

FRIEDENS COMMUNITY MINISTRIES, INC.
MILWAUKEE, WISCONSIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020 AND 2019

FRIEDENS COMMUNITY MINISTRIES, INC.
MILWAUKEE, WISCONSIN

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1214 BRIDGE STREET
P.O. BOX 368
GRAFTON, WISCONSIN 53024

TELEPHONE: (262) 377-9988
FAX: (262) 377-9617

Independent Auditor's Report

Board of Directors
Friedens Community Ministries, Inc.
Milwaukee, Wisconsin

We have audited the accompanying financial statements of Friedens Community Ministries, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friedens Community Ministries, Inc. as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Krause & Associates, SC". The signature is written in a cursive, somewhat stylized font.

Krause & Associates, SC
Grafton, Wisconsin
July 30, 2021

FRIEDENS COMMUNITY MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 382,065	\$ 152,050
Contributions and grants receivable	35,026	23,478
Other receivable	1,370	-
Prepaid expenses	27,842	24,731
Inventory (donated)	47,946	54,001
Investments	80,329	68,596
Security deposit	<u>1,225</u>	<u>1,225</u>
	<u>575,803</u>	<u>324,081</u>
 PROPERTY AND EQUIPMENT		
Leasehold improvements	6,000	6,000
Equipment	68,551	53,172
Vehicles	<u>27,000</u>	<u>27,000</u>
	101,551	86,172
Less accumulated depreciation	<u>(50,999)</u>	<u>(32,778)</u>
 Total property and equipment, net	 <u>50,552</u>	 <u>53,394</u>
 TOTAL ASSETS	 <u>\$ 626,355</u>	 <u>\$ 377,475</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 6,113	\$ 7,074
Deferred revenue	<u>6,867</u>	<u>6,667</u>
 Total liabilities	 12,980	 13,741
 NET ASSETS		
Without donor restrictions	508,901	266,256
With donor restrictions	<u>104,474</u>	<u>97,478</u>
 Total net assets	 <u>613,375</u>	 <u>363,734</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 626,355</u>	 <u>\$ 377,475</u>

The accompanying notes are an integral part of these financial statements.

FRIEDENS COMMUNITY MINISTRIES, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Contributions	\$ 373,574	\$ 39,000	\$ 412,574	\$ 180,905	\$ 74,000	\$ 254,905
United Way	41,699	23,478	65,177	37,292	23,478	60,770
In-kind:						
Donations of food	1,078,483	-	1,078,483	1,807,097	-	1,807,097
Rent	-	-	-	1,667	-	1,667
Other	3,344	-	3,344	13,081	-	13,081
Special event:						
Event registration	19,900	-	19,900	22,260	-	22,260
Contributions	16,896	-	16,896	27,185	-	27,185
Less: Direct benefit to donor costs	(8,081)	-	(8,081)	(8,211)	-	(8,211)
Other	20	-	20	66	-	66
Investment income	3,680	-	3,680	4,022	-	4,022
Realized and unrealized gain (loss) on investments	8,053	-	8,053	8,983	-	8,983
Net assets released from restrictions	55,482	(55,482)	-	27,786	(27,786)	-
Total revenue and support	1,593,050	6,996	1,600,046	2,122,133	69,692	2,191,825
EXPENSES						
Program services:						
Pantry operations	1,309,702	-	1,309,702	2,032,301	-	2,032,301
Supporting services:						
Administration	19,965	-	19,965	17,604	-	17,604
Fundraising	20,738	-	20,738	22,909	-	22,909
Total expenses	1,350,405	-	1,350,405	2,072,814	-	2,072,814
Changes in net assets	242,645	6,996	249,641	49,319	69,692	119,011
Beginning net assets	266,256	97,478	363,734	216,937	27,786	244,723
Ending net assets	\$ 508,901	\$ 104,474	\$ 613,375	\$ 266,256	\$ 97,478	\$ 363,734

The accompanying notes are an integral part of these financial statements.

