

OPEN ARMS OF MINNESOTA
AUDITED FINANCIAL STATEMENTS
June 30, 2023 and 2022



Harrington Langer & Associates
Certified Public Accountants
563 Phalen Boulevard, St. Paul, MN 55130
651-481-1128 Phone | 651-481-0982 Fax
www.hlaccountants.com

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2023 and 2022, 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.

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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Open Arms of Minnesota and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Open Arms of Minnesota's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing audits in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Open Arms of Minnesota's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Open Arms of Minnesota's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

Harrington Langer & Associates

November 21, 2023

OPEN ARMS OF MINNESOTA
STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,608,715	\$ 1,962,291
Accounts receivable	1,118,922	209,644
Contributions receivable	270,655	1,063,172
Inventory	188,841	145,941
Prepaid expenses	33,180	21,010
TOTAL CURRENT ASSETS	4,220,313	3,402,058
PROPERTY AND EQUIPMENT, net	8,071,401	6,165,374
OTHER ASSETS		
Contributions receivable, net of current portion and discount	273,158	81,652
Security deposit	152,090	152,090
Operating lease right-of-use assets	2,000,091	-
TOTAL OTHER ASSETS	2,425,339	233,742
TOTAL ASSETS	\$ 14,717,053	\$ 9,801,174
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 679,011	\$ 222,714
Accrued expenses	227,866	172,937
Note payable, current portion	134,154	180,376
Operating lease liabilities, current portion	148,785	-
TOTAL CURRENT LIABILITIES	1,189,816	576,027
LONG-TERM LIABILITIES		
Note payable, net of current portion	2,828,040	1,808,014
Operating lease liabilities, net of current portion	1,908,906	-
TOTAL LONG-TERM LIABILITIES	4,736,946	1,808,014
TOTAL LIABILITIES	5,926,762	2,384,041
NET ASSETS		
Without donor restrictions	8,340,633	5,923,621
With donor restrictions	449,658	1,493,512
TOTAL NET ASSETS	8,790,291	7,417,133
TOTAL LIABILITIES AND NET ASSETS	\$ 14,717,053	\$ 9,801,174

OPEN ARMS OF MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	Total 2023	Total 2022
REVENUE AND SUPPORT				
Contributions	\$ 2,795,658	\$ 1,000	\$ 2,796,658	\$ 1,867,435
Capacity campaign contributions	3,883,700	-	3,883,700	1,929,206
Government grants and contributions	5,112,776	-	5,112,776	4,142,502
Special events, net of direct costs of \$193,871 and \$329,290, respectively	355,239	-	355,239	281,012
In-kind donations	42,088	-	42,088	5,983
Earned income	51,640	-	51,640	63,361
Service contracts	2,451,267	-	2,451,267	2,170,143
Miscellaneous	11,626	-	11,626	2,887
Net assets released from restrictions	1,044,854	(1,044,854)	-	-
TOTAL REVENUE AND SUPPORT	15,748,848	(1,043,854)	14,704,994	10,462,529
EXPENSES				
Program services	11,313,938	-	11,313,938	8,104,259
Management and general	580,540	-	580,540	411,811
Fundraising	1,437,358	-	1,437,358	1,077,762
TOTAL EXPENSES	13,331,836	-	13,331,836	9,593,832
CHANGE IN NET ASSETS	2,417,012	(1,043,854)	1,373,158	868,697
NET ASSETS, BEGINNING OF YEAR	5,923,621	1,493,512	7,417,133	6,548,436
NET ASSETS, END OF YEAR	\$ 8,340,633	\$ 449,658	\$ 8,790,291	\$ 7,417,133

OPEN ARMS OF MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 1,867,435	\$ -	\$ 1,867,435
Capacity campaign contributions	435,694	1,493,512	1,929,206
Government grants and contributions	4,142,502	-	4,142,502
Special events, net of direct costs of \$329,290	281,012	-	281,012
In-kind donations	5,983	-	5,983
Earned income	63,361	-	63,361
Service contracts	2,170,143	-	2,170,143
Miscellaneous	2,887	-	2,887
Net assets released from restrictions	1,183,313	(1,183,313)	-
	10,152,330	310,199	10,462,529
EXPENSES			
Program services	8,104,259	-	8,104,259
Management and general	411,811	-	411,811
Fundraising	1,077,762	-	1,077,762
	9,593,832	-	9,593,832
CHANGE IN NET ASSETS	558,498	310,199	868,697
NET ASSETS, BEGINNING OF YEAR	5,365,123	1,183,313	6,548,436
NET ASSETS, END OF YEAR	\$ 5,923,621	\$ 1,493,512	\$ 7,417,133

