

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

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**



**CPAs &
BUSINESS
ADVISORS**

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INDEPENDENT AUDITORS' REPORT

May 29, 2018

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

We have audited the accompanying consolidated financial statements of Frederick Rescue Mission, Inc. (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion

As more fully discussed in Note 7 to the consolidated financial statements, the purchase of the property used by Faith House of Frederick, LLC required the Organization to assume \$593,360 in forgivable debt obligations originally acquired by the seller of the property. Certain compliance requirements must be adhered to through 2019, at which time the obligations will be be forgiven by the agencies that originally loaned the funds to the seller. The seller has obtained a letter of credit to fund these obligations should compliance not be maintained and has signed an indemnity agreement with the Organization which would hold the Organization harmless in the event of a compliance default. Management has chosen not to record the forgivable debt obligations as they consider the risk of noncompliance and any payment on these obligations to be remote. Accounting principles generally accepted in the United States of America would require these obligations to be recorded until the compliance period ends and the obligations are forgiven. As of December 31, 2017 and 2016, the balance of the assumed debt obligations are \$521,680 and \$557,520, respectively. The effects on the accompanying consolidated financial statements are an understatement of both assets and liabilities of \$521,680 and \$557,520, for the years ended December 31, 2017 and 2016, respectively. Therefore, there is no effect on the net assets of the Organization.

Qualified Opinion

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

Prior Period Financial Statements

The consolidated financial statements of Frederick Rescue Mission, Inc. and Subsidiaries as of December 31, 2016, were audited by other auditors whose opinion dated July 27, 2017 on those statements was qualified because of the departure from generally accepted accounting principles described in the Basis for Qualified Opinion paragraph.

RLH CPAs & Business Advisors, LLC

Frederick, Maryland

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents		
Cash and Cash Equivalents	\$ 797,310	\$ 447,271
Residents' Savings Accounts - Restricted	8,142	6,873
Total Cash and Cash Equivalents	805,452	454,144
Investments	40,915	46,953
Accounts Receivable	32,048	21,506
Unconditional Promises to Give		
(Less Allowance for Uncollectible Promises		
of \$388 and \$1,154, respectively)	7,451	132,908
Inventory	10,293	13,405
Prepaid Expenses	8,175	9,972
TOTAL CURRENT ASSETS	904,334	678,888
PROPERTY AND EQUIPMENT		
Construction in Progress	30,399	30,416
Land	482,207	482,207
Buildings	3,240,158	3,240,158
Furniture and Equipment	387,375	350,578
Improvements	1,219,046	1,164,460
Vehicles	220,303	220,303
	5,579,488	5,488,122
Less: Accumulated Depreciation	1,633,238	1,454,161
TOTAL PROPERTY AND EQUIPMENT	3,946,250	4,033,961
OTHER ASSETS		
Deposits	1,866	22,406
Unconditional Promises to Give		
(Less Allowance for Uncollectible Promises		
of \$-0- and \$368, respectively)	-	2,378
Website Development Costs, (Less Accumulated		
Amortization of \$5,176 and \$-0-, respectively)	11,764	-
TOTAL OTHER ASSETS	13,630	24,784
TOTAL ASSETS	\$ 4,864,214	\$ 4,737,633

See Accompanying Notes

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 14,240	\$ 49,590
Accrued Expenses	74,013	61,657
Amounts Due to Residents	8,135	6,750
Deferred Revenue	30,129	40,498
Current Portion of Capital Lease Obligations	2,209	1,941
Current Portion of Notes Payable	13,302	12,757
TOTAL CURRENT LIABILITIES	142,028	173,193
LONG-TERM LIABILITIES		
Tenant Security Deposits	8,378	8,713
Capital Lease Obligations	4,848	3,358
Notes Payable	152,755	165,678
Less: Current Portion of Long-Term Liabilities	15,511	14,698
TOTAL LONG-TERM LIABILITIES	150,470	163,051
TOTAL LIABILITIES	292,498	336,244
NET ASSETS		
Unrestricted		
Undesignated	3,899,801	3,861,593
Board Designated	169,267	83,273
Total Unrestricted	4,069,068	3,944,866
Temporarily Restricted	502,648	456,523
TOTAL NET ASSETS	4,571,716	4,401,389
TOTAL LIABILITIES AND NET ASSETS	\$ 4,864,214	\$ 4,737,633