FRIEDENS COMMUNITY MINISTRIES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 249,641	\$ 119,011
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	18,221	13,676
Realized and unrealized (gain) loss on investments	(8,053)	(8,983)
In-kind donations capitalized	-	(13,081)
(Increase) decrease in in-kind food inventory	6,055	(7,384)
(Increase) decrease in contributions receivables	(11,548)	4,308
(Increase) decrease in other receivables	(1,370)	15,811
(Increase) decrease in prepaid expenses	(3,111)	(4,726)
(Increase) decrease in security deposit	-	(1,225)
Increase (decrease) in accounts payable	(961)	(2,070)
Increase (decrease) in deferred revenue	<u>200</u>	<u>6,267</u>
 Net cash provided by (used in) operating activities	 249,074	 121,604
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(15,379)	(16,000)
Investment dividends reinvested	<u>(3,680)</u>	<u>(4,021)</u>
 Net cash provided by (used in) investing activities	 <u>(19,059)</u>	 <u>(20,021)</u>
 Net increase (decrease) in cash and cash equivalents	 230,015	 101,583
Cash and cash equivalents at beginning of year	<u>152,050</u>	<u>50,467</u>
Cash and cash equivalents at end of year	<u>\$ 382,065</u>	<u>\$ 152,050</u>

Supplemental cash flow information:

In-kind contributions received	<u>\$1,081,827</u>	<u>\$1,821,845</u>
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No cash paid for interest or income taxes during 2020 and 2019.

The accompanying notes are an integral part of these financial statements.

FRIEDENS COMMUNITY MINISTRIES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			
	Program	Supporting Services		Total
	Pantry Operations	Administration	Fundraising	
Acquisition of food	\$ 1,104,656	\$ -	\$ -	\$ 1,104,656
Depreciation	18,221	-	-	18,221
Maintenance	643	-	-	643
Office supplies	5,288	631	395	6,314
Payroll Expenses:				
Salaries and wages	84,310	13,112	12,750	110,172
Employee benefits	8,073	964	602	9,639
Payroll taxes	6,501	1,009	979	8,489
Postage	102	12	8	122
Professional fees	4,785	333	208	5,326
Rent	22,933	576	360	23,869
Supplies and other	22,917	758	5,150	28,825
Temporary help	14,279	2,570	286	17,135
Vehicle	16,994	-	-	16,994
	<u>\$ 1,309,702</u>	<u>\$ 19,965</u>	<u>\$ 20,738</u>	<u>\$ 1,350,405</u>
2019				
	Program	Supporting Services		Total
	Pantry Operations	Administration	Fundraising	
Acquisition of food	\$ 1,845,030	\$ -	\$ -	\$ 1,845,030
Depreciation	13,676	-	-	13,676
Maintenance	7,626	-	-	7,626
Office supplies	5,491	701	818	7,010
Payroll Expenses:				
Salaries and wages	86,339	11,758	14,011	112,108
Employee benefits	5,804	741	864	7,409
Payroll taxes	6,656	906	1,080	8,642
Postage	190	24	29	243
Professional fees	2,986	381	444	3,811
Rent	18,696	576	672	19,944
Supplies and other	15,477	744	4,636	20,857
Temporary help	12,058	1,773	355	14,186
Vehicle	12,272	-	-	12,272
	<u>\$ 2,032,301</u>	<u>\$ 17,604</u>	<u>\$ 22,909</u>	<u>\$ 2,072,814</u>

The accompanying notes are an integral part of these financial statements.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Organization and business activity

Friedens Community Ministries, Inc. (Friedens) is a Wisconsin non-stock nonprofit corporation, whose primary purpose is the distribution of food to needy individuals and families in the Milwaukee, WI metropolitan area. The network of four food pantries are located throughout the City of Milwaukee and staffed primarily by volunteers, with the assistance of a small paid staff. Three of the pantries are operated exclusively by Friedens at locations leased by Friedens. The fourth pantry opened in 2018 and is operated jointly with a local church and is located in the church property.

Friedens was impacted by the COVID-19 world-wide pandemic throughout the year, see Note K.

2. Cash and cash equivalents

For purposes of the statements of cash flows, Friedens considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

3. Contributions receivable

Friedens records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Friedens determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2020 and 2019, management determined that no allowance for uncollectible accounts receivable was required.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020 AND 2019

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Inventory

Inventory consists of donated food. Donated food is valued at the lower of fair market value on the date of donation or market. The specific identification method is used for inventory.

5. Prepaid expenses

Prepaid expenses represent disbursements paid in advance for the subsequent fiscal year.

6. Investments

Friedens records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Investment income is reported in the statements of activities and consists of interest and dividend income, unrealized capital gains and losses, and realized gains and losses less external investment expenses.

