

FOOD RESEARCH & ACTION CENTER, INC. AND AFFILIATE
Consolidated Financial Statements
December 31, 2021 and 2020
With Independent Auditor's Report

Food Research & Action Center, Inc. and Affiliate
Table of Contents
December 31, 2021 and 2020

| | |
|--|------|
| Independent Auditor's Report | 1-2 |
| Consolidated Financial Statements | |
| Consolidated Statements of Financial Position | 3 |
| Consolidated Statements of Activities | 4 |
| Consolidated Statements of Functional Expenses | 5 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7-18 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
Food Research & Action Center, Inc. and Affiliate:

Opinion

We have audited the consolidated financial statements of Food Research & Action Center, Inc. and Affiliate ("FRAC"), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Food Research & Action Center, Inc. and Affiliate as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of FRAC, 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.

Other Matter - Scope of Audit

The consolidated financial statements of Food Research & Action Center, Inc. and Affiliate as of and for the year ended December 31, 2020 were audited by other auditors, whose report dated September 20, 2021 expressed an unmodified opinion on those consolidated financial statements.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

Withum Smith & Brown, PC

September 21, 2022

Food Research & Action Center, Inc. and Affiliate
Consolidated Statements of Financial Position
December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|--------------------------|--------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 6,364,903 | \$ 6,341,609 |
| Investments | 1,948,587 | 4,000,446 |
| Grants and contributions receivable, net | 2,720,879 | 492,500 |
| Contract receivables, net | 156,527 | 288,477 |
| Accounts receivable, net | 71,013 | 27,309 |
| Deposits | 53,642 | 53,642 |
| Prepaid expenses | 90,909 | 70,953 |
| Property and equipment, net | <u>332,169</u> | <u>45,976</u> |
| Total assets | <u>\$ 11,738,629</u> | <u>\$ 11,320,912</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 1,100,102 | \$ 1,302,750 |
| Deferred revenue | 90,000 | 25,000 |
| Loan payable | - | 674,900 |
| Deferred rent | <u>116,385</u> | <u>134,722</u> |
| Total liabilities | <u>1,306,487</u> | <u>2,137,372</u> |
| Net assets | | |
| Net assets without donor restrictions | | |
| General operating | 5,309,994 | 6,311,904 |
| Board designated for operating reserves | <u>1,350,087</u> | <u>-</u> |
| Total net assets without donor restrictions | 6,660,081 | 6,311,904 |
| Net assets with donor restrictions | <u>3,772,061</u> | <u>2,871,636</u> |
| Total net assets | <u>10,432,142</u> | <u>9,183,540</u> |
| Total liabilities and net assets | <u>\$ 11,738,629</u> | <u>\$ 11,320,912</u> |

The Notes to Consolidated Financial Statements are an integral part of these statements.

Food Research & Action Center, Inc. and Affiliate
Consolidated Statements of Activities
Years Ended December 31, 2021 and 2020

