

FRIEDENS COMMUNITY MINISTRIES, INC.
MILWAUKEE, WISCONSIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2022 AND 2021

FRIEDENS COMMUNITY MINISTRIES, INC.
MILWAUKEE, WISCONSIN

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Independent Auditor's Report

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

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Friedens Community Ministries, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Friedens Community Ministries, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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, including omissions, 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Friedens Community Ministries, 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Friedens Community Ministries, 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.



Krause & Associates, SC
Grafton, Wisconsin
July 20, 2023

FRIEDENS COMMUNITY MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 797,252	\$ 571,376
Contributions and grants receivable	328,153	126,254
Other receivable	23,407	1,415
Prepaid expenses	28,939	19,279
Inventory (donated)	55,747	107,143
Investments	78,861	95,710
Security deposit	<u>1,225</u>	<u>1,225</u>
Subtotal	1,313,584	922,402
PROPERTY AND EQUIPMENT		
Leasehold improvements	6,000	6,000
Equipment	226,176	97,941
Vehicles	<u>100,231</u>	<u>46,007</u>
	332,407	149,948
Less accumulated depreciation	<u>(95,216)</u>	<u>(50,196)</u>
Total property and equipment, net	<u>237,191</u>	<u>99,752</u>
TOTAL ASSETS	<u>\$1,550,775</u>	<u>\$1,022,154</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 18,160	\$ 6,093
Vacation accrual	<u>3,699</u>	<u>6,271</u>
Total liabilities	21,859	12,364
NET ASSETS		
Without donor restrictions		
Undesignated	1,123,365	859,428
Board designated	<u>273,653</u>	<u>-</u>
	1,397,018	859,428
With donor restrictions	<u>131,898</u>	<u>150,362</u>
Total net assets	<u>1,528,916</u>	<u>1,009,790</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,550,775</u>	<u>\$1,022,154</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, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Contributions and grants	\$ 416,878	\$ 341,331	\$ 758,209	\$ 310,043	\$ 136,044	\$ 446,087
United Way	32,762	25,830	58,592	35,199	25,830	61,029
In-kind:						
Donations of food	1,365,658	-	1,365,658	1,148,117	-	1,148,117
Other	441,035	-	441,035	18,084	75,956	94,040
Special event:						
Event registration	39,721	-	39,721	27,235	-	27,235
Contributions	35,090	-	35,090	11,458	-	11,458
Less: Direct benefit to donor costs	(8,714)	-	(8,714)	(4,217)	-	(4,217)
Other	-	-	-	12,718	-	12,718
Investment income	(16,456)	-	(16,456)	15,381	-	15,381
Net assets released from restrictions	385,625	(385,625)	-	191,942	(191,942)	-
Total revenue and support	2,691,599	(18,464)	2,673,135	1,765,960	45,888	1,811,848
EXPENSES						
Program servcies:						
Pantry operations	2,058,215	-	2,058,215	1,363,141	-	1,363,141
Supporting services:						
Administration	51,166	-	51,166	22,729	-	22,729
Fundraising	44,628	-	44,628	29,563	-	29,563
Total expenses	2,154,009	-	2,154,009	1,415,433	-	1,415,433
Changes in net assets	537,590	(18,464)	519,126	350,527	45,888	396,415
Beginning net assets	859,428	150,362	1,009,790	508,901	104,474	613,375
Ending net assets	\$ 1,397,018	\$ 131,898	\$ 1,528,916	\$ 859,428	\$ 150,362	\$ 1,009,790

