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# **Food Research & Action Center, Inc. and Affiliate**

## **Independent Auditor's Report and Consolidated Financial Statements**

December 31, 2022 and 2021

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# Food Research & Action Center, Inc. and Affiliate

December 31, 2022 and 2021

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## Independent Auditor's Report

Board of Directors  
Food Research & Action Center, Inc. and Affiliate  
Washington, D.C.

### ***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, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Food Research & Action Center, Inc. and Affiliate, Inc. as of December 31, 2022, and the changes in its net assets and its 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.

### ***Prior Year Audited by Other Auditors***

The 2021 consolidated financial statements were audited by other auditors, and their report thereon, dated September 21, 2022, expressed an unmodified opinion.

### ***Emphasis of Matter***

As described in *Note 9* to the consolidated financial statements, in 2022, FRAC adopted new accounting guidance for accounting for leases. Our opinion is not modified with respect to this matter.

### ***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 within one year after the date that these 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.

**FORVIS,LLP**

New York, New York  
November 15, 2023

**Food Research & Action Center, Inc. and Affiliate**  
**Consolidated Statements of Financial Position**  
**December 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,989,782	\$ 6,364,903
Investments	2,632,194	1,948,587
Receivables		
Contribution and grants receivable, net	1,945,863	2,791,892
Contract receivables, net	30,000	156,527
Deposits	36,641	53,642
Prepaid expenses	95,123	90,909
Right-of-use assets - operating lease	983,780	-
Property and equipment, net	269,703	332,169
Total assets	<b>\$ 7,983,086</b>	<b>\$ 11,738,629</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,207,363	\$ 1,100,102
Deferred revenue	65,000	90,000
Operating lease liabilities	1,083,149	-
Deferred rent	-	116,385
Total liabilities	2,355,512	1,306,487
<b>Net Assets</b>		
Without donor restrictions		
General operating	2,700,341	5,309,994
Board designated for operating reserves	1,476,853	1,350,087
Total net assets without donor restrictions	4,177,194	6,660,081
With donor restrictions	1,450,380	3,772,061
Total net assets	5,627,574	10,432,142
Total liabilities and net assets	<b>\$ 7,983,086</b>	<b>\$ 11,738,629</b>

**Food Research & Action Center, Inc. and Affiliate**  
**Consolidated Statements of Activities**  
**Years Ended December 31, 2022 and 2021**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, Gains (Losses), and Other Support</b>						
Contributions and grants	\$ 965,215	\$ 3,103,320	\$ 4,068,535	\$ 2,822,311	\$ 8,950,641	\$ 11,772,952
Paycheck Protection Program loan forgiveness	-	-	-	674,900	-	674,900
Employee Retention Credits (ERC)	741,240	-	741,240	-	-	-
Contracts	289,805	-	289,805	172,090	-	172,090
Conference fees and sponsorships	283,528	-	283,528	379,460	-	379,460
Other revenue	4,136	-	4,136	1,591	-	1,591
Donated services	18,031	-	18,031	8,490	-	8,490
Investment return, net	(257,910)	-	(257,910)	10,437	-	10,437
Net assets released from restrictions	5,425,001	(5,425,001)	-	8,050,216	(8,050,216)	-
 Total revenues, gains (losses), and other support	 7,469,046	 (2,321,681)	 5,147,365	 12,119,495	 900,425	 13,019,920
<b>Expenses</b>						
Program services						
Child Nutrition	1,611,334	-	1,611,334	4,791,188	-	4,791,188
SNAP	1,415,584	-	1,415,584	938,963	-	938,963
Early Childhood Nutrition	764,632	-	764,632	661,242	-	661,242
Legislative	884,302	-	884,302	737,641	-	737,641
Root causes and specific populations	507,479	-	507,479	473,327	-	473,327
D.C. Hunger Solutions	597,626	-	597,626	547,358	-	547,358
Maryland Hunger Solutions	736,966	-	736,966	719,886	-	719,886
Communications	1,099,334	-	1,099,334	978,273	-	978,273
Network Engagement	161,263	-	161,263	-	-	-
FRAC Action Council	213,682	-	213,682	99,158	-	99,158
 Total program services	 7,992,202	 -	 7,992,202	 9,947,036	 -	 9,947,036
Supporting services						
Management and general Development	1,159,995	-	1,159,995	1,186,195	-	1,186,195
	799,736	-	799,736	638,087	-	638,087
 Total supporting services	 1,959,731	 -	 1,959,731	 1,824,282	 -	 1,824,282
 Total expenses	 9,951,933	 -	 9,951,933	 11,771,318	 -	 11,771,318
 <b>Change in Net Assets</b>	 (2,482,887)	 (2,321,681)	 (4,804,568)	 348,177	 900,425	 1,248,602
 <b>Net Assets, Beginning of Year</b>	 6,660,081	 3,772,061	 10,432,142	 6,311,904	 2,871,636	 9,183,540
 <b>Net Assets, End of Year</b>	 \$ 4,177,194	 \$ 1,450,380	 \$ 5,627,574	 \$ 6,660,081	 \$ 3,772,061	 \$ 10,432,142