| | 2021 | | | 2020 | | |
|--|----------------------------|-------------------------|----------------------|----------------------------|-------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenue and support | | | | | | |
| Grants and contributions | \$ 2,822,311 | \$ 8,950,641 | \$ 11,772,952 | \$ 7,678,775 | \$ 10,320,690 | \$ 17,999,465 |
| Paycheck Protection Program loan forgiveness | 674,900 | - | 674,900 | - | - | - |
| Contracts | 172,090 | - | 172,090 | 336,040 | - | 336,040 |
| Conference fees and sponsorships | 379,460 | - | 379,460 | 496,210 | - | 496,210 |
| Other revenue | 1,591 | - | 1,591 | 148,245 | - | 148,245 |
| Donated services | 8,490 | - | 8,490 | 49,057 | - | 49,057 |
| Investment return, net | 10,437 | - | 10,437 | 881 | - | 881 |
| Net assets released from restriction | 8,050,216 | (8,050,216) | - | 10,299,489 | (10,299,489) | - |
| Total revenue and support | <u>12,119,495</u> | <u>900,425</u> | <u>13,019,920</u> | <u>19,008,697</u> | <u>21,201</u> | <u>19,029,898</u> |
| Expenses | | | | | | |
| Program services | | | | | | |
| Child Nutrition | 4,791,188 | - | 4,791,188 | 6,517,981 | - | 6,517,981 |
| SNAP | 938,963 | - | 938,963 | 1,814,901 | - | 1,814,901 |
| Early Childhood Nutrition | 661,242 | - | 661,242 | 1,379,392 | - | 1,379,392 |
| Legislative | 737,641 | - | 737,641 | 349,526 | - | 349,526 |
| Special Projects | 473,327 | - | 473,327 | 320,980 | - | 320,980 |
| D.C. Hunger Solutions | 547,358 | - | 547,358 | 646,138 | - | 646,138 |
| Maryland Hunger Solutions | 719,886 | - | 719,886 | 593,695 | - | 593,695 |
| Communications | 978,273 | - | 978,273 | 743,651 | - | 743,651 |
| FRAC Action Council | 99,158 | - | 99,158 | 685 | - | 685 |
| Total program services | <u>9,947,036</u> | <u>-</u> | <u>9,947,036</u> | <u>12,366,949</u> | <u>-</u> | <u>12,366,949</u> |
| Supporting services | | | | | | |
| Management and general | 1,186,195 | - | 1,186,195 | 1,189,265 | - | 1,189,265 |
| Development | 638,087 | - | 638,087 | 763,989 | - | 763,989 |
| Total supporting services | <u>1,824,282</u> | <u>-</u> | <u>1,824,282</u> | <u>1,953,254</u> | <u>-</u> | <u>1,953,254</u> |
| Total expenses | <u>11,771,318</u> | <u>-</u> | <u>11,771,318</u> | <u>14,320,203</u> | <u>-</u> | <u>14,320,203</u> |
| Changes in net assets | 348,177 | 900,425 | 1,248,602 | 4,688,494 | 21,201 | 4,709,695 |
| Net assets | | | | | | |
| Beginning of year | <u>6,311,904</u> | <u>2,871,636</u> | <u>9,183,540</u> | <u>1,623,410</u> | <u>2,850,435</u> | <u>4,473,845</u> |
| End of year | <u>\$ 6,660,081</u> | <u>\$ 3,772,061</u> | <u>\$ 10,432,142</u> | <u>\$ 6,311,904</u> | <u>\$ 2,871,636</u> | <u>\$ 9,183,540</u> |

The Notes to Consolidated Financial Statements are an integral part of these statements.

Food Research & Action Center, Inc. and Affiliate
Consolidated Statements Functional Expenses
Years Ended December 31, 2021 and 2020

