

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2021 and 2020

BREAKTHROUGH URBAN MINISTRIES, INC.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9
Supplementary Information	
Independent Auditors' Report on Supplementary Data	23
Consolidating Statements of Financial Position	24
Consolidating Statements of Activities	25

INDEPENDENT AUDITORS' REPORT

Board of Directors
Breakthrough Urban Ministries, Inc.
Chicago, Illinois

We have audited the accompanying consolidated financial statements of Breakthrough Urban Ministries, Inc., 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 of America; this includes 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.

Auditors' 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 of America. 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.

Board of Directors
Breakthrough Urban Ministries, Inc.
Chicago, Illinois

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Breakthrough Urban Ministries, Inc. as of June 30, 2021 and 2020, and the changes in its consolidated net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Naperville, Illinois
November 30, 2021

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Statements of Financial Position

	June 30,	
	<u>2021</u>	<u>2020</u>
ASSETS:		
Cash and cash equivalents	\$ 2,757,954	\$ 1,953,413
Accounts receivable	925,806	848,022
Prepaid expenses and other assets	39,420	58,714
Contributions receivable–net	330,222	949,293
Assets held for capital projects:		
Cash and cash equivalents	159,666	1,025
Contributions receivable–net	-	70,823
Note receivable	-	10,945,600
Property and equipment–net	<u>19,253,557</u>	<u>19,432,297</u>
Total Assets	<u>\$ 23,466,625</u>	<u>\$ 34,259,187</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 31,023	\$ 26,248
Accrued expenses	429,740	473,524
Deferred grant revenue	4,828,961	4,841,773
Long term debt	<u>708,273</u>	<u>17,817,460</u>
Total Liabilities	<u>5,997,997</u>	<u>23,159,005</u>
Net assets:		
Without donor restrictions	16,848,740	9,985,066
With donor restrictions	<u>619,888</u>	<u>1,115,116</u>
Total Net Assets	<u>17,468,628</u>	<u>11,100,182</u>
Total Liabilities and Net Assets	<u>\$ 23,466,625</u>	<u>\$ 34,259,187</u>

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Statements of Activities

	Year Ended June 30,	
	2021	2020
OPERATING ACTIVITIES:		
Change in Net Assets Without Donor Restrictions:		
Revenue, support and other income:		
Contributions	\$ 6,665,953	\$ 5,770,528
Government grants	4,021,709	1,810,148
Program fees	113,495	138,602
Gifts-in-kind	1,075,387	1,429,009
Rental and other income	252,862	430,867
Net assets released from restrictions	991,527	1,229,923
Total revenue, support and other income	<u>13,120,933</u>	<u>10,809,077</u>
Expenses:		
Salaries	5,501,546	4,085,980
Fringe benefits and related taxes	1,500,259	1,174,105
Assistance to individuals	2,327,524	2,265,640
Depreciation	656,616	705,480
Occupancy	606,487	504,596
Fees for services	372,363	312,581
Interest expense	95,229	230,944
Advertising and promotion	214,017	91,999
Other	708,841	628,045
Total Expenses	<u>11,982,882</u>	<u>9,999,370</u>
Change in Net Assets Without Donor Restrictions from Operating Activities	<u>\$ 1,138,051</u>	<u>\$ 809,707</u>

(continued)

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Statements of Activities (continued)

	Year Ended June 30,	
	2021	2020
NON-OPERATING ACTIVITIES:		
Change in Net Assets Without Donor Restrictions:		
Revenue, support and reclassifications:		
Gain on extinguishment of debt	\$ 5,654,800	\$ -
Other income	-	390
Net assets released from restrictions	70,823	31,560
	5,725,623	31,950
Change in Net Assets Without Donor Restrictions from Non-Operating Activities	5,725,623	31,950
Total Change in Net Assets Without Donor Restrictions	6,863,674	841,657
Change in Net Assets With Donor Restrictions:		
Revenues, support and reclassifications:		
Contributions	567,122	356,110
Bad debt losses	-	(63,667)
Net assets released from restrictions	(1,062,350)	(1,261,483)
Total Change in Net Assets With Donor Restrictions	(495,228)	(969,040)
Change in Net Assets from Non-Operating Activities	5,230,395	(937,090)
Change in Net Assets	6,368,446	(127,383)
Net Assets, Beginning of Year	11,100,182	11,227,565
Net Assets, End of Year	\$ 17,468,628	\$ 11,100,182

