

Churches United in Ministry and Subsidiary

Consolidated Financial Statements
Years Ended June 30, 2021 and 2020



WIPFLI

Independent Auditor's Report

Board of Directors
Churches United in Ministry and Subsidiary
Duluth, Minnesota

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Churches United in Ministry, (a nonprofit organization) and subsidiary, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Churches United in Ministry and subsidiary as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Supplementary Information

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the purposes of additional analysis, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2022, on our consideration of Churches United in Ministry's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Churches United in Ministry's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Churches United in Ministry's internal control over financial reporting and compliance. The financial statements St. Francis Apartments, LLC was not audited in accordance with Government Auditing Standards.



Wipfli LLP

March 8, 2022

Duluth, Minnesota

Churches United in Ministry and Subsidiary

Consolidated Statements of Financial Position

June 30,

Assets	2021	2020
Current assets		
Cash and restricted cash	\$ 1,145,207	\$ 1,035,616
Accounts receivable		
Rent	15,250	7,428
Employees	10,266	9,150
Other	219,590	
Contributions receivable	5,561	3,981
Grants receivable	340,374	250,768
Inventory	83,448	94,104
Prepaid expenses	52,382	33,973
Total current assets	1,872,078	1,435,020
Other assets		
Funds held in reserves	259,385	
Investments	1,242,702	1,015,908
Property and equipment, net	3,335,821	650,939
Total other assets	4,837,908	1,666,847
Total assets	\$ 6,709,986	\$ 3,101,867

Churches United in Ministry and Subsidiary

Consolidated Statements of Financial Position (Continued)

June 30,

Liabilities and Net Assets	2021	2020
Current liabilities		
Refundable advance liability - Paycheck Protection Program	\$	\$ 271,200
Accounts payable	56,377	92,078
Accrued payroll	128,767	125,454
Total current liabilities	185,144	488,732
Long-term liabilities		
Notes payable, net of unamortized debt issuance costs	1,827,200	
Total liabilities	2,012,344	488,732
Net assets		
Without donor restrictions		
Undesignated	3,759,819	1,767,163
Board designated - operating reserve	754,000	573,851
Board designated - capital reserve	31,700	31,708
Total without donor restrictions	4,545,519	2,372,722
With donor restrictions	152,123	240,413
Total net assets	4,697,642	2,613,135
Total liabilities and net assets	\$ 6,709,986	\$ 3,101,867

See accompanying notes to financial statements.

Churches United in Ministry and Subsidiary

Consolidated Statement of Activities

For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue			
Public support			
Contributions	\$ 1,270,941	\$ 15,000	\$ 1,285,941
Contributions - in kind	693,724		693,724
Grants from foundations, governments and others	4,167,290	137,123	4,304,413
Total public support	6,131,955	152,123	6,284,078
Revenue			
Program service fees	113,188		113,188
Special events, net costs of \$10,233	58,260		58,260
Investment income, net	188,174		188,174
Total revenue	359,622		359,622
Total public support and revenue	6,491,577	152,123	6,643,700
Net assets released from restrictions	240,413	(240,413)	
Expenses			
Program services	4,210,532		4,210,532
Supporting services			
Management and general	145,383		145,383
Fund raising	203,278		203,278
Total expenses	4,559,193		4,559,193
Change in net assets	2,172,797	(88,290)	2,084,507
Net assets, beginning of year	2,372,722	240,413	2,613,135
Net assets, end of year	\$ 4,545,519	\$ 152,123	\$ 4,697,642

See accompanying notes to financial statements.

Churches United in Ministry and Subsidiary

Consolidated Statement of Activities

For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue			
Public support			
Contributions	\$ 1,418,437	\$	\$ 1,418,437
Contributions - in kind	582,860		582,860
Grants from foundations, governments and others	1,266,930	240,413	1,507,343
Total public support	3,268,227	240,413	3,508,640
Revenue			
Program service fees	59,778		59,778
Special events, net costs of \$16,689	42,596		42,596
Investment income, net	18,739		18,739
Total revenue	121,113		121,113
Total public support and revenue	3,389,340	240,413	3,629,753
Net assets released from restrictions	122,282	(122,282)	
Expenses			
Program services	2,600,224		2,600,224
Supporting services			
Management and general	136,017		136,017
Fund raising	139,685		139,685
Total expenses	2,875,926		2,875,926
Change in net assets	635,696	118,131	753,827
Net assets, beginning of year	1,737,026	122,282	1,859,308
Net assets, end of year	\$ 2,372,722	\$ 240,413	\$ 2,613,135

See accompanying notes to financial statements.