| | 2021 | | | | | | | | | | | | | |
|---------------------------------|---------------------|---------------------|---------------------------|-------------------|--------------------------------------|-----------------------|---------------------------|-------------------|---------------------|------------------------|------------------------|-------------------|---------------------------|----------------------|
| | Program Services | | | | | | | | | Supporting Services | | | | |
| | Child Nutrition | SNAP | Early Childhood Nutrition | Legislative | Root Causes and Specific Populations | D.C. Hunger Solutions | Maryland Hunger Solutions | Communications | FRAC Action Council | Total Program Services | Management and General | Development | Total Supporting Services | Total Expenses |
| Salaries | \$ 661,090 | \$ 260,327 | \$ 416,024 | \$ 332,940 | \$ 272,538 | \$ 344,298 | \$ 405,413 | \$ 554,007 | \$ 67,285 | \$ 3,313,922 | \$ 530,730 | \$ 409,198 | \$ 939,928 | \$ 4,253,850 |
| Benefits and taxes | 126,869 | 51,451 | 97,135 | 74,376 | 76,963 | 90,355 | 114,127 | 134,541 | 16,389 | 782,206 | 192,014 | 74,356 | 266,370 | 1,048,576 |
| Consultants | 119,867 | 114,167 | 43,342 | 27,572 | 38,900 | 50,998 | 50,194 | 125,335 | 6,433 | 576,808 | 170,816 | 74,724 | 245,540 | 822,348 |
| Meetings and travel | 646 | 249 | 1,485 | 262,859 | 1,357 | 410 | 450 | 1,303 | 79 | 268,838 | 5,647 | 13,421 | 19,068 | 287,906 |
| Facilities | 52,607 | 11,763 | 34,133 | 14,754 | 21,637 | 33,871 | 102,020 | 51,955 | 1,242 | 323,982 | 58,276 | 33,971 | 92,247 | 416,229 |
| Software and equipment | 23,083 | 11,275 | 26,651 | 18,026 | 9,588 | 18,756 | 30,741 | 99,883 | 1,519 | 239,522 | 80,797 | 22,428 | 103,225 | 342,747 |
| Printing, postage, and supplies | 3,664 | 6,621 | 3,565 | 2,374 | 3,497 | 3,665 | 7,383 | 3,851 | 228 | 34,848 | 7,554 | 3,074 | 10,628 | 45,476 |
| Other expenses | 6,154 | 3,110 | 3,907 | 4,740 | 2,847 | 5,005 | 9,558 | 7,398 | 5,983 | 48,702 | 40,361 | 6,915 | 47,276 | 95,978 |
| Grants | 3,797,208 | 480,000 | 35,000 | - | 46,000 | - | - | - | - | 4,358,208 | 100,000 | - | 100,000 | 4,458,208 |
| | <u>\$ 4,791,188</u> | <u>\$ 938,963</u> | <u>\$ 661,242</u> | <u>\$ 737,641</u> | <u>\$ 473,327</u> | <u>\$ 547,358</u> | <u>\$ 719,886</u> | <u>\$ 978,273</u> | <u>\$ 99,158</u> | <u>\$ 9,947,036</u> | <u>\$ 1,186,195</u> | <u>\$ 638,087</u> | <u>\$ 1,824,282</u> | <u>\$ 11,771,318</u> |
| | 2020 | | | | | | | | | | | | | |
| | Program Services | | | | | | | | | Supporting Services | | | | |
| | Child Nutrition | SNAP | Early Childhood Nutrition | Legislative | Root Causes and Specific Populations | D.C. Hunger Solutions | Maryland Hunger Solutions | Communications | FRAC Action Council | Total Program Services | Management and General | Development | Total Supporting Services | Total Expenses |
| Salaries | \$ 602,835 | \$ 178,305 | \$ 288,440 | \$ 173,088 | \$ 173,088 | \$ 377,286 | \$ 333,024 | \$ 389,448 | \$ - | \$ 2,515,514 | \$ 649,081 | \$ 408,346 | \$ 1,057,427 | \$ 3,572,941 |
| Benefits and taxes | 142,268 | 25,876 | 77,428 | 51,951 | 51,920 | 90,416 | 78,128 | 117,275 | - | 635,262 | 191,820 | 90,738 | 282,558 | 917,820 |
| Consultants | 79,887 | 15,213 | 43,198 | 27,951 | 30,926 | 55,921 | 48,897 | 74,948 | - | 376,941 | 104,817 | 48,915 | 153,732 | 530,673 |
| Meetings and travel | 58,077 | 10,560 | 31,679 | 38,266 | 21,119 | 37,032 | 32,751 | 47,638 | - | 277,122 | 79,196 | 136,965 | 216,161 | 493,283 |
| Facilities | 77,809 | 14,161 | 42,450 | 28,256 | 28,264 | 54,902 | 72,097 | 63,605 | - | 381,544 | 105,962 | 49,558 | 155,520 | 537,064 |
| Software and equipment | 30,830 | 52,436 | 20,595 | 11,157 | 11,157 | 19,912 | 20,685 | 38,675 | - | 205,447 | 41,838 | 19,524 | 61,362 | 266,809 |
| Printing, postage, and supplies | 6,741 | 1,189 | 3,705 | 2,524 | 2,469 | 7,104 | 4,705 | 5,910 | - | 34,347 | 8,917 | 4,879 | 13,796 | 48,143 |
| Other expenses | 5,602 | 1,019 | 3,056 | 16,333 | 2,037 | 3,565 | 3,408 | 6,152 | 685 | 41,857 | 7,634 | 5,064 | 12,698 | 54,555 |
| Grants | 5,513,932 | 1,516,142 | 868,841 | - | - | - | - | - | - | 7,898,915 | - | - | - | 7,898,915 |
| | <u>\$ 6,517,981</u> | <u>\$ 1,814,901</u> | <u>\$ 1,379,392</u> | <u>\$ 349,526</u> | <u>\$ 320,980</u> | <u>\$ 646,138</u> | <u>\$ 593,695</u> | <u>\$ 743,651</u> | <u>\$ 685</u> | <u>\$ 12,366,949</u> | <u>\$ 1,189,265</u> | <u>\$ 763,989</u> | <u>\$ 1,953,254</u> | <u>\$ 14,320,203</u> |

The Notes to Consolidated Financial Statements are an integral part of these statements.

Food Research & Action Center, Inc. and Affiliate
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Operating activities | | |
| Changes in net assets | \$ 1,248,602 | \$ 4,709,695 |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 20,670 | 14,588 |
| Realized and unrealized gains | (147) | - |
| Loss on disposal | - | 113,874 |
| Paycheck Protection Program loan forgiveness | (674,900) | - |
| Change in assets and liabilities | | |
| (Increase) decrease in | | |
| Grants and contributions receivables, net | (2,228,379) | 468,500 |
| Contract receivables, net | 131,950 | (230,192) |
| Accounts receivables, net | (43,704) | (65,893) |
| Deposits | - | (3,745) |
| Prepaid expenses | (19,956) | 53,118 |
| Increase (decrease) in | | |
| Accounts payable and accrued expenses | (202,648) | 812,625 |
| Deferred revenue | 65,000 | (128,785) |
| Deferred rent | (18,337) | (18,448) |
| Net cash provided by (used in) operating activities | <u>(1,721,849)</u> | <u>5,725,337</u> |
| Investing activities | | |
| Purchases of investments | (1,948,440) | (4,000,000) |
| Proceeds from redemptions of investments | 4,000,446 | - |
| Purchases of property and equipment | (306,863) | (49,398) |
| Net cash provided by (used in) investing activities | <u>1,745,143</u> | <u>(4,049,398)</u> |
| Financing Activity | | |
| Proceeds from borrowings on loan payable | - | 674,900 |
| Net cash provided by financing activity | <u>-</u> | <u>674,900</u> |
| Net change in cash and cash equivalents | 23,294 | 2,350,839 |
| Cash and cash equivalents | | |
| Beginning of year | <u>6,341,609</u> | <u>3,990,770</u> |
| End of year | <u>\$ 6,364,903</u> | <u>\$ 6,341,609</u> |