Investment securities, in general, are inherently subject to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

7. Property and equipment

Property and equipment are recorded at cost or fair market value if donated. Friedens' policy is to capitalize all tangible assets which separately or in the aggregate have an acquisition cost of \$500 or greater. Major additions and improvements are capitalized. Property and equipment are depreciated over the estimated useful lives of the assets, ranging from 3 to 15 years, using the straight-line method. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Depreciation expense for the years ended December 31, 2020 and 2019 was \$18,221 and \$13,676, respectively.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020 AND 2019

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net assets

Friedens follows the accrual method of accounting wherein revenues and expenses are recorded in the period earned or incurred. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Friedens reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

9. Revenue and Revenue Recognition

Friedens records special events revenue equal to the fair value of direct benefits to donors, and contribution revenue for the difference. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. As of December 31, 2020 and 2019, Friedens has no conditional contributions.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020 AND 2019

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Donated services and in-kind contributions

Volunteers contribute significant amounts of time to Friedens program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Friedens records donated professional services at the respective fair values of the services received (see Note H).

11. Allocation of functional expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, salaries and wages, benefits, payroll taxes, professional services, office expenses, supplies, insurance, and other, which are allocated on the basis of estimates of time and effort.

12. Use of estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

13. Income taxes

Friedens is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Friedens evaluates its tax positions and assesses their uncertainty, if any, through review and application of various sources of tax authority including statutes, regulations, rulings, court cases and widely held administrative practices.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020 AND 2019

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

13. Income taxes – continued

Friedens’ informational returns are subject to examination by the IRS, generally for three years after they were filed. Management believes that no uncertain tax positions exist for Friedens at December 31, 2020 and 2019. Friedens has not incurred any interest or penalties for income taxes for the years ended December 31, 2020 and 2019.

14. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through July 30, 2021, which is the date that the financial statements were available to be issued. One subsequent event was noted for disclosure, see Note K.

B – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date of December 31, 2020, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 382,065	\$ 152,050
Contributions and grants receivable	35,026	23,478
Other receivable	1,370	-
Investments	80,329	68,596
Less amounts unavailable for general expenditures:		
Donor purpose restrictions	<u>(80,996)</u>	<u>(74,000)</u>
	<u>\$ 417,794</u>	<u>\$ 170,124</u>

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020 AND 2019

C – FAIR VALUE MEASUREMENT AND DISCLOSURES

Friedens reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020 AND 2019

C – FAIR VALUE MEASUREMENT AND DISCLOSURES – CONTINUED

All of Friedens’s investment assets are classified within Level 1 because they comprise open-end mutual funds and bonds with readily determinable fair values based on daily redemption values.

Assets that were accounted for at fair value on a recurring basis as of December 31, 2020 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	<u>\$ 80,329</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,329</u>

Assets that were accounted for at fair value on a recurring basis as of December 31, 2019 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	<u>\$ 68,596</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,596</u>

D – INVESTMENTS

The estimated fair value of Friedens’ investments at December 31, 2020 and 2019 is as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Investment, mutual funds	<u>\$ 56,583</u>	<u>\$ 80,329</u>	<u>\$ 50,640</u>	<u>\$ 68,596</u>

E – CONTRIBUTIONS RECEIVABLE

At December 31, 2020 and 2019, unconditional contributions receivable consist of outstanding donations to Friedens and total \$35,026 and \$23,478, respectively. Friedens considers all contributions receivable to be fully collectible; accordingly, no provision for doubtful accounts is included. If amounts become uncollectible, they will be charged to operations when that determination is made. All contributions receivable amounts are due within 12 months of the year end.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020 AND 2019

F – NET ASSETS

Contributions received are recorded as donor restricted net assets depending on the existence and or nature of any donor-imposed restrictions. As restrictions are met and funds expended, assets are released from restrictions. Net assets with donor restrictions are restricted for the following purposes as of December 31, 2020 and 2019:

Purpose restriction	2020	2019
Contributions receivable – timing	\$ 23,478	\$ 23,478
Facility renovations	43,826	70,000
Executive capacity	4,000	-
Mt. Olive ACTS	6,170	-
Operational – timing	25,000	-
Fundraising support	<u>2,000</u>	<u>4,000</u>
	<u>\$ 104,474</u>	<u>\$ 97,478</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2020 and 2019:

Contributions receivable – timing	\$ 23,478	\$ 27,786
Facility renovations	26,174	-
Mt. Olive ACTS	3,830	-
Fund raising support	<u>2,000</u>	<u>-</u>
	<u>\$ 55,482</u>	<u>\$ 27,786</u>

G – LEASE COMMITMENTS

Friedens operates three pantries under three separate arrangements. Commencing January 1, 2013, Friedens entered into an operating lease for the space in the Marcia Coggs building. Rent expense is \$480 per month. The agreement is perpetual, with 90 days notice of termination required. Rent expense under this lease was \$5,760 and \$5,760 in 2020 and 2019 respectively.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020 AND 2019

G – LEASE COMMITMENTS – CONTINUED

The second pantry, Despensa de la Paz, is located on the near-south side of Milwaukee. This location was operated under an informal agreement, which did not stipulate a rental payment; during 2019, Friedens recognized an in-kind contribution of rent related to this space of \$1,667.