Churches United in Ministry and Subsidiary

Consolidated Statement of Functional Expenses

For the Year Ended June 30, 2021

	Program Services	Supporting Services		Total
		Management and General	Fund Raising	
Salaries	\$ 1,529,835	\$ 89,947	\$ 112,320	\$ 1,732,102
Payroll taxes	114,901	6,487	8,223	129,611
Employee benefits	209,487	12,882	15,682	238,051
Total salaries and benefits	1,854,223	109,316	136,225	2,099,764
Special event food and supplies			10,233	10,233
Professional services	42,595	23,508	47,556	113,659
Program supplies	52,201			52,201
Food for food shelf - in kind	696,820			696,820
Laundry, linen, and housekeeping	76,539	8	8	76,555
Utilities	105,141	1,509	1,286	107,936
Equipment rental, purchase, and maintenance	97,567	3,829	3,394	104,790
Insurance	22,499	1,682	171	24,352
Staff travel, development, and recognition	8,831	84	1,012	9,927
Office supplies, postage, printing, and publications	11,454	661	13,626	25,741
Building and grounds	47,894			47,894
Office rent	397,837			397,837
Rent - food shelf - in kind	7,560			7,560
Dues and licenses	4,137	200		4,337
Food served	589,681			589,681
Assistance to individuals	121,428			121,428
Contributions made	500			500
Interest expense		62		62
Miscellaneous	226	1,594		1,820
Total expenses before depreciation	4,137,133	142,453	213,511	4,493,097
Depreciation	73,399	2,930		76,329
Less amounts included with revenue on the statement of activities:				
Direct cost of special events			(10,233)	(10,233)
Total functional expenses	\$ 4,210,532	\$ 145,383	\$ 203,278	\$ 4,559,193
Percent of program allocation	90%	5%	5%	100%

See accompanying notes to financial statements.

Churches United in Ministry and Subsidiary

Consolidated Statement of Functional Expenses

For the Year Ended June 30, 2020

	Program Services	Supporting Services		Total
		Management and General	Fund Raising	
Salaries	\$ 1,110,914	\$ 84,138	\$ 86,042	\$ 1,281,094
Payroll taxes	80,211	6,047	6,586	92,844
Employee benefits	190,493	12,251	19,771	222,515
Total salaries and benefits	1,381,618	102,436	112,399	1,596,453
Special event food and supplies			16,689	16,689
Professional services	40,290	13,574	12,569	66,433
Program supplies	51,557			51,557
Food for food shelf - in kind	553,504			553,504
Laundry, linen, and housekeeping	41,536	16	16	41,568
Utilities	92,874	1,321	872	95,067
Equipment rental, purchase, and maintenance	50,713	4,418	3,302	58,433
Insurance	21,253	1,915	145	23,313
Staff travel, development, and recognition	13,215	2,347	2,051	17,613
Office supplies, postage, printing, and publications	11,367	565	8,054	19,986
Building and grounds	30,717			30,717
Office rent	49,792			49,792
Rent - food shelf - in kind	7,560			7,560
Dues and licenses	4,899	845		5,744
Food served	103,624	1,078	277	104,979
Assistance to individuals	69,336			69,336
Contributions made	14,845			14,845
Miscellaneous	(499)	7,502		7,003
Total expenses before depreciation	2,538,201	136,017	156,374	2,830,592
Depreciation	62,023			62,023
Less amounts included with revenue on the statement of activities:				
Direct cost of special events			(16,689)	(16,689)
Total functional expenses	\$ 2,600,224	\$ 136,017	\$ 139,685	\$ 2,875,926
Percent of program allocation	90%	5%	5%	100%

See accompanying notes to financial statements.

Churches United in Ministry and Subsidiary

Consolidated Statements of Cash Flows

For the Years Ended June 30,

	2021	2020
Increase in cash and restricted cash		
Cash flows from operating activities:		
Change in net assets	\$ 2,084,507	\$ 753,827
Adjustments to reconcile the change in net assets to net cash flows from operating activities		
Refundable advance liability - Paycheck Protection Program	(271,200)	
Depreciation	76,329	62,023
Realized and unrealized gain on investments	(159,757)	(5,563)
Changes in operating assets and liabilities		
Accounts receivable	(228,528)	8,031
Contributions receivable	(1,580)	
Grants receivable	(89,606)	(1,638)
Inventory	10,656	(21,795)
Prepaid expenses	(18,409)	(5,249)
Accounts payable	2,299	(5,196)
Accrued payroll	3,313	35,815
Net cash flows from operating activities	1,408,024	820,255
Cash flows from investing activities:		
Purchase of investments	(67,037)	(511,970)
Purchase of property and equipment	(1,231,396)	(40,804)
Net cash flows from investing activities	(1,298,433)	(552,774)
Cash flows from financing activities:		
Deposits to funds held in reserve	259,385	
Proceeds from refundable advance liability - Paycheck Protection Program		271,200
Net cash flows from financing activities	259,385	271,200
Net change in cash and restricted cash	368,976	538,681
Cash and restricted cash, beginning of year	1,035,616	496,935
Cash and restricted cash, end of year	\$ 1,404,592	\$ 1,035,616

Churches United in Ministry and Subsidiary

Consolidated Statements of Cash Flows (Continued)

For the Years Ended June 30,

	2021	2020
Cash and restricted cash		
Cash	1,145,207	1,035,616
Funds held in reserves	259,385	
Total cash and restricted cash	1,404,592	1,035,616

Supplemental disclosure of cash flow information:

Non-cash operating activities

Cash paid during the year for interest \$ 62

Non-cash investing and financing activities

Construction in progress in accounts payable at year-end \$ 38,000

Financed purchase of property \$ 1,850,000

See accompanying notes to financial statements.

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Churches United in Ministry ("CHUM" or "Organization") is a nonprofit corporation organized under the laws of the State of Minnesota. CHUM is a cooperative social ministry sponsored by a coalition of member congregations and was formed in 1973 as a way for congregations in Duluth, Minnesota to pool resources to assist low-income people in Duluth. CHUM's goals are to provide basic needs services for homeless and marginalized members of the community while working to effect changes that will eliminate the need for our services.