# Food Research & Action Center, Inc. and Affiliate

## Consolidated Statements of Functional Expenses

### Years Ended December 31, 2022 and 2021

	2022															
	Program Services										Supporting Services					
	Child Nutrition	SNAP	Early Childhood Education	Legislative	Root Causes and Specific Populations	D.C. Hunger Solutions	Maryland Hunger Solutions	Communications	Network Engagement	FRAC Action Council	Total Program Services	Management and General	Development	Total Supporting Services	Total	2021
Salaries	\$ 686,230	\$ 428,875	\$ 411,146	\$ 437,129	\$ 289,203	\$ 394,415	\$ 446,755	\$ 639,166	\$ 98,304	\$ 144,776	\$ 3,975,999	\$ 585,225	\$ 456,635	\$ 1,041,860	\$ 5,017,859	\$ 4,253,860
Benefits and taxes	150,732	78,518	109,268	104,126	84,767	97,920	106,664	155,251	26,334	30,347	943,927	255,975	81,439	337,414	1,281,341	1,048,576
Consultants	56,925	180,256	52,124	23,247	72,024	46,772	61,880	127,487	3,553	9,252	633,520	120,492	57,138	177,630	811,150	822,348
Meetings and travel	19,817	15,580	10,145	258,540	20,546	4,468	4,245	9,275	20,745	3,874	367,235	24,479	140,560	165,039	532,274	287,906
Facilities	58,703	31,089	37,137	36,836	25,423	39,061	86,764	63,248	7,307	5,189	390,757	79,172	42,243	121,415	512,172	416,229
Software, subscriptions, and equipment	9,542	7,075	12,729	17,190	5,294	7,601	14,916	88,118	2,120	2,946	167,531	63,161	12,404	75,565	243,096	342,747
Printing, postage, and supplies	2,359	1,828	2,972	1,638	674	3,715	5,324	10,286	2,432	393	31,621	4,934	2,474	7,408	39,029	45,476
Other expenses	2,882	2,363	1,711	5,596	1,548	3,674	4,418	6,503	468	1,905	31,068	26,557	6,843	33,400	64,468	95,978
Grants	624,144	670,000	127,400	-	8,000	-	6,000	-	-	15,000	1,450,544	-	-	-	1,450,544	4,458,208
<b>Total operating expenses</b>	<b>\$ 1,611,334</b>	<b>\$ 1,415,584</b>	<b>\$ 764,632</b>	<b>\$ 884,302</b>	<b>\$ 507,479</b>	<b>\$ 597,626</b>	<b>\$ 736,966</b>	<b>\$ 1,099,334</b>	<b>\$ 161,263</b>	<b>\$ 213,682</b>	<b>\$ 7,992,202</b>	<b>\$ 1,159,995</b>	<b>\$ 799,736</b>	<b>\$ 1,959,731</b>	<b>\$ 9,951,933</b>	<b>\$ 11,771,328</b>