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services				Supporting Activities		Total Expenses
	Housing and Wellness	Youth Development and Education	Other Programs	Total	Management and General	Fundraising	
SALARIES AND RELATED EXPENSES:							
Salaries	\$ 2,837,102	\$ 1,969,034	\$ 146,769	\$ 4,952,905	\$ 129,162	\$ 419,479	\$ 5,501,546
Fringe benefits and related taxes	772,635	510,573	48,495	1,331,703	42,882	125,674	1,500,259
Total Salaries and Related Expenses	3,609,737	2,479,607	195,264	6,284,608	172,044	545,153	7,001,805
OTHER EXPENSES:							
Assistance to individuals	2,119,349	175,307	27,166	2,321,822	2,052	3,650	2,327,524
Fees for services	100,964	111,217	4,770	216,951	114,364	41,048	372,363
Marketing and promotion	2,656	2,985	4,360	10,001	-	204,016	214,017
Office expenses	60,926	57,896	1,730	120,552	9,555	7,952	138,059
Information technology	64,551	35,646	3,055	103,252	3,048	6,745	113,045
Occupancy	315,815	247,345	3,469	566,629	20,243	19,615	606,487
Conferences and meetings	11,141	6,702	462	18,305	70	2,361	20,736
Interest	25,912	13,596	970	40,478	54,751	-	95,229
Depreciation	409,976	198,238	10,074	618,288	19,164	19,164	656,616
Insurance	44,152	52,504	3,414	100,070	7,323	5,629	113,022
Supplies and materials	53,717	92,467	668	146,852	5,172	3,574	155,598
Vehicle expenses	5,149	8,761	-	13,910	286	23	14,219
Bank fees	1,688	4,049	-	5,737	38,105	-	43,842
Subscriptions and dues	29,191	31,846	1,292	62,329	24,470	17,789	104,588
Other operating expenses	-	-	-	-	5,030	702	5,732
Total Other Expenses	3,245,187	1,038,559	61,430	4,345,176	303,633	332,268	4,981,077
Total Expenses	\$ 6,854,924	\$ 3,518,166	\$ 256,694	\$ 10,629,784	\$ 475,677	\$ 877,421	\$ 11,982,882

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services				Supporting Activities		Total Expenses
	Housing and Wellness	Youth Development and Education	Other Programs	Total	Management and General	Fundraising	
SALARIES AND RELATED EXPENSES:							
Salaries	\$ 1,819,762	\$ 1,688,519	\$ 96,380	\$ 3,604,661	\$ 101,520	\$ 379,799	\$ 4,085,980
Fringe benefits and related taxes	563,699	437,373	21,900	1,022,972	36,041	115,092	1,174,105
Total Salaries and Related Expenses	2,383,461	2,125,892	118,280	4,627,633	137,561	494,891	5,260,085
OTHER EXPENSES:							
Assistance to individuals	2,030,566	211,549	16,526	2,258,641	4,994	2,005	2,265,640
Fees for services	104,669	112,403	2,935	220,007	58,468	34,106	312,581
Marketing and promotion	2,524	2,341	1,600	6,465	223	85,311	91,999
Office expenses	47,158	38,845	501	86,504	12,597	7,632	106,733
Information technology	39,034	38,661	1,280	78,975	8,767	3,281	91,023
Occupancy	209,435	265,751	725	475,911	14,650	14,035	504,596
Conferences and meetings	13,509	9,175	62	22,746	24,703	5,466	52,915
Interest	85,864	54,327	2,412	142,603	88,341	-	230,944
Depreciation	416,574	241,098	7,112	664,784	20,348	20,348	705,480
Insurance	29,272	32,913	1,398	63,583	4,695	3,509	71,787
Supplies and materials	78,841	74,882	39	153,762	8,091	2,102	163,955
Vehicle expenses	17,227	11,385	61	28,673	663	1,122	30,458
Bank fees	776	4,623	-	5,399	26,741	-	32,140
Subscriptions and dues	21,094	35,075	989	57,158	9,188	12,148	78,494
Other operating expenses	-	-	-	-	70	470	540
Total Other Expenses	3,096,543	1,133,028	35,640	4,265,211	282,539	191,535	4,739,285
Total Expenses	\$ 5,480,004	\$ 3,258,920	\$ 153,920	\$ 8,892,844	\$ 420,100	\$ 686,426	\$ 9,999,370

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 6,368,446	\$ (127,383)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Contributions restricted for capital projects	(159,666)	-
Donated property and equipment	-	(57,500)
Change in allowance for doubtful contributions receivable	(36,588)	(47,870)
Change in discount on contributions receivable	(5,292)	(50,467)
Depreciation	656,616	705,480
Extinguishment of debt	(5,654,800)	-
Change in:		
Accounts receivable	(77,784)	(386,036)
Prepaid expenses and other assets	19,294	(18,621)
Contributions receivable	721,774	947,377
Accounts payable	4,775	(3,847)
Accrued expenses	(43,784)	199,096
Deferred grant revenue	(12,812)	12,812
Net Cash Provided by Operating Activities	1,780,179	1,173,041
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(477,876)	(47,167)
Net Cash Used by Investing Activities	(477,876)	(47,167)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital projects and collections on contributions receivable held for capital projects	169,666	10,000
Proceeds from long term debt	-	760,400
Payments on line of credit	-	(100,000)
Payments on long term debt	(508,787)	(521,097)
Net Cash (Used) Provided by Financing Activities	(339,121)	149,303
Net Change in Cash, Cash Equivalents, and Restricted Cash	963,182	1,275,177
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	1,954,438	679,261
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 2,917,620	\$ 1,954,438
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:		
Cash paid for interest	\$ 175,632	\$ 232,873
Extinguishment of debt recognized as revenue	\$ 5,654,800	\$ -