St Francis Apartments, LLC, a Minnesota Limited Liability Company, was formed in June 2021 for the purpose of establishing a forty-three-unit shelter or long-term housing option for the homeless and elderly. It is treated as a disregarded entity for tax purposes. The LLC is owned and governed by the Organization's Board of Directors and the financial statements of the LLC are consolidated with the Organization.

CHUM provides core social safety net programs which include emergency food, shelter, advocacy, and outreach to over 8,000 hungry, homeless, and low-income people each year. Housing Advocates and Street Case Managers provide stabilization services through case management programs for homeless or imminently homeless families and single adults. CHUM's congregational outreach and community organizing efforts center on social justice issues around homelessness and poverty.

CHUM has three program divisions:

1. Stabilization Services – Includes the emergency shelter program for families and individuals (serving approximately 1,000 people a year); homeless street outreach (serving 200 people a year); the CHUM Drop-In Center (2,000 people a year); the CHUM Clinic (450 people a year); family and individual case management; and the Steve O'Neil Apartments. The Steve O'Neil Apartments provide permanent supportive housing for 44 families with children who have experienced long-term or recurrent homelessness. The Steve O'Neil Apartments opened in late December 2014, and were fully occupied in March 2015, with programming based on Circle of Security and participatory engagement. CHUM staff provides case management, family coaching, health and wellness programs, children's programs, and a wide variety of family and community events designed to build a sense of community and overcome the traumas associated with homelessness. During the COVID-19 pandemic, CHUM has also provided isolation and quarantine facilities at two locations for people experiencing homelessness.
2. Distributive Services – Includes two emergency food shelves (providing over 7,000 5-day food packages to 2,500 unique households in 2021, with additional emergency shelter and unsheltered packages to over 600 duplicated individuals); and a school supply backpack project (for 1,800 children of low-income families), and household start-up assistance (for individuals and families moving from shelter to permanent housing).

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Nature of Operations (Continued)

3. Congregational Outreach – Includes faith-based organizing and advocacy at the state and local level; Expanding Horizons, an immersion experience to expose participants to the issues of poverty, and to opportunities for service and social justice work; CHUM Church (inclusive religious education and worship for adults with developmental disabilities); and volunteer outreach and coordination for all of CHUM's programs (about 900 people volunteer each year, 600 regularly and 300 for special events).

CHUM's programs are supported by contributions from individuals, congregations, businesses, foundations and government grants.

Consolidated Financial Statements

The consolidated financial statements include the accounts of CHUM and St. Francis Apartments, LLC, collectively referred to as the "Organization". Material intercompany transactions and balances between the entities have been eliminated.

Basis of Accounting

The Organization's consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP).

Net Assets

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and a capital reserve account.

Net assets with donor restrictions: Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and Cash Equivalents

We consider all cash and highly liquid financial instruments with original maturities of three-months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Funds Held in Reserves

St. Francis Apartments, LLC is required to maintain a replacement, operating, and debt service reserve in accordance with the terms and conditions of its notes payable. Amounts disbursed from the funds must be replenished to maintain the minimum required reserve balances.

Investments

Investments consist of money marketable equity, fixed income funds, and mutual funds with readily determinable fair value. Investments are generally recorded at fair value based on quoted market prices, when available, or estimates of fair value. Donated investments are recorded at fair value at the date of donation or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation or, if no value can be estimated, at a nominal value.

Investment income or loss and unrealized gains or losses, net of investment expenses, are included in the consolidated statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Investments, in general, are exposed to various risks such as significant world events and interest rate, credit, and overall market volatility. As a result of the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. A three-tier hierarchy prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Accounts Receivable

Accounts receivable consist of amounts due for program services provided to other organizations and individuals, rent due, or expenses paid to assist individuals. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management regularly reviews accounts receivable and writes off any amounts deemed uncollectible. Based on management's assessment of each amount at year end, collection of these amounts is reasonably certain and, therefore, no valuation allowance for uncollectible accounts is needed.

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Grants and Contributions Receivable

Grants receivables consist of amounts due from governmental agencies, private foundations, and federated campaigns. Contributions receivable are recognized when the donor makes an unconditional promise to give. Grants and contributions receivable that are restricted by the grantor/donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions and grants are recognized. All other restricted contributions and grants are reported as increased in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net asset without donor restrictions. Grants and contributions receivable are stated at the amount management expects to collect from outstanding balances. Management believes collection of these accounts is reasonably certain, and therefore, a valuation allowance is not considered necessary.

Inventory

Inventory consists of donated food for the Food Shelf that was on hand at year end. Donated food is valued at \$1.79 and \$1.62 per pound during 2021 and 2020, respectively. Management reviews the value of donated food annually. The value per pound is consistent with the valuation used by other local food shelves. The estimated fair value of food held in inventory was \$83,448 and \$94,104 for the years ended June 30, 2021 and 2020.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives of 5 to 40 years. Donations of property and equipment are recorded as support at their estimated fair value when placed in service. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. It is CHUM's policy to capitalize land, building, and equipment with a cost of \$5,000 or more.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset and its fair value are less than the carrying amount of that asset. The Organization has not recognized any impairment of long lived assets during 2021 and 2020.

