

**FREDERICK RESCUE MISSION, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017**



**CPAs &  
BUSINESS  
ADVISORS**

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## INDEPENDENT AUDITORS' REPORT

May 23, 2019

To the Board of Directors  
Frederick Rescue Mission, Inc. and Subsidiaries  
Frederick, Maryland

We have audited the accompanying consolidated financial statements of Frederick Rescue Mission, Inc. (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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 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 audit 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 auditors' 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 qualified audit opinion.

### **Basis for Qualified Opinion**

As more fully discussed in Note 8 to the consolidated financial statements, the purchase of the property used by Faith House of Frederick, LLC required the Organization to assume \$593,360 in forgivable debt obligations originally acquired by the seller of the property. Certain compliance requirements were required to be adhered to through February 2019, at which time the obligations were forgiven by the agencies that originally loaned the funds to the seller. The seller obtained a letter of credit to fund these obligations should compliance have not been maintained and had signed an indemnity agreement with the Organization, which would have held the Organization harmless in the event of a compliance default. Management has chosen not to record the forgivable debt obligations as they consider the risk of noncompliance and any payment on these obligations to be remote. Subsequent to year end, the loans were forgiven, and the liens were removed in April 2019. Accounting principles generally accepted in the United States of America would require these obligations to be recorded until the compliance period ends and the obligations are forgiven. As of December 31, 2018 and 2017, the balance of the assumed debt obligations were \$485,840 and \$521,680, respectively. The effects on the accompanying consolidated financial statements are an understatement of both assets and liabilities of \$485,840 and \$521,680, for the years ended December 31, 2018 and 2017, respectively. Therefore, there is no effect on the net assets of the Organization.

### **Qualified Opinion**

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Frederick Rescue Mission, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principle**

As described in Note 1 to the consolidated financial statements, for the year ended December 31, 2018, the Organization adopted new accounting guidance, FASB ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The requirements of this ASU have been applied retrospectively to all periods presented in the consolidated financial statements. Our opinion is not modified with respect to that matter.

*RLH CPAs & Business Advisors, LLC*

Frederick, Maryland

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents		
Cash and Cash Equivalents	\$ 878,428	\$ 797,310
Residents' Savings Accounts - Restricted	4,670	8,142
Total Cash and Cash Equivalents	883,098	805,452
Investments	25,324	40,915
Accounts Receivable	33,281	32,048
Unconditional Promises to Give		
(Less Allowance for Uncollectible Promises		
of \$100 and \$388, respectively)	201,900	7,451
Inventory	11,948	10,293
Prepaid Expenses	8,858	8,175
<b>TOTAL CURRENT ASSETS</b>	<b>1,164,409</b>	<b>904,334</b>
<b>PROPERTY AND EQUIPMENT</b>		
Construction in Progress	-	30,399
Land	482,207	482,207
Buildings	3,240,158	3,240,158
Furniture and Equipment	530,514	387,375
Improvements	1,911,729	1,219,046
Vehicles	316,877	220,303
	6,481,485	5,579,488
Less: Accumulated Depreciation	1,702,837	1,633,238
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>4,778,648</b>	<b>3,946,250</b>
<b>OTHER ASSETS</b>		
Deposits	586	1,866
Unconditional Promises to Give	200,000	-
Website Development Costs, (Less Accumulated		
Amortization of \$10,823 and \$5,176, respectively)	6,117	11,764
<b>TOTAL OTHER ASSETS</b>	<b>206,703</b>	<b>13,630</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,149,760</b>	<b>\$ 4,864,214</b>

See Accompanying Notes

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 73,450	\$ 14,240
Accrued Expenses	62,442	74,013
Amounts Due to Residents	4,813	8,135
Deferred Revenue	5,869	30,129
Line of Credit	455,678	-
Current Portion of Capital Lease Obligations	2,782	2,209
Current Portion of Notes Payable	24,149	13,302
<b>TOTAL CURRENT LIABILITIES</b>	<b>629,183</b>	<b>142,028</b>
<b>LONG-TERM LIABILITIES</b>		
Tenant Security Deposits	8,508	8,378
Capital Lease Obligations	11,525	4,848
Notes Payable	172,835	152,755
Less: Current Portion of Long-Term Liabilities	26,931	15,511
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>165,937</b>	<b>150,470</b>
<b>TOTAL LIABILITIES</b>	<b>795,120</b>	<b>292,498</b>
<b>NET ASSETS</b>		
Net Assets without Donor Restrictions		
Undesignated	4,813,952	4,040,722
Board Designated	277,791	169,267
Total Net Assets without Donor Restrictions	5,091,743	4,209,989
Net Assets with Donor Restrictions	262,897	361,727
<b>TOTAL NET ASSETS</b>	<b>5,354,640</b>	<b>4,571,716</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,149,760</b>	<b>\$ 4,864,214</b>

