



YEARS ENDED
DECEMBER 31, 2022 AND 2021



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
A Professional Corporation

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

YEARS ENDED DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

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

Opinion

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, 2022 and 2021 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Frederick Rescue Mission, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the 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 and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Frederick Rescue Mission, Inc.'s ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance; and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Frederick Rescue Mission, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Frederick Rescue Mission, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control related matters that we identified during the audit.

Brown Schultz Steidman & Fritz

Frederick, Maryland
May 17, 2023

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents:		
Cash and cash equivalents	\$ 1,673,978	\$ 1,626,622
Residents' savings accounts, restricted	4,552	2,039
	<hr/>	<hr/>
Total cash and cash equivalents	1,678,530	1,628,661
Investments	660,200	697,075
Accounts receivable	25,598	9,558
Unconditional promises to give (less allowance for uncollectible promises of \$0 and \$1,203, respectively)	44,494	22,847
Inventory	34,188	7,714
Prepaid expenses	20,006	8,744
	<hr/>	<hr/>
Total current assets	2,463,016	2,374,599
	<hr/>	<hr/>
Property and equipment:		
Construction in progress	3,350	21,561
Land	482,207	482,207
Buildings	3,240,158	3,240,158
Furniture and equipment	570,108	584,957
Improvements	2,417,850	2,024,258
Vehicles	407,226	407,226
	<hr/>	<hr/>
	7,120,899	6,760,367
Less accumulated depreciation	2,560,253	2,308,026
	<hr/>	<hr/>
Total property and equipment	4,560,646	4,452,341
	<hr/>	<hr/>
Other assets:		
Deposits	945	1,481
Investments, quasi-endowment fund	32,550	37,142
Unconditional promises to give, restricted to purchase property and equipment	97,006	
Website development costs, (less accumulated amortization of \$5,691 and \$19,272, respectively)	19,804	4,663
	<hr/>	<hr/>
Total other assets	150,305	43,286
	<hr/>	<hr/>
Total assets	\$ 7,173,967	\$ 6,870,226
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See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

LIABILITIES AND NET ASSETS

	<u>2022</u>	<u>2021</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 55,169	\$ 22,432
Accrued expenses	83,299	86,432
Amounts due to residents	4,613	1,864
Current portion of finance lease liability	3,032	4,098
	<u>146,113</u>	<u>114,826</u>
Total current liabilities	146,113	114,826
Long-term liabilities, finance lease liability	<u>6,357</u>	<u>5,711</u>
Total liabilities	<u>152,470</u>	<u>120,537</u>
Net assets:		
Net assets without donor restrictions:		
Undesignated	6,171,941	6,020,869
Board designated	732,550	622,142
	<u>6,904,491</u>	<u>6,643,011</u>
Total net assets without donor restrictions	6,904,491	6,643,011
Net assets with donor restrictions	117,006	106,678
	<u>7,021,497</u>	<u>6,749,689</u>
Total net assets	7,021,497	6,749,689
Total liabilities and net assets	<u><u>\$ 7,173,967</u></u>	<u><u>\$ 6,870,226</u></u>

See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support, revenue, net sales and gains:						
Support:						
Contributions	\$ 1,695,132	\$ 948,423	\$ 2,643,555	\$ 1,539,746	\$ 669,597	\$ 2,209,343
In-kind contributions	3,136,134		3,136,134	2,704,126		2,704,126
Total support	4,831,266	948,423	5,779,689	4,243,872	669,597	4,913,469
Revenue:						
Special events	13,956		13,956			
Paycheck Protection Program forgiveness				221,500		221,500
Net investment income				18,525		18,525
Program service revenue	47,100		47,100	35,743		35,743
Miscellaneous	356		356	13,980		13,980
Total revenue	61,412		61,412	289,748		289,748
Net sales:						
Recycling and other sales revenue	242,132		242,132	188,660		188,660
Less costs of sales	242,132		242,132	188,660		188,660
Gross profit	-		-	-		-
Gain on asset disposal				2,500		2,500
Net support, revenue, net sales and gains	4,892,678	948,423	5,841,101	4,536,120	669,597	5,205,717
Net assets released from restrictions	938,095	(938,095)	-	751,830	(751,830)	-
Total support, revenue, net sales and gains	5,830,773	10,328	5,841,101	5,287,950	(82,233)	5,205,717