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Debt Issuance Costs

Debt issuance costs have been capitalized and are being amortized to interest expense over the related debt term using the straight-line method which approximates the interest method. There were no debt issuance costs amortized for the period ended June 30, 2021.

Contribution Revenue

Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution or promise to give contains a donor or grantor condition when both of the following are present:

- An explicit identifying of a barrier, that is more than trivial, that must be overcome before the revenue can be earned and recognized
- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met

Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received.

Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, 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. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

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.

Donated services are recognized as contributions, at the donor's estimated fair value, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization.

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Revenue from Exchange Transactions: The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization records the following exchange transaction revenue in its statements of activities for the years ended June 30, 2021 and 2020.

Special events

The Organization conducts special events in which a portion of the gross proceeds received includes sponsorships at the event, a portion represents payment for the direct cost of the benefits received by the participant at the event - the exchange components, and a portion represents a contribution to the Organization. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recorded as special event expenses in the statement of activities. The performance obligation is delivery of the event, which is usually accompanied by a presentation. The event fee is set by the Organization. The Organization enters into contracts with customers for sponsorships with an agreed upon price in consideration for publicity, advertisement, goods or services to the sponsor during the Organization's special events. If the sponsorship agreement involves more than one performance obligation, the price is allocated to each performance obligation. FASB ASU 2014-09 requires allocation of the transaction price to the performance obligations. Accordingly, the Organization separately presents in its notes to financial statements the exchange and contribution components of the gross proceeds from special events. Special event fees collected by the Organization in advance of its delivery are initially recognized as liabilities (deferred revenue) and recognized as special event revenue after delivery of the event. For special event fees received before year-end for an event to occur after year-end, the Organization follows AICPA guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange component. Sponsorship revenue received in advance is deferred and recognized over time as the performance obligation(s) is satisfied. If an event is cancelled, no refunds are given.

Program service fees

The Organization enters into contracts with customers with an agreed upon price in consideration for certain program services. These services include chaplaincy, local educational tours, and child care support services for tenants at Steve O'Neil. The fees for the service provided are either on an hourly rate, or rate per person for which the performance obligation is met. Revenue is recognized over time as the chaplaincy service, tour, or childcare is provided. The Organization records accounts receivable at year end for outstanding amounts. There were no contract assets, liabilities, or accounts receivable at June 30, 2021 or 2020, or July 1, 2019.

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Grant awards

Grant awards from corporate contributors and government grantors are either recorded as contributions or exchange transactions based on criteria contained in the grant award.

Grant awards that are contributions - Grants awards that are contributions are evaluated for conditions and recognized as revenue when conditions in the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reported as a refundable advance liability.

Grant awards that are exchange transactions - Exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state 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 consolidated statement of financial position.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include salaries and benefits, which are allocated on the basis of time and effort as a result of a time study of staff performed.

Income Taxes

CHUM is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and assesses whether it is more likely than not that a tax position will be sustained upon examination of the technical merits or the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of the tax position is not recognized in the consolidated financial statements. CHUM recorded no assets or liabilities for uncertain tax positions or unrecognized tax benefits under the provision of Minnesota Statue 290.05.

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Change in Accounting Policy

During the year, the Association adopted the provisions of FASB ASU 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement* (Topic 820). ASU 2018-13 includes new, eliminated, and modified disclosure requirements for FASB ASC 820. In addition, ASU 2018-13 clarifies that materiality is an appropriate consideration of entities when evaluating disclosure requirements. The Organization adopted this guidance on July 1, 2020, and it was applied retrospectively to all periods presented upon the effective date. There was no material impact to the consolidated financial statements as a result of adoption. Accordingly, no adjustment to opening net assets was recorded.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). This ASU requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the consolidated statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. In 2020, the FASB delayed the effective date for nonpublic entities to fiscal years beginning after December 15, 2021. Early adoption is permitted. The Organization is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-Financial Assets* (Topic 958). The amendments in this update will require entities to present contributed nonfinancial assets as a separate line item in the statement of activities, expand disclosures on the various contributed nonfinancial assets recognized, including disaggregated category types, the valuation techniques and inputs used to arrive at fair value, and the policy for either monetizing or utilizing contributed nonfinancial assets. The amendments in this update are effective for annual consolidated financial statements issued for fiscal years beginning after June 15, 2021, applied on a retrospective basis. Early adoption is permitted. The Organization is currently evaluating the impact this standard will have on its consolidated financial statements.

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Subsequent Events

As discussed in Note 7, St. Francis Apartments, LLC is a newly established, wholly owned subsidiary of CHUM as of the year end June 30, 2021. In October 2021, CHUM entered into an agreement to sell 100% of its membership interest in St. Francis Apartments, LLC and its related assets and liabilities, to an unrelated party, for the purchase price of one dollar.

CHUM subsequently entered into a new lease with St. Francis Apartments, LLC effective October 2021, to continue its program of providing shelter to the homeless. The base rent monthly payment is equal to all operating income for the prior calendar month, due on the 15th day of each month.

In preparing these consolidated financial statements, CHUM has evaluated events and transactions for potential recognition or disclosure through March 8, 2022, the date the consolidated financial statements were available to be issued.

Note 2: Concentration of Credit Risk

The Organization maintains cash balances at financial institutions where the accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. The Organization uses a combination of interest bearing and non-interest bearing accounts at their bank. At certain times during the year, cash balances may be in excess of FDIC coverage. The Organization has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash.