	2021														
	Program Services										Supporting Services				
	Child Nutrition	SNAP	Early Childhood Education	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	
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	76,863	90,355	114,127	134,541	16,389	782,106	192,014	74,356	266,370	1,048,476	
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, subscriptions, 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	2,947	5,005	3,110	7,398	5,983	48,802	40,361	6,915	47,276	96,078	
Grants	3,797,208	480,000	35,000	-	46,000	-	-	-	-	4,358,208	100,000	-	100,000	4,458,208	
<b>Total operating expenses</b>	<b>\$ 4,791,188</b>	<b>\$ 938,963</b>	<b>\$ 661,242</b>	<b>\$ 737,641</b>	<b>\$ 473,327</b>	<b>\$ 547,358</b>	<b>\$ 719,886</b>	<b>\$ 978,273</b>	<b>\$ 99,158</b>	<b>\$ 9,947,036</b>	<b>\$ 1,186,195</b>	<b>\$ 638,087</b>	<b>\$ 1,824,282</b>	<b>\$ 11,771,318</b>	

**Food Research & Action Center, Inc. and Affiliate**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>Operating Activities</b>		
Change in net assets	\$ (4,804,568)	\$ 1,248,602
Items not (providing) requiring operating cash flows		
Depreciation and amortization	102,639	20,670
Net realized and unrealized loss (gain) on investments	257,910	(147)
Noncash operating lease expense	327,191	-
Forgiveness of PPP loan	-	(674,900)
Changes in		
Contribution and grants receivable, net	846,029	(2,272,083)
Contracts receivable, net	126,527	131,950
Deposits	17,001	-
Prepaid expenses	(4,214)	(19,956)
Accounts payable and accrued expenses	107,261	(202,648)
Operating lease liabilities	(344,207)	-
Deferred revenue	(25,000)	65,000
Deferred rent	-	(18,337)
	<u>(3,393,431)</u>	<u>(1,721,849)</u>
Net cash used in operating activities		
<b>Investing Activities</b>		
Purchase of investments	(3,424,265)	(1,948,440)
Proceeds from sale of investments	2,482,748	4,000,446
Property and equipment acquisitions	(40,173)	(306,863)
	<u>(981,690)</u>	<u>1,745,143</u>
Net cash provided by (used in) investing activities		
<b>(Decrease) Increase in Cash and Cash Equivalents</b>	(4,375,121)	23,294
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>6,364,903</u>	<u>6,341,609</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,989,782</u>	<u>\$ 6,364,903</u>



# **Food Research & Action Center, Inc. and Affiliate**

## **Notes to Consolidated Financial Statements**

### **December 31, 2022 and 2021**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

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”). All significant intercompany accounts and transactions have been eliminated in consolidation.

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.

# **Food Research & Action Center, Inc. and Affiliate**

## **Notes to Consolidated Financial Statements**

### **December 31, 2022 and 2021**

#### *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.

#### *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, regranting, 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.

# **Food Research & Action Center, Inc. and Affiliate**

## **Notes to Consolidated Financial Statements**

### **December 31, 2022 and 2021**

#### *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.

#### ***Use of Estimates***

The preparation of 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 financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### ***Cash Equivalents***

FRAC considers all liquid investments with original maturities of three months or less to be cash equivalents. Uninvested cash and cash equivalents included in investment accounts are not considered to be cash and cash equivalents.

At December 31, 2022, FRAC's cash accounts exceeded federally insured limits by approximately \$1,489,000.

#### ***Investments and Investment Return***

Investments having a readily determinable fair value are carried at fair value.