See Accompanying Notes

FREDERICK RESCUE MISSION INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE, AND GAINS						
Contributions	\$ 997,881	\$ 627,435	\$ 1,625,316	\$ 940,669	\$ 526,481	\$ 1,467,150
In-Kind Contributions	1,808,954	-	1,808,954	1,975,848	-	1,975,848
Special Events	67,355	-	67,355	45,334	-	45,334
Recycling and Other Sales Revenue	171,195	-	171,195	139,202	-	139,202
Affordable Housing Income	116,974	-	116,974	122,535	-	122,535
Program Service Revenue	38,371	-	38,371	19,429	-	19,429
Investment Income	2,940	-	2,940	2,280	-	2,280
Realized/Unrealized Gain on Investments	2,440	-	2,440	-	-	-
Miscellaneous	4,624	-	4,624	4,597	-	4,597
TOTAL SUPPORT, REVENUE, AND GAINS	3,210,734	627,435	3,838,169	3,249,894	526,481	3,776,375
NET ASSETS RELEASED FROM RESTRICTIONS	581,310	(581,310)	-	737,839	(737,839)	-
TOTAL SUPPORT, REVENUE, AND GAINS	3,792,044	46,125	3,838,169	3,987,733	(211,358)	3,776,375

See Accompanying Notes

FREDERICK RESCUE MISSION INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
EXPENSES AND LOSSES						
PROGRAM SERVICES						
Food Service	2,285,230	-	2,285,230	2,428,563	-	2,428,563
Changed Life Recovery	351,274	-	351,274	365,719	-	365,719
Faith House	363,731	-	363,731	200,114	-	200,114
Community Outreach	70,740	-	70,740	72,124	-	72,124
Rescued Treasures	144,465	-	144,465	143,994	-	143,994
Affordable Housing Units	48,418	-	48,418	61,089	-	61,089
TOTAL PROGRAM SERVICES	3,263,858	-	3,263,858	3,271,603	-	3,271,603
SUPPORTING SERVICES						
Management and General	165,331	-	165,331	174,269	-	174,269
Fundraising	238,653	-	238,653	222,663	-	222,663
TOTAL SUPPORTING SERVICES	403,984	-	403,984	396,932	-	396,932
LOSSES						
Realized/Unrealized Loss on Investments	-	-	-	2,244	-	2,244
TOTAL LOSSES	-	-	-	2,244	-	2,244
TOTAL EXPENSES AND LOSSES	3,667,842	-	3,667,842	3,670,779	-	3,670,779
CHANGE IN NET ASSETS						
Net Assets - Beginning of Year	3,944,866	456,523	4,401,389	3,627,912	667,881	4,295,793
NET ASSETS - END OF YEAR	\$ 4,069,068	\$ 502,648	\$4,571,716	\$ 3,944,866	\$ 456,523	\$4,401,389

See Accompanying Notes

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

2017

	Program Services							Supporting Services		Total Functional Expenses
	Food Service	Changed Life Recovery	Faith House	Affordable Housing Units	Community Outreach	Rescued Treasures	Total Program	Management and General	Fundraising	
Salaries	\$ 224,728	\$ 125,179	\$ 233,656	\$ -	\$ 34,517	\$ 60,914	\$ 678,994	\$ 107,569	\$ 70,493	\$ 857,056
Payroll Taxes and Employee Benefits	66,330	29,686	29,986	-	7,229	16,464	149,695	26,209	24,729	200,633
Bad Debt Expense	-	-	-	-	-	-	-	1,746	-	1,746
Community Care	-	-	-	-	10,020	-	10,020	-	-	10,020
Conferences and Meetings	639	860	1,316	-	224	97	3,136	1,281	2,064	6,481
Depreciation and Amortization	64,384	60,187	45,920	-	1,689	5,593	177,773	1,849	4,628	184,250
Education	-	1,608	565	-	10,453	-	12,626	-	-	12,626
Event Entertainment and Awards	-	-	-	-	-	-	-	-	12,053	12,053
Event Facility Costs	-	-	-	-	-	-	-	-	6,048	6,048
Food and Kitchen	1,820,260	-	-	-	-	-	1,820,260	-	12,359	1,832,619
Information Technology	2,295	2,315	6,580	498	614	698	13,000	1,597	7,775	22,372
Insurance	7,490	8,741	9,269	-	1,173	3,237	29,910	2,233	1,352	33,495
Interest	-	6,475	145	114	-	-	6,734	271	-	7,005
Newsletter and Website	857	669	776	-	108	268	2,678	-	2,626	5,304
Professional Fees	446	126	146	662	60	50	1,490	18,720	17,857	38,067
Program Activities and Events	1,159	7,350	173	-	865	152	9,699	-	-	9,699
Promotion	575	449	1,033	35	72	180	2,344	-	31,395	33,739
Property Management	-	-	-	24,405	-	-	24,405	-	-	24,405
Property Taxes	-	722	588	-	-	-	1,310	-	-	1,310
Rent	-	-	-	-	-	6,000	6,000	-	-	6,000
Repairs and Maintenance	20,759	25,536	8,838	9,892	74	6,144	71,243	46	4	71,293
Resident Care	-	18,751	5,444	-	-	-	24,195	-	-	24,195
Supplies	6,529	3,561	4,331	235	1,788	3,214	19,658	1,280	41,990	62,928
Travel	27,730	15,373	27	714	-	38,127	81,971	117	411	82,499
Utilities	41,049	43,686	14,938	11,863	1,854	3,327	116,717	2,413	2,869	121,999
TOTAL EXPENSES	\$ 2,285,230	\$ 351,274	\$ 363,731	\$ 48,418	\$ 70,740	\$ 144,465	\$ 3,263,858	\$ 165,331	\$ 238,653	\$ 3,667,842