The Notes to Consolidated Financial Statements are an integral part of these statements.

Food Research & Action Center, Inc. and Affiliate
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

1. ORGANIZATION

Nature of Activities

Food Research & Action Center, Inc. and Affiliate (collectively, "FRAC") consists of two entities: The Food Research & Action Center, Inc. and FRAC Action Council (the "Action Council").

The Food Research & Action Center, Inc. is a 501(c)(3) public charity, nonprofit organization, headquartered in Washington, D.C., with an office in Baltimore, Maryland. The Food Research & Action Center, Inc. works to improve the nutrition, health, and well-being of people struggling against poverty-related hunger in the United States through advocacy, partnerships, and by advancing bold and equitable policy solutions.

The Food Research & Action Center, Inc. conducts research and studies in the field of hunger, nutrition, and anti-hunger and anti-poverty policy; provides information, publications, best practices, training and technical assistance to individuals and groups regarding the incidence of, and causes of, hunger and food insecurity, and regarding federal, state and local governmental and private programs to reduce hunger and food insecurity and improve nutrition; disseminates information to national, state and local government officials, public and private, nonprofit service providers and advocacy organizations, the media and the general public; engages in public policy advocacy; and provides counsel to indigent persons and groups with regard to nutrition problems. The Food Research & Action Center, Inc. is supported primarily by grants from foundations.

The Action Council was incorporated in 2008 to promote social welfare within the meaning of Section 501(c)(4) of the Internal Revenue Code, by educating the public and promoting public policies and programs that prevent hunger, improve nutrition, reduce poverty, and protect health and well-being.

The following is a brief description of the significant program services of FRAC:

Child Nutrition

FRAC seeks to reduce childhood hunger, improve nutrition, improve food security and economic security, improve health and school achievement, and use child nutrition programs to support services for school-aged children in communities across the country. FRAC works with local, state, national groups and public agencies to assure that as many eligible children as possible are enrolled in programs such as school breakfast, school lunch, the summer food program and after school nutrition programs, and that the food served is as nutritious as possible. FRAC provides research, public policy advocacy, analysis, training, technical assistance, materials and regranting to various state and local 501(c)(3) groups and public agencies to better serve low income individuals.

SNAP

FRAC works with national, state and local groups to protect and improve SNAP benefits for low-income people. Through research, public policy advocacy, training, technical assistance, regranting, and dissemination of information, analysis, and descriptions of model approaches, FRAC assists in getting SNAP benefits to eligible, needy families with children, immigrants, seniors, unemployed persons and other low-income people.

D.C. Hunger Solutions

FRAC's District of Columbia project is dedicated to fighting hunger and improving the nutrition, health and well-being of low-income people in the District of Columbia through advocacy, outreach, training, policy analysis, technical assistance, partnerships and dissemination of materials.

Food Research & Action Center, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Maryland Hunger Solutions

FRAC's Maryland project is dedicated to fighting hunger and improving the nutrition, health and well-being of low-income people in Maryland through advocacy, outreach, training, policy analysis, technical assistance, partnerships and dissemination of materials.

Early Childhood Nutrition

Through research, public policy advocacy, technical assistance, training and distribution of materials to local, regranteeing, state and national organizations, FRAC works to reduce hunger, improve nutrition and thereby improve the food security, economic security, health, development, school readiness and well-being of infants and preschoolers.

Legislative

The Legislative Unit directs the implementation of FRAC's legislative agenda, working directly with Members of Congress and their staff, USDA, national organizations, and FRAC's state and local grassroots network. The Legislative Unit works extensively in coalitions with other national anti-hunger and anti-poverty organizations bringing together national and state partners to advocate for policies and proposals to strengthen and protect the Federal food assistance programs.

