Churches United in Ministry and Subsidiary

Consolidated Financial Statements

Years Ended June 30, 2022 and 2021

CHUM
Food • Shelter • Dignity • Hope

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Independent Auditor's Report

Board of Director
Churches United in Ministry and Subsidiary
Duluth, MN

Opinion

We have audited the accompanying consolidated financial statements of Churches United in Ministry and Subsidiary (the "Organization"), a nonprofit organization, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying 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, 2022 and 2021, 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 (''GAAP'').

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the consolidated financial statements section of our report. We are required to be independent of Churches United in Ministry and Subsidiary 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Churches United in Ministry and Subsidiary's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 GAAS 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Churches United in Ministry and Subsidiary’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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Churches United in Ministry and Subsidiary'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 audit.

Wipfli LLP

Wipfli LLP

Duluth, Minnesota
February 10, 2023

Churches United in Ministry and Subsidiary

Consolidated Statements of Financial Position

June 30,

Assets	**2022**	**2021**
Current assets		
Cash and restricted cash	$ 1,513,356	$ 1,145,207
Accounts receivable		
Rent	9,996	15,250
Employees	9,028	10,266
Other		219,590
Contributions receivable	7,031	5,561
Grants receivable	441,612	340,374
Inventory	93,698	83,448
Prepaid expenses	31,219	52,382
Total current assets	2,105,940	1,872,078
Other assets		
Funds held in reserves		259,385
Investments	1,094,361	1,242,702
Property and equipment, net	687,214	3,335,821
Total other assets	1,781,575	4,837,908
Total assets	$ 3,887,515	$ 6,709,986

Churches United in Ministry and Subsidiary

Consolidated Statements of Financial Position (Continued)

June 30,

Liabilities and Net Assets	**2022**	**2021**
Current liabilities		
Accounts payable	$ 107,720	$ 56,377
Accrued payroll	151,864	128,767
Total current liabilities	259,584	185,144
Long-term liabilities		
Notes payable, net of unamortized debt issuance costs		1,827,200
Total liabilities	259,584	2,012,344
Net assets		
Without donor restrictions		
Undesignated	2,143,800	3,759,819
Board designated - operating reserve	1,208,000	754,000
Board designated - capital reserve	33,800	31,700
Total without donor restrictions	3,385,600	4,545,519
With donor restrictions	242,331	152,123
Total net assets	3,627,931	4,697,642
Total liabilities and net assets	$ 3,887,515	$ 6,709,986

See accompanying notes to financial statements.

Churches United in Ministry and Subsidiary

Consolidated Statement of Activities

For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue			
Public support			
Contributions	$ 1,356,371	$ 62,674	$ 1,419,045
Contributions - in kind	811,805		811,805
Grants from foundations, governments and others	1,720,767	224,657	1,945,424
Total public support	3,888,943	287,331	4,176,274
Revenue			
Program service fees	87,421		87,421
Special events, net costs of $31,532	99,825		99,825
Rental revenue	142,304		142,304
Investment loss, net	(153,266)		(153,266)
Total revenue	176,284		176,284
Total public support and loss	4,065,227	287,331	4,352,558
Net assets released from restrictions	197,123	(197,123)	
Expenses			
Program services	3,932,596		3,932,596
Supporting services			
Management and general	178,839		178,839
Fund raising	190,853		190,853
Total expenses	4,302,288		4,302,288
Loss on disposal of wholly-owned subsidiary	(1,119,981)		(1,119,981)
Change in net assets	(1,159,919)	90,208	(1,069,711)
Net assets, beginning of year	4,545,519	152,123	4,697,642
Net assets, end of year	$ 3,385,600	$ 242,331	$ 3,627,931

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 Functional Expenses

For the Year Ended June 30, 2022

	Program Services	Supporting Services: Management and General	Supporting Services: Fund Raising	Total
Salaries	$ 1,586,054	$ 103,542	$ 97,169	$ 1,786,765
Payroll taxes	118,530	7,921	7,165	133,616
Employee benefits	243,189	11,404	23,942	278,535
Total salaries and benefits	1,947,773	122,867	128,276	2,198,916
Special event food and supplies			31,532	31,532
Professional services	121,279	21,676	36,087	179,042
Program supplies	57,532			57,532
Food for food shelf - in kind	793,995			793,995
Laundry, linen, and housekeeping	51,033	12	12	51,057
Utilities	120,689	1,452	903	123,044
Equipment rental, purchase, and maintenance	45,466	2,826	9,189	57,481
Insurance	18,638	1,904	186	20,728
Staff travel, development, and recognition	8,097	450	207	8,754
Office supplies, postage, printing, and publications	12,999	1,615	15,993	30,607
Building and grounds	38,244			38,244
Rent	197,121			197,121
Rent - food shelf - in kind	7,560			7,560
Dues and licenses	2,963	1,124		4,087
Food served	282,487	4,775		287,262
Assistance to individuals	139,660	1,375		141,035
Interest expense	5,474	134		5,608
Miscellaneous	(768)	14,644		13,876
Total expenses before depreciation	3,850,242	174,854	222,385	4,247,481
Depreciation	82,354	3,985		86,339
Less amounts included with revenue on the statement of activities:				
Direct cost of special events			(31,532)	(31,532)
Total functional expenses	$ 3,932,596	$ 178,839	$ 190,853	$ 4,302,288
Percent of program allocation	90%	4%	4%	100%