See Accompanying Notes

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

2016

	Program Services							Supporting Services		Total Functional Expenses
	Food Service	Changed Life Recovery	Faith House	Affordable Housing Units	Community Outreach	Rescued Treasures	Total Program	Management and General	Fundraising	
Salaries	\$ 202,007	\$ 140,011	\$ 95,857	\$ -	\$ 38,383	\$ 65,888	\$ 542,146	\$ 108,530	\$ 86,872	\$ 737,548
Payroll Taxes and Employee Benefits	65,388	36,562	13,289	-	9,398	20,256	144,893	28,620	28,803	202,316
Bad Debt Expense	-	-	-	-	-	-	-	4,051	-	4,051
Community Care	-	-	-	-	7,736	-	7,736	-	-	7,736
Conferences and Meetings	2,626	351	246	-	154	200	3,577	447	290	4,314
Depreciation and Amortization	72,491	59,713	27,797	-	1,830	6,678	168,509	2,268	2,265	173,042
Education	-	1,610	-	-	7,806	-	9,416	-	-	9,416
Event Entertainment and Awards	-	-	-	-	-	-	-	-	8,741	8,741
Event Facility Costs	-	-	-	-	-	-	-	-	4,683	4,683
Food and Kitchen	1,984,530	-	-	-	-	-	1,984,530	-	14,801	1,999,331
Information Technology	2,440	3,007	3,336	634	468	515	10,400	1,295	1,992	13,687
Insurance	7,767	9,394	7,345	-	1,339	3,435	29,280	2,481	1,694	33,455
Interest	95	7,012	609	245	-	-	7,961	471	-	8,432
Newsletter and Website	1,183	980	675	-	169	372	3,379	-	3,240	6,619
Professional Fees	597	224	155	489	39	85	1,589	22,351	11,459	35,399
Program Activities and Events	869	4,022	1,090	-	1,126	5,608	12,715	-	-	12,715
Promotion	969	803	1,632	200	138	304	4,046	-	28,300	32,346
Property Management	-	-	-	18,793	-	-	18,793	-	-	18,793
Property Taxes	-	1,480	588	-	-	-	2,068	-	-	2,068
Rent	-	-	-	-	-	6,000	6,000	-	-	6,000
Repairs and Maintenance	11,343	16,930	2,060	29,286	210	12,474	72,303	-	301	72,604
Resident Care	-	23,189	2,913	-	-	-	26,102	-	-	26,102
Supplies	4,884	3,011	32,663	120	1,610	2,392	44,680	1,455	25,926	72,061
Travel	30,332	14,854	3	901	1	15,262	61,353	114	454	61,921
Utilities	41,042	42,566	9,856	10,421	1,717	4,525	110,127	2,186	2,842	115,155
TOTAL EXPENSES	\$ 2,428,563	\$ 365,719	\$ 200,114	\$ 61,089	\$ 72,124	\$ 143,994	\$ 3,271,603	\$ 174,269	\$ 222,663	\$ 3,668,535