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

1. NATURE OF ORGANIZATION:

Breakthrough Urban Ministries, Inc. (Breakthrough) is a not-for-profit Illinois Corporation exempt from income taxes under section 501(c)(3) of the United States Internal Revenue Code. Breakthrough is not considered to be a private foundation and the primary source of revenue is from private donations. Founded in 1992, Breakthrough began as an emergency shelter for adults experiencing homelessness. In 2000, Breakthrough moved to East Garfield Park, expanded to serve men and women experiencing homelessness, and began to serve local youth and their families. With the move to East Garfield Park, Breakthrough began to focus on a 40-block target zone in the community and provide services to create stability and community transformation. In 2015, Breakthrough opened the FamilyPlex, an innovative community center.

Today, Breakthrough's mission is to demonstrate the compassion of Christ by partnering with those affected by poverty to build connections, develop skills, and open doors of opportunity. Breakthrough works alongside local residents at four facilities through an integration of core service areas focusing on housing, workforce development, health and wellness, violence prevention, and education and youth development.

Housing

Breakthrough focuses on providing housing and wraparound services to adults, with a priority on serving the most vulnerable homeless individuals. This is done through providing emergency drop-in spaces that meet critical basic needs, transitional housing, permanent supportive housing, case management, and life skills training. Each year, Breakthrough's housing programs serve over 1,200 individuals.

Workforce Development

Breakthrough supports individuals who are the hardest to employ through a rigorous workforce employment program that includes hard and soft skill building, job placement, and retention support. Breakthrough's workforce development initiatives support over 100 individuals each year.

Health and Wellness

Breakthrough believes that a thriving East Garfield Park includes access to affordable, nutritious food, opportunities for physical activity, and high-quality health care. Therefore, Breakthrough supports the community with the following:

- The Fresh Market Food Pantry, serving over 3,000 families with fresh food for free and nutritional education workshops.
- A community fitness center, located at the FamilyPlex, so that residents have access for physical activity.
- A robust behavioral health program, which provides trauma-informed medical care, mental health care, and substance abuse treatment.

Violence Prevention

Through the Partnership for Safe and Peaceful Communities, Breakthrough is implementing an integrated violence prevention program in East Garfield Park. Direct interventions include street-level response to violence, case management, services for individuals re-entering the community, and public events that promote alternatives to violence.

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

1. NATURE OF ORGANIZATION, continued:

Education

Through providing excellent education initiatives, Breakthrough seeks to see East Garfield Park become a place where success becomes the norm and families prosper. Breakthrough's core programs include early childhood education, after school academic enrichment, and a variety of high-quality art, technology, and sports clubs that focus on skill-building and career exploration.

2. SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of Breakthrough, Breakthrough Holdings, Inc. NFP (Holdings), and Breakthrough Enterprises, Inc. (Enterprises). Holdings, a 501(c)(2) not-for-profit affiliated corporation of which Breakthrough, is the sole member, is a title-holding organization. Enterprises is a wholly-owned for-profit subsidiary of Breakthrough. Intercompany transactions and balances have been eliminated for consolidated financial statement purposes.

In June 2021, Enterprises was dissolved, and the remaining assets, which consisted of approximately \$18,000 in cash, were transferred to Breakthrough in July 2021. As of and for the year ended June 30, 2020, Enterprises had \$18,130 in cash, \$18,130 in net assets, and \$390 in support and revenue. Due to the immaterial nature of these items, these amounts were included with Breakthrough Urban Ministries, Inc. activity on the Consolidating Statements of Financial Position and Consolidating Statements of Activities.

BASIS OF ACCOUNTING

The consolidated financial statements have been prepared on the accrual basis of accounting. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual amounts could differ from these estimates. The significant accounting policies followed are described below.

INTERMEDIATE MEASURE OF OPERATIONS

Breakthrough presents its consolidated statements of activities using an intermediate measure of operations. Operating activities include support and revenue and expenses related to carrying out Breakthrough's mission of demonstrating the compassion of Christ by partnering with those affected by poverty to build connections, develop skills and open doors of opportunity. Operating activities exclude contributions received for capital campaign and amortization of the discount and write off of contributions receivable.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of bank deposits in federally insured accounts, bank collateralized accounts and money market funds in brokerage accounts. These accounts may, from time to time, exceed federally insured limits. As June 30, 2021 and 2020, Breakthrough's cash balances exceeded federally insured limits by \$2,476,784 and \$1,443,260, respectively. Breakthrough has not experienced any loss on these accounts and does not believe it is exposed to any significant risk.