On November 1, 2019, Friedens entered into an operating lease for the Despensa location through October 31, 2022. Rent expense is \$1,225 per month, with annual increases. Friedens has the option to extend this lease for up to seven additional years. A security deposit of \$1,225 was paid upon signing the lease.

Upon execution of the lease, Friedens executed a separate sublease with a local nonprofit organization. The sublease requires monthly rent to Friedens of \$666.67, with annual increases of 3%. The term of the sublease is 5 years, however either party may terminate the agreement at any time with 120 days written notice. During the years ended December 31, 2020 and 2019, Friedens received the full annual \$8,240 and \$8,000 sublease rent payments, respectively. \$8,040 and \$1,333 has been recognized as a reduction of lease expense; the remaining \$6,867 and \$6,667 is reflected as deferred revenue on the statements of financial position for the years ended December 31, 2020 and 2019, respectively.

Friedens recorded \$6,709 and \$2,784 of rent expense related to this space in 2020 and 2019 respectively.

Friedens' third pantry is in the Hope House of Milwaukee the space was leased commencing January 1, 2016 for a term of one year and continues on a month-to-month basis thereafter, with 90 days notice of termination required. Rent expense is \$950 per month. Friedens' recorded \$11,400 and \$11,400 of rent expense related to this space in 2020 and 2019 respectively.

Rent expense was \$23,869 and \$19,944 in 2020 and 2019, respectively. There are no required minimum lease payments. Future minimum lease payments are as follows:

2021	\$ 15,044
2022	<u>12,745</u>
	<u>\$ 27,789</u>

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020 AND 2019

H – NON-CASH CONTRIBUTIONS AND EXPENDITURES

Friedens receives and distributes food under a government program, The Emergency Food Assistance Program (TEFAP), and other grants. Most of this food is donated to the pantry by the government or other granting agencies. The estimated value of this food is recorded as both revenue and expense at the time of receipt. 753,022 and 1,346,343 pounds of food were distributed in this manner in 2020 and 2019, respectively. The value of the donated food is based on fair market value of the donation. If the fair market value is not provided by the donating agency, it is calculated based on the estimated cost per pound. The average cost per pound used to determine the estimated fair market value was \$1.43 and \$1.34 and totaled approximately \$1,078,843 and \$1,807,097 in 2020 and 2019, respectively.

During 2020 and 2019, Friedens received equipment and supplies with a fair market value of \$3,344 and \$13,081, respectively. For the year ended December 31, 2019, \$13,181 of this amount was capitalized as property and equipment on the statements of financial position.

As noted above in Note G, during 2019, Friedens recognized an in-kind contribution of rent of \$1,667.

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Friedens' programs. No amounts have been recognized in the statements of activities because the criteria for recognition under U.S. GAAP have not been satisfied.

Friedens received donated personal property which Friedens used as auction and raffle items and supplies for the charity events held during the year ended December 31, 2020 and 2019. Revenue received from the sale of the auction and raffle items is reflected in the statements of activities and no amounts have been reflected for the donation of supplies for the charity events in the statements of activities.

I – CONCENTRATION OF RISK

During the years ended December 31, 2020 and 2019, cash contributions totaling \$190,177 and \$200,770, which represents 38% and 51%, respectively, of the total cash contributions received from five major contributors, respectively.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020 AND 2019

J – RECENT ACCOUNTING GUIDANCE

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for most leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of activities. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2021. Management is currently evaluating the impact of the standard.

K – RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact support and revenue. The COVID-19 outbreak in the United States has resulted in reduced activities, cancellation or postponement of events, as well as temporary closures where government mandated. At the current time, we are unable to quantify the potential effects of this pandemic on our future financial statements.

The COVID-19 pandemic had an overall impact on the organization by reducing the volunteer volume, increasing the amount of food and supplies distributed at sites that remained open, and changing day-to-day procedures to keep everyone safe; including outdoor client services, prepacked bags of food, and limited groups of volunteers.

The Marcia Coggs center closed on March 16, 2021 and has not yet reopened. The closure reduced the total number of clients served and the amount of food distributed. Throughout the pandemic, donations of food, hygiene supplies, and money met or exceeded the community need. As the pandemic is on-going and changing, along with changing government support, there remains uncertainty around future need for food and availability of funding.