Note 3: Investments

Investments consist of the following at June 30,:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 16,052	\$ 16,052	\$ 280,053	\$ 280,053
Mutual funds	979,453	1,226,650	672,067	735,855
Total	\$ 995,505	\$ 1,242,702	\$ 952,120	\$ 1,015,908

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 3: Investments (Continued)

Investment return is summarized as follows at June 30,:

	2021	2020
Interest and dividends	\$ 35,388	\$ 18,154
Realized gain on investments	491	73,803
Unrealized gain (loss) on investments	159,266	(68,240)
Investment fees	(6,971)	(4,978)
Total	\$ 188,174	\$ 18,739

Note 4: Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value.

Money market funds: Valued at cost which approximates fair value.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by CHUM are open-ended mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by CHUM are deemed to be actively traded.

The following table presents the balances of assets measured at fair value on a reoccurring basis by Level 1 inputs within the fair value hierarchy, and consisted of the following at June 30:

<i>Investment Type</i>	2021	2020
Money Market Funds	\$ 16,052	\$ 280,053
Mutual Funds		
Equity	581,610	326,458
International Equity	111,239	66,875
Fixed Income	533,801	342,522
Total Investments	\$ 1,242,702	\$ 1,015,908

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 5: Property and Equipment

A summary of land, building, and equipment is as follows as of June 30:

	2021	2020
Land	\$ 20,000	\$ 20,000
Land - St. Francis Apartments, LLC	594,000	
Buildings	1,800,653	1,715,434
Building - St. Francis Apartments, LLC	2,093,797	
Furniture and equipment	119,651	88,905
Construction in Progress		58,399
<hr/>		
Total land, buildings, and equipment	4,628,101	1,882,738
Less accumulated depreciation	(1,292,280)	(1,231,799)
<hr/>		
Net land, buildings, and equipment	\$ 3,335,821	\$ 650,939

Depreciation expense for the years ended June 30, 2021 and 2020, was \$76,329 and \$62,023, respectively.

Note 6: Subsidiary and Purchase of Building

During the year, the Organization formed the subsidiary, St Francis Apartments, LLC. On June 30, 2021, the subsidiary acquired property from an unrelated party, for a total purchase price of \$3,050,000.

A summary of the assets acquired and sources of funds is as follows:

Funds held in trust	\$ 259,385	
Land	594,000	
Building	2,093,797	
Unamortized debt issuance costs	22,800	
Expenses	80,018	
<hr/>		
Total use of funds		3,050,000
<hr/>		
Note payable - GMHF		1,600,000
Note payable - HRA		250,000
Grant revenue - St. Louis County		1,100,000
Contribution by CHUM		100,000
<hr/>		
Total sources of funds	\$ 3,050,000	

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 6: Subsidiary and Purchase of Building (Continued)

As of June 30, 2021, CHUM has \$219,590 in accounts receivable due from from closing for advanced payments made on behalf of St Francis Apartments, LLC.

Note 7: Refundable Advance Liability – Paycheck Protection Program

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act created and funded the Small Business Administration (SBA) Paycheck Protection Program (PPP) to provide loans designated to help small businesses cover their near-term operating expenses and provide an incentive to retain their employees during the COVID-19 pandemic. The Organization applied for and received a PPP loan of \$271,200 under this program.

The Organization has met the PPP's eligibility criteria, and concludes that the PPP loan represents, in substance, a grant that is expected to be forgiven. Accordingly, the Organization has recorded the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. The Organization has interpreted the conditions of the grant to be forgiveness by the lender. Notice of forgiveness by the lender was made on December 3, 2020. The Organization has met all of these conditions as of June 30, 2021 and has recognized grant revenue at the amount forgiven, which is the full \$271,200.

Note 8: Line of Credit

The Organization maintains a line of credit with a maximum borrowing of \$250,000 for the purpose of general working capital. Interest is variable and determined by the Wall Street Journal Prime Rate, which was 3.25% as of June 30, 2021 and 2020, respectively. The note matures on January 28, 2022. The line of credit is secured by investments held by CHUM. There was no balance outstanding at June 30, 2021 and 2020, respectively.

Note 9: Notes Payable

The Organization has the following notes payable as of June 30,:

2021

St Francis Apartments, LLC

Note Payable dated June 30, 2021, to Greater Minnesota Housing Fund (GMHF) with interest only payments through June 2023 at 4.10%. Monthly principal and interest payments to commence on July 1, 2023, in the amount of \$7,713 and matures in June 2046. Secured by property and all personal property thereon.

\$ 1,600,000

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 9: Notes Payable (Continued)

2021

Note Payable dated June 28, 2021 to Housing Redevelopment Authority of Duluth. Subordinate to the GMHF note payable with no payments of principal or interest due for a period of 30 years.	250,000
<hr/>	
Total notes payable	1,852,021
Less: unamortized debt issuance costs	(22,800)
<hr/>	
Notes payable, net	\$ 1,829,221

These notes payable were sold to an unrelated entity as part of the sale of 100% of the Organization's interest in St. Francis Apartments, LLC in October 2021 as discussed in Note 1.

The notes payable above are supported by a loan agreement, which provides for, among other matters, loan covenants including the maintenance of certain ratios.

Note 10: Commitments and Contingencies

Government Grants - Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed grant costs may constitute a liability. The amount, if any, of costs which may be disallowed by the grantor agencies will be recognized in the year determined.