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CASH AND CASH EQUIVALENTS, continued

Cash, cash equivalents, and restricted cash consists of the following:

	June 30,	
	2021	2020
Cash and cash equivalents	\$ 2,757,954	\$ 1,953,413
Cash and cash equivalents held for capital projects	159,666	1,025
	<u>\$ 2,917,620</u>	<u>\$ 1,954,438</u>

CONTRIBUTIONS RECEIVABLE

The promises to give are reflected at the present value of estimated future cash flows using discount rates determined when the pledge was originally made. In addition, the promises to give are reflected net of an allowance for uncollectible pledges based on management's estimates using current and prior donor history. Due to the unknown factors, which may affect individual donors' future cash flows, it is reasonably possible that the estimated future cash flows of contributions receivable could increase or decrease by a material amount in the near term.

PROPERTY AND EQUIPMENT—NET

Expenditures exceeding \$5,000 for property, equipment and items that substantially increase the useful lives of existing assets are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 39 years.

CLASSES OF NET ASSETS

The consolidated financial statements report amounts separately by classes of net assets according to the presence or absence of donor-imposed stipulations. The net asset classes are as follows:

Net assets without donor restrictions are those currently available for ministry purposes under the direction of the Board of Directors.

Net assets with donor restrictions are those contributed with donor stipulations for specific operating purposes or programs, those with time restrictions or those not currently available for use until commitments regarding their use have been fulfilled. Net assets with donor restrictions also include those restricted by donors in perpetuity as endowments. The endowment consists of one fund, the corpus of which must be held in perpetuity, and its earnings used at Breakthrough's discretion. The disclosures required by the *Reporting Endowment Funds* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) have not been included in these consolidated financial statements due to immateriality.

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT, REVENUES AND EXPENSES

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets in the statement of activities as net assets released from restrictions.

Contributions

Contributions, including unconditional pledges, are recognized in the period received. Conditional gifts, with a barrier and a right of return, are recognized when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions received with donor-imposed restrictions that are met in the same year as the contributions are received are reported as revenue of the 'Without Donor Restrictions' net asset class. Contributions of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue of the 'Without Donor Restrictions' net asset class.

Breakthrough holds certain fundraising events throughout the year at which donors receive complimentary lodging and/or meals. The costs of providing these benefits for the years ended June 30, 2021 and 2020, was \$0 and \$152,099, respectively. These costs have been netted against contributions.

Breakthrough is the beneficiary under various estate plans, the total realizable value of which is not presently determinable. Such amounts are recorded as contributions when the estate clears probate and the proceeds are clearly measurable.

Government Grants

Support funded by government grants are considered conditional contributions. Grant support is recorded as costs are incurred and services are performed. Funding received in advance of incurring allowable costs are recorded as deferred support. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be reported.

Student Tuition and Program Fees

Student tuition revenue is recorded as revenue during the year the related academic services are rendered and is recognized over the academic term. Scholarships provided to students by Breakthrough are reflected as a reduction of gross tuition and fees. Fee revenue, including fees for the fitness center, is charged primarily for other program activities. Fee revenue is recognized as the related benefits are used over the course of the program term.

Student tuition and program fees received in advance of services to be rendered are recorded as deferred revenue. Deferred revenue is generally recognized in the following academic or program period.

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT, REVENUES AND EXPENSES , continued

Gifts-in-Kind

Donations of material, equipment, and other non-financial assets are recorded as support at their estimated fair value as of the date of donation.

Breakthrough recognizes donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing those skills. Breakthrough would typically need to purchase these specialized services if the services were not donated. In addition, other individuals contribute significant time and services to Breakthrough to support accomplishment of its goals, and Breakthrough would not be as effective without these contributions. However, it is Breakthrough's policy not to record contributions from these other individuals because their services do not meet the criteria of skilled services required to be recorded.

Total gifts-in-kind are as follows:

	Year Ended June 30,	
	2021	2020
Material:		
Food	\$ 1,075,387	\$ 1,362,375
Property and equipment:		
Land	-	57,500
Services:		
Professional/legal services	-	9,134
	<u>\$ 1,075,387</u>	<u>\$ 1,429,009</u>

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited based on estimated time of personnel, square footage and usage of services and supplies.

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

As of July 1, 2020, Breakthrough adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. 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. Following the adoption of the ASU, Breakthrough continues to recognize revenue from program fees as services are provided, which corresponds to the year in which the related programs and services are rendered. There was no material impact to the consolidated financial statements as a result of adoption. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements. Additional disclosures regarding revenue accounting policies with regards to contracts were added.

RECLASSIFICATIONS

Certain prior year balances have been reclassified to conform with the current year presentation. On the consolidated statements of activities for the year ended June 30, 2020, donated stock totaling \$121,815, which had been grouped with gifts-in-kind, are now grouped with contributions, and occupancy costs totaling \$504,596, which had been grouped with other expenses, were broken out into a separate line item. Depreciation expense was also reclassified from non-operating activities to operating activities. On the consolidated statement of functional expenses for the year ended June 30, 2020, program services were disaggregated into further program categories.