Root Causes and Specific Populations

The Root Causes and Specific Populations unit works to enhance FRAC's efforts to address root causes of hunger and disproportionate rates of hunger among specific populations. The program leads efforts to address hunger among older adults and immigrants and builds out cross-unit collaboration to deepen coordination on existing and new work on targeted specific populations. The unit also addresses broader root causes of hunger – poverty, lack of housing, etc.-- by engaging with partners, developing materials, and mobilizing the anti-hunger community.

Communications

The Communications Unit spearheads the development and implementation of a multi-faceted strategic communications framework to help advance FRAC's mission to end hunger in America. This includes the design and production of publications, media relations, social media, website, email, speeches, and other needed communications support for all of FRAC's units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of Food Research & Action Center, Inc. and the FRAC Action Council. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Directors are referred to as Board designated net assets and are also reported as net assets without donor restrictions. As of December 31, 2021 and 2020 there were \$1,350,087 and \$0, respectively, in net assets without donor restrictions that were subject to Board designations.

Food Research & Action Center, Inc. and Affiliate
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Net assets with donor restrictions: Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends and/or a 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 consolidated statements of activities as net assets released from restrictions. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, FRAC reports the expiration of donor restrictions when the donated or acquired assets are placed in service.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated financial statements, FRAC considers currency on hand, demand deposits, and highly liquid investments purchased from financial institutions with an original maturity of three months or less to be cash and cash equivalents.

Investments

FRAC 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 consolidated statements of financial position. Investment income or loss, including realized and unrealized gains and losses and interest and dividends, net is included in net assets without donor restrictions, unless the income or loss is restricted by the donor or the law.

Grants and Contributions Receivable

Grants and contributions receivable consist of unconditional contribution receivables. Grants and contributions receivable with expected collection past 1 year are discounted at net present value based on a risk-free rate. The discount rate used at December 31, 2021 is 1.52%. FRAC monitors the collectability of these receivables and has determined that no allowance for uncollectible accounts was necessary at December 31, 2021 and 2020.

Contracts and Accounts Receivables

Contract receivables are stated at the amount that management expects to collect from services provided under federal grants, and nonfederal contracts that are considered conditional contributions. Accounts receivable are stated at net realizable value and are expected to be collected within the next year. Management periodically reviews the collectability of all receivables based on management's knowledge of and relationship with the vendors, grantors and donors, age of the receivable balance and existing economic conditions.

Food Research & Action Center, Inc. and Affiliate
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

As a result of these reviews, it is FRAC's policy to write off uncollectible receivable balances when management determines that the receivable will not be collected. As of December 31, 2021 and 2020, management believes that all accounts receivable are fully collectible within one year; therefore, no allowance for doubtful accounts was recorded at December 31, 2021 and 2020.

Contracts and accounts receivable totaled \$315,786 and \$68,745 as of January 1, 2021 and 2020, respectively.

Property and Equipment

FRAC records property and equipment additions over \$5,000 at cost, or if donated, at fair value on the date of donation. When donors stipulate how long the assets must be used, the contributions are recorded as support with donor restrictions. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 4 to 11 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. 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 consolidated statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed.

Carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2021 and 2020.

Deposits

Deposits represent funds paid to landlords and consultants which are held until a lease expires or is terminated or the contractual services have ended. FRAC does not classify these assets as restricted cash for purposes of the consolidated statements of cash flows.

Deferred Rent

FRAC has lease agreements for rental space in Washington, D.C. and Baltimore, Maryland. Under the terms of the respective lease agreements, FRAC received rent abatements. The rent abatements received and escalating annual rent increases are being recognized on a straight-line basis over the term of the lease agreements and reflected as deferred rent in the accompanying consolidated statements of financial position.

Revenue Recognition

Revenue Accounted for in Accordance with Contribution Accounting

Contributions are recognized when cash, securities, other assets, an unconditional promise to give, or a 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 or release) are not recognized until the conditions on which they depend have been substantially met. When collected prior to satisfaction of donor restrictions, amounts are reported as refundable advances.

Government grants and assistance are nonreciprocal and recognized as contributions. Typically, these arrangements are cost-reimbursable, and are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when FRAC has incurred expenditures in compliance with specific grant provisions. Costs incurred in excess of cash received are reflected as grants receivable in the accompanying consolidated statements of financial position. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position.

Food Research & Action Center, Inc. and Affiliate
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Revenue Accounted for as Contracts with Customers

Revenue is recognized when FRAC satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration FRAC expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, FRAC combines it with other performance obligations until a distinct bundle of goods or services exists. Fees or amounts received in advance of satisfying contractual performance obligations are reflected as deferred revenue in the consolidated statements of financial position. Revenue is recognized either over time or at the point in time that contractual obligations are met.