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FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Expenses and losses:						
Program services:						
Food Service	\$ 3,633,886		\$ 3,633,886	\$ 3,257,729		\$ 3,257,729
Changed Life Recovery	422,128		422,128	412,284		412,284
Faith House	546,524		546,524	482,982		482,982
Community Outreach	79,643		79,643	41,002		41,002
Rescued Treasures	232,467		232,467	188,254		188,254
Total program services	4,914,648		4,914,648	4,382,251		4,382,251
Supporting services:						
Management and general	248,000		248,000	224,223		224,223
Fundraising	263,524		263,524	180,474		180,474
Total supporting services	511,524		511,524	404,697		404,697
Losses:						
Net investment loss	140,181		140,181			
Loss on asset disposal	2,940		2,940			
Total losses	143,121		143,121			
Total expenses and losses	5,569,293		5,569,293	4,786,948		4,786,948
Change in net assets	261,480	\$ 10,328	271,808	501,002	\$ (82,233)	418,769
Net assets:						
Beginning of year	6,643,011	106,678	6,749,689	6,142,009	188,911	6,330,920
End of year	\$ 6,904,491	\$ 117,006	\$ 7,021,497	\$ 6,643,011	\$ 106,678	\$ 6,749,689

See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Program services					Supporting services		Total functional expenses	
	Food Service	Changed Life Recovery	Faith House	Community Outreach	Rescued Treasures	Total program	Management and general		Fundraising
Expenses:									
Salaries	\$ 387,521	\$ 175,892	\$ 316,503	\$ 48,210	\$ 116,046	\$ 1,044,172	\$ 166,464	\$ 103,049	\$ 1,313,685
Payroll taxes and employee benefits	92,461	43,357	64,564	6,693	24,528	231,603	33,988	28,864	294,455
Bad debt expense (recovery)							(1,203)		(1,203)
Community care				914		914			914
Conferences and meetings	6,484	2,009	2,750	951	1,174	13,368	2,093	1,182	16,643
Depreciation and amortization	154,747	69,311	52,162	837	22,576	299,633	1,199	1,802	302,634
Education		5,254	904	3,098		9,256			9,256
Equipment	6,690	1,591	3,530	2,594	1,437	15,842	403	550	16,795
Event entertainment and awards								15,900	15,900
Food and kitchen supplies	2,762,681		579			2,763,260		32,637	2,795,897
Information technology	15,087	7,682	20,449	1,782	3,935	48,935	3,905	9,801	62,641
Insurance	15,712	13,196	13,076	1,001	2,475	45,460	3,626	1,618	50,704
Interest		167	343			510	86		596
Newsletter and website	2,506	1,222	1,865	193	644	6,430		6,430	12,860
Professional fees	3,902	1,859	3,032	303	963	10,059	31,879	16,838	58,776
Program activities and events	3,969	14,481	292	8,570	434	27,746			27,746
Promotion	5,305	2,584	4,050	408	1,360	13,707		21,059	34,766
Property taxes		764	588			1,352			1,352
Rent	15,000				6,000	21,000		600	21,600
Repairs and maintenance	39,022	17,247	27,296	114	11,241	94,920	712	761	96,393
Resident care		6,490	1,864			8,354			8,354
Supplies	9,033	3,313	6,103	2,334	3,885	24,668	1,993	19,039	45,700
Travel	55,407	12,028	435		32,935	100,805			100,805
Utilities	58,359	43,681	26,139	1,641	2,834	132,654	2,855	3,394	138,903
Total expenses	\$ 3,633,886	\$ 422,128	\$ 546,524	\$ 79,643	\$ 232,467	\$ 4,914,648	\$ 248,000	\$ 263,524	\$ 5,426,172