3. CONTRIBUTIONS RECEIVABLE:

Contributions receivable consists of donor pledges without donor restrictions for the support of various ministry programs. The pledges are due to be collected according to the schedule below and are reported as contributions receivable and net assets with donor restrictions (due to the time restriction) in the consolidated statements of financial position and are recognized as contributions with donor restrictions in the consolidated statements of activities.

	June 30,	
	2021	2020
Amounts due in:		
Less than one year	\$ 223,444	\$ 643,848
One to five years	126,800	363,620
	<u>350,244</u>	<u>1,007,468</u>
Less unamortized discount	(2,510)	(7,802)
Less allowance for uncollectible pledges	<u>(17,512)</u>	<u>(50,373)</u>
	<u>\$ 330,222</u>	<u>\$ 949,293</u>

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

4. PROPERTY AND EQUIPMENT—NET:

Property and equipment consists of:

	June 30,	
	2021	2020
Land	\$ 845,297	\$ 445,820
Building	22,067,877	22,067,876
Building and leasehold improvements	1,929,715	1,887,518
Vehicles	262,698	262,698
Furniture and equipment	557,796	557,796
	<u>25,663,383</u>	<u>25,221,708</u>
Accumulated depreciation	(6,446,026)	(5,789,411)
Construction in progress	36,200	-
	<u>\$ 19,253,557</u>	<u>\$ 19,432,297</u>

5. ASSETS HELD FOR CAPITAL PROJECTS:

Assets held for capital projects consist of both contributions receivable, and cash and cash equivalents with donor restrictions. Promises to give are due to be collected according to the schedule below and are reported as contributions receivable as a component of assets held for capital projects and net assets with donor restrictions (due to both time and purpose restrictions) in the consolidated statements of financial position and recognized as contributions with donor restrictions in the consolidated statements of activities.

Assets held for capital projects consist of the following:

	June 30,	
	2021	2020
Cash and cash equivalents	\$ 159,666	\$ 1,025
Contributions receivable	-	70,823
	<u>\$ 159,666</u>	<u>\$ 71,848</u>

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

5. ASSETS HELD FOR CAPITAL PROJECTS, continued:

Contributions receivable designated for capital projects are expected to be collected as follows:

	June 30,	
	2021	2020
Amounts due in:		
Less than one year	\$ -	\$ 74,550
One to five years	-	-
	<hr/>	<hr/>
	-	74,550
Less allowance for uncollectible pledges	-	(3,727)
	<hr/>	<hr/>
	\$ -	\$ 70,823
	<hr/>	<hr/>

6. DEFERRED GRANT ADVANCES:

During 2008, Breakthrough received a grant of \$175,000 from the Federal Home Loan Bank of Chicago. The grant carries with it certain conditions that, if not met, will result in a repayment requirement. Although Breakthrough anticipates compliance with the grant terms, the conditional nature of the grant requires that it be treated as a liability until such point that it becomes unconditional at the end of the 15 year term (2023). The agreement has a 15 year term and is non-interest bearing. Because similar programs do not bear interest, it is not necessary to impute interest on this agreement.

In September 2008, Breakthrough entered into a Redevelopment Agreement (RDA) with the City of Chicago (City) for the renovation of the building to be used as the Breakthrough Men's Center. This RDA was negotiated over the course of fiscal year 2008. The RDA obligated the City to reimburse Breakthrough up to \$1,153,961 from tax-increment financing (TIF) dollars for eligible expenses that qualified as TIF-funded improvements related to the renovation of the building. These funds were used to pay down Breakthrough's construction line of credit in March 2009. The TIF agreement has a 15 year term and is non-interest bearing. Because similar programs do not bear interest, it is not necessary to impute interest on this agreement. Similar to the other government grant revenue, the conditional nature of the loan requires that it be treated as a liability until such point that it becomes unconditional at the end of the 15 year term (2023).

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

6. DEFERRED GRANT ADVANCES, continued:

In November 2013, Breakthrough entered into a RDA with the City for the construction of Breakthrough's FamilyPlex and renovation of Breakthrough's Women's Center. The RDA obligated the City to reimburse Breakthrough up to \$3,500,000 from TIF dollars for eligible expenses that qualified as TIF-funded improvements related to the construction of the buildings. During the year ending June 30, 2017, the remaining \$1,400,000 of this amount was collected and was used to pay off the TIF Bridge Loan Promissory Note. The TIF agreement has a 10 year term. Included as part of this agreement was a \$2,800,000 City of Chicago Tax Increment Allocation Revenue Note (City Note) which helped offset the cost of financing the FamilyPlex project. The City Note bore an annual interest rate equal to the interest rate per annum charged by PNC Bank on the TIF Bridge Loan Promissory Note (4.12% at June 30, 2016). Pursuant to the agreement, the City Note began accruing interest on September 1, 2015 (the date the Certificate of Expenditure was issued) and ended upon Breakthrough receiving the final TIF payment in March 2017. Similar to the other government grant revenue, the conditional nature of the loan requires that it be treated as a liability until such point that it becomes unconditional at the end of the 10 year term (2023).