See Accompanying Notes

**FREDERICK RESCUE MISSION INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT, REVENUE, AND GAINS</b>						
Contributions	\$ 1,144,286	\$ 1,124,104	\$ 2,268,390	\$ 997,881	\$ 627,435	\$ 1,625,316
In-Kind Contributions	2,034,873	-	2,034,873	1,808,954	-	1,808,954
Special Events	66,619	-	66,619	67,355	-	67,355
Recycling and Other Sales Revenue	229,594	-	229,594	171,195	-	171,195
Affordable Housing Income	110,386	-	110,386	116,974	-	116,974
Program Service Revenue	31,033	-	31,033	38,371	-	38,371
Investment Income	4,634	-	4,634	2,940	-	2,940
Realized/Unrealized Gain on Investments	2,928	-	2,928	1,988	-	1,988
Miscellaneous	9,809	-	9,809	4,624	-	4,624
<b>TOTAL SUPPORT, REVENUE, AND GAINS</b>	<b>3,634,162</b>	<b>1,124,104</b>	<b>4,758,266</b>	<b>3,210,282</b>	<b>627,435</b>	<b>3,837,717</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>1,222,934</b>	<b>(1,222,934)</b>	<b>-</b>	<b>581,310</b>	<b>(581,310)</b>	<b>-</b>
<b>TOTAL SUPPORT, REVENUE, AND GAINS</b>	<b>4,857,096</b>	<b>(98,830)</b>	<b>4,758,266</b>	<b>3,791,592</b>	<b>46,125</b>	<b>3,837,717</b>

See Accompanying Notes

**FREDERICK RESCUE MISSION INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>EXPENSES AND LOSSES</b>						
<b>PROGRAM SERVICES</b>						
Food Service	2,477,884	-	2,477,884	2,285,230	-	2,285,230
Changed Life Recovery	374,360	-	374,360	351,274	-	351,274
Faith House	368,716	-	368,716	363,731	-	363,731
Affordable Housing Units	51,418	-	51,418	48,418	-	48,418
Community Outreach	78,674	-	78,674	70,740	-	70,740
Rescued Treasures	171,493	-	171,493	144,465	-	144,465
<b>TOTAL PROGRAM SERVICES</b>	<b>3,522,545</b>	<b>-</b>	<b>3,522,545</b>	<b>3,263,858</b>	<b>-</b>	<b>3,263,858</b>
<b>SUPPORTING SERVICES</b>						
Management and General	177,327	-	177,327	164,879	-	164,879
Fundraising	272,482	-	272,482	238,653	-	238,653
<b>TOTAL SUPPORTING SERVICES</b>	<b>449,809</b>	<b>-</b>	<b>449,809</b>	<b>403,532</b>	<b>-</b>	<b>403,532</b>
<b>LOSSES</b>						
Loss on Asset Disposal	2,988	-	2,988	-	-	-
<b>TOTAL LOSSES</b>	<b>2,988</b>	<b>-</b>	<b>2,988</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL EXPENSES AND LOSSES</b>	<b>3,975,342</b>	<b>-</b>	<b>3,975,342</b>	<b>3,667,390</b>	<b>-</b>	<b>3,667,390</b>
<b>CHANGE IN NET ASSETS</b>						
Net Assets - Beginning of Year	4,209,989	361,727	4,571,716	4,085,787	315,602	4,401,389
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 5,091,743</b>	<b>\$ 262,897</b>	<b>\$5,354,640</b>	<b>\$ 4,209,989</b>	<b>\$ 361,727</b>	<b>\$4,571,716</b>