See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021**

	Program services					Supporting services		Total functional expenses	
	Food Service	Changed Life Recovery	Faith House	Community Outreach	Rescued Treasures	Total program	Management and general		Fundraising
Expenses:									
Salaries	\$ 333,889	\$ 179,081	\$ 273,834	\$ 24,660	\$ 82,310	\$ 893,774	\$ 153,456	\$ 79,618	\$ 1,126,848
Payroll taxes and employee benefits	85,664	51,744	60,858	3,567	19,424	221,257	30,594	15,563	267,414
Community care				1,302		1,302			1,302
Conferences and meetings	3,598	2,603	1,176	305	426	8,108	2,460	214	10,782
Depreciation and amortization	142,534	70,123	49,529	678	22,109	284,973	849	849	286,671
Education		5,280	452	5,005		10,737			10,737
Equipment	7,770	1,334	1,130	180	305	10,719	3,751		14,470
Event entertainment and awards								6,610	6,610
Food and kitchen supplies	2,512,085		290			2,512,375		14,616	2,526,991
Information technology	8,374	5,735	17,414	1,895	1,629	35,047	1,997	8,182	45,226
Insurance	16,616	14,580	14,079	995	2,174	48,444	3,799	1,797	54,040
Interest		209	229		-	438	204		642
Newsletter and website	2,450	1,348	1,593	123	613	6,127		6,610	12,737
Professional fees	231	127	150	12	58	578	23,117	13,403	37,098
Program activities and events	5,172	6,763	176	26	46	12,183			12,183
Promotion	2,098	1,154	1,364	105	525	5,246		17,679	22,925
Property taxes		764	588			1,352			1,352
Rent					6,000	6,000			6,000
Repairs and maintenance	32,377	11,871	19,735	30	16,344	80,357	159	225	80,741
Resident care		5,337	4,126			9,463			9,463
Supplies	5,992	2,656	3,447	761	3,061	15,917	1,291	12,038	29,246
Travel	44,770	9,378	347		30,908	85,403	77		85,480
Utilities	54,109	42,197	32,465	1,358	2,322	132,451	2,469	3,070	137,990
Total expenses	\$ 3,257,729	\$ 412,284	\$ 482,982	\$ 41,002	\$ 188,254	\$ 4,382,251	\$ 224,223	\$ 180,474	\$ 4,786,948

See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Inflows:		
Receipts from contributions	\$ 2,385,105	\$ 2,195,246
Special events	13,956	
Recycling and other receipts	276,297	237,776
Interest and dividend income received	25,311	24,176
	<u>2,700,669</u>	<u>2,457,198</u>
Outflows:		
Payments to:		
Employees	1,316,818	1,120,095
Suppliers	1,008,946	864,952
Payments for interest	596	642
	<u>2,326,360</u>	<u>1,985,689</u>
Net cash provided by operating activities	<u>374,309</u>	<u>471,509</u>
Cash flows from investing activities:		
Inflows:		
Proceeds from sale of:		
Investments	573,037	251,735
Property and equipment		2,500
	<u>573,037</u>	<u>254,235</u>
Outflows:		
Purchase of:		
Investments	694,278	956,039
Investments, quasi-endowment fund	2,786	4,710
Property and equipment	336,650	144,106
	<u>1,033,714</u>	<u>1,104,855</u>
Net cash used by investing activities	<u>(460,677)</u>	<u>(850,620)</u>

(continued)

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from financing activities:		
Inflows, donor-restricted contributions for property and equipment	\$ 141,000	\$ 15,000
Outflows, payments on financing lease liabilities	<u>4,763</u>	<u>366</u>
Net cash provided by financing activities	<u>136,237</u>	<u>14,634</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	49,869	(364,477)
Cash, cash equivalents and restricted cash:		
Beginning of year	<u>1,628,661</u>	<u>1,993,138</u>
End of year	<u>\$ 1,678,530</u>	<u>\$ 1,628,661</u>
Noncash investing and financing transactions:		
Purchase of equipment with capital lease	\$ 4,343	
Donated property and equipment and related services	95,392	\$ 12,200
Paycheck Protection Program loan forgiveness		221,500

See notes to consolidated financial statements.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021

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 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. The Organization receives food from Maryland Food Bank, 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 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.