Deferred grant revenue consisted of the following:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Federal Home Loan Bank of Chicago	\$ 175,000	\$ 175,000
RDA with the City of Chicago for renovation of the Breakthrough Men's Center	1,153,961	1,153,961
RDA with the City of Chicago for construction of Breakthrough's FamilyPlex and renovation of the Breakthrough Women's Center	3,500,000	3,500,000
Other deferred grant advances	-	12,812
	<u>\$ 4,828,961</u>	<u>\$ 4,841,773</u>

7. NEW MARKET TAX CREDIT TRANSACTIONS:

In November 2013, Breakthrough entered into a financial arrangement to help fund the cost of the FamilyPlex project through the use of the New Market Tax Credit (NMTC) program. Under this arrangement, Holdings received two loans totaling \$12,740,000 from CDF Suballocatee XX, LLC and two loans totaling \$3,000,000 from PNC CDE 30, LP. See Note 8 for terms of loan agreements.

In conjunction with this financing arrangement, Breakthrough provided a loan of \$10,945,600 to Breakthrough Investment Fund, LLC (an unaffiliated investment structure). The loan was evidenced by a promissory note from Breakthrough Investment Fund, LLC, carrying an interest rate of 1% per annum, with annual interest payments beginning on December 10, 2013. Monthly principal and interest payments of \$703,343 were to begin on December 10, 2021, until the maturity date of December 1, 2037. This loan was secured by the membership interests of Breakthrough Investment Fund, LLC, in the two lenders of Holdings mentioned in the first paragraph of this note. Interest earned totaled \$0 and \$109,456 for the years ended June 30, 2021 and 2020, respectively.

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

7. NEW MARKET TAX CREDIT TRANSACTIONS, continued:

In November 2020, the bank that owned the investment structure sold its membership interest in the investment structure to Breakthrough for a put price of \$1,000. Exercise of the put option provided Breakthrough with ownership of the investment structure. The investment structure (now owned by Breakthrough) shall be treated as a disregarded entity for income tax purposes, and Breakthrough caused the dissolution of the investment structure. As a result of this transaction, the \$10,945,600 note receivable, along with the notes payable totaling \$15,740,000, were deemed fully cancelled, satisfied and discharged. This resulted in a net gain of \$4,794,400 during the year ended June 30, 2021, and is included in gain on extinguishment of debt on the consolidated statements of activities.

8. LONG TERM DEBT:

Long term debt consists of:

	June 30,	
	2021	2020
Holdings:		
Note payable with annual interest payments until December 1, 2021, followed by annual principal and interest payments of \$430,093. Unpaid principal and interest was due December 2043. Interest rate was fixed at 0.906%, and was secured by the assets of Breakthrough, excluding the mortgage payable security interest noted above. This was part of the NMTC program, and was deemed fully cancelled, satisfied and discharged as further described in Note 7.	\$ -	\$ 8,893,300
Note payable with annual interest payments until December 1, 2021, followed by annual principal and interest payments of \$186,032. Unpaid principal and interest was due December 2043. Interest rate was fixed at 0.906%, and was secured by the assets of Breakthrough, excluding the mortgage payable security interest noted above. This was part of the NMTC program, and was deemed fully cancelled, satisfied and discharged as further described in Note 7.	-	3,846,700

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

8. LONG TERM DEBT, continued:

	June 30,	
	2021	2020
Note payable with annual interest payments until December 1, 2021, followed by annual principal and interest payments of \$99,252. Unpaid principal and interest is due December 2043. Interest rate was fixed at 0.906%, and was secured by the assets of Breakthrough, excluding the mortgage payable security interest noted above. This was part of the NMTC program, and was deemed fully cancelled, satisfied and discharged as further described in Note 7.	-	2,052,300
Note payable with annual interest payments until December 1, 2021, followed by annual principal and interest payments of \$45,832. Unpaid principal and interest is due December 2043. Interest rate was fixed at 0.906%, and was secured by the assets of Breakthrough, excluding the mortgage payable security interest noted above. This was part of the NMTC program, and was deemed fully cancelled, satisfied and discharged as further described in Note 7.	-	947,700
Breakthrough:		
Note payable with monthly principal and interest payments totaling \$2,169. Unpaid principal and interest is due April 2026. Interest rate is fixed at 3.10%, and is secured by the assets of Breakthrough.	308,273	-
Note payable with quarterly interest payments until January 1, 2016, followed by quarterly principal payments of \$1,830 plus accrued interest. Unpaid principal and interest was due April 2021. Interest rate was fixed at 5.70%, and was secured by the assets of Breakthrough. This note was paid in full during the year ended June 30, 2021, with issuance of a new note payable.	-	317,060
Unsecured promissory note with quarterly interest payments. Unpaid principal and interest is due July 2022. Interest rate is fixed at 5%. \$100,000 of this note was forgiven by the lender during the year ended June 30, 2021.	400,000	1,000,000