See Accompanying Notes



**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

2018

	Program Services							Supporting Services		Total Functional Expenses
	Food Service	Changed Life Recovery	Faith House	Affordable Housing Units	Community Outreach	Rescued Treasures	Total Program	Management and General	Fundraising	
Salaries	\$ 226,162	\$ 135,578	\$ 228,011	\$ -	\$ 38,421	\$ 66,502	\$ 694,674	\$ 118,187	\$ 88,901	\$ 901,762
Payroll Taxes and Employee Benefits	60,584	33,761	39,545	-	7,277	16,983	158,150	27,109	26,657	211,916
Bad Debt Expense	-	-	-	-	-	-	-	388	-	388
Community Care	-	-	-	-	2,318	6,530	8,848	-	-	8,848
Conferences and Meetings	355	1,148	1,390	-	307	274	3,474	486	1,355	5,315
Depreciation and Amortization	62,402	63,113	46,346	-	1,244	17,770	190,875	1,111	4,126	196,112
Education	-	1,391	465	-	20,383	-	22,239	-	-	22,239
Equipment	2,154	-	-	-	-	3,313	5,467	-	-	5,467
Event Entertainment and Awards	-	-	-	-	-	-	-	-	11,185	11,185
Event Facility Costs	-	-	-	-	-	-	-	-	9,375	9,375
Food and Kitchen Supplies	1,999,774	-	233	-	-	-	2,000,007	-	24,442	2,024,449
Information Technology	2,898	2,875	4,826	383	829	465	12,276	2,440	4,340	19,056
Insurance	10,137	10,154	10,960	-	1,324	2,911	35,486	2,647	2,013	40,146
Interest	2,463	5,941	115	113	-	1,868	10,500	460	-	10,960
Newsletter and Website	2,652	2,104	2,396	-	360	965	8,477	-	4,613	13,090
Professional Fees	457	125	142	591	21	57	1,393	20,071	16,013	37,477
Program Activities and Events	735	6,743	90	-	277	56	7,901	-	-	7,901
Promotion	226	179	243	-	31	82	761	-	33,534	34,295
Property Management	-	-	-	20,510	-	-	20,510	-	-	20,510
Property Taxes	-	722	588	-	-	-	1,310	-	-	1,310
Rent	-	-	-	-	-	6,000	6,000	-	-	6,000
Repairs and Maintenance	25,185	26,018	9,159	16,310	173	10,254	87,099	102	291	87,492
Resident Care	-	23,920	2,676	-	-	-	26,596	-	-	26,596
Supplies	4,125	3,187	5,296	325	3,768	4,581	21,282	1,631	42,127	65,040
Travel	37,474	15,371	1,650	662	-	29,760	84,917	134	402	85,453
Utilities	40,101	42,030	14,585	12,524	1,941	3,122	114,303	2,561	3,108	119,972
<b>TOTAL EXPENSES</b>	<b>\$ 2,477,884</b>	<b>\$ 374,360</b>	<b>\$ 368,716</b>	<b>\$ 51,418</b>	<b>\$ 78,674</b>	<b>\$ 171,493</b>	<b>\$ 3,522,545</b>	<b>\$ 177,327</b>	<b>\$ 272,482</b>	<b>\$ 3,972,354</b>

See Accompanying Notes

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

2017

	Program Services							Supporting Services		Total Functional Expenses
	Food Service	Changed Life Recovery	Faith House	Affordable Housing Units	Community Outreach	Rescued Treasures	Total Program	Management and General	Fundraising	
Salaries	\$ 224,728	\$ 125,179	\$ 233,656	\$ -	\$ 34,517	\$ 60,914	\$ 678,994	\$ 107,569	\$ 70,493	\$ 857,056
Payroll Taxes and Employee Benefits	66,330	29,686	29,986	-	7,229	16,464	149,695	26,209	24,729	200,633
Bad Debt Expense	-	-	-	-	-	-	-	1,746	-	1,746
Community Care	-	-	-	-	10,020	-	10,020	-	-	10,020
Conferences and Meetings	639	860	1,316	-	224	97	3,136	1,281	2,064	6,481
Depreciation and Amortization	64,384	60,187	45,920	-	1,689	5,593	177,773	1,849	4,628	184,250
Education	-	1,608	565	-	10,453	-	12,626	-	-	12,626
Equipment	3,151	-	-	-	-	-	3,151	-	-	3,151
Event Entertainment and Awards	-	-	-	-	-	-	-	-	12,053	12,053
Event Facility Costs	-	-	-	-	-	-	-	-	6,048	6,048
Food and Kitchen Supplies	1,820,260	-	365	-	-	-	1,820,625	-	12,359	1,832,984
Information Technology	2,295	2,315	6,580	498	614	698	13,000	1,597	7,775	22,372
Insurance	7,490	8,741	9,269	-	1,173	3,237	29,910	2,233	1,352	33,495
Interest	-	6,475	145	114	-	-	6,734	271	-	7,005
Newsletter and Website	857	669	776	-	108	268	2,678	-	2,626	5,304
Professional Fees	446	126	146	662	60	50	1,490	18,268	17,857	37,615
Program Activities and Events	1,159	7,350	173	-	865	152	9,699	-	-	9,699
Promotion	575	449	1,033	35	72	180	2,344	-	31,395	33,739
Property Management	-	-	-	24,405	-	-	24,405	-	-	24,405
Property Taxes	-	722	588	-	-	-	1,310	-	-	1,310
Rent	-	-	-	-	-	6,000	6,000	-	-	6,000
Repairs and Maintenance	20,799	25,536	8,838	9,892	74	6,144	71,283	46	4	71,333
Resident Care	-	18,751	1,289	-	-	-	20,040	-	-	20,040
Supplies	3,338	3,561	8,121	235	1,788	3,214	20,257	1,280	41,990	63,527
Travel	27,730	15,373	27	714	-	38,127	81,971	117	411	82,499
Utilities	41,049	43,686	14,938	11,863	1,854	3,327	116,717	2,413	2,869	121,999
<b>TOTAL EXPENSES</b>	<b>\$ 2,285,230</b>	<b>\$ 351,274</b>	<b>\$ 363,731</b>	<b>\$ 48,418</b>	<b>\$ 70,740</b>	<b>\$ 144,465</b>	<b>\$ 3,263,858</b>	<b>\$ 164,879</b>	<b>\$ 238,653</b>	<b>\$ 3,667,390</b>

