MUELLER & CO., LLP

Certified Public Accountants – Business & Financial Advisors

ASSURANCE

FRANCISCAN OUTREACH

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

MUELLER

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Franciscan Outreach
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Franciscan Outreach which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Certified Public Accountants ▪ Business & Financial Advisors
Offices in Elgin, Orland Park & Chicago

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Franciscan Outreach as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 of the financial statements, for the year ended December 31, 2019 Franciscan Outreach adopted Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. Our opinion is not modified with respect to this matter.

Mueller & Co., LLP

Chicago, Illinois
November 24, 2020

FRANCISCAN OUTREACH

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

ASSETS

		2019	2018
Current assets:			
Cash and cash equivalents	$	425,268	1,892,747
Grants receivable		534,563	196,224
Contributions receivable		56,387	54,018
Investments		1,088,737	-
Prepaid insurance		14,721	14,786
		2,119,676	2,157,775
Other assets -			
Property and equipment, net		290,073	281,970
	$	2,409,749	2,439,745

LIABILITIES AND NET ASSETS

		2019	2018
Liabilities:			
Accounts payable	$	37,557	23,902
Accrued expenses and other liabilities		117,949	100,666
		155,506	124,568
Net assets:			
Without donor restrictions		2,254,243	2,312,177
With donor restrictions		-	3,000
		2,254,243	2,315,177
	$	2,409,749	2,439,745

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

FRANCISCAN OUTREACH

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Support and revenue:			
Contributions	$ 701,799	13,411	715,210
Bequests	58,914	-	58,914
Grants	1,482,945	175,644	1,658,589
Special event revenue	250,060	-	250,060
Interest income	23,523	-	23,523
	2,517,241	189,055	2,706,296
Donated goods and services	870,648	-	870,648
Net assets released from restrictions	192,055	(192,055)	-
	1,062,703	(192,055)	870,648
Total support and revenue	3,579,944	(3,000)	3,576,944
Expenses:			
Program services	2,683,129	-	2,683,129
Administrative expenses	546,096	-	546,096
Fundraising expenses	407,141	-	407,141
Total expenses	3,636,366	-	3,636,366
Realized and unrealized losses on investments, net	1,512	-	1,512
Total expenses and losses	3,637,878	-	3,637,878
Change in net assets	(57,934)	(3,000)	(60,934)
Net assets, beginning of year	2,312,177	3,000	2,315,177
Net assets, end of year	$ 2,254,243	-	2,254,243

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

FRANCISCAN OUTREACH

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Support and revenue:			
Contributions	$ 708,828	25,958	734,786
Bequests	9,667	-	9,667
Grants	1,367,065	166,448	1,533,513
Special event revenue	247,286	-	247,286
Gain on sale of property and equipment	1,766,883	-	1,766,883
Interest income	706	-	706
	4,100,435	192,406	4,292,841
Donated goods and services	985,034	-	985,034
Net assets released from restrictions	191,536	(191,536)	-
	1,176,570	(191,536)	985,034
Total support and revenue	5,277,005	870	5,277,875
Expenses:			
Program services	2,684,628	-	2,684,628
Administrative expenses	411,219	-	411,219
Fundraising expenses	426,157	-	426,157
Total expenses	3,522,004	-	3,522,004
Realized and unrealized gains on investments, net	(83)	-	(83)
Total expenses and gains	3,521,921	-	3,521,921
Change in net assets	1,755,084	870	1,755,954
Net assets, beginning of year	557,093	2,130	559,223
Net assets, end of year	$ 2,312,177	3,000	2,315,177