Drop-In Center Building Restriction - A 1999 addition to the Drop-In Center was partially financed by a government grant that impose operating restrictions on the property. The government grant requires the property to be operated as a supportive housing program for various periods ranging from 5 to 20 years beginning in May of 1999. The grant is repayable if CHUM is not in compliance during the term of the grant. The grant subject to the compliance restrictions as of June 30, 2021 and 2020, was \$0 and \$175,000, respectively. The grant was included in net assets without donor restrictions because it is management's intention to maintain compliance during the term of these agreements.

In February 2021, CHUM entered into a lien agreement with the City of Duluth for grant funds received to assist in expanding the freezer capacity at CHUM's food shelf. The lien is the greater of the amount granted or the fair market value at the time of sale and is in effect through February 8, 2031.

In June 2021, St. Francis Apartments, LLC, entered into mortgage agreements with the two state agencies that impose operating restrictions for a property acquired to be rehabilitated and equipped to operate a 43-unit multifamily apartment project "The Project". The project must be operated as a shelter or long-term housing option for a minimum of 10 years. The loans are repayable if the LLC is not in compliance during the term of the loans. The loans create a first and second lien respectively, on the property and a security interest in all of the personal property located thereon.

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 11: Operating Lease Commitment

On November 12, 2013, CHUM entered into a shelter lease agreement to lease space from Hillside Apartments Duluth, LLLP to operate a family shelter within the Steve O'Neil Apartments. The initial term of the lease is 15 years and calls for annual rent of \$45,000 to be paid in monthly installments of \$3,750. Rent is increased annually by the lesser of the Consumer Price Index, as published by the United States Department of Labor for All Urban Cites, or three percent. Current monthly rents under this lease agreement are \$4,035. Rent expense under this lease for 2021 and 2020 was \$48,675 and \$49,792, respectively.

During October 2020, CHUM entered into a short-term shelter lease agreement to lease space with ZMC Hotels, LLC, an unrelated party, to operate a shelter for the homeless and elderly during the COVID-19 outbreak. The term of the lease was effective October 4, 2020 through June 30, 2021, with base rent of \$38,940 per month, and an additional \$59 per room per night above the base amount. Total rent expense under this lease for 2021 was \$349,162. On June 30, 2021, St. Francis Apartments, LLC (CHUM's wholly owned subsidiary) purchased the real estate being leased as further described in Note 6.

Future minimum rental payments under these agreements are as follows:

<i>Years Ended June 30,</i>	<i>Amount</i>
2022	\$ 48,420
2023	48,420
2024	48,420
2025	48,420
2026	48,420
Thereafter	169,470
Total	\$ 411,570

Note 12: Government Funding

The Organization receives a significant portion of their source of funds from federal, state and local government funding. As such, the Organization is subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by a specific funding agency. Such changes may occur with little notice or inadequate funding to pay for related costs, including the additional administrative burden to comply with such changes.

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 13: Special Event Revenue

Gross receipts from special fundraising events recorded by the Organization consist of exchange transaction revenue and contribution revenue with the following components as of June 30, 2021, and 2020:

	2021	2020
Contribution revenue	\$ 51,360	\$ 28,346
Exchange transaction revenue (sponsorships)	6,900	14,250
Exchange transaction revenue (benefit to customer)	10,233	16,689
Total special event revenue	\$ 68,493	\$ 59,285

Note 14: Retirement Plan

CHUM has a defined contribution retirement plan which provides for voluntary pre-tax employee contributions and discretionary employer contributions and is intended to satisfy the requirements of Section 403(b) of the Internal Revenue Code. The plan covers substantially all employees who work over 1,000 hours per year and have been employed for one year. CHUM's contributions to the plan were \$23,459 and \$20,282 in 2021 and 2020, respectively.

Note 15: Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2021 and 2020:

	2021	2020
Subject to expenditure for specified purpose:		
Drop in center, emergency shelter, warming center	\$	\$ 90,943
Health and Wellness Coordinator	15,000	
Food shelf delivery program	40,000	
COVID-19 emergency response	97,123	129,470
Technology systems upgrade		20,000
Total	\$ 152,123	\$ 240,413

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 15: Net Assets with Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2021 and 2020:

	2021	2020
Satisfaction of program restrictions:		
Technology systems upgrade	\$ 20,000	\$
COVID-19 emergency response	129,470	
Drop in center and emergency shelter	90,943	59,782
Adapting to the needs of Duluth's homelessness		12,500
Crisis response program		45,000
Children who have experienced homelessness		5,000
Net assets released from restriction	\$ 240,413	\$ 122,282

Note 16: Board Designated Net Assets

The Churches United in Ministry's Board of Directors has designated, from net assets without donor restrictions, net assets for the following purposes as of June 30, 2021, and 2020:

<i>Years Ended June 30,</i>	2021	2020
Operating reserve	\$ 754,000	\$ 573,851
Capital reserve	31,700	31,708
Total board designated net assets	\$ 785,700	\$ 605,559

The operating reserve is to address shortfalls in the annual operating budget. The operating reserve amount is to equal three months of the subsequent year's annual operating budget.

The capital reserve is to meet major capital repair and replacement costs in excess of the amount budgeted in the annual operating budget. The floor of the capital reserve is set at 5 percent of the previous year's book value of property and equipment.