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, 2022 AND 2021

	2022			
	Program	Supporting Services		
	Pantry			
	Operations	Administration	Fundraising	Total
Acquisition of food	\$ 1,438,770	\$ -	\$ -	\$ 1,438,770
Depreciation	46,020	-	-	46,020
Maintenance	2,453	323	452	3,228
Office supplies	7,447	980	1,372	9,799
Payroll Expenses:				
Salaries and wages	124,414	18,505	24,300	167,219
Employee benefits	16,463	2,166	3,033	21,662
Payroll taxes	9,839	1,472	1,938	13,249
Postage	564	74	104	742
Professional fees	2,947	22,038	543	25,528
Rent	22,618	576	806	24,000
Supplies and other	383,397	5,360	12,189	400,946
Temporary help	(1,312)	(328)	(109)	(1,749)
Vehicle	4,595	-	-	4,595
Total Expenses	<u>\$ 2,058,215</u>	<u>\$ 51,166</u>	<u>\$ 44,628</u>	<u>\$ 2,154,009</u>

	2021			
	Program	Supporting Services		
	Pantry			
	Operations	Administration	Fundraising	Total
Acquisition of food	\$ 1,103,875	\$ -	\$ -	\$ 1,103,875
Depreciation	25,960	-	-	25,960
Maintenance	5,683	-	-	5,683
Office supplies	3,702	563	563	4,828
Payroll Expenses:				
Salaries and wages	80,132	14,093	17,981	112,206
Employee benefits	8,796	1,339	1,339	11,474
Payroll taxes	5,852	1,020	1,283	8,155
Postage	258	39	39	336
Professional fees	5,221	414	414	6,049
Rent	21,107	448	448	22,003
Supplies and other	74,377	840	6,954	82,171
Temporary help	9,931	3,973	542	14,446
Vehicle	18,247	-	-	18,247
Total Expenses	<u>\$ 1,363,141</u>	<u>\$ 22,729</u>	<u>\$ 29,563</u>	<u>\$ 1,415,433</u>

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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 519,126	\$ 396,415
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	46,020	25,960
Realized and unrealized (gain) loss on investments	16,849	(15,381)
Gain on disposal of property and equipment	-	(12,583)
In-kind donations capitalized	(81,945)	(10,000)
(Increase) decrease in contributions receivables	(201,899)	(91,228)
(Increase) decrease in other receivables	(21,992)	(45)
(Increase) decrease in in-kind food inventory	51,396	(59,197)
(Increase) decrease in prepaid expenses	(9,660)	8,563
Increase (decrease) in accounts payable	12,067	(20)
Increase (decrease) in vacation accrual	(2,572)	6,271
Increase (decrease) in deferred revenue	<u>-</u>	<u>(6,867)</u>
Net cash provided by (used in) operating activities	327,390	241,888
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(101,514)	(72,177)
Proceeds from sale of property and equipment	<u>-</u>	<u>19,600</u>
Net cash provided by (used in) investing activities	<u>(101,514)</u>	<u>(52,577)</u>
Net increase (decrease) in cash and cash equivalents	225,876	189,311
Cash and cash equivalents at beginning of year	<u>571,376</u>	<u>382,065</u>
Cash and cash equivalents at end of year	<u>\$ 797,252</u>	<u>\$ 571,376</u>

Supplemental cash flow information:

In-kind contributions received	<u>\$1,806,693</u>	<u>\$1,242,157</u>
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No cash paid for interest or income taxes during 2022 and 2021.

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

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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.

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, 2022 and 2021, management determined that no allowance for uncollectible accounts receivable was required.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

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 \$5,000 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, 2022 and 2021 was \$46,020 and \$25,960, respectively.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

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 all donor-restricted contributions, including those expiring (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is received 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.

A portion of Friedens' revenue is derived from a cost-reimbursable state grant, which is conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when Friedens has incurred expenditures in compliance with grant provisions. Amounts received prior to incurring qualifying expenditures are

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Revenue and Revenue Recognition – continued

reported as refundable advances in the statements of financial position. Friedens received a cost-reimbursable grant of \$790,000, \$205,049 has been recognized as revenue because qualifying expenditures have been incurred. The balance of \$584,951 has not been recognized because qualifying expenses have not been incurred. See Note I. As of December 31, 2021, Friedens had no conditional contributions.

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 COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

13. Income taxes – continued

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' 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, 2022 and 2021. Friedens has not incurred any interest or penalties for income taxes for the years ended December 31, 2022 and 2021.