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

FRANCISCAN OUTREACH

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	PROGRAM SERVICES				SUPPORTING SERVICES			
	HOUSE OF MARY & JOSEPH	MARQUARD CENTER	CASE MANAGEMENT	TOTAL PROGRAM SERVICES	ADMINISTRATIVE	FUNDRAISING	TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
Salaries	$ 796,466	-	313,847	1,110,313	310,047	197,117	507,164	1,617,477
Medical benefits	41,503	-	44,842	86,345	44,445	32,185	76,630	162,975
Other employee benefits	74,050	-	31,037	105,087	28,922	18,938	47,860	152,947
Stipends	53,880	9,320	-	63,200	-	-	-	63,200
Professional fees and contract services	10,095	7,351	8,630	26,076	105,264	17,355	122,619	148,695
Food	839,055	167	767	839,989	3,197	79	3,276	843,265
Supplies	82,452	447	2,495	85,394	1,724	259	1,983	87,377
Postage and printing	143	25	439	607	476	6,743	7,219	7,826
Telephone and internet	12,507	708	5,373	18,588	4,775	2,291	7,066	25,654
Utilities	57,781	5,255	-	63,036	10,250	-	10,250	73,286
Rent	113,243	8,000	10,383	131,626	8,100	12,600	20,700	152,326
Insurance	25,238	3,857	1,137	30,232	1,132	355	1,487	31,719
Equipment repairs/rental and maintenance	43,930	4,261	6,165	54,356	16,329	2,572	18,901	73,257
Dues and multimedia	350	-	-	350	668	8,204	8,872	9,222
Specific assistance	1,613	-	6,749	8,362	-	-	-	8,362
Laundry	7,030	-	-	7,030	-	-	-	7,030
Local travel	10,783	-	13	10,796	523	135	658	11,454
Conferences and meetings	370	-	15	385	-	239	239	624
Fundraising expenses	-	-	-	-	-	97,693	97,693	97,693
Promotion	-	-	-	-	-	1,046	1,046	1,046
Full time volunteer expenses	11,734	1,676	-	13,410	3,353	-	3,353	16,763
Interest expense and fees	-	-	-	-	-	5,604	5,604	5,604
Depreciation	27,010	-	937	27,947	5,467	3,518	8,985	36,932
Miscellaneous	-	-	-	-	1,424	208	1,632	1,632
	$ 2,209,233	41,067	432,829	2,683,129	546,096	407,141	953,237	3,636,366

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

FRANCISCAN OUTREACH

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	PROGRAM SERVICES				SUPPORTING SERVICES			
	HOUSE OF MARY & JOSEPH	MARQUARD CENTER	CASE MANAGEMENT	TOTAL PROGRAM SERVICES	ADMINISTRATIVE	FUNDRAISING	TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
Salaries	$ 675,032	3,204	276,394	954,630	233,623	190,727	424,350	1,378,980
Medical benefits	42,134	-	43,800	85,934	32,319	20,145	52,464	138,398
Other employee benefits	66,589	1,677	27,600	95,866	20,219	20,448	40,667	136,533
Stipends	31,922	33,528	100	65,550	-	-	-	65,550
Professional fees and contract services	9,357	69,568	8,720	87,645	7,835	75,604	83,439	171,084
Food	842,451	41,801	900	885,152	799	141	940	886,092
Supplies	87,433	16,479	963	104,875	2,737	1,000	3,737	108,612
Postage and printing	31	25	151	207	284	760	1,044	1,251
Telephone and internet	10,030	1,551	5,241	16,822	485	5,385	5,870	22,692
Utilities	54,450	29,789	-	84,239	-	-	-	84,439
Rent	64,400	3,467	9,150	77,017	1,733	867	2,600	79,617
Insurance	18,643	22,258	1,822	42,723	2,653	446	3,099	45,822
Property taxes	-	15,942	-	15,942	-	-	-	15,942
Equipment repairs/rental and maintenance	32,323	19,907	4,867	57,097	2,661	2,309	4,970	62,067
Dues and multimedia	-	-	-	-	2,361	4,112	6,473	6,473
Specific assistance	8,644	150	8,000	16,794	-	-	-	16,594
Laundry	4,138	-	-	4,138	-	-	-	4,138
Local travel	14,901	473	-	15,374	1,377	286	1,663	17,037
Conferences and meetings	838	316	900	2,054	466	599	1,065	3,119
Fundraising expenses	-	-	-	-	-	96,441	96,441	96,441
Promotion	-	-	188	188	397	633	1,030	1,218
Full time volunteer expenses	8,155	3,495	-	11,650	2,912	-	2,912	14,562
Interest expense and fees	-	-	-	-	7,822	5,918	13,740	13,740
Depreciation	26,421	34,310	-	60,731	3,935	-	3,935	64,666
Selling expenses	-	-	-	-	84,938	-	84,938	84,938
Miscellaneous	-	-	-	-	1,663	336	1,999	1,999
	$ 1,997,892	297,940	388,796	2,684,628	411,219	426,157	837,376	3,522,004