See Accompanying Notes

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Receipts from Contributions	\$ 1,709,476	\$ 1,815,823
Receipts from Special Events	67,355	45,334
Affordable Housing Receipts	107,655	148,766
Recycling and Other Receipts	203,648	161,811
Interest Income Received	2,940	2,280
	2,091,074	2,174,014
Outflows:		
Payments to Employees	844,700	734,680
Payments to Suppliers	828,108	824,736
Payments for Interest	7,005	8,432
	1,679,813	1,567,848
NET CASH PROVIDED BY OPERATING ACTIVITIES	411,261	606,166
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows:		
Proceeds from Sale of Investments	53,579	47,131
Outflows:		
Purchase of Investments	1,423	2,429
Purchase of Property and Equipment	96,545	434,928
	97,968	437,357
NET CASH USED BY INVESTING ACTIVITIES	(44,389)	(390,226)
CASH FLOWS FROM FINANCING ACTIVITIES		
Outflows:		
Payments on Capital Lease Obligations	2,641	1,741
Payments on Long-Term Debt	12,923	115,224
	15,564	116,965
NET CASH USED BY FINANCING ACTIVITIES	(15,564)	(116,965)
NET INCREASE IN CASH AND CASH EQUIVALENTS	351,308	98,975
Cash and Cash Equivalents - Beginning of Year	454,144	355,169
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 805,452	\$ 454,144

See Accompanying Notes

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

Note 1. Summary of Accounting Policies

Nature of Activities

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

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

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

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

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

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

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation

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

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid instruments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

Investments in marketable securities with readily determinable market values and all investments in debt securities are valued at their market values, which is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers, with gains and losses included in the consolidated statements of activities. Donated securities are recognized at fair value upon receipt. Investment income is recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor-imposed restrictions. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities.

Accounts Receivable

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

Unconditional Promises to Give

Contributions are recognized at their fair value when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows, as management believes that this is the most accurate method of reporting the receivables and related revenues. Annually, management uses an allowance method to estimate allowance for uncollectible promises to give. At December 31, 2017, all unconditional promises to give are expected to be collected during the next year.

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

Inventory

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

Property and Equipment

The Organization capitalizes all property and equipment purchases over \$2,500. Property and equipment is depreciated using the straight-line method over the estimated useful life of each asset. Depreciation expense for years ended December 31, 2017 and 2016 was \$179,074 and \$173,042, 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 unrestricted revenue (support) 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 restricted revenue (support).

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 temporarily restricted net assets to unrestricted net assets at that time.

Website Development Costs

Website development costs are carried at cost, net of accumulated amortization. These costs are amortized using the straight-line method over the estimated useful live of the website of three years. Amortization expense totaled \$5,176 and \$-0- for the years ended December 31, 2017 and 2016, respectively.

Deferred Revenue

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

Net Assets

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

Unrestricted Net Assets

Unrestricted net assets are resources that are currently available for support of the Organization's operations and are not subject to donor-imposed restrictions.

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

Temporarily Restricted Net Assets

Temporarily restricted net assets are resources that may be utilized only in accordance with the restricted purposes established by the donor. The restriction may require passage of time or the occurrence of a specific event in order to trigger the release of the restriction. The Organization considers all contributions that are designated to a particular program to be transferred to unrestricted net assets when the terms of the restrictions have been met.

Permanently Restricted Net Assets

Permanently restricted net assets are resources subject to donor-imposed restrictions and must be maintained permanently. The Organization had no permanently restricted net assets as of December 31, 2017 or 2016.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All donor-restricted contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases the applicable temporarily or permanently restricted net assets class. When a restriction expires in the fiscal year in which the contribution is recognized, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restriction.

In-Kind Contributions

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

Revenue Recognition

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

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

Functional Expenses

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

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 statements.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 29, 2018, the date the consolidated financial statements were available to be issued.

Note 2. Concentrations

The Organization maintains its cash deposits in a financial institution located in Frederick, Maryland. Cash deposits are insured by the FDIC up to \$250,000. As of December 31, 2017, the cash deposits exceed the limit by \$470,803, representing the maximum loss risk.

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

Note 3. Investments

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

	<u>2017</u>	<u>2016</u>
Community Foundation Investment (See Note 4)	\$ 38,689	\$ 34,872
Donated Securities	<u>2,226</u>	<u>12,081</u>
	<u>\$ 40,915</u>	<u>\$ 46,953</u>

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

Note 4. Quasi-Endowment Fund

The Organization’s Board of Directors oversees a restricted 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, 2017 or 2016.

