



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

**YEARS ENDED
DECEMBER 31, 2020 AND 2019**



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
A Professional Corporation

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

TABLE OF CONTENTS

	Page
Independent auditor's report	1-2
Consolidated financial statements:	
Statements of financial position	3-4
Statements of activities	5-6
Statements of functional expenses	7-8
Statements of cash flows	9-10
Notes to consolidated financial statements	11-25

Independent Auditor's Report

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

Report on the Consolidated Financial Statements

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, 2020 and 2019 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Frederick Rescue Mission, Inc. and Subsidiaries as of December 31, 2020 and 2019, 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.

Brown Schultz Steindam's Fritz

Frederick, Maryland
April 29, 2021

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	2020	2019
Current assets:		
Cash and cash equivalents:		
Cash and cash equivalents	\$ 1,990,558	\$ 847,321
Residents' savings accounts, restricted	2,580	3,202
Total cash and cash equivalents	1,993,138	850,523
Investments, donated securities	2,531	1,074
Accounts receivable	14,379	28,740
Unconditional promises to give (less allowance for uncollectible promises of \$1,250 and \$100, respectively)	23,750	201,900
Inventory	5,735	19,817
Prepaid expenses	8,782	2,058
Total current assets	2,048,315	1,104,112
Property and equipment:		
Construction in progress		34,617
Land	482,207	482,207
Buildings	3,240,158	3,240,158
Furniture and equipment	570,215	564,459
Improvements	2,002,909	1,942,840
Vehicles	397,372	269,975
	6,692,861	6,534,256
Less accumulated depreciation	2,105,492	1,888,898
Total property and equipment	4,587,369	4,645,358
Other assets:		
Investments, quasi-endowment fund	28,323	27,196
Website development costs, (less accumulated amortization of \$16,940 and \$16,469, respectively)		471
Total other assets	28,323	27,667
Total assets	\$ 6,664,007	\$ 5,777,137

See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 14,441	\$ 18,458
Accrued expenses	79,679	96,719
Amounts due to residents	2,602	3,265
Deferred revenue	4,690	4,575
Current portion of:		
Capital lease obligations	3,925	2,919
Notes payable	121,610	25,273
	<u>226,947</u>	<u>151,209</u>
Total current liabilities	226,947	151,209
Long-term liabilities:		
Capital lease obligations	6,250	5,824
Notes payable	99,890	123,259
	<u>106,140</u>	<u>129,083</u>
Total long-term liabilities	106,140	129,083
Total liabilities	333,087	280,292
Net assets:		
Net assets without donor restrictions:		
Undesignated	5,597,870	5,132,949
Board designated	544,139	126,485
	<u>6,142,009</u>	<u>5,259,434</u>
Total net assets without donor restrictions	6,142,009	5,259,434
Net assets with donor restrictions	188,911	237,411
	<u>6,330,920</u>	<u>5,496,845</u>
Total net assets	6,330,920	5,496,845
Total liabilities and net assets	\$ 6,664,007	\$ 5,777,137

See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support, revenue and gains:						
Contributions	\$ 2,074,903	\$ 759,396	\$ 2,834,299	\$ 1,245,853	\$ 509,761	\$ 1,755,614
In-kind contributions	2,463,834		2,463,834	1,624,802		1,624,802
Special events				48,968		48,968
Recycling and other sales revenue	111,619		111,619	234,282		234,282
Affordable housing income				79,090		79,090
Program service revenue	26,389		26,389	29,268		29,268
Net investment income	7,624		7,624	7,469		7,469
Miscellaneous	5,089		5,089	3,170		3,170
Gain on asset disposal	900		900			
Total support, revenue and gains	4,690,358	759,396	5,449,754	3,272,902	509,761	3,782,663
Net assets released from restrictions	807,896	(807,896)	-	555,424	(555,424)	-
Total support, revenue and gains	5,498,254	(48,500)	5,449,754	3,828,326	(45,663)	3,782,663
Expenses and losses:						
Program services:						
Food Service	3,129,782		3,129,782	2,145,304		2,145,304
Changed Life Recovery	449,755		449,755	386,306		386,306
Faith House	427,324		427,324	468,997		468,997
Affordable Housing Units				42,786		42,786
Community Outreach	34,280		34,280	78,449		78,449
Rescued Treasures	146,648		146,648	144,709		144,709
Total program services	4,187,789		4,187,789	3,266,551		3,266,551