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 YEARS ENDED DECEMBER 31, 2022 AND 2021

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

Nature of activities:

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 and equity 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, 2022 AND 2021

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. Gains and losses from changes in fair value are included in contributions line of the consolidated financial statements of activities. 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, 2022 and 2021 was \$299,275 and \$284,339, 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 \$3,359 and \$2,332 for years ended December 31, 2022 and 2021, respectively.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021

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.

All income, gains and losses recognized from the investment of contributions are recognized as unrestricted unless otherwise specified by the donor.

Management has determined the Organization's contributions are considered nonexchange transactions, and therefore, are recognized when a promise to give becomes unconditional.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021

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

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 that 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 from clothing and accessory sales 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. 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. 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.

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.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021

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

Advertising:

The Organization expenses advertising costs as they are incurred. Total advertising expenses were \$17,516 and \$15,276 for the years ended December 31, 2022 and 2021, 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.

Leases:

The Organization has elected the short-term lease exceptions to not recognize leases with a lease term of 12 months or less on the balance sheet.

The Organization combines and accounts for lease and nonlease components as a single lease component for equipment leases. The discount rates related to the Organization's lease liabilities are generally based on estimates of the Organization's incremental borrowing rate, as the discount rates implicit in the Organization's leases cannot be readily determined.

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, 2022 AND 2021

2. New accounting pronouncements adopted:

Effective January 1, 2022, the Organization adopted the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures for Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires contributed nonfinancial assets to be a separate line item in the statement of activities and enhanced related disclosures. The Organization applied the standard retrospectively effective January 1, 2021 with updated presentation of the statement of activities and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which replaces the previous guidance with ASC 842, *Leases*. The core principle of ASC 842 is that any entity should recognize an asset and related liability for leases longer than one year to depict the transfer of promised rights and obligations in an amount that reflects the consideration to which the entity expects to be entitled. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of leases and cash flows arising from contracts. For contracts existing at the time of adoption, the Company elected to not reassess (i) whether any are or contain leases, (ii) lease classification and (iii) initial direct costs.

Effective January 1, 2022, the Company adopted ASU 2016-02 using the modified retrospective method. The impact of adoption resulted in enhanced disclosures.

3. 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, 2022, the Organization had no amounts in excess of insured limits.

The institution holding the Community Foundation of Frederick County's investments is a member of the Securities Investor Protection Corporation (SIPC). SIPC insures the cash and securities in each investor's account up to \$500,000 against loss in the case of a failed brokerage firm or misappropriation of assets by the broker; however, only up to \$250,000 of the total coverage can be applied to cash. As of December 31, 2022, the Organization's investments at the institution exceeded the limit by \$160,200, representing the maximum loss risk.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

4. 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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,678,530	\$ 1,628,661
Investments	692,750	734,217
Accounts receivable	25,598	9,558
Unconditional promises to give	<u>44,494</u>	<u>22,847</u>
Financial assets as of December 31	2,441,372	2,395,283
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(20,000)	(106,678)
Residents' savings accounts	(4,552)	(2,039)
Board designations, quasi-endowment fund, primarily for long-term investing	<u>(32,550)</u>	<u>(37,142)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,384,270</u>	<u>\$ 2,249,424</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 \$32,550 and \$37,142 as of December 31, 2022 and 2021, respectively. Although the Organization does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditures 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 \$700,000 and \$585,000 as of December 31, 2022 and 2021, 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, 2022 AND 2021

5. Contract assets and liabilities:

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

	Accounts receivable		Deferred revenue	
	2022	2021	2022	2021
Beginning of year	\$ 9,558	\$ 14,379		\$ 4,690
End of year	25,598	9,558		

6. 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, 2022 and 2021.

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:

	2022	2021
Investment, quasi-endowment, beginning of year	\$ 37,142	\$ 28,323
Investment income:		
Interest and dividends	2,786	4,710
Net appreciation (depreciation)	(7,628)	4,109
	(4,842)	8,819
Principal additions	250	
Investment, quasi-endowment, end of year	\$ 32,550	\$ 37,142

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021

7. Investments:

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

	2022		2021	
	Cost	Market	Cost	Market
Mutual funds	\$ 456,938	\$ 396,050	\$ 679,246	\$ 670,159
ETF's and CEF's	146,920	138,066	26,035	26,916
Stock	126,303	126,084		
	<u>\$ 730,161</u>	<u>\$ 660,200</u>	<u>\$ 705,281</u>	<u>\$ 697,075</u>

8. 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, 2022 and 2021: 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.