Specifically, for the various types of contracts, FRAC recognizes revenue as follows:

Conference and event registrations, fees, and sponsorships are recognized at the point in time of the conference or event, which is when the sole performance obligation is satisfied. Conference and event registrations, fees, and sponsorships received that are applicable to the following year are included in deferred revenue.

Deferred revenue totaled \$25,000 and \$153,785 as of January 1, 2021 and 2020, respectively.

Revenue from all other sources is recognized when earned.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to FRAC's program services, administration, and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria under U.S. GAAP. FRAC records donated professional services at the respective fair values of the services received for donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended December 31, 2021 and 2020, FRAC recognized donated legal services of \$8,490 and \$49,057, respectively.

Functional Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the consolidated statements of activities and detailed within the consolidated statements of functional expenses. FRAC's consolidated financial statements report certain categories of expenses that are attributable to one or more of FRAC's programs or supporting services. Therefore, certain expenses require allocation where FRAC can demonstrate direct conduct and direct supervision of programs or supporting services that receive a benefit. Such expenses include salaries and related costs, consultants, meetings and travel, facilities, software and equipment, among others. Salaries and benefits are allocated based on time and effort estimated by employee, and all other expense allocations are based on estimates of use or benefit received to the program or supporting functions of FRAC.

Food Research & Action Center, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Income Taxes

The Food Research & Action Center, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). In addition, Food Research & Action Center, Inc. has been determined by the Internal Revenue Service ("IRS") not to be a private foundation within the meaning of Section 509(a) of the Code. The Action Council is exempt from the payment of income taxes on its exempt activities under Section 501(c)(4) of the Internal Revenue Code. FRAC is subject to income taxes on revenue generated from other sources unrelated to its exempt purpose. Due to its tax-exempt status, FRAC is not subject to income taxes and does not have any unrelated business income for the years ended December 31, 2021 and 2020. FRAC is required to file, and does file, tax returns with the IRS and other taxing authorities.

Uncertain Tax Positions

U.S. GAAP requires management to evaluate tax positions taken by FRAC and recognize a tax liability (or asset) if FRAC has taken an uncertain position that more likely than not would not be sustained upon examination by applicable taxing authorities. For the years ended December 31, 2021 and 2020, FRAC has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements. There has been no tax related interest or penalties for the periods presented in these consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

Leases

On February 25, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases*, which will require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The standard is effective for nonpublic business entities for fiscal years beginning after December 15, 2021. FRAC is currently in the process of evaluating the impact of the new accounting guidance on its consolidated financial statements.

Gifts In-Kind

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which is effective for fiscal years beginning after June 15, 2021, with early adoption permitted, and is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. FRAC is in the process of evaluating the impact of the new accounting guidance on its consolidated financial statements.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Food Research & Action Center, Inc. and Affiliate
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As of December 31, 2021 and 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and fulfillment of liabilities, were as follows:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Financial assets available at fiscal year end | | |
| Cash and cash equivalents | \$ 6,364,903 | \$ 6,341,609 |
| Investments | 1,948,587 | 4,000,446 |
| Grants and contributions receivable, net | 2,720,879 | 492,500 |
| Contract receivables, net | 156,527 | 288,477 |
| Accounts receivable, net | <u>71,013</u> | <u>27,309</u> |
| Total financial assets | <u>11,261,909</u> | <u>11,150,341</u> |
| Less: Amounts not available for general expenditure within one year | | |
| Net assets with donor restrictions | (3,772,061) | (2,871,636) |
| Certificates of deposit with maturity dates over one year | (410,916) | - |
| Grants and contributions receivable, net greater than one year | <u>(733,191)</u> | <u>-</u> |
| | <u>(4,916,168)</u> | <u>(2,871,636)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | 6,345,741 | 8,278,705 |
| Less: Board designated net assets | <u>(1,350,087)</u> | <u>-</u> |
| Total, less Board designations | <u>\$ 4,995,654</u> | <u>\$ 8,278,705</u> |

As part of FRAC's liquidity management, FRAC has a goal to build an operating reserve equivalent of six months of operating expenditures. The Board designated operating reserve began during the year ended December 31, 2021 and FRAC predicts it will take seven years until the reserve is fully funded. Amounts from Board designated funds could be made available if necessary through a Board resolution. FRAC invests excess cash in accordance with its investment policy.

4. FAIR VALUE MEASUREMENTS AND DISCLOSURES

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 evaluation 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 FRAC can access at the measurement date.

Food Research & Action Center, Inc. and Affiliate
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

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, FRAC develops 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 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 FRAC's assessment of the quality, risk, or liquidity profile of the asset or liability.

