

Food Research & Action Center and Affiliate

Consolidated Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

Board of Directors
Food Research & Action Center

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Food Research & Action Center and Affiliate (FRAC), which comprise the consolidated statement of financial position as of December 31, 2019, 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 (collectively, financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Food Research & Action Center and Affiliate as of December 31, 2019, 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.

Other Matter

The financial statements of FRAC, as of and for the year ended December 31, 2018, were audited by other auditors whose report dated August 12, 2019, expressed an unmodified opinion on those statements.

RSM US LLP

Washington, D.C.
September 24, 2020

Food Research & Action Center and Affiliate

Consolidated Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 3,990,770	\$ 2,522,858
Receivables, net	1,031,044	2,743,198
Prepaid expenses and deposits	124,071	108,679
Property and equipment, net	125,040	109,016
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Total assets	\$ 5,270,925	\$ 5,483,751
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Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 490,125	\$ 431,790
Deferred revenue	153,785	121,395
Loan payable	-	15,094
Deferred rent	153,170	164,133
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Total liabilities	797,080	732,412
	<hr/>	<hr/>
Net assets:		
Net assets without donor restrictions	1,623,410	1,380,859
Net assets with donor restrictions	2,850,435	3,370,480
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Total net assets	4,473,845	4,751,339
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Total liabilities and net assets	\$ 5,270,925	\$ 5,483,751
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See notes to consolidated financial statements.

Food Research & Action Center and Affiliate

**Consolidated Statement of Activities
Year Ended December 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Grants and contributions	\$ 2,847,488	\$ 5,850,296	\$ 8,697,784
Conference	292,875	-	292,875
Annual dinner	181,640	-	181,640
Contracts	125,767	-	125,767
Other income	992	-	992
Interest and dividends	1,371	-	1,371
Net assets released from restrictions	6,370,341	(6,370,341)	-
Total revenue and support	9,820,474	(520,045)	9,300,429
Expense:			
Program services:			
Child Nutrition	4,618,550	-	4,618,550
SNAP/Food Stamp Program	1,777,797	-	1,777,797
D.C. Hunger Solutions	551,841	-	551,841
Maryland Hunger Solutions	497,423	-	497,423
Early Childhood Nutrition	659,885	-	659,885
Children's Leadership Council	22,973	-	22,973
Action Council	10,222	-	10,222
Total program services	8,138,691	-	8,138,691
Supporting services:			
Management and general	588,152	-	588,152
Development	548,824	-	548,824
Maryland Hunger Solutions/grant development	164,879	-	164,879
D.C. Hunger Solutions/grant development	137,377	-	137,377
Total supporting services	1,439,232	-	1,439,232
Total expense	9,577,923	-	9,577,923
Change in net assets	242,551	(520,045)	(277,494)
Net assets:			
Beginning	1,380,859	3,370,480	4,751,339
Ending	\$ 1,623,410	\$ 2,850,435	\$ 4,473,845

See notes to consolidated financial statements.

Food Research & Action Center and Affiliate

**Consolidated Statement of Activities
Year Ended December 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Grants and contributions	\$ 1,786,511	\$ 4,767,378	\$ 6,553,889
Conference	386,498	-	386,498
Annual dinner	186,120	-	186,120
Contracts	155,550	-	155,550
Other income	6,860	-	6,860
Interest and dividends	1,459	-	1,459
Net assets released from restrictions	6,786,161	(6,786,161)	-
Total revenue and support	9,309,159	(2,018,783)	7,290,376
Expense:			
Program services:			
Child Nutrition	4,124,808	-	4,124,808
SNAP/Food Stamp Program	2,671,005	-	2,671,005
D.C. Hunger Solutions	379,249	-	379,249
Maryland Hunger Solutions	520,751	-	520,751
Early Childhood Nutrition	576,754	-	576,754
Children's Leadership Council	121,637	-	121,637
Action Council	10,692	-	10,692
Total program services	8,404,896	-	8,404,896
Supporting services:			
Management and general	425,077	-	425,077
Development	588,283	-	588,283
Maryland Hunger Solutions/grant development	101,108	-	101,108
D.C. Hunger Solutions/grant development	70,852	-	70,852
Total supporting services	1,185,320	-	1,185,320
Total expense	9,590,216	-	9,590,216
Change in net assets	(281,057)	(2,018,783)	(2,299,840)
Net assets:			
Beginning	1,661,916	5,389,263	7,051,179
Ending	\$ 1,380,859	\$ 3,370,480	\$ 4,751,339

See notes to consolidated financial statements.