See Accompanying Notes

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Inflows:		
Receipts from Contributions	\$ 1,853,791	\$ 1,709,476
Receipts from Special Events	66,619	67,355
Affordable Housing Receipts	82,934	107,655
Recycling and Other Receipts	269,203	203,648
Interest Income Received	4,634	2,940
	2,277,181	2,091,074
Outflows:		
Payments to Employees	913,333	844,700
Payments to Suppliers	809,204	827,656
Payments for Interest	10,960	7,005
	1,733,497	1,679,361
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>543,684</b>	<b>411,713</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Inflows:		
Proceeds from Sale of Property and Equipment	4,050	-
Proceeds from Sale of Investments	40,474	53,579
	44,524	53,579
Outflows:		
Purchase of Investments	1,806	1,875
Purchase of Property and Equipment	981,645	96,545
	983,451	98,420
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(938,927)</b>	<b>(44,841)</b>

See Accompanying Notes

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Inflows:		
Net Proceeds from Line of Credit	455,678	-
Proceeds from Long-Term Liabilities	42,500	-
	498,178	-
Outflows:		
Payments on Capital Lease Obligations	2,869	2,641
Payments on Long-Term Liabilities	22,420	12,923
	25,289	15,564
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>472,889</b>	<b>(15,564)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>77,646</b>	<b>351,308</b>
Cash and Cash Equivalents - Beginning of Year	805,452	454,144
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 883,098</b>	<b>\$ 805,452</b>

**NONCASH INVESTING AND FINANCING TRANSACTIONS**

Trade-In Value of Disposed Asset	\$ 2,000	\$ -
Purchase of Equipment with Capital Lease	\$ 10,443	\$ -
Donated Property and Equipment and Related Services	\$ 38,709	\$ 7,630
Donated Securities	\$ 20,150	\$ 43,675

See Accompanying Notes

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Summary of Accounting Policies**

*Nature of Activities*

The Organization is a Christ-centered ministry providing residential recovery programs to the homeless or chemically addicted, food to the hungry, clothing and furniture to the needy, and connection within Frederick County, Maryland through relationships. Operations are funded through cash and in-kind contributions, special events, and textile sales.

The Bread of Life Food Ministries provide meals and groceries to anyone in need. The Organization serves warm and nutritious meals for breakfast and lunch 365 days a year. The Organization's Food Distribution Center offers individuals and families the ability to receive food from a selection of meat, bread, produce, dairy, and other grocery items to take home and provide for themselves and their families. The Food Distribution Center is open 5 days a week, including weekend and evening hours. The Organization receives food from local grocery stores, restaurants, and other community partners 6 days a week for meals and for the Food Distribution Center.

The Changed Life Recovery Program is a Christ-centered residential recovery program designed to help men reclaim their lives following addiction and/or homelessness. The Organization can house approximately 40 men at a time. During a year-long program, the men regularly participate in recovery classes, Bible studies, and work therapy. Following graduation from the year-long program, men have the ability to move to transitional housing and continue their involvement with the Organization. The Changed Life Recovery Program provides opportunities for men to obtain a GED or higher education, develop career aspirations, gain life skills, and pursue reconciliation with their families and communities.

Faith House provides a loving, Christ-centered place for homeless women and children in Frederick. The program duration ranges from 90 to 270 days depending on the needs of the individual or family. The Faith House program meets physical, emotional, and spiritual needs while promoting self-sufficiency. Each woman in the program has a personal development plan, which includes goals for employment and obtaining safe and affordable housing.

The Organization owns an apartment building adjacent to the Faith House property. These apartments serve families and individuals that qualify through Affordable Housing guidelines.

The Organization operates several Community Outreach programs, including showers, health and hygiene care, haircuts, Bible studies, and support groups. The Community Outreach program hosts a Summer Enrichment Camp every year, which involves games, Bible teaching, lunch, and math and reading lessons for Frederick County students in need of support.