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

8. LONG TERM DEBT, continued:

As part of the response to the impact of COVID-19, Breakthrough applied for a Paycheck Protection Program (PPP) Loan, administered by the Small Business Administration (SBA), under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law in March 2020. Breakthrough was approved for a loan in the amount of \$760,400 in April 2020. The PPP loan provides for potential loan forgiveness up to the full amount of the loan provided Breakthrough overcomes (meets) certain loan stipulations. If the loan is not forgiven, it bears annual interest of 1% and repayment is due in full in April 2022. Breakthrough accounted for this PPP loan under the FASB ASC 470 debt model, and received notice from the SBA in June 2021 that the full amount of the loan had been forgiven.

		June 30,	
		2021	2020
		-	760,400
		<u>\$ 708,273</u>	<u>\$ 17,817,460</u>

Breakthrough incurred \$95,229 and \$230,944 in interest expense during the years ended June 30, 2021 and 2020, respectively.

Long term debt matures as follows:

<u>Year Ending June 30,</u>		
2022		\$ 16,695
2023		417,220
2024		17,761
2025		18,320
2026		<u>238,277</u>
		<u>\$ 708,273</u>

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

9. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are available for the following programs:

	June 30,	
	2021	2020
Assets held for capital projects-net	\$ 159,666	\$ 70,823
General contributions receivable (no purpose restrictions)	330,222	949,293
Youth programs	115,000	80,000
Endowment funds restricted in perpetuity	15,000	15,000
	<u>\$ 619,888</u>	<u>\$ 1,115,116</u>

10. LEASE COMMITMENTS:

Breakthrough has equipment leases with various expiration dates through May 2023. Rent payments for these leases, included in the consolidated statements of activities, were \$30,372 for the years ended June 30, 2021 and 2020.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2022	\$ 20,412
2023	17,881
	<u>\$ 38,293</u>

11. RELATED PARTY TRANSACTIONS:

Breakthrough provided assistance in the form of loans receivable to a hydroponics food organization whose founder was also the treasurer of Enterprises. Total loans receivable at each year ended June 30, 2021 and 2020, were \$115,700, and are included in accounts receivable on the consolidated statements of financial position.

12. RETIREMENT PLAN:

Breakthrough has a 401(k) plan for the benefit of substantially all employees. The plan provides for a discretionary matching contribution and a discretionary employee contribution under a deferred compensation arrangement. During the years ended June 30, 2021 and 2020, Breakthrough contributed \$50,250 and \$45,594, respectively, to the plan.

BREAKTHROUGH URBAN MINISTRIES, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

13. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects Breakthrough's consolidated financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general expenditure within one year.

	June 30,	
	2021	2020
Consolidated financial assets:		
Cash and cash equivalents	\$ 2,757,954	\$ 1,953,413
Accounts receivable, net	925,806	848,022
Contributions receivable, net	330,222	949,293
Assets held for capital projects-net	159,666	71,848
Note receivable	-	10,945,600
	<u>4,173,648</u>	<u>14,768,176</u>
Less those unavailable for general expenditure within one year, due to:		
Contributions receivable collectible beyond one year	(106,778)	(305,445)
Accounts receivable collectible beyond one year	(115,700)	(115,700)
Notes receivable collectible beyond one year	-	(10,945,600)
Donor-imposed time and purpose restrictions	(289,666)	(165,823)
Consolidated financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,661,504</u>	<u>\$ 3,235,608</u>

Breakthrough structures its consolidated financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of Breakthrough's liquidity management, it has established guidelines for making decision related to managing short term cash reserves in a prudent matter. Also, the majority of Breakthrough's annual expenditures are covered through fundraising efforts and annual government contracts.

14. RISKS AND UNCERTANTIES:

In March of 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant declines and volatility in financial markets. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the consolidated financial position and results of Breakthrough for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

15. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through November 30, 2021, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

Board of Directors
Breakthrough Urban Ministries, Inc.
Chicago, Illinois

We have audited the consolidated financial statements of Breakthrough Urban Ministries, Inc. as of and for the years ended June 30, 2021 and 2020, and our report thereon dated November 30, 2021, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities on pages 24 and 25 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations, and it 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 consolidating 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Capin Crouse LLP

Naperville, Illinois
November 30, 2021

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidating Statements of Financial Position