Churches United in Ministry and Subsidiary

Notes to Consolidated Financial Statements

Note 17: Liquidity and Availability of Financial Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

<i>Years Ended June 30,</i>	2021	2020
Cash	\$ 1,145,207	\$ 1,035,616
Accounts receivables	245,106	16,578
Contributions Receivable	5,561	3,981
Grants receivable	340,374	250,768
Investments	1,242,703	1,242,703
Total financial assets as of year-end	2,978,951	2,549,646
Less: Net assets with donor restrictions	(152,123)	(240,413)
Less: Board designated net assets	(785,700)	(605,559)
Financial assets available to meet cash needs for general expenditure within one year	\$ 2,041,128	\$ 1,703,674

As part of CHUM's liquidity management, it is the governing board's policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the governing board invests cash in excess of daily requirements in short-term investments, and money market funds. To help manage unanticipated liquidity needs, CHUM has a line of credit in the amount of \$250,000 which it could draw upon, as discussed in Note 8. The board designates a portion of any operating surplus to its operating reserve, which was \$754,000 as of June 30, 2021. Although the board does not intend to spend from its board designated net assets other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board designated net assets could be made available if necessary.

Note 18: Business Conditions

In March 2020, the World Health Organization recognized the outbreak of coronavirus disease ("COVID-19"), as a global pandemic, prompting many national, regional, and local governments to implement protective measures such as business restrictions and stay-at-home orders. CHUM's services have been considered essential in nature, and have not been materially interrupted. The crisis response plan increased cost of supplies, increased wages for hazard pay for staff and additional staff, and provided for emergency shelter at two hotels to shelter clients. CHUM was also the only remaining food shelf open locally, and contracted with area restaurants to provide daily meals. The Organization received approval for the Paycheck Protection Program promissory note as discussed in Note 5, and approval on reimbursable government grants for increased pay and staff, and for hotel stays and meals expense. Additional funding received includes COVID-19 emergency grants from local area non-profits, and the state of Minnesota. CHUM is closely monitoring the impact of COVID-19 on all aspects of operations, and we believe the impact on cash flows and financial condition is likely to be determined by factors which are uncertain and outside of our control. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially, adversely impact our business.

Supplementary Information

Churches United in Ministry and Subsidiary

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Grantor Agency/Pass-through/Program Title	AL Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Passed through Second Harvest Northern Lakes Food Bank			
Emergency Food Assistance Program (Food Commodities)	10.569	None assigned	\$ 180,928
Total U.S. Department of Agriculture			180,928
U.S. Department of Housing and Urban Development			
Passed through City of Duluth			
Community Development Block Grant	14.218	23545	\$ 20,187
Community Development Block Grant	14.218	23978	14,607
Community Development Block Grant	14.218	24249	5,360
Community Development Block Grant	14.218	23979	16,589
Community Development Block Grant	14.218	23993	30,322
Community Development Block Grant	14.218	24255	9,048
Community Development Block Grant	14.218	24250	12,482
COVID - 19 Community Development Block Grant	14.218	24147	6,209
COVID - 19 Community Development Block Grant	14.218	None assigned	50,000
COVID - 19 Community Development Block Grant	14.218	C24048	33,607
Total Community Development Block Grant			198,411
Passed through State of Minnesota Department of Human Services			
Emergency Shelter Grant	14.231	None assigned	180,000
Passed through City of Duluth			
Emergency Shelter Grant	14.231	23980	9,420
Emergency Shelter Grant	14.231	None assigned	4,157
Emergency Shelter Grant	14.231	23992	13,450
Emergency Shelter Grant	14.231	None assigned	13,729
COVID - 19 Emergency Shelter Grant	14.231	None assigned	200,000
Total Emergency Shelter Grant			420,756
Passed through Housing and Redevelopment Authority			
Homeless Response System Data and Performance	14.267	None assigned	30,626
Total U.S. Department Housing and Urban Development			649,793

Churches United in Ministry and Subsidiary

Schedule of Expenditures of Federal Awards (Continued)

For the Year Ended June 30, 2021

U.S. Department of Treasury			
Passed through Minnesota Department of Human Services			
CARES - Coronavirus Relief Fund	21.019	None provided	752,254
Passed through City of Duluth			
CARES - Coronavirus Relief Fund	21.019	None provided	75,187
Passed through St. Louis County			
CARES - Coronavirus Relief Fund	21.019	None provided	23,356
Total U.S. Department of Treasury			850,797
U.S. Department of Homeland Security			
Direct Award			
Emergency Food and Shelter Program	97.024		48,000
Total U.S. Department of Homeland Security			48,000
Total Expenditures of Federal Awards			\$ 1,729,518

See Independent Auditor's Report.

See Notes to Schedule of Expenditures of Federal Awards.

Churches United in Ministry and Subsidiary

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

Note 1: General

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Churches United in Ministry under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with requirements of the Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of Churches United in Ministry, it is not intended to and does not present the financial position, changes in net assets or cash flows of Churches United in Ministry.