Stocks: Valued at the quoted price in the active market for identical securities, a Level 1 input.

Exchange-traded funds (ETF's) and Closed-end funds (CEF's): Valued at the quoted price in the active market for identical securities, a Level 1 input.

Mutual funds: Valued at the quoted price in the active market for identical securities, a Level 1 input.

Beneficial interest in assets held by the Foundation (see Note 6): Valued at amounts reported directly by the Foundation, a Level 3 input. The Organization believes this method appropriately values the beneficial interest.

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

8. Fair value measurements (continued):

Unconditional promises to give: The carrying amount of unconditional promises to give from individuals is reduced by a valuation allowance of 5%. 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, a Level 3 input.

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:

	2022		
	Level 1	Level 3	Total
Beneficial interest in assets held by the Foundation		\$ 32,550	\$ 32,550
Equity securities:			
Mutual funds	\$ 396,050		396,050
ETF's and CEF's	138,066		138,066
Stocks	119,750		119,750
Stocks, alternative securities	6,334		6,334
Unconditional promises to give		141,500	141,500
	<u>\$ 660,200</u>	<u>\$ 174,050</u>	<u>\$ 834,250</u>

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

8. Fair value measurements (continued):

	2021		Total
	Level 1	Level 3	
Beneficial interest in assets held by the Foundation		\$ 37,142	\$ 37,142
Equity securities:			
Mutual funds	\$ 549,632		549,632
ETF's and CEF's	26,916		26,916
Mutual funds:			
Fixed income securities	99,512		99,512
Alternative securities	21,015		21,015
Unconditional promises to give		22,847	22,847
	\$ 697,075	\$ 59,989	\$ 757,064

9. Paycheck Protection Program:

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 principal and interest amount of the PPP loan was 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, 2022 AND 2021

10. Finance leases:

The Organization leases four copiers under separate non-cancellable finance leases expiring between February 2023 and February 2027 with monthly payments ranging from \$82 to \$198. The assets and liabilities related to finance leases and the associated financial statement line items were as follows for the years ended December 31, 2022 and 2021:

Lease-related assets and liabilities	Financial statement line items	2022	2021
Right-of-use assets, finance leases	Property and equipment: furniture and equipment, net of accumulated depreciation of \$13,854 and \$14,021, respectively	\$ 5,624	\$ 9,588
Lease liabilities:			
Finance leases	Current liabilities: finance lease	\$ 3,032	\$ 4,098
	Long-term liabilities: finance lease	6,357	5,711
Total lease liabilities		\$ 9,389	\$ 9,809

The components of lease cost and the associated financial statement line items were as follows for the years ended December 31, 2022 and 2021:

	Financial statement line items	2022	2021
Finance lease cost:			
Amortization of right-of-use assets	Amortization of finance leases	\$ 3,896	\$ 4,649
Interest on lease liabilities	Interest expense	597	641
Total finance lease costs		\$ 4,493	\$ 5,290

The weighted-average discount rate and lease term assumptions used in determining the liability were as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Weighted-average remaining lease term, finance leases	3.22 years	3.05 years
Weighted-average discount rate, finance leases	5.25 %	5.24 %

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

10. Finance leases (continued):

The future lease liability under financing leases are as follows for the years ending December 31:

2023	\$ 3,444
2024	3,048
2025	2,602
2026	989
2027	143
	<hr/>
Total	10,226
Less present value	837
	<hr/>
Total lease liability	<u>\$ 9,389</u>

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, 2022 and 2021, the reserve fund was \$700,000 and \$585,000, respectively.

The Organization's Board of Directors oversees a quasi-endowment fund with the Foundation, as further described in Note 6. The Board of Directors approves any draws on the quasi-endowment fund. As of December 31, 2022 and 2021, the quasi-endowment fund had investment balances of \$32,550 and \$37,142, respectively.