A significant portion of investment assets are classified within Level 1 because they comprise open-end mutual funds and exchange-traded funds with readily determinable fair values based on daily redemption values. Certificates of deposit are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis as of December 31, 2021:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------|---------------------|-------------------|----------------|---------------------|
| Mutual funds | \$ 417,619 | \$ - | \$ - | \$ 417,619 |
| Exchange-traded funds | 929,481 | - | - | 929,481 |
| Certificates of deposit | - | 601,487 | - | 601,487 |
| | <u>\$ 1,347,100</u> | <u>\$ 601,487</u> | <u>\$ -</u> | <u>\$ 1,948,587</u> |

The following table presents assets measured at fair value on a recurring basis as of December 31, 2020:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------|----------------|---------------------|----------------|---------------------|
| Certificates of deposit | <u>\$ -</u> | <u>\$ 4,000,446</u> | <u>\$ -</u> | <u>\$ 4,000,446</u> |

5. INVESTMENTS

Investment returns at December 31, 2021 and 2020 consist of the following:

| | <u>2021</u> | <u>2020</u> |
|------------------------------|------------------|---------------|
| Interest and dividends | \$ 10,290 | \$ 881 |
| Unrealized gains | 147 | - |
| Total investment return, net | <u>\$ 10,437</u> | <u>\$ 881</u> |

Food Research & Action Center, Inc. and Affiliate
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

6. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable are due to be collected as follows at December 31:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|-------------------|
| Grants and contributions expected to be collected | | |
| Within one year | \$ 1,987,688 | \$ 492,500 |
| One to five years | <u>742,000</u> | <u>-</u> |
| | 2,729,688 | 492,500 |
| Less: Discount to present value | <u>(8,809)</u> | <u>-</u> |
| Grants and contributions receivable, net | <u>\$ 2,720,879</u> | <u>\$ 492,500</u> |

7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------|-------------------|------------------|
| Furniture | \$ 8,928 | \$ 8,928 |
| Computer and office equipment | 128,510 | 128,510 |
| Leasehold improvements | <u>401,363</u> | <u>94,500</u> |
| | 538,801 | 231,938 |
| Less: Accumulated depreciation | <u>(206,632)</u> | <u>(185,962)</u> |
| | <u>\$ 332,169</u> | <u>\$ 45,976</u> |

Depreciation expense amounted to approximately \$20,670 and \$14,588 for the years ended December 31, 2021 and 2020, respectively, and is included in facilities expense in the consolidated statements of functional expenses.

8. RETIREMENT PLAN

FRAC has a qualified tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code for eligible employees working more than 20 hours per week. Employees can begin making contributions immediately upon hire and are eligible for a discretionary employer matching contribution of up to 5% of salary after one year of employment. FRAC made matching contributions totaling \$174,526 and \$146,567 for the years ended December 31, 2021 and 2020, respectively.

Food Research & Action Center, Inc. and Affiliate
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

9. NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2021, net assets with donor restrictions consisted of the following purpose restrictions:

| | <u>Balance at</u> <u>12/31/2020</u> | <u>Additions</u> | <u>Releases</u> | <u>Balance at</u> <u>12/31/2021</u> |
|--------------------------------------|--|---------------------|---------------------|--|
| Child Nutrition | \$ 1,024,094 | \$ 948,750 | \$ 1,190,498 | \$ 782,346 |
| SNAP | 125,000 | 1,025,000 | 491,985 | 658,015 |
| Regranting | 467,042 | 4,206,666 | 3,980,708 | 693,000 |
| Early Childhood Nutrition | 490,500 | 718,750 | 671,298 | 537,952 |
| Root Causes and Specific Populations | - | 936,000 | 458,072 | 477,928 |
| Maryland Hunger Solutions | 505,000 | 520,475 | 652,655 | 372,820 |
| Network Work | - | 150,000 | - | 150,000 |
| Supporting Health | 75,000 | 100,000 | 75,000 | 100,000 |
| Strategic Planning and Equity | 35,000 | 150,000 | 185,000 | - |
| D.C. Hunger Solutions | 150,000 | 195,000 | 345,000 | - |
| | <u>\$ 2,871,636</u> | <u>\$ 8,950,641</u> | <u>\$ 8,050,216</u> | <u>\$ 3,772,061</u> |