Note 2: Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3: Indirect Cost Rate

Churches United in Ministry has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Sub-Recipients

Churches United in Ministry does not have any sub-recipients of federal awards.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Churches United in Ministry and Subsidiary
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Churches United in Ministry and Subsidiary (the "Organization"), as of and for the year ended June 30, 2021 and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic consolidated financial statements, and have issued our report thereon dated March 8, 2022. The financial statements St. Francis Apartments, LLC was not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-003 that we consider to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 to be a significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Organization's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Wipfli, LLP

March 8, 2022
Duluth, Minnesota

Independent Auditor's Report on Compliance for a Federal Program and on Internal Control Over Compliance

Board of Directors
Churches United in Ministry and Subsidiary
Duluth, Minnesota

Report on Compliance for its Major Federal Program

We have audited the compliance of Churches United in Ministry and Subsidiary (the Organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on its federal program for the year ended June 30, 2021. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on Churches United in Ministry and Subsidiary's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the federal program occurred. An audit includes examining, on a test basis, evidence about Churches United in Ministry and Subsidiary's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its federal program. However, our audit does not provide a legal determination of Churches United in Ministry and Subsidiary's compliance.

Opinion on its Major Federal Program

In our opinion, Churches United in Ministry and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of Churches United in Ministry and Subsidiary is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Churches United in Ministry and Subsidiary's internal control over compliance with requirements that could have a direct and material effect on its federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of Churches United in Ministry and Subsidiary's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of compliance with the specific program compliance requirements referred to above that are applicable to the federal program and our testing of internal control over compliance and the results of our testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Wipfli LLP

March 8, 2022
Duluth, Minnesota

Churches United in Ministry and Subsidiary

Schedule of Findings and Questioned Costs

Year Ended June 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes No

Type of auditor's report issued on compliance for major federal programs **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2 CFR 200.516(a)]? Yes No

Identification of major federal program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
21.019	Coronavirus Relief Fund

Dollar threshold used to distinguish between Type A and Type B programs:

Federal	\$750,000
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Auditee qualified as low-risk auditee? No

Churches United in Ministry and Subsidiary

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2021

Section II - Financial Statement Findings

2021-001 - Financial Statement Presentation and Disclosures (Significant Deficiency)

Criteria - Controls should be in place to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Condition - The Organization internal control over financial reporting does not end at the general ledger, but extends to the financial statements and related notes. As part of our professional services for the year ended June 30, 2021, Wipfli assisted in drafting the financial statements and related notes. While the Organization does have an internal control process to review the financial statements prepared by the auditors, the Organization does not have sufficient expertise to completely prepare its own financial statements and related notes, and relies on the auditors to provide necessary understanding of current accounting and disclosure principles in the preparation of the financial statements and related notes.

Cause - The Organization does not expect, nor does it require, its financial staff to have the ability to prepare GAAP financial statements.

Effect - The completeness of the related note disclosures and the accuracy of the overall financial presentation is negatively impacted as outside auditors do not have the same comprehensive understanding of the Organization and its staff. The potential exists that a misstatement of the financial statements and related notes could occur and not be prevented or detected by the Organization.

Recommendation - We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

Organization's Response - The Organization will continue to rely upon the auditors to prepare the financial statements and related notes. Management will review and approve the annual financial statements and related notes.

2021-002 – Lack of Segregation of Duties (Significant Deficiency)

Criteria - The basic premise of segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. As a result of the small number of staff in the accounting department, there is lack of segregation of duties over cash disbursements, general ledger controls, expense transaction record keeping, and revenue and cash receipt transaction record keeping.

Condition - Duties related to cash receipts and disbursements and general ledger controls should be segregated to maintain the best controls system possible.

Cause - The Organization does not have resources to hire additional staff to appropriately segregate duties related to cash disbursements and general ledger controls.

Churches United in Ministry and Subsidiary

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2021

Effect - Inadequate segregation of duties increases the risk of misappropriation of assets.

Recommendation - As hiring more staff is typically not feasible for most small organizations, the most effective control lies in management's knowledge of matters relating to the Organization's operations. Management should be aware of this condition and realize that the concentration of duties and responsibilities in a few individuals is not desirable from a control point of view.

View of Responsible Official: The Organization continues to put in feasible safeguards, given the size of the Organization, to better segregate duties.

2021-003 - Material Adjustments to the Financial Statements (Material Weakness)

Criteria - Controls should be in place to ensure accurate financial reporting. In order to make the financial reports generated by the accounting system as meaningful as possible, Organization should reconcile the general ledger accounts to supporting documentation on a periodic basis.

Condition - During the performance of our audit engagement we made several adjusting journal entries to correct errors in the financial statements. The material adjusting journal entries are as follows:

- The Organization was the sole member of St. Francis Apartments, LLC a Minnesota Limited Liability Company, which entered into a purchase agreement in June 2021 for real estate. The affect was an understatement of revenues by \$1,119,982, an understatement of assets by \$2,969,982, and an understatement of liabilities of \$1,850,000.
- Unconditional grant revenues were not recognized upon award, resulting in an understatement of grant revenues totaling \$34,430.

Cause - The Organization's controls over period-end financial reporting did not prevent or detect material misstatements of the financial statements.

Effect - The Organization's control policies and procedures did not prevent or detect material misstatements of the financial statements.

Recommendation - We recommend the Organization develop a process to ensure that all significant accounts are reconciled to supporting documentation on a periodic basis including grant revenues and unusual transactions.

View of Responsible Official:

Section III – Federal Award Findings and Questioned Costs

None

Churches United in Ministry and Subsidiary

Schedule of Prior Year Findings and Questioned Costs

Year Ended June 30, 2021

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None