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: Management and General	Supporting Services: Fund Raising	Total
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	92%	3%	4%	100%

See accompanying notes to financial statements.

Churches United in Ministry and Subsidiary

Consolidated Statements of Cash Flows

For the Years Ended June 30,

	2022	2021
Increase in cash and restricted cash		
Cash flows from operating activities:		
Change in net assets	$ (1,069,711)	$ 2,084,507
Adjustments to reconcile the change in net assets		
to net cash flows from operating activities		
Refundable advance liability - Paycheck Protection Program		(271,200)
Depreciation	86,339	76,329
Realized and unrealized (gain)/loss on investments	193,566	(159,757)
Loss on disposal of wholly-owned subsidiary	1,119,981	
Changes in operating assets and liabilities		
Accounts receivable	226,082	(228,528)
Contributions receivable	(1,470)	(1,580)
Grants receivable	(101,238)	(89,606)
Inventory	(10,250)	10,656
Prepaid expenses	21,163	(18,409)
Accounts payable	51,343	2,299
Accrued payroll	23,097	3,313
Net cash flows from operating activities	538,902	1,408,024
Cash flows from investing activities:		
Purchase of investments	(45,223)	(67,037)
Purchase of property and equipment	(125,530)	(1,231,396)
Net cash flows from investing activities	(170,753)	(1,298,433)
Cash flows from financing activities:		
Deposits to (withdrawals from) funds held in reserve	(259,385)	259,385
Net cash flows from financing activities	(259,385)	259,385
Net change in cash and restricted cash	108,764	368,976
Cash and restricted cash, beginning of year	1,404,592	1,035,616
Cash and restricted cash, end of year	$ 1,513,356	$ 1,404,592

Churches United in Ministry and Subsidiary

Consolidated Statements of Cash Flows (Continued)

For the Years Ended June 30,

		2022		2021
Cash and restricted cash				
Cash		1,513,356		1,145,207
Funds held in reserves				259,385
Total cash and restricted cash		1,513,356		1,404,592
Supplemental disclosure of cash flow information:				
Non-cash operating activities				
Cash paid during the year for interest	$	5,608	$	62
Non-cash investing and financing activities				
Financed purchase of property			$	1,850,000
Deconsolidation net transfer of assets, liabilities, and net assets (see Note 7)	$	1,119,981		

See accompanying notes to 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. Effective October 1, 2021, the assets, liabilities, and net assets were transferred to an unrelated entity, and, as a result, were deconsolidated from the 2022 consolidated financial statements (see Note 7). The LLC was owned and governed by the Organization's Board of Directors and the financial statements of the LLC were consolidated with the Organization through the date of transfer.

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 though case management programs for homeless or imminently homeless families and single adults. CHUM’s congregational outreach and community organizing efforts center on social justice issued around homelessness and poverty.

CHUM has three program divisions:

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 (300 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 for people experiencing homelessness.

Distributive Services – Includes two emergency food shelves (providing over 7,000 5-day food packages to 2,500 unique households in 2022, with additional emergency shelter and unsheltered packages to over 600 duplicated individuals); mobile food drops to Duluth area food deserts (960 food packages in 2022); A food delivery program—Chum2Go, delivering food packages to homebound seniors, families, and those with disabilities (720 food packages in 2022).

Note 1: Summary of Significant Accounting Policies (Continued)

Nature of Operations (Continued)

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. Donor- imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted, has been fulfilled, or both. Restricted contributions that are received and utilized in accordance with donor stipulations in the same year are reported as contributions without donor restrictions. The Organization follows a similar policy for investment return on these funds.

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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 it's 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.

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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. The valuation of donated food is disclosed in Note 12. 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 $93,698 and $83,448 for the years ended June 30, 2022 and 2021.

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 31 1/2 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.

