

OPEN ARMS OF MINNESOTA
AUDITED FINANCIAL STATEMENTS
June 30, 2024 and 2023



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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, 2024 and 2023, 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, 2024 and 2023, 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

December 13, 2024

OPEN ARMS OF MINNESOTA
STATEMENTS OF FINANCIAL POSITION
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 134,868	\$ 2,608,715
Contributions receivable, current portion	1,664,272	1,196,028
Accounts receivable	241,406	193,549
Inventory	334,112	188,841
Prepaid expenses	<u>36,681</u>	<u>33,180</u>
TOTAL CURRENT ASSETS	<u>2,411,339</u>	<u>4,220,313</u>
PROPERTY AND EQUIPMENT, net	<u>7,719,818</u>	<u>8,071,401</u>
OTHER ASSETS		
Contributions receivable, net of current portion and discount	94,571	273,158
Security deposit	102,090	152,090
Operating lease right-of-use assets	<u>1,799,085</u>	<u>2,000,091</u>
TOTAL OTHER ASSETS	<u>1,995,746</u>	<u>2,425,339</u>
TOTAL ASSETS	<u><u>\$ 12,126,903</u></u>	<u><u>\$ 14,717,053</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 604,557	\$ 679,011
Accrued expenses	229,161	227,866
Note payable, current portion	139,134	134,154
Operating lease liabilities, current portion	180,046	148,785
Short-term note payable	<u>150,000</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>1,302,898</u>	<u>1,189,816</u>
LONG-TERM LIABILITIES		
Note payable, net of current portion	2,688,039	2,828,040
Operating lease liabilities, net of current portion	<u>1,728,861</u>	<u>1,908,906</u>
TOTAL LONG-TERM LIABILITIES	<u>4,416,900</u>	<u>4,736,946</u>
TOTAL LIABILITIES	<u>5,719,798</u>	<u>5,926,762</u>
NET ASSETS		
Without donor restrictions	6,209,234	8,340,633
With donor restrictions	<u>197,871</u>	<u>449,658</u>
TOTAL NET ASSETS	<u>6,407,105</u>	<u>8,790,291</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 12,126,903</u></u>	<u><u>\$ 14,717,053</u></u>

OPEN ARMS OF MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2024
(With Comparative Totals for the Year Ended June 30, 2023)

	Without Donor Restrictions	With Donor Restrictions	Total 2024	Total 2023
REVENUE AND SUPPORT				
Contributions	\$ 3,225,510	\$ -	\$ 3,225,510	\$ 2,796,658
Capacity campaign contributions	-	-	-	3,883,700
Government grants and contributions	4,002,674	-	4,002,674	5,112,776
Special events, net of direct costs of \$286,574 and \$209,083, respectively	307,934	-	307,934	355,239
In-kind donations	70,376	-	70,376	42,088
Earned income	87,671	-	87,671	51,640
Service contracts	2,651,404	-	2,651,404	2,451,267
Miscellaneous	3,362	-	3,362	11,626
Net assets released from restrictions	251,787	(251,787)	-	-
TOTAL REVENUE AND SUPPORT	10,600,718	(251,787)	10,348,931	14,704,994
EXPENSES				
Program services	10,794,153	-	10,794,153	11,313,938
Management and general	570,848	-	570,848	580,540
Fundraising	1,367,116	-	1,367,116	1,437,358
TOTAL EXPENSES	12,732,117	-	12,732,117	13,331,836
CHANGE IN NET ASSETS	(2,131,399)	(251,787)	(2,383,186)	1,373,158
NET ASSETS, BEGINNING OF YEAR	8,340,633	449,658	8,790,291	7,417,133
NET ASSETS, END OF YEAR	\$ 6,209,234	\$ 197,871	\$ 6,407,105	\$ 8,790,291