(continued)

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Expenses and losses (continued):						
Supporting services:						
Management and general	\$ 201,716		\$ 201,716	\$ 192,197		\$ 192,197
Fundraising	226,174		226,174	246,575		246,575
Total supporting services	427,890		427,890	438,772		438,772
Loss on asset disposal				22,417		22,417
Total expenses and losses	4,615,679		4,615,679	3,727,740		3,727,740
Change in net assets	882,575	\$ (48,500)	834,075	100,586	\$ (45,663)	54,923
Net assets:						
Beginning of year	5,259,434	237,411	5,496,845	5,158,848	283,074	5,441,922
End of year	\$ 6,142,009	\$ 188,911	\$ 6,330,920	\$ 5,259,434	\$ 237,411	\$ 5,496,845

See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020**

	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
Expenses:										
Salaries	\$ 265,671	\$ 201,081	\$ 235,305		\$ 22,106	\$ 64,323	\$ 788,486	\$ 131,076	\$ 108,090	\$ 1,027,652
Payroll taxes and employee benefits	69,560	51,353	49,632		3,730	16,811	191,086	28,187	20,669	239,942
Bad debt expense								3,200		3,200
Community care	62	47	45		2,250	16	2,420			2,420
Conferences and meetings	1,521	5,253	936		380	248	8,338	5,897	374	14,609
Depreciation and amortization	122,810	66,825	46,661		715	23,903	260,914	955	1,400	263,269
Education		5,176	316		752		6,244			6,244
Equipment	3,495	1,382	4,543			119	9,539			9,539
Food and kitchen supplies	2,491,002		1,524				2,492,526			2,492,526
Grants to others	40,000						40,000			40,000
Information technology	5,365	3,178	5,226		616	802	15,187	1,377	13,176	29,740
Insurance	14,353	13,976	12,735		1,125	1,764	43,953	3,031	2,102	49,086
Interest		2,480	154			104	2,738	314		3,052
Newsletter and website	1,692	1,269	1,223		95	423	4,702		4,700	9,402
Professional fees	2,301	1,689	1,626		125	563	6,304	22,597	19,545	48,446
Program activities and events	580	10,642	403		48	48	11,721			11,721
Promotion	161	120	116		9	40	446		21,992	22,438
Property taxes		764	588				1,352			1,352
Rent						6,000	6,000			6,000
Repairs and maintenance	24,111	23,439	20,290		207	9,662	77,709	154	54	77,917
Resident care		4,922	2,502				7,424			7,424
Supplies	6,095	3,899	11,288		642	2,600	24,524	1,976	30,369	56,869
Travel	31,093	10,337	851			16,723	59,004	71	134	59,209
Utilities	49,910	41,923	31,360		1,480	2,499	127,172	2,881	3,569	133,622
Total expenses	\$ 3,129,782	\$ 449,755	\$ 427,324		\$ 34,280	\$ 146,648	\$ 4,187,789	\$ 201,716	\$ 226,174	\$ 4,615,679