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Rescued Treasures program provides the community with free, gently-used clothing. Each guest may visit once a month to request the items they need and search a clothing storeroom adjacent to the Organization. All items distributed are donated to the Organization.

*Principles of Consolidation*

The consolidated financial statements of Frederick Rescue Mission, Inc. (the “Organization”) include the activities of Frederick Rescue Mission, Inc. and its Subsidiaries: Faith House, LLC, and Faith House of Frederick, LLC. All intra-entity transactions have been eliminated in consolidation.

*Cash and Cash Equivalents*

The Organization considers all highly liquid instruments available for current use with an initial maturity of three months or less to be cash equivalents.

*Investments*

Investments in marketable securities with readily determinable market values and all investments in debt securities are valued at their market values, which is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers, with gains and losses included in the consolidated statements of activities. Donated securities are recognized at fair value upon receipt. Investment income is recorded as income with or without donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities.

*Accounts Receivable*

Accounts receivable consists of amounts due from funding sources for recycling program revenue. The Organization considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

*Unconditional Promises to Give*

Contributions are recognized at their fair value when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows, as management believes that this is the most accurate method of reporting the receivables and related revenues. Annually, management uses an allowance method to estimate allowance for uncollectible promises to give.

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Inventory*

Donated food inventory maintained by the Organization is stated at its estimated fair market value on the date received.

*Property and Equipment*

The Organization capitalizes all property and equipment purchases over \$2,500. Property and equipment is depreciated using the straight-line method over the estimated useful life of each asset. Depreciation expense for years ended December 31, 2018 and 2017 was \$190,465 and \$179,074, respectively.

Donations of property and equipment are recorded as revenue (support) at their estimated fair value at the date of donation. Such donations are reported as revenue (support) 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 revenue (support) with donor restrictions.

Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

*Website Development Costs*

Website development costs are carried at cost, net of accumulated amortization. These costs are amortized using the straight-line method over the estimated useful live of the website of three years. Amortization expense totaled \$5,647 and \$5,176 for the years ended December 31, 2018 and 2017, respectively.

*Deferred Revenue*

When funds from special events are received before the event occurs, the appropriate amount is recorded as deferred revenue until the related event is held. Amounts will typically be recognized within one year.

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets as follows:

Net Assets without Donor Restrictions

Net assets without donor restrictions are resources that are currently available for support of the Organization's operations and are not subject to donor-imposed restrictions.

Net Assets with Donor Restrictions

Net assets with donor restrictions are resources that may be utilized only in accordance with the restricted purpose established by the donor. The restriction may require the passage of time or the occurrence of a specific event in order to trigger the release of the restriction. The Organization considers all contributions that are designated to a particular program to be transferred to net assets without donor restrictions when the terms of the restrictions have been met.

Contributions

Contributions are recorded as support with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor. All donor-restricted contributions received that are designated for future periods or for specific purposes are reported as support with donor restrictions that increases net assets with donor restrictions. When a restriction expires in the fiscal year in which the contribution is recognized, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restriction.

In-Kind Contributions

Donated food and other donated goods are recorded at their estimated fair value as of the date of the donation. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization also receives substantial volunteer hours throughout the year that are essential to the Organization's operations, but are not recognized as contributions in the consolidated financial statements since the recognition criteria has not been met.

Revenue Recognition

The Organization generates revenue through various programs. Revenue for each type of service is recognized when the service is provided.



**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Functional Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Advertising

The Organization expenses advertising costs as they are incurred. Total advertising expenses were \$22,551 and \$22,127 for the years ended December 31, 2018 and 2017, respectively, including \$402 and \$-0- of in-kind advertising for the years ended December 31, 2018 and 2017, respectively.

Tax-Exempt Status

Frederick Rescue Mission, Inc. is incorporated under the laws of the State of Maryland as a nonprofit organization. Frederick Rescue Mission, Inc. has elected under provisions of Internal Revenue Code (IRC) Section 501(c)(3) and state income tax statutes to be excluded from taxes on exempt function income. Faith House, LLC and Faith House of Frederick, LLC are disregarded entities for tax purposes as Frederick Rescue Mission, Inc. is the sole corporate member of both organizations. Therefore, no provision is made for taxes on income.

New Accounting Pronouncement Adopted

The Organization adopted the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which improves the former net asset classification requirements and the information presented in the financial statements and notes about the Organization's liquidity, financial performance, and cash flows. The statement was effective for fiscal years beginning after December 15, 2017, and resulted in significant enhancement to liquidity disclosures, presentation of investment expenses, and net asset classifications. The Organization has adjusted the presentation in these financial statements for the years ended December 31, 2018 and 2017 accordingly.

Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year statements.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 23, 2019, the date the consolidated financial statements were available to be issued.