Food Research & Action Center and Affiliate

Consolidated Statement of Functional Expenses Year Ended December 31, 2019

									Supporting Services					
	Child Nutrition	SNAP/Food Stamp Program	D.C. Hunger Solutions	Maryland Hunger Solutions	Early Childhood Nutrition	Children's Leadership Council	Action Council	Total Program Services	Management and General	Development	D.C Hunger Solutions/Grant Development	Maryland Hunger Solutions/Grant Development	Total Supporting Services	Total Expenses
Salaries and benefits	\$ 1,663,124	\$ 692,094	\$ 383,013	\$ 365,542	\$ 328,669	\$ 19,410	\$ 9,323	\$ 3,461,175	\$ 125,450	\$ 447,074	\$ 98,832	\$ 122,299	\$ 793,655	\$ 4,254,830
Grants	2,269,355	882,430	-	-	198,303	-	-	3,350,088	-	-	-	-	-	3,350,088
Rent	134,433	40,451	95,716	60,547	21,417	-	-	352,564	11,789	57,963	25,543	28,217	123,512	476,076
Conferences and meetings	246,561	90,944	729	1,442	61,579	-	-	401,255	3	8,346	7	8	8,364	409,619
Consultants	139,092	11,916	6,182	6,161	17,843	1,053	-	182,247	429,150	3,562	1,570	1,734	436,016	618,263
Miscellaneous	5,460	1,506	3,658	3,420	813	-	-	14,857	3,387	1,910	841	930	7,068	21,925
Office supplies	24,993	18,282	18,173	11,201	8,590	2,485	649	84,373	4,524	11,377	2,558	2,826	21,285	105,658
Travel	49,346	15,053	10,547	10,043	7,827	-	-	92,816	(3,246)	485	64	70	(2,627)	90,189
Communications and web resources	36,461	10,378	191	522	5,656	-	-	53,208	1	7	3	3	14	53,222
Computer/network support and software	19,653	5,914	14,179	18,063	3,131	-	-	60,940	1,723	8,474	3,734	4,125	18,056	78,996
Professional fees (legal and audit)	10,347	3,113	7,367	7,522	1,648	-	250	30,247	14,328	4,461	1,966	2,172	22,927	53,174
Depreciation and amortization	8,243	2,480	5,869	5,992	1,313	-	-	23,897	723	3,554	1,566	1,730	7,573	31,470
Telephone	11,482	3,236	6,217	6,968	3,096	25	-	31,024	320	1,611	693	765	3,389	34,413
Total expenses	\$ 4,618,550	\$ 1,777,797	\$ 551,841	\$ 497,423	\$ 659,885	\$ 22,973	\$ 10,222	\$ 8,138,691	\$ 588,152	\$ 548,824	\$ 137,377	\$ 164,879	\$ 1,439,232	\$ 9,577,923

See notes to consolidated financial statements.

Food Research & Action Center and Affiliate

Consolidated Statement of Functional Expenses Year Ended December 31, 2018

									Supporting Services					
	Child	SNAP/Food	D.C.	Maryland	Early	Children's	Total	Management	D.C Hunger	Maryland Hunger	Total	Total		
	Nutrition	Stamp	Hunger	Hunger	Childhood	Leadership	Action	Program	and	Solutions/Grant	Solutions/Grant		Supporting	
	Program	Solutions	Solutions	Nutrition	Council	Council	Services	General	Development	Development	Development	Services	Expenses	
Salaries and benefits	\$1,487,971	\$ 831,316	\$ 289,109	\$407,307	\$373,138	\$105,102	\$ 9,945	\$3,503,888	\$ 162,687	\$ 448,990	\$ 56,971	\$ 81,299	\$ 749,947	\$4,253,835
Grants	2,039,152	1,527,825	-	-	34,987	-	-	3,601,964	-	-	-	-	-	3,601,964
Rent	135,306	75,594	46,353	46,951	33,931	5,000	-	343,135	27,398	71,987	9,134	13,035	121,554	464,689
Conferences and meetings	210,905	129,681	878	5,976	75,505	1,241	-	424,186	149	24,118	13	19	24,299	448,485
Consultants	39,329	11,734	7,470	8,467	10,899	5,000	-	82,899	60,391	7,835	885	1,263	70,374	153,273
Miscellaneous	1,818	945	730	1,523	424	-	-	5,440	140,345	557	57	79	141,038	146,478
Office supplies	32,079	19,807	8,699	14,001	15,206	4,368	309	94,469	11,102	12,063	909	1,297	25,371	119,840
Travel	58,680	32,656	9,063	7,032	12,206	-	-	119,637	-	-	-	-	-	119,637
Communications and web resources	71,944	16,556	584	1,078	8,294	-	-	98,456	26	75	9	13	123	98,579
Computer/network support and software	16,671	9,314	5,837	13,094	4,180	-	-	49,096	3,214	8,869	1,125	1,606	14,814	63,910
Professional fees (legal and audit)	11,223	6,270	3,845	5,771	2,814	-	438	30,361	16,933	5,971	758	1,081	24,743	55,104
Depreciation and amortization	10,065	5,623	3,448	5,175	2,524	-	-	26,835	1,940	5,355	679	970	8,944	35,779
Telephone	9,665	3,684	3,233	4,376	2,646	926	-	24,530	892	2,463	312	446	4,113	28,643
Total expenses	\$4,124,808	\$2,671,005	\$ 379,249	\$520,751	\$576,754	\$121,637	\$10,692	\$8,404,896	\$ 425,077	\$ 588,283	\$ 70,852	\$ 101,108	\$1,185,320	\$9,590,216