See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019**

	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
Expenses:										
Salaries	\$ 231,056	\$ 140,871	\$ 241,513		\$ 34,093	\$ 59,498	\$ 707,031	\$ 121,417	\$ 63,886	\$ 892,334
Payroll taxes and employee benefits	56,318	37,340	49,578		6,395	15,627	165,258	28,049	19,001	212,308
Bad debt expense								99		99
Community care	155	118	137		6,031	492	6,933			6,933
Conferences and meetings	962	10,217	5,222		207	31	16,639	1,863	(160)	18,342
Depreciation and amortization	108,458	61,508	46,313		1,030	19,859	237,168	1,027	4,063	242,258
Education		2,455	1,775		23,701		27,931			27,931
Equipment	1,472		299				1,771			1,771
Event entertainment and awards									11,166	11,166
Event facility costs									9,669	9,669
Food and kitchen supplies	1,612,771		620				1,613,391		25,675	1,639,066
Information technology	6,270	4,937	2,750		1,986	490	16,433	1,833	3,040	21,306
Insurance	12,532	11,438	12,151		1,285	1,825	39,231	2,981	1,593	43,805
Interest	5,769	5,381	85	\$ 547		1,527	13,309	420		13,729
Newsletter and website	844	639	742		102	230	2,557		2,558	5,115
Professional fees	2,139	1,583	1,836	540	253	570	6,921	29,704	29,763	66,388
Program activities and events	1,427	7,855	39		297	79	9,697			9,697
Promotion	1,342	1,017	1,171		162	366	4,058		30,000	34,058
Property management				18,783			18,783			18,783
Property taxes		722	588				1,310			1,310
Rent						6,000	6,000			6,000
Repairs and maintenance	19,873	24,307	52,086	5,703	19	13,629	115,617	464	196	116,277
Resident care		5,796	31,442				37,238			37,238
Supplies	5,111	3,107	3,220	247	901	3,534	16,120	1,294	42,457	59,871
Travel	33,355	16,998	3,039			18,034	71,426	138	476	72,040
Utilities	45,450	50,017	14,391	16,966	1,987	2,918	131,729	2,908	3,192	137,829
Total expenses	\$ 2,145,304	\$ 386,306	\$ 468,997	\$ 42,786	\$ 78,449	\$ 144,709	\$ 3,266,551	\$ 192,197	\$ 246,575	\$ 3,705,323

See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Inflows:		
Receipts from:		
Contributions	\$ 2,994,252	\$ 1,707,098
Special events		47,674
Affordable housing receipts		70,101
Recycling and other receipts	156,910	270,194
Interest income received	8,093	8,141
	<u>3,159,255</u>	<u>2,103,208</u>
Outflows:		
Payments to:		
Employees	1,044,692	858,057
Suppliers	867,981	1,002,576
Payments for interest	3,052	13,729
	<u>1,915,725</u>	<u>1,874,362</u>
Net cash provided by operating activities	<u>1,243,530</u>	<u>228,846</u>
Cash flows from investing activities:		
Inflows, proceeds from sale of property and equipment	900	27,645
Outflows:		
Purchase of:		
Investments, quasi-endowment fund	1,531	2,293
Property and equipment	183,463	138,384
	<u>184,994</u>	<u>140,677</u>
Net cash used by investing activities	<u>(184,094)</u>	<u>(113,032)</u>

(continued)

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from financing activities:		
Inflows:		
Donor-restricted contributions for property and equipment	\$ 13,475	\$ 334,374
Proceeds from long-term liabilities	221,500	
	<u>234,975</u>	<u>334,374</u>
Outflows:		
Payments on:		
Capital lease obligations	3,264	2,782
Line of credit		455,678
Long-term liabilities	148,532	24,303
	<u>151,796</u>	<u>482,763</u>
Net cash provided (used) by financing activities	<u>83,179</u>	<u>(148,389)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	1,142,615	(32,575)
Cash, cash equivalents and restricted cash:		
Beginning of year	850,523	883,098
End of year	<u>\$ 1,993,138</u>	<u>\$ 850,523</u>
Noncash investing and financing transactions:		
Trade-in value of disposed asset		\$ 2,594
Purchase of equipment with capital lease	\$ 4,696	
Donated property and equipment and related services	16,650	15,000

See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Nature of Organization and summary of accounting policies:

Nature of activities:

Frederick Rescue Mission, Inc. and Subsidiaries (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. Additionally, the Organization supplies food for food banks, churches, ministries and other nonprofit organizations throughout Frederick County. In 2020, the Organization established F.O.O.D. (Frederick Organizations Optimizing Distribution) to increase awareness of the availability of food for those in need and more effectively reach all areas of Frederick County. The Organization receives food from local grocery stores, restaurants and other community partners five 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 over addiction and/or homelessness. The Organization hopes to restore residents back to their families and communities as upstanding, influential men, leading lives of integrity. The Changed Life Recovery Program is one year, split into a six-month residential period and a six-month transitional period. The men participate in Bible studies, recovery classes, work therapy, chapel and field trips. During the transitional period, men can work outside of the Organization, obtain higher education and/or work as an intern.