**Note 2. Concentrations**

The Organization maintains its cash deposits in a financial institution located in Frederick, Maryland. Cash deposits are insured by the FDIC up to \$250,000. As of December 31, 2018, the cash deposits exceeded the limit by \$563,946, representing the maximum loss risk.

**Note 3. Financial Assets and Liquidity Resources**

The following reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of December 31, 2018:

Financial assets, as of December 31, 2018	\$ 1,143,603
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(262,897)
Residents' savings accounts	(4,670)
Tenant security deposits	(8,508)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(25,324)
Financial assets available to meet cash needs for general expenditures within one year	\$ 842,204

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, the Organization has a quasi-endowment of \$25,324. Although the Organization does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4. Investments**

Investments are stated at fair market value and consist of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Community Foundation Investment (See Note 5)	\$ 25,324	\$ 38,689
Donated Securities	<u>-</u>	<u>2,226</u>
	<u>\$ 25,324</u>	<u>\$ 40,915</u>

The donated securities represent securities received during the last week of the fiscal year and were not liquidated by December 31. Per the Organization’s investment policy, the donated securities were liquidated within the first week of the next fiscal year.

**Note 5. Quasi-Endowment Fund**

The Organization’s Board of Directors oversees a quasi-endowment fund with the Community Foundation of Frederick County (the “Foundation”). The original contribution was \$5,000. The purpose of this fund is to provide operational support to the Organization. It was the intent of the Board of Directors that no distributions from the fund shall be made until the market value of the fund reaches \$25,000, which occurred in 2011.

The agreement with the Foundation was revised to release the restriction and allow for distributions at the request of the Organization. There were \$16,828 and \$0- distributions made during the years ended December 31, 2018, and 2017, respectively.

The Foundation has the right to accept subsequent contributions to the fund from the Organization and other individuals, corporations, associations, trusts, partnerships, and other entities. Should the Organization cease to exist, the fund shall be used to support another charitable organization with goals similar to those of the Organization. Composition of and changes in endowment net assets were as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Quasi-Endowment Net Assets - Beginning of Year	\$ 38,689	\$ 34,872
Investment Income		
Interest and Dividends	1,556	1,272
Net Appreciation	<u>1,657</u>	<u>2,395</u>
	.....3,213	.....3,667
Principal Additions	.....250	.....150
Distribution	(16,828)	.....-
Community Foundation Investment (Note 4)	<u>\$ 25,324</u>	<u>\$ 38,689</u>

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6. Unconditional Promises to Give**

The Organization has received unconditional promises to give over time to benefit the Organization. As of December 31, 2018, collections were expected pertaining to multi-year commitments in each fiscal year ending December 31:

	<u>2018</u>	<u>2017</u>
Less than One Year	\$ 202,000	\$ 7,839
One to Five Years	<u>200,000</u>	<u>-</u>
	<u>402,000</u>	<u>7,839</u>
Less: Allowance for Uncollectible Promises to Give (See Note 7)	<u>(100)</u>	<u>(388)</u>
Net Unconditional Promises to Give	<u>\$ 401,900</u>	<u>\$ 7,451</u>

**Note 7. Fair Value Measurements**

The Organization uses a framework for measuring fair value that prioritizes the inputs to valuation techniques used to measure fair value using a fair value hierarchy. The following are the major categories of assets measured at fair value on a recurring basis during the years ended December 31, 2018 and 2017: those using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3). The Organization has no assets or liabilities categorized as Level 2.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value:

Donated Securities (See Note 4): Valued at the quoted price in the active market for identical securities, a Level 1 input.

Beneficial Interest in Assets Held by the Community Foundation (See Notes 4 and 5): Valued at amounts reported directly by the Foundation, a Level 3 input. The Organization believes this method appropriately values the beneficial interest.

Unconditional Promises to Give (See Note 6): The carrying amount of unconditional promises to give from individuals is reduced by a valuation allowance of 5% as of December 31, 2018 and 2017. Unconditional promises to give from charitable foundations are deemed to be fully collectible, therefore no valuation allowance is deemed necessary for foundation pledges. This reflects the Organization's best estimate of collectability, determined principally on the basis of historical experience while also recognizing the good faith and reliability of its donors (Level 3 inputs).