Investment return includes dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

#### ***Contract Receivable***

Contract receivable reflects the outstanding amount of consideration to which FRAC expects to be entitled in exchange for providing services to clients. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the claim. Interest is not recorded on outstanding accounts receivable. Management believes that all accounts receivable are fully collectable within one year; therefore, no allowance for doubtful accounts was recorded at December 31, 2022 and 2021.

# Food Research & Action Center, Inc. and Affiliate

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### ***Property and Equipment***

Property and equipment acquisitions over \$5,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under finance lease obligations and leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Leasehold improvements	3–11 years
Furniture and fixtures	4–11 years
Equipment	3–5 years

### ***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.

### ***Long-Lived Asset Impairment***

FRAC evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2022 and 2021.

### ***Net Assets***

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or grantor restrictions. The Board has designated, from net assets without donor restrictions, net assets for an operating reserve.

Net assets with donor restrictions are subject to donor or grantor restrictions. Some 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 restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

**Food Research & Action Center, Inc. and Affiliate**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**Government Grants**

Revenues from government agencies are recognized when earned. Expense-based grants are recognized as allowable expenses are incurred. Performance-based grants are recognized as milestones are achieved. Laws and regulations related to government programs are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties, and exclusion from the government programs.

**Contributions**

Contributions are provided to FRAC either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
Gifts that depend on FRAC overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, 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. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment, and other long-lived assets are reported when those assets are placed in service.

Gifts that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue with donor restrictions and then released from restrictions.

# Food Research & Action Center, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### December 31, 2022 and 2021

#### **Donated Services**

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

FRAC receives contributed legal services for its retirement account. FRAC estimates the fair value of these services on the basis of purchasing similar services in the United States. During the years ended December 31, 2022 and 2021, FRAC recognized donated legal services of \$18,031 and \$8,490, respectively. The related expenses are included in consultants on the consolidated statements of functional expenses. Contributed services have been included in donated services on the consolidated statements of activities.

#### **Functional Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general, and development categories based on salaries and other methods.

#### **Changes in Accounting Principles**

In 2022, FRAC adopted Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* on a retrospective basis. ASU 2020-07 requires contributed nonfinancial assets to be presented separately from contributions of cash or other financial assets in the consolidated statement of activities and disclosures within the notes to the consolidated financial statements about the valuation method for, use of, and donor-imposed restrictions associated with contributed nonfinancial assets (see “Donated Services” paragraph above). Adoption of ASU 2020-07 had no impact on previously reported total change in net assets.

#### **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, The 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, 2022 and 2021. FRAC is required to file, and does file, tax returns with the IRS and other taxing authorities.

# Food Research & Action Center, Inc. and Affiliate

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### ***Reclassifications***

Certain reclassifications have been made to the 2021 consolidated financial statements to conform to the 2022 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

### **Note 2: Revenue from Contracts with Customers**

#### ***Fee-for-Service Revenue***

Revenue from contracts with clients is reported at the amount that reflects the consideration to which FRAC expected to be entitled in exchange for performing consulting services. These amounts are due from the clients.

For revenues from clients, performance obligations are satisfied over time when services are provided to clients over the duration of the contracted period. FRAC believes this method provides a faithful depiction of the transfer of services over the term of the performance obligations based on the inputs needed to satisfy the obligation. Generally, FRAC bills the clients when the deliverables on the contracts are delivered to the client.

#### ***Conference Fees and Sponsorship Revenue***

Revenue from conferences and sponsorships are reported at the amount that reflects the consideration to which FRAC expect to be entitled in exchange for the direct cost of the benefits received by the participants. These revenues are recognized over time.

#### ***Transaction Price and Recognition***

FRAC determines the transaction price based on standard charges for economic value of the consulting services provided. Consideration amounts are not variable and, as the contracts are generally less than a year in duration, they do not have significant financing components.

Subsequent changes that are determined to be the result of denied claims are recorded as bad debt expense.