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>2017</u>	<u>2016</u>
Quasi-Endowment Net Assets - Beginning of Year	<u>\$ 34,872</u>	<u>\$ 35,871</u>
Investment Income		
Management Fees	(452)	(431)
Interest and Dividends	1,272	1,330
Net Appreciation (Depreciation)	<u>2,847</u>	<u>(1,998)</u>
 <u>3,667</u> <u>(1,099)</u>
Principal Additions	<u>150</u>	<u>100</u>
Community Foundation Investment (Note 3)	<u>\$ 38,689</u>	<u>\$ 34,872</u>

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

Note 5. Unconditional Promises to Give

The Organization has received unconditional promises to give over time to benefit the Organization. As of December 31, 2017, collections were expected pertaining to multi-year commitments in each fiscal year ending December 31:

	<u>2017</u>	<u>2016</u>
Less than One Year	\$ 7,839	\$ 132,908
One to Five Years	<u> -</u>	<u> 3,900</u>
	<u>...7,839</u>	<u>...136,808</u>
Less: Allowance for Uncollectible Promises Receivable (See Note 6)	<u> (388)</u>	<u> (1,522)</u>
Net Unconditional Promises to Give	<u>\$ 7,451</u>	<u>\$ 135,286</u>

Note 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, 2017 and 2016: those using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3). The Organization has no assets or liabilities categorized as Level 2.

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

Donated Securities (See Note 3): Valued at the quoted price in the active market for identical securities, a Level 1 input.

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

Unconditional Promises to Give (See Note 5): The carrying amount of unconditional promises to give is reduced by a valuation allowance of 5% as of December 31, 2017 and 2016. This reflects the Organization's best estimate of collectability, determined principally on the basis of historical experience while also recognizing the good faith and reliability of its donors (Level 3 inputs).

FREDERICK RESCUE MISSION, INC. AND SUBSIDIARIES
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The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values.

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

	<u>2017</u>		
	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Beneficial Interest in Assets Held by the Community Foundation	\$ -	\$ 38,689	\$ 38,689
Donated Securities	2,226	-	2,226
Unconditional Promises to Give	<u>-</u>	<u>7,451</u>	<u>7,451</u>
	<u>\$ 2,226</u>	<u>\$ 46,140</u>	<u>\$ 48,366</u>
	<u>2016</u>		
	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Beneficial Interest in Assets Held by the Community Foundation	\$ -	\$ 34,872	\$ 34,872
Donated Securities	12,081	-	12,081
Unconditional Promises to Give	<u>-</u>	<u>135,286</u>	<u>135,286</u>
	<u>\$ 12,081</u>	<u>\$ 170,158</u>	<u>\$ 182,239</u>

Changes in Level 3 inputs are as follows:

<u>Beneficial Interest in Assets Held by the Community Foundation</u>	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 34,872	\$ 35,871
Principal additions	150	100
Interest and Dividends	1,272	1,330
Net Appreciation (Depreciation)	2,847	(1,998)
Management Fees	<u>(452)</u>	<u>(431)</u>
Ending Balance	<u>\$ 38,689</u>	<u>\$ 34,872</u>
	<u>2017</u>	<u>2016</u>
<u>Unconditional Promises to Give</u>		
Beginning Balance	\$ 135,286	\$ 391,987
New Unconditional Promises to Give	-	3,800
Payments Received	(126,119)	(249,104)
Promises Written Off	(2,850)	(20,474)
Change in Allowance for Uncollectible Promises	<u>1,134</u>	<u>9,077</u>
Ending Balance	<u>\$ 7,451</u>	<u>\$ 135,286</u>

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

Note 7. Long-Term Debt Obligations

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

	<u>2017</u>	<u>2016</u>
Note payable to Revere Bank; secured by land and building with a book value of \$99,513; payable in monthly installments of \$767, including principal and interest at 4.0%; matures July 2023	\$ 72,618	\$ 78,863
Note payable to Revere Bank; secured by land and building with a book value of \$107,663; payable in monthly installments of \$830, including principal and interest at 4.0%; matures July 2023	<u>80,137</u>	<u>86,815</u>
Notes Payable	152,755	165,678
Less: Current Maturities	<u>13,302</u>	<u>12,757</u>
	<u>\$ 139,453</u>	<u>\$ 152,921</u>

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

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

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

The debt obligations that were assumed are not reflected in the accompanying consolidated financial statements, as management believes these obligations remain with the seller as a result of the signed indemnification and hold harmless agreement. The balance of the assumed debt obligations is \$521,680 and \$557,520 as of December 31, 2017 and 2016, respectively.