Faith House provides a loving, Christ-centered place for women and women with children experiencing homelessness. 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. Starting in 2020, these apartments were used for the Faith House Transitional Living Program. Women and women with children who have successfully completed the Faith House program or a comparable program can live in an apartment for up to one year and continue to receive programming as they further their way to self-sufficiency. In prior years through 2019, these apartments served families and individuals that qualified through affordable housing guidelines.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Nature of Organization and summary of accounting policies (continued):

Nature of activities:

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.

The Rescued Treasures program provides the community with free, gently-used clothing. Guests can schedule appointments to request needed items from 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. 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.

Donated securities are recognized at fair value upon receipt. Donated securities received near year end and not liquidated by December 31, are liquidated immediately after year end.

Accounts receivable:

Accounts receivable consist 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.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Nature of Organization and summary of accounting policies (continued):

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.

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, 2020 and 2019 was \$262,798 and \$236,611, 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 life of the website of three years. Amortization expense totaled \$471 and \$5,647 for years ended December 31, 2020 and 2019, respectively.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Nature of Organization and summary of accounting policies (continued):

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.

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 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 statements 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.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Nature of Organization and summary of accounting policies (continued):

Revenue recognition:

Revenue recognition is determined using a five-step model which identifies customer contracts, identifies performance obligations in each contract, determines transaction price, allocates transaction price to performance obligations and recognizes revenue when or as the performance obligations are satisfied. Support from nonexchange transactions (contributions) are excluded from the scope of this standard.

Revenue recognition is determined through the following steps:

- Identification of the contract, or contracts, with the customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Organization satisfies a performance obligation

The Organization generates revenue from clothing and accessory sales, affordable housing rentals and tickets and registrations for fundraising events. The Organization recognizes revenue when control of the clothing and accessories are shipped to the customer, in an amount that reflects the consideration expected in exchange for the goods. Leasing income for affordable housing units is recognized over the term of the lease based on the agreed-upon rental rate. Tickets and registrations for fundraising events are recognized as revenue the date the event takes place.

The Organization accounts for a customer contract when both parties have approved the contract and are committed to perform their respective obligations, each party's rights are identified, payment terms can be identified, the contract has legal substance and it is at least probable that the Organization will collect the consideration to which it is entitled. Revenue is recognized upon the transfer of control of the promised goods and services to the customers.

Revenue from sales of clothing and accessories is billed when the goods are shipped and are generally due within 30 days. Leasing arrangements are generally for a term of one year and can be renewed if mutually agreed upon by the Organization and its tenants. Lease payments are due on the first of the month for the month being rented. All tenants that were renting the apartments moved out by December 2019. Starting in 2020, the apartments are used for the Faith House Transitional Living program, and the Organization no longer receives leasing income. Tickets and registrations for special events are paid in advance and are recorded as deferred revenue until the event occurs. The Organization has determined that contracts do not include a significant financing component.

The Organization offers no warranties on its goods.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Nature of Organization and summary of accounting policies (continued):

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. The consolidated statements of functional expenses present natural classification of expenses by function. 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 \$13,916 and \$21,522 for the years ended December 31, 2020 and 2019, 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.

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.

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 consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

2. Concentrations:

The Organization maintains its cash deposits in a financial institution located in Frederick, Maryland. Cash deposits are insured by the Federal Deposit insurance Corporation (FDIC) up to \$250,000. As of December 31, 2020, the cash deposits exceeded the limit by \$301,610, representing the maximum loss risk.