OPEN ARMS OF MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 2,795,658	\$ 1,000	\$ 2,796,658
Capacity campaign contributions	3,883,700	-	3,883,700
Government grants and contributions	5,112,776	-	5,112,776
Special events, net of direct costs of \$209,083	355,239	-	355,239
In-kind donations	42,088	-	42,088
Earned income	51,640	-	51,640
Service contracts	2,451,267	-	2,451,267
Miscellaneous	11,626	-	11,626
Net assets released from restrictions	1,044,854	(1,044,854)	-
TOTAL REVENUE AND SUPPORT	15,748,848	(1,043,854)	14,704,994
EXPENSES			
Program services	11,313,938	-	11,313,938
Management and general	580,540	-	580,540
Fundraising	1,437,358	-	1,437,358
TOTAL EXPENSES	13,331,836	-	13,331,836
CHANGE IN NET ASSETS	2,417,012	(1,043,854)	1,373,158
NET ASSETS, BEGINNING OF YEAR	5,923,621	1,493,512	7,417,133
NET ASSETS, END OF YEAR	\$ 8,340,633	\$ 449,658	\$ 8,790,291

OPEN ARMS OF MINNESOTA
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,383,186)	\$ 1,373,158
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	472,716	394,982
Change in discount to present value	(15,086)	2,080
Change in:		
Contributions receivable	(274,571)	(1,100,784)
Accounts receivable	(47,857)	790,437
Inventory	(145,271)	(42,900)
Prepaid expenses	(3,501)	(12,170)
Security deposit	50,000	-
Operating lease assets and liabilities	52,222	57,600
Accounts payable	(74,454)	456,297
Accrued expenses	1,295	54,929
	<u>(2,367,693)</u>	<u>1,973,629</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
	<u>(2,367,693)</u>	<u>1,973,629</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(121,133)	(1,248,637)
	<u>(121,133)</u>	<u>(1,248,637)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(135,021)	(78,568)
Proceeds from short-term note payable	150,000	-
	<u>14,979</u>	<u>(78,568)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
	<u>14,979</u>	<u>(78,568)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,473,847)	646,424
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,608,715</u>	<u>1,962,291</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 134,868</u>	<u>\$ 2,608,715</u>
SUPPLEMENTAL CASH FLOWS DISCLOSURES		
Interest paid	\$ 108,213	\$ 102,459
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment		
Cost of property and equipment	\$ 121,133	\$ 2,301,009
Amount financed	<u>-</u>	<u>(1,052,372)</u>
Cash paid for property and equipment	<u>\$ 121,133</u>	<u>\$ 1,248,637</u>

OPEN ARMS OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2024
(With Comparative Totals for the Year Ended June 30, 2023)

	Program Services	Management and General	Fundraising	Total 2024	Total 2023
Salaries and taxes	\$ 4,514,392	\$ 342,865	\$ 857,163	\$ 5,714,420	\$ 5,079,736
Benefits	538,645	40,910	102,275	681,830	592,932
Total Personnel Expenses	5,053,037	383,775	959,438	6,396,250	5,672,668
Containers and paper costs	496,532	-	-	496,532	551,192
Food and pantry	2,787,016	-	-	2,787,016	3,266,297
Furniture and equipment, rental and maintenance	175,988	9,777	9,777	195,542	334,677
Insurance	76,670	4,259	4,259	85,188	65,105
Kitchen supplies	168,667	-	-	168,667	203,622
Miscellaneous	17,425	13,069	85,703	116,197	168,201
Marketing and outreach	9,219	6,915	29,963	46,097	71,725
Interest expense	21,643	16,232	70,338	108,213	102,459
Occupancy	721,443	48,096	32,064	801,603	707,080
Office expense	272,306	15,128	15,128	302,562	468,123
Open Farms	12,605	-	-	12,605	15,608
Shipping and postage	220,538	15,567	23,351	259,456	543,606
Printing	70,956	6,678	5,843	83,477	62,121
Professional fees	159,215	8,845	90,640	258,700	582,461
Staff mileage and travel	33,457	1,859	1,859	37,175	7,530
Telephone and internet	48,134	2,831	5,663	56,628	43,267
Volunteer expenses	47,493	-	-	47,493	36,579
Depreciation and amortization	401,809	37,817	33,090	472,716	394,982
Fundraising costs	-	-	286,574	286,574	243,616
Total Expenses by Function	10,794,153	570,848	1,653,690	13,018,691	13,540,919
Less expenses included with revenues on the statements of activities					
Special events	-	-	(286,574)	(286,574)	(209,083)
Total expenses included in the expense section on the statements of activities	<u>\$ 10,794,153</u>	<u>\$ 570,848</u>	<u>\$ 1,367,116</u>	<u>\$ 12,732,117</u>	<u>\$ 13,331,836</u>