OPEN ARMS OF MINNESOTA
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,373,158	\$ 868,697
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	394,982	257,919
Discount to present value	2,080	2,080
Loss on disposal of equipment	-	9,123
(Increase) Decrease in:		
Accounts receivable	(1,100,784)	(26,952)
Contributions receivable	790,437	(81,938)
Inventory	(42,900)	30,615
Prepaid expenses	(12,170)	33,714
Security deposit	-	(152,090)
Operating lease assets and liabilities	57,600	-
Accounts payable	456,297	(75,058)
Accrued expenses	54,929	61,963
	<u>1,973,629</u>	<u>928,073</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,248,637)	(816,066)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(78,568)	-
INCREASE IN CASH AND CASH EQUIVALENTS	646,424	112,007
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,962,291</u>	<u>1,850,284</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,608,715</u>	<u>\$ 1,962,291</u>
SUPPLEMENTAL CASH FLOWS DISCLOSURES		
Interest paid	\$ 102,459	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment		
Cost of property and equipment	\$ 2,301,009	\$ 2,804,455
Amount financed	(1,052,372)	(1,988,389)
	<u>\$ 1,248,637</u>	<u>\$ 816,066</u>

OPEN ARMS OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	Program Services	Management and General	Fundraising	Total 2023	Total 2022
Salaries and taxes	\$ 3,975,128	\$ 305,779	\$ 815,411	\$ 5,096,318	\$ 4,068,577
Benefits	462,487	35,576	94,869	592,932	521,929
Total Personnel Expenses	4,437,615	341,355	910,280	5,689,250	4,590,506
Containers and paper costs	551,192	-	-	551,192	367,452
Food and pantry	3,266,297	-	-	3,266,297	2,355,784
Furniture and equipment, rental and maintenance	274,223	15,235	15,235	304,693	143,942
Insurance	58,595	3,255	3,255	65,105	63,909
Kitchen supplies	203,622	-	-	203,622	107,679
Miscellaneous	17,100	51,300	273,600	342,000	159,817
Occupancy	663,357	44,224	29,483	737,064	287,938
Office expense	406,387	22,577	22,577	451,541	354,127
Open Farms	15,608	-	-	15,608	15,856
Shipping and Postage	462,065	32,616	48,925	543,606	316,320
Printing	52,803	4,970	4,348	62,121	42,381
Professional fees	456,339	28,935	93,435	578,709	403,660
Staff mileage and travel	6,776	377	377	7,530	5,966
Telephone and internet	69,646	4,097	8,194	81,937	108,674
Volunteer expenses	36,579	-	-	36,579	11,902
Depreciation and amortization	335,734	31,599	27,649	394,982	257,919
Special events	-	-	209,083	209,083	329,290
Total Expenses by Function	11,313,938	580,540	1,646,441	13,540,919	9,923,122
Less expenses included with revenues on the statement of activities					
Special events	-	-	(209,083)	(209,083)	(329,290)
Total expenses included in the expense section on the statement of activities	\$ 11,313,938	\$ 580,540	\$ 1,437,358	\$ 13,331,836	\$ 9,593,832