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

FRANCISCAN OUTREACH

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

		2019	2018
Cash provided by (applied to) operating activities:			
Change in net assets	$	(60,934)	1,755,954
Adjustments to reconcile change in net assets to net cash applied to operating activities:			
Depreciation		36,932	64,666
Net realized and unrealized losses (gains) on investments		1,512	(83)
Gain on sale of property and equipment		-	(1,766,883)
Contribution of equity securities		(9,419)	(6,789)
Changes in:			
Grants receivable		(338,339)	(130,742)
Contributions receivable		(2,369)	39,992
Prepaid insurance		65	2,086
Accounts payable		13,655	(31,245)
Accrued expenses and other liabilities		17,283	32,489
		(341,614)	(40,555)
Cash provided by (applied to) investing activities:			
Purchases of investments		(2,715,097)	-
Proceeds from sale of investments		1,634,267	6,872
Purchases of property and equipment		(45,035)	(30,181)
Proceeds from sale of property and equipment		-	1,910,225
		(1,125,865)	1,886,916
Cash provided by (applied to) financing activities:			
Proceeds from line of credit		-	639,000
Payments on line of credit		-	(639,000)
		-	-
Net increase (decrease) in cash and cash equivalents		(1,467,479)	1,846,361
Cash and cash equivalents, beginning of year		1,892,747	46,386
Cash and cash equivalents, end of year	$	425,268	1,892,747
Noncash investing transactions -			
Contribution of equity securities	$	9,419	6,789
Other cash flow information -			
Interest paid	$	-	7,791

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

NOTE 1 - NATURE OF OPERATIONS

Franciscan Outreach (Organization) is a not-for-profit organization that was organized under the laws of the State of Illinois on November 16, 1976.

The Organization operates facilities located in Chicago, Illinois and provides people who are marginalized and homeless with food, shelter and the critical services they need to improve their lives. Support is derived primarily from donations and grants from the government, private foundations and individuals.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

The Organization maintains its cash in bank deposits which, at times, may exceed federally insured limits. The Organization believes it is not exposed to significant credit risk on these accounts.

Grants and Contributions Receivable

The Organization records unconditional promises to give in the form of grants and contributions receivable that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at the present value of estimated future cash flows. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Organization determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions and a review of subsequent collections. Promises to give are written off when deemed uncollectible. At December 31, 2019 and 2018, an allowance for uncollectible promises to give was not deemed necessary.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments

Investments are measured at fair value, determined by quoted market price, in the statements of financial position. Investment income or loss (including gains and losses on investments and interest) is included in the statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Property and Equipment

Property and equipment have been recorded at cost if purchased or at market value at time of donation if received as a gift. The Organization capitalizes assets over $1,000. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. The useful lives of property and equipment for purposes of computing depreciation are as follows:

Vehicles	5 years
Equipment	3 - 15 years
Building improvements	10 - 30 years
Buildings	30 years
Leasehold improvements	5 years

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization reports gifts of goods and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained; the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Conditional promises (those with a measurable performance or other barrier and a right of return) are recognized when the underlying conditions are met. Cash received in advance of these conditions being met is recorded as refundable advances. The Organization reports conditional promises with donor restrictions as increases in net assets without donor restrictions when both the condition and restrictions are satisfied in the same reporting period. There were no conditional promises to give at December 31, 2019 and 2018.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received (see Note 9).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Functional Expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent and utilities, which are allocated on a square footage basis, as well as salaries, benefits, professional services, insurance, telephone and internet, which are allocated on the basis of shared costs. All other expenses are directly identified as benefitting a specific program or supporting service.

Financial Instruments

Financial instruments, which are included in the Organization's statements of financial position as of December 2019 and 2018, but not required to be measured at fair value on a recurring basis, consist of cash and cash equivalents, grants receivable, contributions receivable, accounts payable and accrued expenses and other liabilities. The carrying amount of these assets and liabilities approximate fair value.

Accounting Estimates

The preparation of financial statements in accordance 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, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Change in Accounting Principle – Contributions Received and Made

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made as of January 1, 2019. ASU No. 2018-08 improves the current guidance on determining whether transactions are contributions or exchange transactions. It also requires determining if a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. In 2019, the Organization adopted ASU No. 2018-08 and has adjusted the presentation in these financial statements accordingly. ASU No. 2018-08 has been applied using the modified prospective method.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Standard – Revenue from Contracts

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition. ASU No. 2014-09 provides for a single five-step model to be applied to all revenue contracts with customers. ASU No. 2014-09 also requires additional financial statement disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2019. The Organization is currently evaluating the methods of adoption allowed by ASU No. 2014-09 and the effect that ASU No. 2014-09 is expected to have on its financial position, changes in net assets, cash flows and related disclosures.

New Accounting Standard – Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to improve financial reporting about leasing transactions. ASU No. 2016-02 requires that leased assets be recognized as assets on the statements of financial position and the liabilities for the obligations under the lease also be recognized on the statements of financial position. ASU No. 2016-02 requires disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The required disclosures include qualitative and quantitative requirements. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Organization is currently evaluating the methods of adoption allowed by ASU No. 2016-02 and related updates and the effect that ASU No. 2016-02 is expected to have on its financial position, changes in net assets, cash flows and related disclosures.