	June 30,							
	2021			2020				
	Breakthrough Urban Ministries, Inc.	Breakthrough Holdings, Inc. NFP	Eliminations	Consolidated Totals	Breakthrough Urban Ministries, Inc.	Breakthrough Holdings, Inc. NFP	Eliminations	Consolidated Totals
ASSETS:								
Cash and cash equivalents	2,757,954	\$ -	\$ -	\$ 2,757,954	\$ 1,953,413	\$ -	\$ -	\$ 1,953,413
Accounts receivable	925,806	583	(583)	925,806	848,022	105,000	(105,000)	848,022
Prepaid expenses and other assets	39,420	-	-	39,420	58,714	-	-	58,714
Contributions receivable–net	330,222	-	-	330,222	949,293	-	-	949,293
Assets held for capital projects:								
Cash and cash equivalents	159,666	-	-	159,666	1,025	-	-	1,025
Contributions receivable–net	-	-	-	-	70,823	-	-	70,823
Note receivable	-	-	-	-	10,945,600	-	-	10,945,600
Property and equipment–net	5,465,901	13,787,656	-	19,253,557	5,224,137	14,208,160	-	19,432,297
Total Assets	\$ 9,678,969	\$ 13,788,239	\$ (583)	\$ 23,466,625	\$ 20,051,027	\$ 14,313,160	\$ (105,000)	\$ 34,259,187
LIABILITIES:								
Accounts payable	\$ 31,023	\$ -	\$ -	\$ 31,023	\$ 26,248	\$ -	\$ -	\$ 26,248
Accrued expenses	430,323	-	(583)	429,740	480,755	97,769	(105,000)	473,524
Deferred grant revenue	4,828,961	-	-	4,828,961	4,841,773	-	-	4,841,773
Long term debt	708,273	-	-	708,273	2,077,460	15,740,000	-	17,817,460
Total Liabilities	5,998,580	-	(583)	5,997,997	7,426,236	15,837,769	(105,000)	23,159,005
NET ASSETS:								
Without donor restrictions	3,060,501	13,788,239	-	16,848,740	11,509,675	(1,524,609)	-	9,985,066
With donor restrictions	619,888	-	-	619,888	1,115,116	-	-	1,115,116
Total Net Assets	3,680,389	13,788,239	-	17,468,628	12,624,791	(1,524,609)	-	11,100,182
Total Liabilities and Net Assets	\$ 9,678,969	\$ 13,788,239	\$ (583)	\$ 23,466,625	\$ 20,051,027	\$ 14,313,160	\$ (105,000)	\$ 34,259,187

See notes to consolidated financial statements

BREAKTHROUGH URBAN MINISTRIES, INC.

Consolidating Statements of Activities

	Year Ended June 30,							
	2021				2020			
	Breakthrough Urban Ministries, Inc.	Breakthrough Holdings, Inc. NFP	Eliminations	Consolidated Totals	Breakthrough Urban Ministries, Inc.	Breakthrough Holdings, Inc. NFP	Eliminations	Consolidated Totals
SUPPORT AND REVENUE:								
Contributions	\$ 7,255,592	\$ -	\$ (22,517)	\$ 7,233,075	\$ 6,144,034	\$ -	\$ (17,396)	\$ 6,126,638
Government grants	4,021,709	-	-	4,021,709	1,810,148	-	-	1,810,148
Gain (loss) on extinguishment of debt	(10,085,200)	15,740,000	-	5,654,800	-	-	-	-
Program fees	113,495	-	-	113,495	138,602	-	-	138,602
Gifts-in-kind	1,075,387	-	-	1,075,387	1,429,009	-	-	1,429,009
Rental and other income	252,862	80,583	(80,583)	252,862	431,257	185,000	(185,000)	431,257
Bad debt losses	-	-	-	-	(63,667)	-	-	(63,667)
	<u>2,633,845</u>	<u>15,820,583</u>	<u>(103,100)</u>	<u>18,351,328</u>	<u>9,889,383</u>	<u>185,000</u>	<u>(202,396)</u>	<u>9,871,987</u>
EXPENSES:								
Program services	10,249,384	460,983	(80,583)	10,629,784	8,514,737	563,107	(185,000)	8,892,844
Supporting activities:								
Management and general	451,442	46,752	(22,517)	475,677	395,100	42,396	(17,396)	420,100
Fundraising	877,421	-	-	877,421	686,426	-	-	686,426
	<u>11,578,247</u>	<u>507,735</u>	<u>(103,100)</u>	<u>11,982,882</u>	<u>9,596,263</u>	<u>605,503</u>	<u>(202,396)</u>	<u>9,999,370</u>
Change in Net Assets	(8,944,402)	15,312,848	-	6,368,446	293,120	(420,503)	-	(127,383)
Net Assets, Beginning of Year	<u>12,624,791</u>	<u>(1,524,609)</u>	<u>-</u>	<u>11,100,182</u>	<u>12,331,671</u>	<u>(1,104,106)</u>	<u>-</u>	<u>11,227,565</u>
Net Assets, End of Year	<u>\$ 3,680,389</u>	<u>\$ 13,788,239</u>	<u>\$ -</u>	<u>\$ 17,468,628</u>	<u>\$ 12,624,791</u>	<u>\$ (1,524,609)</u>	<u>\$ -</u>	<u>\$ 11,100,182</u>

See notes to consolidated financial statements