Note 1: Summary of Significant Accounting Policies (Continued)

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 2022 and 2021.

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, 2022.

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.

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, 2022 and 2021.

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, 2022 or 2021, or July 1, 2020 related to program service fees.

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.

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

As of July 1, 2021, the Organization adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-Financial Assets* (Topic 958). The amendments in this update requires 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 ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

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.

Subsequent Events

In preparing these consolidated financial statements, CHUM has evaluated events and transactions for potential recognition or disclosure through February 10, 2023, 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: Accounts Receivable and Contract Balances

Opening and closing balances for contract assets, contract liabilities, and accounts receivable arising from contracts with customers include:

	6/30/2022	6/30/2021	7/1/2020
Accounts receivable	$ 19,024	$ 245,106	$ 16,578

Contract assets arise when the Organization transfers goods or services to a customer in advance of receiving consideration and the right to consideration is conditioned on something other than the passage of time. Contract assets are transferred to receivables when the right to receive consideration becomes unconditional and the Organization is able to invoice the customer. Contract liabilities represent the Organization's obligation to transfer goods or services to a customer when consideration has already been received from the customer. When transfer of control of the related good or service occurs, contract liabilities are reclassified, and revenue is recognized. There were no contract assets or liabilities as of June 30, 2022 and 2021 or July 1, 2020.

Note 4: Investments

Investments consist of the following at June 30,:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Money market funds	$ 56,517	$ 56,517	$ 16,052	$ 16,052
Mutual funds	984,126	1,037,844	979,453	1,226,650
Total	$ 1,040,643	$ 1,094,361	$ 995,505	$ 1,242,702

Investment return is summarized as follows at June 30,:

	2022	2021
Interest and dividends	$ 47,670	$ 35,388
Realized gain on investments	94	491
Unrealized gain (loss) on investments	(193,660)	159,266
Investment fees	(7,370)	(6,971)
Total	$ (153,266)	$ 188,174

Note 5: 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:

Investment Type	2022	2021
Money Market Funds	$ 56,517	$ 16,052
Mutual Funds		
Equity	449,466	581,610
International Equity	89,722	111,239
Fixed Income	498,656	533,801
Total Investments	$ 1,094,361	$ 1,242,702

Note 6: Property and Equipment

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

	2022	2021
Land	$ 20,000	$ 20,000
Land - St. Francis Apartments, LLC	-	594,000
Buildings	1,917,323	1,800,653
Building - St. Francis Apartments, LLC	-	2,093,797
Furniture and equipment	121,766	119,651
Total land, buildings,and equipment	2,059,089	4,628,101
Less accumulated depreciation	(1,371,875)	(1,292,280)
Net land, buildings, and equipment	$ 687,214	$ 3,335,821

Depreciation expense for the years ended June 30, 2022 and 2021, was $86,339 and $76,329, respectively.

Note 7: Disposal of Wholly-Owned Subsidiary

Effective October 1, 2021, CHUM transferred its investment in its wholly-owned subsidiary, St. Francis Apartments, LLC ("Subsidiary") to an unrelated entity. As a result of the transfer, CHUM concluded it no longer holds a controlling financial interest in the Subsidiary and, accordingly, deconsolidated the subsidiary and recognized a loss on deconsolidation of approximately $1,119,981 which is included in loss on disposal of wholly-owned subsidiary on the consolidated statements of activities for the year ended June 30, 2022. CHUM no longer recognizes the carrying value of the Subsidiary as a component of net assets.

CHUM has continuing involvement with the Subsidiary including an operating lease agreement with the unrelated entity and by providing management and oversight services for the 43-units as a sublessor (see Note 11).

The following table summarizes the carrying amounts of the Subsidiary's assets, liabilities, and net assets in the consolidated statement of financial position at September 30, 2021, transferred to the unrelated entity on October 1, 2021:

Funds held in reserves	$	259,385
Land		594,000
Building		2,093,796
Notes payable, net of unamortized debt issuance costs		1,827,200
Net assets	$	1,119,981

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 4.50% and 3.25% as of June 30, 2022 and 2021, respectively. The note matures on April 30, 2023. The line of credit is secured by investments held by CHUM. There was no balance outstanding at June 30, 2022 and 2021.

Note 9: Notes Payable

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

	2022	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

Note 9: Notes Payable (Continued)

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
Total notes payable	-	$ 1,850,000
Less: unamortized debt issuance costs	-	(22,800)
Notes payable, net	$ -	$ 1,827,200

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

These notes payable were transferred to an unrelated entity effective October 1, 2021, as discussed in Note 7.

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.

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.