3. Financial assets and liquidity resources:

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,993,138	\$ 850,523
Investments	30,854	28,270
Accounts receivable	14,379	28,740
Promises to give available for current use	<u>23,750</u>	<u>201,900</u>
Financial assets as of December 31	2,062,121	1,109,433
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(188,911)	(237,411)
Residents' savings accounts	(2,580)	(3,202)
Board designations, quasi-endowment fund, primarily for long-term investing	<u>(28,323)</u>	<u>(27,196)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,842,307</u>	<u>\$ 841,624</u>

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 \$28,323 and \$27,196 as of December 31, 2020 and 2019, respectively. 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. The board of directors has also designated \$515,816 and \$99,289 as of December 31, 2020 and 2019, respectively, as a reserve fund to hold three months of operating expenses. As this fund is to be used to provide liquidity to the Organization, the fund has been included in financial assets available to meet cash needs for general expenditures within one year.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

4. Contract assets and liabilities:

Accounts receivable, deferred revenue and tenant security deposits from contracts with customers were as follows for the years ended December 31:

	<u>Accounts receivable</u>		<u>Deferred revenue</u>		<u>Tenant security deposits</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Beginning of year	\$ 28,740	\$ 33,281	\$ 4,575	\$ 5,869		\$ 8,508
End of year	14,379	28,740	4,690	4,575		

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 no distributions made during the years ended December 31, 2020 and 2019.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

5. Quasi-endowment fund (continued):

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>2020</u>	<u>2019</u>
Investment, quasi-endowment, beginning of year	<u>\$ 27,196</u>	<u>\$ 25,324</u>
Investment income:		
Interest and dividends	1,531	2,043
Net depreciation	<u>(404)</u>	<u>(421)</u>
	<u>1,127</u>	<u>1,622</u>
Principal additions		<u>250</u>
Investment, quasi-endowment, end of year	<u><u>\$ 28,323</u></u>	<u><u>\$ 27,196</u></u>

6. 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, 2020 and 2019: 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: Valued at the quoted price in the active market for identical securities, a Level 1 input.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

6. Fair value measurements (continued):

Beneficial interest in assets held by the Community Foundation (see Note 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: The carrying amount of unconditional promises to give from individuals is reduced by a valuation allowance of 5% as of December 31, 2020 and 2019. 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).

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:

	2020		
	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in assets held by the Community Foundation		\$ 28,323	\$ 28,323
Donated securities	\$ 2,531		2,531
Unconditional promises to give		<u>23,750</u>	<u>23,750</u>
	<u>\$ 2,531</u>	<u>\$ 52,073</u>	<u>\$ 54,604</u>
	2019		
	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in assets held by the Community Foundation		\$ 27,196	\$ 27,196
Donated securities	\$ 1,074		1,074
Unconditional promises to give		<u>201,900</u>	<u>201,900</u>
	<u>\$ 1,074</u>	<u>\$ 229,096</u>	<u>\$ 230,170</u>

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

7. Long-term notes payable:

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

	<u>2020</u>	<u>2019</u>
Note payable to Sandy Spring Bank; secured by land and building; payable in monthly installments of \$767, including principal and interest at 4.00%; note was paid off in June 2020.		\$ 59,341
Note payable to Sandy Spring Bank; secured by land and building; payable in monthly installments of \$830, including principal and interest at 4.00%; note was paid off in June 2020.		65,940
Note payable to Sandy Spring Bank; secured by a vehicle; payable in monthly installments of \$985, including principal and interest at 5.25%; note was paid off in June 2020.		23,251
Unsecured loan obtained through Paycheck Protection Program payable to Sandy Spring Bank in monthly installments of \$25,025 beginning August 2021, including principal and interest at 1% per annum; matures April 2022, subject to loan forgiveness (see below).	\$ 221,500	
Notes payable	221,500	148,532
Less current maturities	<u>121,610</u>	<u>25,273</u>
	<u>\$ 99,890</u>	<u>\$ 123,259</u>

In April 2020, the Organization qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the PPP lender), for an aggregate principal amount of \$221,500 (the PPP loan). The PPP loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years and is unsecured and guaranteed by the U.S. Small Business Administration. The principal and interest amount of the PPP loan is subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the PPP loan proceeds are used to pay expenses permitted by the Paycheck Protection Program. The Organization received full forgiveness of the PPP loan with respect to these covered expenses in March 2021.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