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

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

2018	\$ 13,302
2019	13,844
2020	14,408
2021	14,995
2022	15,606
Thereafter	<u>80,600</u>
	<u>\$ 152,755</u>

Note 8. Capital Leases

The Organization leases two copiers under separate non-cancellable capital leases expiring in August 2018 and January 2022, with total cost of \$12,628 and \$8,497; ending accumulated depreciation of \$8,120 and \$5,663; and net carrying value of \$4,508 and \$2,834 as of December 31, 2017 and 2016, respectively. Depreciation expense was \$2,457 and \$1,699 for the years ended December 31, 2017 and 2016, respectively. Interest expense on the capital leases was \$402 and \$471 for the years ended December 31, 2017 and 2016, respectively.

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

2018	\$ 2,382
2019	907
2020	907
2021	907
2022	<u>76</u>
Total Minimum Lease Payments	5,179
Less: Amounts Representing Interest	<u>331</u>
Present Value of Net Minimum Lease Payments	4,848
Less: Current Portion	<u>2,209</u>
Long-Term Portion of Capital Lease	<u>\$ 2,639</u>

Note 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, 2017 and 2016, the reserve fund was \$130,578 and \$48,401, respectively.

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

The Organization's Board of Directors oversees a quasi-endowment fund with the Foundation, as further described in Note 4. The Board of Directors approves any draws on the quasi-endowment fund. As of December 31, 2017 and 2016, the endowment fund had investment balances of \$38,689 and \$34,872, respectively.

Temporarily restricted net assets are available for the following purposes as of June 30:

	<u>2017</u>	<u>2016</u>
Faith House	\$ 424,028	\$ 378,890
Kitchen Renovations	47,610	36,810
Food Distribution Center	-	36,704
Residential Renovations	12,449	3,000
Summer Enrichment Camp	1,004	-
Residential Van	14,080	-
Development	2,651	-
Jogging for Jesus	722	882
Adopt-a-Family	<u>104</u>	<u>237</u>
	<u>\$ 502,648</u>	<u>\$ 456,523</u>

Note 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 ending December 31:

	<u>2017</u>	<u>2016</u>
Food	\$ 1,776,234	\$ 1,941,986
Professional Services	12,852	19,204
Other Goods	<u>19,868</u>	<u>14,658</u>
	<u>\$ 1,808,954</u>	<u>\$ 1,975,848</u>

Note 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 \$18,129 and \$17,671 for the years ended December 31, 2017 and 2016, respectively.

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

Note 12. Reconciliations of Change in Net Assets to Net Cash Provided by Operating Activities

	<u>2017</u>	<u>2016</u>
Change in Net Assets	\$ 170,327	\$ 105,596
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	184,250	173,042
Donated Equipment	(7,630)	-
Donated Securities	(43,675)	(58,028)
(Gain) Loss on Investments	(2,440)	2,244
(Increase) Decrease in:		
Accounts Receivable	(10,542)	(1,417)
Unconditional Promises to Give	127,835	256,701
Grants Receivable	-	150,000
Inventory	3,112	(3,721)
Prepaid Expenses	1,797	(5,553)
Deposits	20,540	(21,390)
Increase (Decrease) in:		
Accounts Payable	(35,350)	(20,407)
Accrued Expenses	12,356	2,868
Amounts Due to Residents	1,385	346
Deferred Revenue	(10,369)	26,508
Tenant Security Deposits	<u>(335)</u>	<u>(623)</u>
Total Adjustments	<u>240,934</u>	<u>500,570</u>
Net Cash Provided by Operating Activities	<u>\$ 411,261</u>	<u>\$ 606,166</u>

Note 13. Subsequent Events

Subsequent to year end, the Organization purchased two vehicles totaling \$127,541 and obtained a loan for \$42,500 to finance a portion of one of the purchased vehicles. The loan is for 4 years, maturing in January 2022, with monthly payments of \$985, bearing interest at 5.25% per annum, and secured by the vehicle.

The Organization has signed a commitment letter for kitchen renovations, however, as of the date of the consolidated financial statements, no final price has been determined. The Organization has obtained a commitment letter from Revere Bank for a line of credit up to \$1,000,000 to assist with the timing of payments to the contractors. The Organization has received promises to give to fund the kitchen renovation project, including one that totals \$600,000 over the next three fiscal years.

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

Note 14. New Financial Accounting Standards Board (FASB) Pronouncement

The FASB has issued a pronouncement prior to the year ended December 31, 2017 that may impact future financial presentations. FASB Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, will be effective for the Organization as of January 1, 2018. The objective of this standard is to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The implementation of this statement is expected to have a significant effect on the Organization's financial statements in the year of implementation; however, the effects of said implementation are not yet quantifiable.