See notes to financial statements

OPEN ARMS OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2022

	Program Services	Management and General	Fundraising	Total
Salaries and taxes	\$ 3,173,490	\$ 244,115	\$ 650,972	\$ 4,068,577
Benefits	414,016	29,431	78,482	521,929
Total Personnel Expenses	3,587,506	273,546	729,454	4,590,506
Containers and paper costs	367,452	-	-	367,452
Food and pantry	2,355,784	-	-	2,355,784
Furniture and equipment, rental and maintenance	129,548	7,197	7,197	143,942
Insurance	57,519	3,195	3,195	63,909
Kitchen supplies	107,679	-	-	107,679
Miscellaneous	7,990	23,973	127,854	159,817
Occupancy	259,144	17,276	11,518	287,938
Office expense	318,715	17,706	17,706	354,127
Open Farms	15,856	-	-	15,856
Postage	268,872	18,979	28,469	316,320
Printing	36,024	3,390	2,967	42,381
Professional fees	263,294	20,183	120,183	403,660
Staff mileage and travel	5,370	298	298	5,966
Telephone and internet	92,373	5,434	10,867	108,674
Volunteer expenses	11,902	-	-	11,902
Depreciation and amortization	219,231	20,634	18,054	257,919
Special events	-	-	329,290	329,290
Total Expenses by Function	8,104,259	411,811	1,407,052	9,923,122
Less expenses included with revenues on the statement of activities				
Special events	-	-	(329,290)	(329,290)
Total expenses included in the expense section on the statement of activities	\$ 8,104,259	\$ 411,811	\$ 1,077,762	\$ 9,593,832

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Mission: By providing food as medicine, we nourish our clients and build community.

Purpose: We create an inclusive and joyful community to provide high-quality medically tailored meals, nutrition education and hope for our clients.

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 life threatening and critical illnesses including HIV/AIDS, cancer, End Stage Renal Disease, Cardiac Heart Failure, Multiple Sclerosis (MS), Amyotrophic Lateral Sclerosis (ALS) and more. The food service program provides two meals, plus a meal enhancement and some breakfast items each day, Monday through Friday, the equivalent of 14 meals per week. The Organization delivered 1,500,953 and 830,421 meals for the years ended June 30, 2023 and 2022, 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.

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 \$851,778 and \$2,904,853 that have not been recognized at June 30, 2023 and 2022, respectively, 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:

From time to time, the Organization's balances in its bank accounts exceed Federal Deposit Insurance Corporation limits. The Organization periodically evaluates the risk of exceeding insurance levels and may transfer funds as it deems appropriate. The Organization has not experienced any losses with regards to balances in excess of insured limits or as the result of other concentrations of credit risk.

Receivables:

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding receivables. At June 30, 2023 and 2022, 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 net realizable value. 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.

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.

Recently Adopted Accounting Pronouncements:

In September 2020, the FASB issued ASU No. 2020-07 Not-for-Profit Entities (Topic 958), *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is intended to improve the transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. This ASU requires not-for-profit organizations to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. In addition, this amendment requires enhanced disclosures around each category of contributed nonfinancial assets for donor-imposed restrictions, valuation techniques, descriptions of programs or activities in which the assets were used, and if monetized, a policy about monetizing rather than utilizing the asset(s). The Organization has implemented Topic 958 and have adjusted the presentation in these financial statements accordingly.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842). FASB ASC 842 supersedes the lease requirements in FASB ASC 840. Under FASB ASC 842, lessees are required to recognize assets and liabilities on the statement of financial position for most leases and provide enhanced disclosures. The Organization adopted FASB ASC 842, with a date of initial application of July 1, 2022, by applying the modified retrospective transition approach and using the additional (and optional) transition method provided by ASU No. 2018-11, *Leases* (Topic 842): Targeted Improvements. The Organization did not restate prior comparative periods as presented under FASB ASC 840 and instead evaluated whether a cumulative effect adjustment to net assets as of July 1, 2022, was necessary for the impact of adoption of FASB ASC 842. The most significant effects of adopting FASB ASC 842 was the recognition of approximately \$2,200,000 of operating lease right-of-use (ROU) assets and total current and long-term lease liabilities on the statement of financial position as of July 1, 2022. No cumulative effect adjustment to net assets as of July 1, 2022, was necessary. FASB ASC 842 did not have a significant effect on the results of operations or cash flows for the year ended June 30, 2023.

As part of the transition, the Organization implemented new internal controls and key system functionality to enable the preparation of financial information on adoption and elected to apply the following practical expedients.

Package of practical expedients:

- Election not to reassess whether any expired or existing contracts are or contain leases.
- Election not to reassess the lease classification for any expired or existing leases.
- Election not to reassess initial direct costs on any existing leases.