For the years ended December 31, 2022 and 2021, FRAC recognized revenue of \$289,805 and \$172,090, respectively, from consulting services provided to the client over time. FRAC recognized \$283,528 and \$379,460 of revenue from the exchange for the direct cost of the benefits received by the participants of conferences and sponsorships that occurred for the years ended December 31, 2022 and 2021, respectively.

# Food Research & Action Center, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### December 31, 2022 and 2021

#### **Contract Balances**

FRAC's receivables from contracts with customers as of December 31, 2022, December 31, 2021, and January 1, 2021 were \$30,000, \$156,527, and \$230,000, respectively. Contract liabilities as of December 31, 2022, December 31, 2021, and January 2021 were \$65,000, \$90,000, and \$25,000, respectively. There were no contract assets as of December 31, 2022, December 31, 2021, or January 1, 2021.

#### **Financing Components**

FRAC has elected the practical expedient allowed under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-32-18 and does not adjust the promised amount of consideration from customers for the effects of a significant financing component due to FRAC's expectation that the period between the time the service is provided to a client and the time the client pays for that service will be one year or less.

#### **Note 3: Grant Reimbursements Receivable and Future Commitments**

Government grants received are conditional upon incurring allowable expenditures as specified in the contract. FRAC receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the consolidated financial statements of FRAC are prepared on the accrual basis, all earned portions of the grants not yet received as of December 31, 2022 have been recorded as receivables. Following are the grant commitments that extend beyond December 31, 2022:

Grant	Term	Grant Amount	Earned Through 2022	Funding Available
USDA Food and Nutrition Service Community Innovation and Outreach Project Equitable Access in Child Nutrition Program Project	Sep 26, 2022 - Sep 30, 2027 Nov 29, 2022 - Dec 31, 2025	\$ 20,000,000 2,000,000	\$ 216,528 17,710	\$ 19,783,472 1,982,290
Maryland State Department of Human Services Maryland Hunger Solutions	Oct 1, 2021 - Sep 30, 2024	1,353,026	257,008	1,096,018
Government of the District of Columbia Department of Human Services - D.C. Hunger Solutions	Oct 1, 2022 - Sep 30, 2023	259,203	227,665	31,538
		<u>\$ 23,612,229</u>	<u>\$ 718,911</u>	<u>\$ 22,893,318</u>

#### **Note 4: Investments and Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities



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- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

***Recurring Measurements***

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021:

	<b>Total Fair Value</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2022</b>				
<b>Assets</b>				
Investments				
Mutual funds	\$ 435,224	\$ 435,224	\$ -	\$ -
Exchange traded funds	1,014,271	1,014,271	-	-
Certificates of deposit	494,946	-	494,946	-
U.S. Treasury bills	504,633	504,633	-	-
Total investments reported on the fair value hierarchy	2,449,074	<u>\$ 1,954,128</u>	<u>\$ 494,946</u>	<u>\$ -</u>
Cash equivalents	183,120			
	<u>\$ 2,632,194</u>			

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	<b>Total Fair Value</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2021</b>				
<b>Assets</b>				
Investments				
Mutual funds	\$ 417,619	\$ 417,619	\$ -	\$ -
Exchange traded funds	929,481	929,481	-	-
Certificates of deposit	601,487	-	601,487	-
Total investments reported on the fair value hierarchy	<u>\$ 1,948,587</u>	<u>\$ 1,347,100</u>	<u>\$ 601,487</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2022 and 2021.

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 investments as of December 31, 2022 and 2021.