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value as of December 31:

	<u>2018</u>		
	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Beneficial Interest in Assets Held by the Community Foundation	\$ -	\$ 25,324	\$ 25,324
Donated Securities	-	-	-
Unconditional Promises to Give	<u>-</u>	<u>401,900</u>	<u>401,900</u>
	<u>\$ -</u>	<u>\$ 427,224</u>	<u>\$ 427,224</u>
	<u>2017</u>		
	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Beneficial Interest in Assets Held by the Community Foundation	\$ -	\$ 38,689	\$ 38,689
Donated Securities	2,226	-	2,226
Unconditional Promises to Give	<u>-</u>	<u>7,451</u>	<u>7,451</u>
	<u>\$ 2,226</u>	<u>\$ 46,140</u>	<u>\$ 48,366</u>

Changes in Level 3 inputs are as follows:

<u>Beneficial Interest in Assets Held by the Community Foundation</u>	<u>2018</u>	<u>2017</u>
Beginning Balance	\$ <u>38,689</u>	\$ <u>34,872</u>
Principal Additions	250	150
Interest and Dividends	1,556	1,272
Net Appreciation	1,657	2,395
Distribution	<u>(16,828)</u>	<u>-</u>
Ending Balance	<u>\$ 25,324</u>	<u>\$ 38,689</u>
	<u>2018</u>	<u>2017</u>
<u>Unconditional Promises to Give</u>		
Beginning Balance	\$ <u>7,451</u>	\$ <u>135,286</u>
New Unconditional Promises to Give	600,000	-
Payments Received	(205,189)	(126,119)
Promises Written Off	(650)	(2,850)
Change in Allowance for Uncollectible Promises	<u>288</u>	<u>1,134</u>
Ending Balance	<u>\$ 401,900</u>	<u>\$ 7,451</u>

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 8. Long-Term Notes Payable**

Long-term notes payable consists of the following notes payable as of December 31:

	<u>2018</u>	<u>2017</u>
Note payable to Revere Bank; secured by land and building with a book value of \$67,848; payable in monthly installments of \$767, including principal and interest at 4.00%; matures July 2023.	\$ 66,114	\$ 72,618
Note payable to Revere Bank; secured by land and building with a book value of \$96,254; payable in monthly installments of \$830, including principal and interest at 4.00%; matures July 2023.	73,183	80,137
Note payable to Revere Bank; secured by a vehicle with a book value of \$65,618; payable in monthly installments of \$985, including principal and interest at 5.25%; matures January 2022.	<u>33,538</u>	<u>-</u>
Notes Payable	172,835	152,755
Less: Current Maturities	<u>24,149</u>	<u>13,302</u>
	<u>\$ 148,686</u>	<u>\$ 139,453</u>

Debt obligations of \$593,360 were assumed by the Organization as part of the purchase of the Faith House property. The loan documents require Faith House of Frederick, LLC to use the property to provide affordable housing to low income tenants. A management agreement between the seller and the Organization was entered into to ensure the affordable housing requirements continue to be met. Such requirements were met subsequent to year end, and the debt obligations were forgiven entirely in April 2019.

In addition, an indemnification and hold harmless agreement was executed at the time of the purchase of the property. This agreement states that the seller of the property shall remain solely and fully liable for any and all obligations with respect to the debt and loan documents that were assumed and shall have sole and full responsibility for the compliance of the terms and conditions thereof, including without limitation, the obligations that the property be used to provide low income housing until termination of the loan documents.

An Irrevocable Letter of Credit was issued in July 2015 for a period of one year in the amount of \$593,360, which lists the Organization and its bank as the beneficiaries. This Letter of Credit was provided by the seller as a guaranty in the event of default. This Letter of Credit automatically renewed without amendment for successive one-year periods from the initial expiration date through the date the debt obligations were forgiven.

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The debt obligations that were assumed are not reflected in the accompanying consolidated financial statements, as management believes these obligations remain with the seller as a result of the signed indemnification and hold harmless agreement. The balance of the assumed debt obligations is \$485,840 and \$521,680 as of December 31, 2018 and 2017, respectively.

Aggregate maturities of long-term debt are as follows for the years ending December 31:

2019	\$ 24,149
2020	25,267
2021	26,438
2022	16,564
2023	<u>80,417</u>
	<u>\$ 172,835</u>

**Note 9. Line of Credit**

In July 2018, the Organization obtained a line of credit of up to \$1,000,000 to assist with payments related to the kitchen renovation project. The loan is due on demand, bears interest at prime (5.50% at December 31, 2018), and expires in August 2021. The Organization had \$544,322 available on the line of credit as of December 31, 2018.

**Note 10. Capital Leases**

The Organization leases two copiers under separate non-cancellable capital leases expiring in January 2022 and February 2023, with total cost of \$14,575 and \$12,628; ending accumulated depreciation of \$3,151 and \$8,120; and net carrying value of \$11,424 and \$4,508 as of December 31, 2018 and 2017, respectively. Depreciation expense was \$2,393 and \$2,457 for the years ended December 31, 2018 and 2017, respectively. Interest expense on the capital leases was \$575 and \$402 for the years ended December 31, 2018 and 2017, respectively.