See notes to financial statements

OPEN ARMS OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023

	Program Services	Management and General	Fundraising	Total
Salaries and taxes	\$ 3,958,546	\$ 305,779	\$ 815,411	\$ 5,079,736
Benefits	462,487	35,576	94,869	592,932
Total Personnel Expenses	4,421,033	341,355	910,280	5,672,668
Containers and paper costs	551,192	-	-	551,192
Food and pantry	3,266,297	-	-	3,266,297
Furniture and equipment, rental and maintenance	304,207	15,235	15,235	334,677
Insurance	58,595	3,255	3,255	65,105
Kitchen supplies	203,622	-	-	203,622
Miscellaneous	17,181	25,172	125,848	168,201
Marketing and outreach	14,345	10,759	46,621	71,725
Interest expense	20,492	15,369	66,598	102,459
Occupancy	633,373	44,224	29,483	707,080
Office expense	422,969	22,577	22,577	468,123
Open Farms	15,608	-	-	15,608
Shipping and postage	462,065	32,616	48,925	543,606
Printing	52,803	4,970	4,348	62,121
Professional fees	460,091	28,935	93,435	582,461
Staff mileage and travel	6,776	377	377	7,530
Telephone and internet	30,976	4,097	8,194	43,267
Volunteer expenses	36,579	-	-	36,579
Depreciation and amortization	335,734	31,599	27,649	394,982
Fundraising costs	-	-	243,616	243,616
Total Expenses by Function	11,313,938	580,540	1,646,441	13,540,919
Less expenses included with revenues on the statement of activities				
Special events	-	-	(209,083)	(209,083)
Total expenses included in the expense section on the statement of activities	<u>\$ 11,313,938</u>	<u>\$ 580,540</u>	<u>\$ 1,437,358</u>	<u>\$ 13,331,836</u>

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 1,425,942 and 1,500,953 meals for the years ended June 30, 2024 and 2023, 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 \$2,765,087 and \$851,778 that have not been recognized at June 30, 2024 and 2023, 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:

Receivables are reported at net realizable value. The Organization writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income or as an offset to credit loss expense in the year of recovery, in accordance with the Organization's accounting policy election. There was no allowance for credit losses at June 30, 2024 and 2023.

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 June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how the Organization will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through change in net assets. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under this standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in FASB ASC 326 were accounts receivable.

The Organization adopted the standard effective July 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

Marketing and Outreach Costs:

Marketing and outreach costs are charged to expense as incurred. Marketing and outreach expense amounted to \$46,097 and \$71,725 for the years ended June 30, 2024 and 2023, respectively.

Reclassifications:

Certain prior year amounts have been reclassified to conform with the current year's presentation. There have been no changes in previously reported net assets.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

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.

Leases:

The Organization accounts for leases in accordance with FASB ASC 842. The Organization is a lessee in several noncancelable 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.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

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.

Subsequent Events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 13, 2024, 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.

	<u>2024</u>	<u>2023</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 134,868	\$ 2,608,715
Accounts receivable	241,406	270,655
Contributions receivable	<u>1,758,843</u>	<u>1,392,080</u>
 Total financial assets	 2,135,117	 4,271,450
 Less amounts not available to be used within one year		
Net assets with donor restrictions	197,871	449,658
Less net assets with restrictions to be met in less than one year	 <u>(103,299)</u>	 <u>(176,500)</u>
 Financial assets available to meet general expenditures within one year	 <u><u>\$ 2,040,545</u></u>	 <u><u>\$ 3,998,292</u></u>

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, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Contributions due in:		
Less than one year	\$ 1,664,272	\$ 1,196,028
One to five years	<u>107,828</u>	<u>301,500</u>
	1,772,100	1,497,528
Less: discount to net present value	<u>(13,256)</u>	<u>(28,342)</u>
	<u><u>\$ 1,758,844</u></u>	<u><u>\$ 1,469,186</u></u>

The present value of contributions receivable has been calculated using a discount rate of 3.65%, which approximates the Organization's borrowing rate as of June 30, 2024 and 2023.