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**Note 5: Contributions Receivable**

Contributions receivable consisted of the following:

	<b>2022</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Due within one year	\$ 874,007	\$ 968,379	\$ 1,842,386
Due within one to two years	-	-	-
	874,007	968,379	1,842,386
Less discount to present value	-	(680)	(680)
Present value of contributions receivable	\$ 874,007	\$ 967,699	\$ 1,841,706
	<b>2021</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Due within one year	\$ 71,013	\$ 1,987,688	\$ 2,058,701
Due within one to two years	-	742,000	742,000
	71,013	2,729,688	2,800,701
Less discount to present value	-	(8,809)	(8,809)
Present value of contributions receivable	\$ 71,013	\$ 2,720,879	\$ 2,791,892

Discount rates used for 2022 and 2021 was 0.7% and 1.52%, respectively.

**Note 6: Property and Equipment**

Property and equipment at December 31, 2022 and 2021 consists of:

	<b>2022</b>	<b>2021</b>
Furniture	\$ 8,928	\$ 8,928
Computer and office equipment	128,510	128,510
Leasehold improvements	441,537	401,364
	578,975	538,802
Less accumulated depreciation and amortization	(309,272)	(206,633)
	\$ 269,703	\$ 332,169

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**Note 7: 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 \$205,687 and \$174,526 for the years ended December 31, 2022 and 2021, respectively.

**Note 8: Net Assets With Donor Restrictions**

Net assets with donor restriction at December 31, 2022 and 2021 were available for the following activities:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose		
Child nutrition	\$ 530,539	\$ 782,346
SNAP	25,000	658,015
Regranting	199,500	693,000
Early childhood nutrition	222,581	537,952
Root causes and specific populations	148,448	477,928
Maryland Hunger Solutions	179,326	372,820
Network Engagement	34,986	150,000
Supporting health	85,000	100,000
D.C. Hunger Solutions	25,000	-
	<u>\$ 1,450,380</u>	<u>\$ 3,772,061</u>

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Net assets released from restrictions during the years ended December 31, 2022 and 2021 consist of the following:

	<b>2022</b>	<b>2021</b>
Satisfaction of purpose restrictions		
Child nutrition	\$ 987,187	\$ 1,190,498
SNAP	658,015	491,985
Regranting	1,152,144	3,980,708
Early childhood nutrition	805,038	671,298
Root causes and specific populations	499,479	458,072
Maryland Hunger Solutions	730,968	652,655
Network Engagement	115,014	-
Supporting health	115,000	75,000
D.C. Hunger Solutions	362,156	185,000
Strategic planning and equity	-	345,000
	\$ 5,425,001	\$ 8,050,216

**Note 9: Leases**

***Changes in Accounting Principles***

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

FRAC adopted Topic 842 on January 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. FRAC elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification, or initial direct costs for existing or expired leases prior to the effective date. FRAC has lease agreements with nonlease components that relate to the lease components. FRAC elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all. Also, FRAC elected to keep short-term leases with an initial term of 12 months or less off the consolidated statement of financial position. FRAC did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022.

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## Notes to Consolidated Financial Statements

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The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$1,310,043 and \$1,427,356, respectively, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the ROU assets. The standard did not significantly affect the consolidated statements of activities, functional expenses, or cash flows.

### **Accounting Policies**

FRAC determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. FRAC determines lease classification as operating or finance at the lease commencement date.

FRAC combines lease and nonlease components, such as common area and other maintenance costs, and accounts for them as a single-lease component in calculating the ROU assets and lease liabilities for its office buildings and office equipment. In addition, for certain equipment leases, FRAC applies a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. FRAC has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that FRAC is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

FRAC has elected not to record leases with an initial term of 12 months or less on the consolidated statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

### **Nature of Leases**

FRAC has entered into the following lease arrangements:

#### *Operating Leases*

FRAC has leases for office spaces in Washington D.C. and Maryland. The lease for Washington D.C. expires on January 31, 2026. The lease for Maryland expires on June 30, 2024. Lease payments have an escalating fee schedule, which ranges from 2% to 3% increase each year. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

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FRAC leases copy machines and postage machines. Termination of the leases generally is prohibited unless there is a violation under the lease agreement.