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The future minimum lease payments under capital leases are as follows for the years ending December 31:

	2019	\$ 3,287
	2020	3,287
	2021	3,287
	2022	2,455
	2023	<u>395</u>
Total Minimum Lease Payments		12,711
Less: Amounts Representing Interest		<u>1,186</u>
Present Value of Net Minimum Lease Payments		11,525
Less: Current Portion		<u>2,782</u>
Long-Term Portion of Capital Lease		<u>\$ 8,743</u>

**Note 11. Net Assets - Restrictions and Designations**

The Board of Directors established a reserve fund with the goal of having three months of operating costs in the reserve fund. As of December 31, 2018 and 2017, the reserve fund was \$252,467 and \$130,578, respectively.

The Organization's Board of Directors oversees a quasi-endowment fund with the Community Foundation, as further described in Note 5. The Board of Directors approves any draws on the quasi-endowment fund. As of December 31, 2018 and 2017, the endowment fund had investment balances of \$25,324 and \$38,689, respectively.

Donor restricted net assets are available for the following purposes as of December 31:

	<u>2018</u>	<u>2017</u>
Faith House	\$ 238,897	\$ 283,107
Food Service - Skid Loader	10,000	-
Residential Renovations	14,000	12,449
Kitchen Renovations	-	47,610
Summer Enrichment Camp	-	1,004
Residential Van	-	14,080
Development	-	2,651
Jogging for Jesus	-	722
Adopt-a-Family	<u>-</u>	<u>104</u>
	<u>\$ 262,897</u>	<u>\$ 361,727</u>



**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 12. In-Kind Contributions**

Donated materials and equipment are reflected as contributions in the accompanying consolidated financial statements at their estimated fair values at the date of receipt. The donated items and professional services received were as follows for the years ending December 31:

	<u>2018</u>	<u>2017</u>
Food	\$ 1,953,631	\$ 1,776,234
Professional Services	15,958	12,852
Other Goods	<u>65,284</u>	<u>19,868</u>
	<u>\$ 2,034,873</u>	<u>\$ 1,808,954</u>

In-kind expenses were reported in the following programs and supporting services on the consolidated statements of functional expenses for the years ending December 31:

	<u>2018</u>	<u>2017</u>
<b>Program Services</b>		
Food Service	\$ 1,958,668	\$ 1,785,314
Changed Life Recovery	3,824	4,161
Faith House	1,245	2,026
Community Outreach	4,809	9,649
Rescued Treasures	<u>6,607</u>	<u>59</u>
Total Program Services	<u>1,975,153</u>	<u>1,801,209</u>
<b>Supporting Services</b>		
Management and General	3,996	327
Fundraising	<u>15,360</u>	<u>2,900</u>
	<u>\$ 1,994,509</u>	<u>\$ 1,804,436</u>

In addition, the increase (decrease) in donated food inventory of \$1,655 and \$(3,112) is reflected as an increase or decrease to in-kind food services expenses for the years ending December 31, 2018 and 2017, respectively. For the years ending December 31, 2018 and 2017, the Organization received donated property and equipment and related services of \$38,709 and \$7,630, respectively.

**Note 13. Retirement Plan**

The Organization operates a SIMPLE IRA retirement plan for the benefit of its employees. The plan covers substantially all employees. Employees may contribute a portion of their compensation not to exceed the limits of the plan. The Organization will match the employees' elective deferral up to a limit of 3% of the employee's salary. The Organization contributed \$23,207 and \$18,129 for the years ended December 31, 2018 and 2017, respectively.

**FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 14. Kitchen Renovations**

During 2018, the Organization demolished the existing kitchen originally built in the 1920s and constructed a new kitchen to be used for the food service program. The Organization began using the new kitchen under a temporary occupancy permit in December 2018. Total costs, including in-kind expenses, through December 2018 for this project were \$790,782, which were capitalized in Furniture and Equipment and Improvements. The Organization incurred an additional \$12,951 in improvements subsequent to year end to obtain the final occupancy permit, amounting to \$803,733 in total costs incurred for the kitchen renovations. While the new kitchen was under construction, the Organization operated out of a food trailer that was purchased for \$55,228. The Organization obtained a line of credit for \$1,000,000 to assist with paying the construction costs before all promises to give are received. The balance on the line of credit was \$455,678 as of December 31, 2018.

The Organization received a total of \$798,665 in contributions with donor restrictions related to this project, including \$53,160 in-kind contributions. For the year ended December 31, 2018, the Organization recognized \$733,004 as revenue, including \$35,109 of in-kind contributions. In 2018, the Organization received a promise to give of \$600,000 from a charitable foundation, with \$200,000 received in 2018 and \$200,000 to be received in both 2019 and 2020 (see Note 6).