year ended June 30, 2020 and the six months ended June 30, 2019.

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NOTE 15. IN-KIND CONTRIBUTIONS

The Organization records in-kind contributions at fair market value at the date of the donation. In-kind contributions included the following for the year ended June 30, 2020 and the six months ended June 30, 2019:

	2020	2019
Food	\$ 77,522	\$ 5,744
Supplies	17,500	-
	\$ 95,022	\$ 5,744

During the year ended June 30, 2020 and the six months ended June 30, 2019, the Organization received in-kind contributions for a special event of \$8,497 and \$34,518, respectively. Both the revenue and expense are reported on the statements of activities as special events revenue and expense. The Organization's home-delivered meals program is performed primarily by volunteers. The value of these volunteer hours are not reflected in the financial statements because they are not amenable to objective measurement. For the year ended June 30, 2020, management estimates approximately 5,755 volunteers worked 60,105 hours in kitchen meal prep work, meal deliveries, and administrative volunteer services, which translates to approximately 29 FTE's (Full Time Equivalent staff positions). For the six months ended June 30, 2019, management estimates approximately 2,023 volunteers worked 31,782 hours in kitchen meal prep work, meal deliveries, and administrative volunteer services, which translates to approximately 30 FTE's (Full Time Equivalent staff positions).

NOTE 16. OPERATING LEASES

The Organization leases office equipment under operating leases that expire in December 2022. Rent expense under these leases was \$25,074 and \$5,352 for the year ended June 30, 2020 and the six months ended June 30, 2019, respectively.

Future maturities under these leases are as follows:

Year ending June 30	Amount
2021	\$ 9,069
2022	9,069
2023	4,535
Total	\$ 22,673