14. New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance in *Topic 840, Leases*. The FASB subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; ASU 2019-01, *Leases (Topic 842): Codification Improvements*; ASU 2020-05, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*; and ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*. Topic 842 amends both lessor and lessee accounting with the most significant change being the requirement for lessees to recognize right-of-use (ROU) assets and lease liabilities on the statement of financial position for operating leases.

Friedens adopted the leasing standards effective January 1, 2022, using the modified retrospective approach with January 1, 2022 as the initial date of application. Friedens elected to use all available practical expedients provided in the transition guidance. These allowed Friedens to not reassess the identification, classification and initial direct costs of lessor agreements and to use hindsight in lessee and lessor agreements for determining lease term and right-of-use asset impairment. Topic 842 had no effect to beginning net assets or statement of financial position accounts related to lessor accounting. See note G.

15. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through July 20, 2023, which is the date that the financial statements were available to be issued.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 797,252	\$ 571,376
Contributions and grants receivable	328,153	126,254
Other receivable	23,407	1,415
Investments	78,861	95,710
Less amounts unavailable for general expenditures:		
Donor purpose restrictions	<u>(106,068)</u>	<u>(124,532)</u>
	<u>\$ 1,121,605</u>	<u>\$ 670,223</u>

As part of its liquidity plan, Friedens invests cash in excess of daily requirements in short-term money market funds. During the year ended December 31, 2022, the Board designated \$273,653 of the operating surplus to a reserve fund.

C – CONTRIBUTIONS AND GRANTS RECEIVABLE

At December 31, 2022 and 2021, unconditional contributions receivable consist of outstanding donations to Friedens and total \$328,153 and \$126,254, respectively. As of December 31, 2021, the balance includes \$75,956 of in-kind equipment and supplies. 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.

D – 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

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

D – FAIR VALUE MEASUREMENT AND DISCLOSURES – CONTINUED

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.

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, 2022 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	<u>\$ 78,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,861</u>

Assets that were accounted for at fair value on a recurring basis as of December 31, 2021 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	<u>\$ 95,710</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,710</u>

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

E – INVESTMENTS

The estimated fair value of Friedens' investments at December 31, 2022 and 2021 is as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Investment, mutual funds	<u>\$ 68,453</u>	<u>\$ 78,861</u>	<u>\$ 62,442</u>	<u>\$ 95,710</u>

F – NET ASSETS

Net assets without donor restrictions and earnings thereon, have been designated by the board for the purpose of establishing an operating reserve fund equal to six months of average operating costs.

Net assets without donor restrictions have been designated by the board for the following purposes as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Board designated operating reserve	<u>\$ 273,653</u>	<u>\$ -</u>

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, 2022 and 2021:

<u>Purpose restriction</u>	<u>2022</u>	<u>2021</u>
Contributions receivable:		
Passage of time	\$ 25,830	\$ 25,830
In-kind equipment	-	75,956
Facility renovations	29,437	30,000
Executive capacity	2,350	4,000
Reopening	-	14,576
Garden	10,000	-
Community food centers	32,128	-
Breaking down barriers	22,153	-
Violence prevention	<u>10,000</u>	<u>-</u>
	<u>\$ 131,898</u>	<u>\$ 150,362</u>

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

F – NET ASSETS – CONTINUED

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, 2022 and 2021:

Contributions receivable:		
Passage of time	\$ 25,830	\$ 23,478
In-kind equipment	75,956	-
Facility renovations	563	13,826
Executive capacity	1,650	-
Homebound delivery	-	24,000
Equipment	28,500	55,017
Reopening	14,576	10,424
Mt. Olive ACTS	-	6,170
Community food centers	7,872	-
Breaking down barriers	2,847	-
Operational	227,831	57,027
Fund raising support	<u>-</u>	<u>2,000</u>
	<u>\$ 385,625</u>	<u>\$ 191,942</u>

G – LEASE COMMITMENTS

As noted in footnote A-14, Friedens adopted the leasing standards effective January 1, 2022, using the modified retrospective approach with January 1, 2022 as the initial date of application. Due to the short-term nature of the lease agreements (less than 12 months duration), management has determined that a right-of-use lease asset and lease liability does currently not exist. Management will review and reassess the agreement and underlying assumptions on an annual basis.