Other practical expedients:

- Election whereby the lease and nonlease components will not be separated for leases of equipment.
- Election not to record ROU assets and corresponding lease liabilities for short-term leases with a lease term of 12 months or less, but greater than one month. Leases of one month or less are not included in short-term lease costs.

Accounting Policy Election for Short-term Leases:

The Organization has elected for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less, but greater than 1 month at lease commencement, and do not include an option to purchase the underlying asset the Organization is reasonably certain to exercise. The Organization recognizes lease cost associated with its short-term leases on a straight-line basis over the lease term.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

Leases:

The Organization accounts for leases in accordance with FASB ASC 842. The Organization is a lessee in several noncancellable operating leases for communication sites. Leases for other equipment are evaluated using the criteria outlined in FASB ASC 842 to determine whether they will be classified as operating or finance leases. The Organization determines if an arrangement is a lease, or contains a lease, at inception of a contract and when terms of an existing contract are changed. The Organization determines if an arrangement conveys the right to use an identified asset and whether the Organization obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. The Organization recognizes a lease liability and ROU asset at the commencement date of the lease.

Lease Liabilities:

A lease liability is measured on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or rate and are measured using the index or rate at the commencement date. Lease payments, including variable payments made based on an index rate, are remeasured when any of the following occur: (1) the lease is modified (and the modification is not accounted for as a separate contract), (2) certain contingencies related to variable lease payments are resolved, or (3) there is a reassessment of any of the following: the lease term, purchase options, or amounts that are probable of being owed under a residual value guarantee. The discount rate is the rate implicit in the lease if it is readily determinable. The implicit rates of the Organization's leases are not readily determinable; accordingly, the Organization has made the election to use a risk-free rate in lieu of its incremental borrowing rate using a period comparable with that of the individual lease term based on the information available at the commencement date for each lease. For existing leases at implementation date of ASC 842, the risk-free rate used is the rate comparable with the remaining lease term as of the implementation date.

ROU Assets:

A ROU asset is measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the lease liability (that is the present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost for lease payments is recognized on a straight-line basis over the term of the lease. Finance lease ROU assets are amortized on a straight-line basis over the shorter of the lease term or the remaining useful life of the asset.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

Subsequent Events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 21, 2023, the date the financial statements were available to be issued.

NOTE 2. AVAILABILITY AND LIQUIDITY

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

	2023	2022
Financial assets at year-end		
Cash and cash equivalents	\$ 2,608,715	\$ 1,962,291
Accounts receivable	1,118,922	837,206
Contributions receivable	543,813	517,262
Total financial assets	4,271,450	3,316,759
Less amounts not available to be used within one year		
Net assets with donor restrictions	449,658	1,493,512
Less net assets with restrictions to be met in less than one year	(176,500)	(1,411,860)
Financial assets available to meet general expenditures within one year	\$ 3,998,292	\$ 3,235,107

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

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 3. CONTRIBUTIONS RECEIVABLE

Outstanding contributions from various foundations and individuals at June 30, 2023 and 2022 were as follows:

	2023	2022
Contributions due in:		
Less than one year	\$ 270,655	\$ 435,610
One to five years	301,500	96,100
	572,155	531,710
Less: discount to net present value	(28,342)	(14,448)
	\$ 543,813	\$ 517,262

The present value of contributions receivable has been calculated using an interest rate of 3.65% and 5.50%, respectively, which approximates the Organization's borrowing rate as of June 30, 2023 and 2022.

NOTE 4. PROPERTY AND EQUIPMENT

At June 30, 2023 and 2022, property and equipment consisted of the following:

	2023	2022
Land	\$ 705,000	\$ 705,000
Building and building improvements	7,680,298	3,153,112
Furniture and equipment	454,572	317,392
Kitchen equipment	1,715,518	1,655,178
Vehicles	329,245	258,562
Farm equipment	40,612	31,511
Construction in progress	-	2,503,480
	10,925,245	8,624,235
Less: accumulated depreciation	(2,853,844)	(2,458,861)
	\$ 8,071,401	\$ 6,165,374

Depreciation expense was \$394,982 and \$257,919 for the years ended June 30, 2023 and 2022, respectively.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 5. INVENTORY

At June 30, 2023 and 2022, inventory consisted of the following:

	2023	2022
Food inventory	\$ 77,130	\$ 125,558
Packaging and supplies	111,711	20,383
	\$ 188,841	\$ 145,941

NOTE 6. NOTES PAYABLE

Notes payable consisted of the following at June 30, 2023 and 2022:

	2023	2022
Note payable, Sunrise Bank, due in monthly payments of \$20,004 including interest at 3.65% secured by all business assets, maturing November 17, 2026	\$ 2,962,194	\$ 1,988,390
Less: current portion	(134,154)	(180,376)
	\$ 2,828,040	\$ 1,808,014

As of June 30, 2023, future maturities of long-term debt are as follows:

Year ending June 30	Amount
2024	\$ 134,154
2025	139,134
2026	144,298
2027	2,544,608
Total	\$ 2,962,194

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2023 and 2022, net assets with donor restrictions consisted of the following:

	<u>2023</u>	<u>2022</u>
Specific purpose		
Provide prepared meals to clients	\$ 1,000	\$ -
Capacity campaign	<u>448,658</u>	<u>1,493,512</u>
	<u>\$ 449,658</u>	<u>\$ 1,493,512</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 years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Specific purpose		
Provide prepared meals to clients	\$ -	\$ 125,000
Capacity campaign	1,044,854	1,004,313
Time restricted	<u>-</u>	<u>54,000</u>
	<u>\$ 1,044,854</u>	<u>\$ 1,183,313</u>

NOTE 8. MAJOR SOURCES OF SUPPORT AND REVENUE

The Organization receives substantially amount of its support and revenue from foundations and government agencies located primarily in Minnesota. Any significant decrease in this support could negatively impact the Organization's operations.

NOTE 9. IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Food	\$ 10,876	\$ 4,374
Kitchen supplies	16,000	1,609
Special events - services	-	128,342
Special events - supplies	<u>15,212</u>	<u>8,708</u>
	<u>\$ 42,088</u>	<u>\$ 143,033</u>

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 9. IN-KIND CONTRIBUTIONS (continued)

The Organization received donated professional services for its Moveable Feast event. Donated services are recorded when there is an objective basis to measure the value of such services and the service involves specialized skill that would be purchased, if not provided by donation. Based on current market rates for these services, the Organization would have paid \$0 and \$128,342 in 2023 and 2022, respectively, for the services provided for the Moveable Feast event. During the years ended June 30, 2023 and 2022, the Organization received contributed supplies of \$15,212 and \$8,708, respectively, that were utilized for the Moveable Feast and recognized in an amount approximating the estimated fair market value at the time of the donation. Both the revenue and expense are reported on the statement of activities as special events revenue and expense.

The Organization recorded in-kind contributions of food and kitchen supplies at fair market value at the date of the donation. 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, 2023, management estimates approximately 4,700 volunteers worked 66,865 hours in kitchen meal prep work, meal deliveries, and administrative volunteer services, which translates to approximately 32 FTE's (Full Time Equivalent staff positions). For the year ended June 30, 2022, management estimates approximately 3,300 volunteers worked 61,981 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 10. 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 contributions of \$38,031 and \$33,360 to the plan for the years ended June 30, 2023 and 2022, respectively.

NOTE 11. LEASE COMMITMENTS

The Organization has an operating lease agreement for office and storage space, and office equipment, expiring through November 2032.

The components of lease costs and statement of functional expenses that includes the costs for the year ended December 31, 2023 include operating lease costs of \$273,553 that are included in occupancy expenses.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 11. LEASE COMMITMENTS (continued)

Supplemental cash flow information for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 215,952
ROU assets obtained in exchange for new operating lease liabilities	\$ 2,195,875

Weighted average lease term and discount rate as of June 30, 2023 were as follows:

Weighted-average remaining lease term in years for operating leases	9.14
Weighted-average discount rate for operating leases	3.65%

The maturities of operating lease liabilities as of June 30, 2023 were as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2024	\$ 221,332
2025	246,312
2026	272,410
2027	250,777
2028	253,262
Thereafter	<u>1,197,398</u>
Total lease payments	2,441,491
Less: interest	<u>(383,800)</u>
Present value of lease liabilities	<u><u>\$ 2,057,691</u></u>