At December 31, 2020, net assets with donor restrictions consisted of the following purpose restrictions:

| | <u>Balance at</u> <u>12/31/2019</u> | <u>Additions</u> | <u>Releases</u> | <u>Balance at</u> <u>12/31/2020</u> |
|-------------------------------|--|----------------------|----------------------|--|
| Child Nutrition | \$ 604,643 | \$ 1,423,500 | \$ 1,004,049 | \$ 1,024,094 |
| SNAP | 110,000 | 296,500 | 281,500 | 125,000 |
| Regranting | 1,852,861 | 6,239,557 | 7,625,376 | 467,042 |
| Early Childhood Nutrition | - | 745,366 | 254,866 | 490,500 |
| Maryland Hunger Solutions | 125,366 | 851,524 | 471,890 | 505,000 |
| Supporting Health | - | 125,000 | 50,000 | 75,000 |
| Strategic Planning and Equity | - | 185,000 | 150,000 | 35,000 |
| D.C. Hunger Solutions | 157,565 | 454,243 | 461,808 | 150,000 |
| | <u>\$ 2,850,435</u> | <u>\$ 10,320,690</u> | <u>\$ 10,299,489</u> | <u>\$ 2,871,636</u> |

10. COMMITMENTS AND CONTINGENCIES

Operating Lease

FRAC has a lease agreement for D.C. headquarters office space that currently expires on January 31, 2026. The amended lease required minimum monthly lease payments of \$27,010 through November 30, 2022, with 2% annual escalations beginning in December 2022 for the duration of the lease. FRAC will also be responsible for a proportionate share of increases in operating costs and real estate taxes.

In November 2015, FRAC entered into a 63-month lease agreement for office space in Baltimore, Maryland, which commenced February 1, 2016. The lease agreement was extended for a 36-month term which commenced on July 1, 2021 and is set to expire on June 30, 2024. The lease extension allows for one additional 60-month renewal period with 3% annual escalations. The lease extension requires minimum monthly lease payments of \$2,553 through June 30, 2022, with 3% annual escalations beginning in July 2022 for the duration of the lease.

Food Research & Action Center, Inc. and Affiliate
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Rent expense for the years ended December 31, 2021 and 2020 was \$354,542 and \$453,898, respectively.

Future minimum lease payments, subject to annual operating expense increases, under the terms of the office leases are as follows:

| | | |
|------|----|------------------|
| 2022 | \$ | 355,750 |
| 2023 | | 363,176 |
| 2024 | | 354,022 |
| 2025 | | 344,527 |
| 2026 | | <u>29,237</u> |
| | \$ | <u>1,446,712</u> |

Employment Contract

FRAC has entered into an employment contract with the President of FRAC that provides for a severance payment under certain circumstances. The terms of the employment contract remain enforceable until amended.

11. CONCENTRATIONS

Concentrations of Credit Risk

FRAC maintains its cash, cash equivalents, investment balances at multiple financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (“FDIC”) or the Securities Investor Protection Corporation (“SIPC”) up to specified limits by each institution. At times, the balances may exceed these insurance limits; however, FRAC has not experienced, and does not expect to experience, any losses with respect to its balances in excess of FDIC or SIPC insurance. Management believes that no significant concentration of credit risk exists as of December 31, 2021 or 2020.

Concentration of Source of Supply of Labor

Certain FRAC employees representing 27 total positions are members of the FRAC Employees Association, a bargaining unit of the National Organization of Legal Services Workers, UAW Local 2320, AFL-CIO (the “Union”). The deadline for renegotiation of FRAC’s contract with the Union is March 31, 2025.

Revenue Concentration

During the year ended December 31, 2021, four donors contributed 69% of total revenues. During the year ended December 31, 2020, two donors contributed 60% of total revenues.

12. PAYCHECK PROTECTION PROGRAM

On May 1, 2020, FRAC issued an unsecured promissory note (the “PPP Loan”) for \$674,900 through programs established under the CARES Act and administered by the U.S. Small Business Administration (the “SBA”). The PPP Loan was guaranteed by the SBA. The PPP Loan may be forgiven, in whole or in part, if FRAC was eligible for the PPP Loan at the time of application, used the loan proceeds for eligible expenses within the defined 24 week period, and otherwise satisfied PPP requirements. The PPP Loan was for a two-year term bearing interest at 1.00% per annum. On September 1, 2021, FRAC was informed that its application for forgiveness of \$674,900 of the PPP Loan was approved. Accordingly, FRAC recorded it as Paycheck Protection Program loan forgiveness in the accompanying consolidated statements of activities for the year ended December 31, 2021.

Food Research & Action Center, Inc. and Affiliate
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

13. SUBSEQUENT EVENTS

FRAC has evaluated subsequent events through September 21, 2022, the date the consolidated financial statements were available to be issued and determined that the following item required disclosure in the consolidated financial statements:

United States Department of Agriculture (USDA) Funding

On September 13, 2022, the USDA Food and Nutrition Service (FNS) approved funding of FRAC's application related to their Community Innovation and Outreach Project. The total amount of the federal award is \$20 million and is for a period of five years.