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 $4,198. Rent expense under this lease for 2021 and 2020 was $49,755 and $48,675, respectively.

Effective October 1, 2021, CHUM entered into a lease agreement to lease space from St. Francis Apartments, LLC, upon the transfer of it's assets and liabilities to an unrelated party (see Note 7). The initial term of the lease is 15 years and requires monthly base rent determined by the number of occupied units at $675 per month, with a maximum of 43-units available for occupancy. Monthly lease payments may be reduced by certain operating expenses as outlined in the agreement. As of June 30, 2022, there were 34 occupied units and rent expense under this lease was $147,366 for the year then ended.

Note 11: Operating Lease Commitment (Continued)

Future minimum rental payments under these agreements are as follows:

Years Ended June 30,	Amount
2023	$ 325,771
2024	325,771
2025	325,771
2026	325,771
2027	325,771
Thereafter	2,329,128
Total	$ 3,957,983

Sublease

In October 2021, the Organization entered into an agreement to sublease the St. Francis Apartments to low income tenants. Leases are signed for one-year periods with an option to extend for an additional one-year term. For the year ended June 30, 2022, each of the 43 units are priced at $675 per month.

Rental income on the St. Francis Apartments for the year ended June 30, 2022 is as follows:

Year Ended June 30,	2022
Direct rental income	$ 71,676
Group residential housing	11,573
Section 8	8,910
HUD rental assistance	50,146
Total	$ 142,305

Management is unable to reasonably estimate minimum sublease payments due to the likelihood of missed payments and unoccupied units throughout the year.

Note 12: Contributed Nonfinancial Assets

Contributed nonfinancial assets consist of the following:

Years Ended June 30,	2022	2021
Donated food	$ 804,245	$ 686,164
Donated rent	7,560	7,560
Total contributed nonfinancial assets	$ 811,805	$ 693,724

Note 12: Contributed Nonfinancial Assets (Continued)

The Organization recognizes contributed nonfinancial assets within revenue, including contributed food and rent. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed food was utilized in the food shelf program and is valued at the Feeding America price per pound rate, which was $1.79 and $1.74 as of June 30, 2022, and 2021, respectively. Rent is donated from a local church for the Organization to set up a food shelf weekly. In valuing donated space, the Organization estimates the fair value on the basis of estimates of per square foot rent that would be charged for use of similar spaces in the area.

Note 13: 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.

Note 14: 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, 2022, and 2021:

	2022	2021
Contribution revenue	$ 69,255	$ 51,360
Exchange transaction revenue (sponsorships)	30,570	6,900
Exchange transaction revenue (benefit to customer)	31,532	10,233
Total special event revenue	$ 131,357	$ 68,493

Note 15: 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 $18,246 and $23,459 in 2022 and 2021, respectively.

Note 16: Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2022 and 2021:

	2022	2021
Subject to expenditure for specified purpose:		
Health and Wellness Coordinator	$ -	$ 15,000
Food shelf program	7,500	40,000
COVID-19 emergency response	-	97,123
Technology systems upgrade	22,424	-
Recovery services	25,000	-
Bus for Steve O'Neil	10,250	-
Total subject to expenditure for specified purpose	65,174	152,123
Subject to the passage of time	177,157	-
Total net assets with donor restrictions	$ 242,331	$ 152,123

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, 2022 and 2021:

	2022	2021
Satisfaction of program restrictions:		
Health and Wellness Coordinator	$ 15,000	$ -
Food shelf program	55,000	-
COVID-19 emergency response	127,123	129,470
Technology systems upgrade	-	20,000
Drop in center and emergency shelter	-	90,943
Net assets released from restriction	$ 197,123	$ 240,413

Note 17: 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, 2022, and 2021:

Years Ended June 30,	2022	2021
Operating reserve	$ 1,208,000	$ 754,000
Capital reserve	33,800	31,700
Total board designated net assets	$ 1,241,800	$ 785,700

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.

Note 18: 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:

Years Ended June 30,	2022	2021
Cash	$ 1,513,356	$ 1,145,207
Accounts receivables	19,024	245,106
Contributions Receivable	7,031	5,561
Grants receivable	441,612	340,374
Investments	1,094,361	1,242,702
Total financial assets as of year-end	3,075,384	2,978,950
Less: Net assets with donor restrictions	(242,331)	(152,123)
Less: Board designated net assets	(1,241,800)	(785,700)
Financial assets available to meet cash needs for general expenditure within one year	$ 1,591,253	$ 2,041,127

Note 18: Liquidity and Availability of Financial Resources (Continued)

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 $1,208,000 as of June 30, 2022. 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.