7. Long-term notes payable (continued):

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

2021	\$ 121,610
2022	<u>99,890</u>
	<u>\$ 221,500</u>

8. Capital leases:

The Organization leases three copiers under separate non-cancellable capital leases expiring between January 2022 and July 2025, with total cost of \$19,270 and \$14,575; ending accumulated depreciation of \$9,371 and \$6,065 and net carrying value of \$9,899 and \$8,509 as of December 31, 2020 and 2019, respectively. Depreciation expense was \$3,306 and \$2,915 for the years ended December 31, 2020 and 2019, respectively.

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

2021	\$ 4,357
2022	3,525
2023	1,466
2024	1,070
2025	<u>624</u>
Total minimum lease payments	11,042
Less amounts representing interest	<u>867</u>
Present value of net minimum lease payments	10,175
Less current portion	<u>3,925</u>
Long-term portion of capital lease	<u>\$ 6,250</u>

9. 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, 2020 and 2019, the reserve fund was \$515,816 and \$99,289, respectively.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

9. Net assets, restrictions and designations (continued):

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, 2020 and 2019, the endowment fund had investment balances of \$28,323 and \$27,196, respectively.

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

	<u>2020</u>	<u>2019</u>
Changed Life Recovery program case manager	\$ 20,000	\$ 42,095
Faith House	116,430	156,316
Food manager	52,481	
Food service truck		25,000
Residential laundry room		14,000
	<u>\$ 188,911</u>	<u>\$ 237,411</u>

10. 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 ended December 31:

	<u>2020</u>	<u>2019</u>
Food	\$ 2,425,213	\$ 1,574,130
Professional services	31,985	34,288
Other goods	6,636	16,384
	<u>\$ 2,463,834</u>	<u>\$ 1,624,802</u>

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

10. In-kind contributions (continued):

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

	<u>2020</u>	<u>2019</u>
Program services:		
Food Service	\$ 2,448,523	\$ 1,572,149
Changed Life Recovery	3,116	2,947
Faith House	1,343	1,531
Community Outreach	1,485	9,317
Rescued Treasures	968	494
	<u>2,455,435</u>	<u>1,586,438</u>
Supporting services:		
Management and general	5,300	4,704
Fundraising	531	10,791
	<u>5,831</u>	<u>15,495</u>
	<u>\$ 2,461,266</u>	<u>\$ 1,601,933</u>

In addition, the decrease in donated food inventory of \$14,082 is reflected as an increase to in-kind food services expenses for the year ended December 31, 2020. The increase in donated food inventory of \$7,869 is reflected as a decrease to in-kind food services expenses for the year ended December 31, 2019. For the years ended December 31, 2020 and 2019, the Organization received donated property and equipment and related services of \$16,650 and \$15,000, respectively.

11. 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 \$23,263 and \$21,301 for the years ended December 31, 2020 and 2019, respectively.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

12. Risks and uncertainties:

On March 11, 2020, the World Health Organization (WHO) recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures and wide-spread quarantines and stay-at-home orders. As a result, COVID-19 and the related restricted measures have had a significant adverse impact for many sectors of the economy.

The Organization is considered essential and has continued modified operations in accordance with federal and state guidelines; however, the Organization is funded by substantial charitable contributions from businesses, individuals and charitable foundations, all of whom are expected to be negatively impacted by this matter. Whereas most state and local governments have begun to ease restrictions, it is possible that a resurgence in COVID-19 cases could prompt a return to tighter restrictions in certain areas of the country. Furthermore, the economic recession brought on by the pandemic may have a continuing impact on demand for our services, as well as our funding sources. As such, there is uncertainty remaining regarding the ongoing impact of the COVID-19 impact on future results of operations.

13. Subsequent events:

As stated in Note 7, in April 2020 the Organization received funding through the Paycheck Protection Program. In March 2021, the Organization received notice that the application was reviewed, and all amounts were forgiven.

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 29, 2021, the date the consolidated financial statements were available to be issued.