See notes to consolidated financial statements.

Food Research & Action Center and Affiliate

**Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (277,494)	\$ (2,299,840)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	31,470	35,780
Deferred rent	(10,963)	(2,635)
Change in assets and liabilities:		
(Increase) decrease in:		
Receivables, net	1,712,154	723,268
Prepaid expenses	(15,392)	3,304
Increase (decrease) in:		
Accounts payable and accrued expenses	58,335	1,770
Deferred revenue	32,390	(33,609)
Net cash provided by (used in) operating activities	1,530,500	(1,571,962)
Cash flows from investing activities:		
Purchases of property and equipment	(47,494)	(10,281)
Net cash used in investing activities	(47,494)	(10,281)
Cash flows from financing activities:		
Payments made on loan payable	(15,094)	(17,718)
Net cash used in financing activities	(15,094)	(17,718)
Net increase (decrease) in cash and cash equivalents	1,467,912	(1,599,961)
Cash and cash equivalents:		
Beginning	2,522,858	4,122,819
Ending	\$ 3,990,770	\$ 2,522,858

See notes to consolidated financial statements.

Food Research & Action Center and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Food Research & Action Center and Affiliate (collectively referred to as FRAC) consists of two entities: The Food Research and Action Center, Inc. and FRAC Action Council (the Action Council).

The Food Research and 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 and Action Center works to improve public policies and public-private partnerships to eradicate hunger and undernutrition in the United States.

The Food Research and Action Center 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 and Action Center 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:

Re-granting: FRAC provides grants to various state and local 501(c)(3) groups and public agencies to ensure that food stamps and child nutrition programs better serve low-income people.

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.

SNAP/Food Stamp Program: FRAC works with national, state and local groups to protect and improve SNAP/food stamp 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/food stamp 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.

Food Research & Action Center and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Early Childhood Nutrition: Through research, public policy advocacy, technical assistance, training and distribution of materials to local, 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.

The Children's Leadership Council (CLC): is a coalition of leading policy and advocacy organizations that work to improve the health, nutrition, education, and well-being of children and youth. The CLC supports investments needed from birth to young adulthood to ensure that children's basic needs of food, clothing, healthcare, shelter and economic stability are met. FRAC's president serves on the board of CLC and FRAC provides fiscal and operations support for the CLC. The CLC ended during 2019.

A summary of FRAC's significant accounting policies follows:

Principles of consolidation: As required by generally accepted accounting principles, the consolidated financial statements include the accounts of Food Research and Action Center and the Action Council. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of accounting: FRAC prepares its consolidated financial statements on the accrual basis of accounting. Accordingly, revenue is recognized when earned and expense when the obligation is incurred.

Basis of presentation: FRAC reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Net assets without donor restrictions include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for operation of FRAC and include both internally designated and undesignated resources.

Net assets with donor restrictions: Net assets with donor restrictions include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of FRACs and/or the passage of time.

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.

Financial risk: FRAC maintains demand deposits with various financial institutions which, at times, may exceed federally-insured limits. The uninsured positions of these accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss. FRAC has not experienced any such losses in the past and does not believe it is exposed to any significant financial risk on these balances.