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. Due to building closures related to the Covid pandemic, Friedens was not obligated to pay rent for 4 months during 2021. Rent expense under this lease was \$5,760 and \$3,840 in 2022 and 2021 respectively.

The second pantry, Despensa de la Paz, is located on the near-south side of Milwaukee. On November 1, 2019, Friedens entered into an operating lease for the Despensa location through October 31, 2022. As of October 31, 2022, the lease extended for one year, through October 31, 2023. At December 31, 2022, rent expense is \$1,313 per month, with annual increases. A security deposit of \$1,225 was paid upon signing the lease.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

G – LEASE COMMITMENTS – CONTINUED

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% (\$728.48 and \$707.27 as of December 31, 2022 and 2021, respectively). 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, 2022 and 2021, Friedens received annual sublease rent payments of \$8,530 and \$8,281, respectively. \$8,958 and \$8,958 has been recognized as a reduction of lease expense.

Friedens recorded \$6,841 and \$6,763 of rent expense related to this space in 2022 and 2021 respectively. Future minimum payments under this lease total \$13,130 for 2023.

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 2022 and 2021 respectively.

Rent expense was \$24,000 and \$22,003 in 2022 and 2021, respectively. As of December 31, 2022, future minimum lease payments total \$13,130.

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. 794,168 and 721,069 pounds of food were distributed in this manner in 2022 and 2021, 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 \$1.92 and \$1.79 and totaled approximately \$1,418,544 and \$1,148,117 in 2022 and 2021, respectively.

Friedens receives various types of contributed goods and services support, including rent, professional services and auction items. Donated facilities are recognized at their fair value. Donated services are reported in the financial statements for voluntary donations of professional services when those services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically would be purchased if not provided by donation.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

H – NON-CASH CONTRIBUTIONS AND EXPENDITURES – CONTINUED

The approximate fair value of donated goods and services for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Donated food	\$1,418,544	\$1,148,117
Pantry supplies and equipment	33,490	84,040
Non-food supplies for clients	305,600	-
Professional fees	20,000	-
Donated equipment capitalized	<u>81,945</u>	<u>10,000</u>
Total	<u>\$1,806,693</u>	<u>\$1,242,157</u>

As of December 31, 2021, \$75,956 of in-kind equipment and supplies is included in contributions and grants receivable. This was received in 2022 and recognized accordingly.

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 years ended December 31, 2022 and 2021. 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 – EQUITABLE RECOVERY GRANT PROGRAM

On October 26, 2022, Friedens received an Equitable Recovery Grant administered by the State of Wisconsin Department of Administration of \$790,000. The grant is funded by funds from the American Rescue Plan Act (ARPA). The grant covers expenses incurred March 3, 2021 through December 31, 2024. Grant funds can be used to cover a variety of expenses related to operations.

Revenue is recognized when Friedens has incurred expenditures in compliance with grant provisions. No amounts are received prior to incurring qualifying expenditures. Friedens prepares grant requests for covered expenses. For the year ended December 31, 2022, Friedens recognized grant revenue of \$205,049 from the grant funds; the full amount is included in contributions and grants receivable as of December 31, 2022. The remaining \$584,951 is considered a conditional contribution and will be recognized as grant revenue as expenses are incurred.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

J – CONCENTRATION OF RISK

During the years ended December 31, 2022 and 2021, cash contributions totaling \$417,641 and \$180,529, which represents 49% and 36%, respectively, of the total cash contributions received from five major contributors, respectively.

Friedens has deposits in financial institutions, which, at times, may exceed federally insured limits. Friedens has not experienced any losses with these accounts and management believes Friedens is not exposed to any significant credit risk. Amounts on deposit in excess of federally insured limits at December 31, 2022 and 2021 were \$515,207 and \$230,770, respectively.