NOTE 4. PROPERTY AND EQUIPMENT

At June 30, 2024 and 2023, property and equipment consisted of the following:

	<u>2024</u>	<u>2023</u>
Land	\$ 705,000	\$ 705,000
Building and building improvements	7,794,478	7,680,298
Furniture and equipment	461,525	454,572
Kitchen equipment	1,715,518	1,715,518
Vehicles	329,245	329,245
Farm equipment	<u>40,612</u>	<u>40,612</u>
	11,046,378	10,925,245
Less: accumulated depreciation	<u>(3,326,560)</u>	<u>(2,853,844)</u>
	<u><u>\$ 7,719,818</u></u>	<u><u>\$ 8,071,401</u></u>

Depreciation expense was \$472,716 and \$394,982 for the years ended June 30, 2024 and 2023, respectively.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 5. INVENTORY

At June 30, 2024 and 2023, inventory consisted of the following:

	<u>2024</u>	<u>2023</u>
Food inventory	\$ 239,251	\$ 77,130
Packaging and supplies	<u>94,861</u>	<u>111,711</u>
	<u>\$ 334,112</u>	<u>\$ 188,841</u>

NOTE 6. NOTES PAYABLE

Note payable consisted of the following at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
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	\$ 2,827,173	\$ 2,962,194
Less: current portion	<u>(139,134)</u>	<u>(134,154)</u>
	<u>\$ 2,688,039</u>	<u>\$ 2,828,040</u>

As of June 30, 2024, future maturities of long-term debt are as follows:

Year ending <u>June 30</u>	<u>Amount</u>
2025	\$ 139,134
2026	144,298
2027	<u>2,543,741</u>
Total	<u>\$ 2,827,173</u>

The Organization also has a short-term note payable with Propel Nonprofits for \$150,000 that matures on July 31, 2024. Interest accrues on this note at 8.00%. As of June 30, 2024, the Organization had an amount due of \$150,000 on this short-term loan.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 7. LINE OF CREDIT

On August 8th, 2024, the Organization entered into a line of credit agreement with Propel Nonprofits for \$600,000, expiring August 16, 2025. Interest on the line credit is due month at a rate of 8% on the outstanding balance. The line of credit is secured by all business assets.

NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2024 and 2023, net assets with donor restrictions consisted of the following:

	<u>2024</u>	<u>2023</u>
Specific purpose		
Provide prepared meals to clients	\$ 1,000	\$ 1,000
Capacity campaign	<u>196,871</u>	<u>448,658</u>
	<u>\$ 197,871</u>	<u>\$ 449,658</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, 2024 and 2023 was \$251,787 and \$1,044,854, respectively, for Capacity Campaign.

NOTE 9. MAJOR SOURCES OF SUPPORT AND REVENUE

The Organization receives a substantial 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 10. IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following for the years ended June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Food	\$ 5,507	\$ 10,876
Kitchen supplies	17,000	16,000
Special events - supplies	<u>47,869</u>	<u>15,212</u>
	<u>\$ 70,376</u>	<u>\$ 42,088</u>

During the years ended June 30, 2024 and 2023, the Organization received contributed supplies of \$47,869 and \$15,212, 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.

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 10. IN-KIND CONTRIBUTIONS (continued)

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, 2024, management estimates approximately 6,400 volunteers worked 73,493 hours in kitchen meal prep work, meal deliveries, and administrative volunteer services, which translates to approximately 35 FTE's (Full Time Equivalent staff positions). 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.

NOTE 11. EMPLOYEE BENEFIT PLAN

The Organization has a 403(b) Retirement Plan (the 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 \$44,793 and \$38,031 to the Plan for the years ended June 30, 2024 and 2023, respectively.

NOTE 12. 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 years ended June 30, 2024 and 2023 include operating lease costs of \$273,553 and \$221,553, respectively, that are included in occupancy expenses.

Supplemental cash flow information for the years ended June 30, 2024 and 2023:

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 221,332	\$ 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, 2024 were as follows:

	2024	2023
Weighted-average remaining lease term in years for operating leases	8.21	9.14
Weighted-average discount rate for operating leases	3.65%	3.65%

OPEN ARMS OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS

NOTE 12. LEASE COMMITMENTS (continued)

The future maturities of operating lease liabilities as of June 30, 2024 were as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2025	\$ 246,312
2026	272,410
2027	250,777
2028	253,262
2029	259,632
Thereafter	<u>937,767</u>
Total lease payments	2,220,160
Less: interest	<u>(311,253)</u>
Present value of lease liabilities	<u>\$ 1,908,907</u>