**Qualitative Disclosures**

The lease cost and other required information for the year ended December 31, 2022 are:

Lease expense		
Operating lease expense	\$	343,001
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$	360,945
ROU assets obtained in exchange for new operating lease liabilities		4,689
Weighted-average remaining lease term in years for operating leases		3 years
Weighted-average discount rate for operating leases		1.37%

Future minimum lease payments and reconciliation to the consolidated statement of financial position at December 31, 2022 are as follows:

	<b>Operating Leases</b>
2023	\$ 369,123
2024	359,557
2025	345,530
2026	30,239
2027	<u>1,004</u>
Total undiscounted lease payments	1,105,453
Less present value discount	<u>(22,304)</u>
Total lease liabilities	<u>\$ 1,083,149</u>

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***Prior Year Long-Term Debt Disclosure Under Topic 840***

The rent expense for the year ended December 31, 2021 was \$354,542. Future minimum annual lease payments at December 31, 2021 were as follows:

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

**Note 10: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Contributions***

For the year ended December 31, 2022, approximately 17% of all contributions received was from one source. For the year ended December 31, 2021, approximately 69% of all contributions received was from four donors.

***Investments***

FRAC invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated statements of financial position.



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**Note 11: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2022 and 2021, comprise the following:

	<u>2022</u>	<u>2021</u>
Financial assets at year-end		
Cash	\$ 1,989,782	\$ 6,364,903
Investments	2,632,194	1,948,587
Receivables	<u>1,975,863</u>	<u>2,948,419</u>
Total financial assets at year-end	<u>6,597,839</u>	<u>11,261,909</u>
Less amounts not available to be used within one year		
With donor restrictions	(1,450,380)	(3,772,061)
Board-designated net assets	(1,476,853)	(1,350,087)
Certificates of deposit with maturity dates over one year	-	(410,916)
Grants and contributions receivable, net greater than one year	<u>-</u>	<u>(733,191)</u>
	<u>(2,927,233)</u>	<u>(6,266,255)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,670,606</u>	<u>\$ 4,995,654</u>

FRAC manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. FRAC monitors liquidity and cash flows on an ongoing basis to ensure an appropriate amount of cash and cash equivalents are available to meet current expenditure needs. Management reports its financial position regularly to different committees of the Board and to the whole Board.

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-designed funds could be made available, if necessary, through a Board resolution. FRAC invests excess cash in accordance with its investment policy.

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**Note 12: Employee Retention Tax Credit**

The CARES Act, and subsequent legislation, provides a refundable employee retention tax credit (ERC) to eligible employers who meet either a gross receipts test or a government mandate test. The tax credit is equal to a specified percentage of qualified wages paid to employees subject to certain limits. FRAC has elected to account for these employee retention credits in accordance with ASC 958-605. FRAC has determined it qualifies for the tax credit and has claimed ERCs of \$569,899 and \$171,342 during the year ended December 31, 2022 for the years ended December 31, 2021 and 2020, respectively. The following financial statement line items were affected by these transactions:

- Statements of activities – contributions and grants

Laws and regulations concerning the employee retention credit are complex and subject to varying interpretation. These credits may be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge FRAC's claim to the employee retention credit, and it is not possible to determine the impact this would have on FRAC.

**Note 13: 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, 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.

**Note 14: Subsequent Events**

In July 2023, FRAC entered into a securities based line of credit agreement in the amount of \$1,225,000 from Raymond James Bank with an interest rate of one month term SOFR plus 3% of applicable percentage and 0.11448% of credit spread adjustment. The line of credit is fully collateralized by the pledged securities held by the bank.

Subsequent events have been evaluated through November 15, 2023, which is the date the consolidated financial statements were available to be issued.

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**Note 15: Future Changes in Accounting Principles**

***Accounting for Financial Instruments – Credit Losses***

FASB amended its standards related to the accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and finance receivables. The new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those years. FRAC is in the process of evaluating the effect the amendment will have on the consolidated financial statements.