Receivables: Contracts receivable are stated at the amount that management expects to collect from services provided under federal grants, and nonfederal contracts. Accounts receivable are stated at net realizable value and are expected to be collected within the next year. Grants receivable consist of unconditional contributions which will be received in a future period. 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 and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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, 2019 and 2018, management believes that all receivables are fully collectible within one year; therefore, no allowance for doubtful accounts was recorded.

Property and equipment: Property and equipment acquisitions with a cost greater than \$1,000 and a projected useful life exceeding one year are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally five years. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining life of the lease or the useful life of the asset.

Valuation of long-lived assets: FRAC accounts for the valuation of long-lived assets under the Property, Plant and Equipment Topic of the Codification. This topic requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

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

Income taxes: The Food Research and Action Center is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation by the Internal Revenue 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.

Income from nonexempt functions is subject to income taxes to the extent the revenue exceeds related costs. During the year ended December 31, 2019, FRAC had no net unrelated business income; accordingly, no provision has been made for either federal or state income taxes in the accompanying financial statements. During the year ended December 31, 2018, FRAC had net unrelated business income of \$18,211.

FRAC follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, FRAC may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated FRAC's tax positions and concluded that FRAC had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

Food Research & Action Center and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Revenue recognition: Unconditional contributions received are recorded as increases in net assets with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Conference and annual dinner revenue is recognized as revenue once the event takes place. Amounts received in advance are recorded as deferred revenue.

Contract revenue is recognized on a cost-reimbursement basis to the extent allowable direct and indirect costs are incurred.

Revenue from all other sources is recognized when earned.

Functional allocation of expenses: Costs of FRAC's various programs and activities have been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Salaries and fringe benefits, occupancy, depreciation and amortization, information technology and other administrative expenses have been allocated on the basis of employee effort.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications: Certain items in the December 31, 2018, information, have been reclassified to conform to the December 31, 2019, financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Adopted accounting pronouncement: In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where FRAC is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018. Where FRAC is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. FRAC adopted the resource recipient provisions of ASU during 2019. As a result of adopting this standard, this guidance is applied on a modified prospective basis, meaning there is no cumulative-effect adjustment reflected in the opening balance of net assets. There was no material impact to the consolidated financial statements as a result of this adoption.

Food Research & Action Center and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Upcoming accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 one year. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, further delaying the effective date an additional year, making it effective for annual reporting periods beginning after December 15, 2019. FRAC has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. During November 2019, the FASB issued ASU 2019-10, *Leases (Topic 842) Effective Dates*, which delayed the effective date of ASU 2016-02 by one year. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, further delaying the effective date an additional year, making it effective for annual reporting periods beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. FRAC is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

Subsequent events: Subsequent events have been evaluated through September 24, 2020, which is the date the consolidated financial statements were available to be issued.

Note 2. Liquidity and Availability of Financial Assets

FRAC regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, FRAC considers all expenditures related to its ongoing programs as well as the conduct of services undertaken to support those programs to be general expenditures.

Financial assets available for general expenditure within one year are as follows as of December 31, 2019 and 2018:

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 3,990,770	\$ 2,522,858
Accounts and other receivables	70,044	633,667
Grants receivables	961,000	2,109,531
Total financial assets at year-end	5,021,814	5,266,056
Less restricted by donors with time or purpose restrictions	(2,850,435)	(3,370,480)
Total liquid financial assets at year-end	<u>\$ 2,171,379</u>	<u>\$ 1,895,576</u>

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Note 3. Receivables

Grants, contributions and contracts receivable consist of the following at December 31, 2019 and 2018:

	2019	2018
Grants receivable	\$ 961,000	\$ 2,109,531
Accounts receivable	8,999	505,000
Other receivables	61,045	128,667
	<u>\$ 1,031,044</u>	<u>\$ 2,743,198</u>

Certain grants include multi-year payment schedules. Amounts expected to be collected in less than one year are recorded at net realizable value and amounts expected to be collected in one to five years are recorded at the present value of their estimated future cash flows, unless the discount is clearly insignificant. FRAC did not have any multi-year grants received during the year ended December 31, 2019. The discounts to present value for the years ended December 31, 2018, was calculated using the same interest rate as two year U.S. Treasury Notes related to the quarter of the year in which the grant was received. FRAC used a discount rate of 2.25% for grants received during the year ended December 31, 2018.