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

	<u>2022</u>	<u>2021</u>
Changed Life Recovery program case manager	\$ 20,000	\$ 20,000
Faith House		82,178
Paving project	97,006	
Summer enrichment		4,500
	<hr/>	<hr/>
	<u>\$ 117,006</u>	<u>\$ 106,678</u>

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

12. In-kind contributions:

For the year ended December 31, 2022, in-kind contributions recognized within the statement of activities included:

		<u>Usage in programs/activities</u>	<u>Donor-imposed restrictions</u>	<u>Fair value techniques</u>
Food (utilized)	\$ 2,746,328	Food Service Fundraising	Unrestricted Unrestricted	Estimated average wholesale price per pound for each food category and estimated value provided from third party.
Clothing (monetized)	242,132	Rescued Treasures	Unrestricted	Based on actual sale price per pound of clothing as determined by third parties when excess clothing is sold immediately upon receipt.
Professional services (utilized)	125,720	Capitalized as improvements Food Service Changed Life Recovery Community Outreach Management and general Fundraising	Unrestricted Unrestricted Unrestricted Unrestricted Unrestricted	Estimated costs provided by third parties for services performed at reduced pricing.
Rent (utilized)	15,000	Food Service	Unrestricted	Estimated by considering the State's historical assessment of the property and rental price per square foot of comparable properties.
Other goods (utilized)	6,954	Capitalized as improvements Food Service Changed Life Recovery Faith House Community Outreach Management and general Fundraising	Unrestricted Unrestricted Unrestricted Unrestricted Unrestricted Unrestricted	Estimated prices of similar services provided at the time of the contribution.
	<u>\$ 3,136,134</u>			

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

12. In-kind contributions (continued):

For the year ended December 31, 2021, in-kind contributions recognized within the statement of activities included:

		<u>Usage in programs/activities</u>	<u>Donor-imposed restrictions</u>	<u>Fair value techniques</u>
Food (utilized)	\$ 2,467,204	Food Service	Unrestricted	Estimated average wholesale price per pound for each food category and estimated value provided from third party.
		Faith House	Unrestricted	
Clothing (monetized)	188,660	Rescued Treasures	Unrestricted	Based on actual sale price per pound of clothing as determined by third parties when excess clothing is sold immediately upon receipt.
Professional services (utilized)	28,605	Capitalized as construction in progress	Unrestricted	Estimated costs provided by third parties for services performed at reduced pricing.
		Food Service	Unrestricted	
		Changed Life Recovery	Unrestricted	
		Faith House	Unrestricted	
Other goods (utilized)	19,657	Management and general	Unrestricted	Estimated prices of similar services provided at the time of the contribution.
		Fundraising	Unrestricted	
		Capitalized as improvements	Unrestricted	
		Food Service	Unrestricted	
		Changed Life Recovery	Unrestricted	
		Faith House	Unrestricted	
		Management and general	Unrestricted	
		Fundraising	Unrestricted	
	<u>\$ 2,704,126</u>			

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021

12. 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>2022</u>	<u>2021</u>
Program services:		
Food Service	\$ 2,739,396	\$ 2,479,609
Changed Life Recovery	610	1,075
Faith House	65	15,060
Community Outreach	4,906	28
Rescued Treasures	<u>23</u>	<u>29</u>
Total program services	<u>2,745,000</u>	<u>2,495,801</u>
Supporting services:		
Management and general	6,210	5,343
Fundraising	<u>20,925</u>	<u>143</u>
	<u>27,135</u>	<u>5,486</u>
	<u><u>\$ 2,772,135</u></u>	<u><u>\$ 2,501,287</u></u>

In addition, the increase in donated food inventory of \$26,474 and \$1,979 is reflected as a decrease to in-kind food services expenses for the years ended December 31, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, the Organization received donated property and equipment and related services of \$95,392 and \$12,200, respectively.

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 \$26,746 and \$24,233 for the years ended December 31, 2022 and 2021, respectively.

14. Subsequent events:

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 17, 2023, the date the consolidated financial statements were available to be issued.