Grants receivable consisted of the following at December 31, 2019 and 2018:

	2019	2018
Receivable in less than one year	\$ 961,000	\$ 1,422,295
Receivable in one to five years	-	720,000
	961,000	2,142,295
Less discount to present value	-	(32,764)
	<u>\$ 961,000</u>	<u>\$ 2,109,531</u>

At December 31, 2019, FRAC has conditional promises to give of approximately \$400,000. At December 31, 2018, FRAC had no conditional promises to give. The conditional promises to give have not been recorded in the consolidated financial statements. Future payments are contingent on FRAC meeting certain milestones or conditions documented in the grant agreements.

Note 4. Property and Equipment

Property and equipment consists of the following at December 31, 2019 and 2018:

	2019	2018
Furniture	\$ 25,321	\$ 25,321
Computer and office equipment	160,066	254,201
Leasehold improvements	111,027	111,027
	296,414	390,549
Less accumulated depreciation and amortization	(171,374)	(281,533)
	<u>\$ 125,040</u>	<u>\$ 109,016</u>

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Note 5. Retirement Plan

FRAC maintains a qualified, tax-sheltered annuity retirement plan for employees. Under this plan, FRAC contributes a percentage of covered compensation for all participating employees. During the years ended December 31, 2019 and 2018, FRAC contributed \$158,744 and \$150,297 to the plan, respectively.

Note 6. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2019 and 2018:

	2019	2018
Regranting	\$ 1,907,862	\$ 1,657,827
Child Nutrition	594,642	1,127,803
Early Childhood Nutrition	-	278,083
D.C. Hunger Solutions	157,565	167,725
SNAP/Food Stamp Program	110,000	139,042
Maryland Hunger Solutions	80,366	-
	<u>\$ 2,850,435</u>	<u>\$ 3,370,480</u>

Net assets released from restrictions of \$6,370,341 and \$6,786,161 for the years ended December 31, 2019 and 2018, respectively, relate to the passage of time and/or FRAC's usage of the restricted net assets for the purpose stipulated by the donor.

Note 7. Related-Party Transactions

FRAC shares office space, personnel and other resources with the Action Council. These costs are subsequently reimbursed between the two organizations. Costs are allocated between the two organizations based on actual expenses or a percentage of salaries. Total expenses allocated to the Action Council for the years ended December 31, 2019 and 2018, were \$10,222 and \$10,692, respectively.

Note 8. Commitments and Contingencies

Operating lease: In June 2013, FRAC entered into a 126-month lease agreement to relocate its D.C. headquarters' office space, which commenced on December 15, 2013, and will terminate on May 31, 2024. The lease has a base rent of \$34,343 per month, with 2% annual escalations beginning in December 2014. FRAC will also be responsible for a proportionate share of increases in operating costs and real estate taxes.

FRAC entered into a 63 month lease agreement for office space in Baltimore, Maryland, with term commencement date of April 1, 2016. The lease continues through June 30, 2021, with abated rent for the first three months of the lease. The agreement contains fixed annual escalations and an initial base rent of \$4,120 per month.

Rent expense for the years ended December 31, 2019 and 2018, was \$476,077 and \$464,689, respectively.

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Note 8. Commitments and Contingencies (Continued)

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

Years ending December 31:	
2020	\$ 488,053
2021	469,701
2022	450,711
2023	459,725
2024	195,058
	<u>\$ 2,063,248</u>

Loan payable: As part of the lease agreement signed in June 2013, a \$94,500 interest-free loan was made available to FRAC to assist with funding tenant improvements. The loan was paid back to the landlord in equal monthly installments over the first 72 months of the lease. As of December 31, 2019 and 2018, the outstanding balance on the loan was \$0 and \$15,094, respectively.

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

Note 9. Subsequent events

Subsequent to the coronavirus (COVID-19) outbreak in 2020 in North America, there has been substantial volatility in financial markets and the economy. The coronavirus and actions to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets, including the geographical areas in which FRAC operates.

As part of the Coronavirus Aid, Relief, and Economic Security Act, FRAC applied and was approved for a forgivable loan through the Small Business Administration Paycheck Protection Program (PPP). Under the PPP, FRAC obtained a loan of \$674,900 bearing interest at 1%. Starting December 15, 2020, FRAC is required to make monthly payments of principal and interest with any remaining principal and interest due at maturity on May 1, 2022. The amount of forgiveness can be up to the full principal amount of the loan and any accrued interest.

While it is unknown how long these conditions will last and what the complete financial effect will be to FRAC, to date, FRAC has not experienced any significant disruptions to its business, loss of customers or decrease in revenues. However, it could have a negative impact to operations, the extent to which will depend on future developments, which are highly uncertain and cannot be predicted, and as such cannot be determined.