Management Evaluation of Going Concern

In accordance with accounting principles generally accepted in the United States of America, management performed an evaluation to determine if adverse conditions or events, considered in the aggregate, raise substantial doubt about the Organization's ability to continue as a going concern for the one year period from the date the financial statements are available to be issued. Management's assessment did not identify any conditions or events raising substantial doubt about the Organization's ability to continue as a going concern for the period from November 24, 2020 to November 24, 2021.

Subsequent Events

Subsequent events have been evaluated through November 24, 2020, the date that the financial statements were available for issue.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Subsequent Events, Continued

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States of America. The Organization has been able to adapt to the changing landscape brought about by COVID-19 and has expanded services to support those most in need. Due to the support from funders and additional aid provided by the Paycheck Protection Program (PPP) loan described below, the financial condition of the Organization has not been significantly impacted to date. The future extent of the impact of COVID-19 on the Organization's financial condition will depend on certain developments, including the duration and spread of the outbreak, impact on our funders, employees and guests all of which are uncertain and cannot be predicted.

On April 20, 2020 pursuant to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Organization received a forgivable $416,270 Paycheck Protection Program loan. The loan will be forgiven if the proceeds are used to cover payroll costs, rent and utility costs over the twenty-four-week period after the loan is made. In addition, employee and compensation levels are required to be maintained. The interest rate on the loan is 1% and has a maturity date of April 20, 2022. The Organization intends to comply with all requirements to qualify for loan forgiveness.

NOTE 3 - LIQUIDITY AND AVAILABILITY

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

		2019	2018
Financial assets at year-end:			
Cash and cash equivalents	$	425,268	1,892,747
Grants receivable		534,563	196,224
Contributions receivable		56,387	54,018
Investments		1,088,737	-
		2,104,955	2,142,989
Less: amounts not available for general expenditures within one year, due to:			
Net assets with purpose restrictions to be met in less than one year		-	3,000
Financial assets available to meet cash needs for general expenditures within one year	$	2,104,955	2,139,989

NOTE 3 - LIQUIDITY AND AVAILABILITY, CONTINUED

The Organization monitors its cash position on a monthly basis. Up until the sale of the Marquard Center (Note 5), the Organization utilized a line of credit for working capital needs. The line of credit was paid off with the building sale. Due to the sale of the building, the Organization now has excess cash reserves and anticipates using these funds for other shelter improvements.

NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting standards generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that management has the ability to access at the measurement date.

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 4 - FAIR VALUE MEASUREMENTS, CONTINUED

Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual funds: Valued at the closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price.

U.S. Treasury notes: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value:

		Assets at Fair Value as of December 31, 2019			
		Level 1	**Level 2**	**Level 3**	**Total**
Assets in the fair value hierarchy:					
Mutual funds	$	838,573	-	-	838,573
U.S Treasury notes		-	250,164	-	250,164
Total assets at fair value	$	838,573	250,164	-	1,088,737

For the year ended December 31, 2019 there were no significant transfers between Levels 1 and 2 and no transfers in or out of Level 3.

NOTE 5 - PROPERTY AND EQUIPMENT

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

		2019	2018
Land	$	10,000	10,000
Buildings		90,000	90,000
Building improvements		1,093,339	1,078,339
Equipment		226,001	203,386
Vehicles		38,092	38,092
Leasehold improvements		7,420	-
		1,464,852	1,419,817
Less accumulated depreciation		(1,174,779)	(1,137,847)
	$	290,073	281,970

NOTE 5 - PROPERTY AND EQUIPMENT, CONTINUED

Depreciation expense included in program and supporting services was $36,932 and $64,666 for the years ended December 31, 2019 and 2018, respectively.

As part of a long-term strategy to invest in the capital needs of the shelter, on November 9, 2018, the Organization sold the Marquard Center. The building was temporarily leased back to the Organization through February 2019.

NOTE 6 - LINE OF CREDIT

The Organization had a $650,000 secured line of credit. The line of credit had been secured by a real estate mortgage and assignment of rents of the Marquard Center. Proceeds from the sale of the Marquard Center were used to pay off the line of credit and resulted in its termination at the end of 2018.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions contain donor-imposed restrictions which expire upon the passage of time or once specific purposes have been fulfilled. At December 31, 2019 and 2018, net assets with donor restrictions were available for the following purposes:

		2019	2018
Case management	$	-	3,000

NOTE 8 - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets released from restrictions during the years ended December 31, 2019 and 2018 because donor restrictions were met by satisfying the stated grant purpose or time or other event, are as follows:

		2019	2018
Case management	$	126,612	107,430
Operations - specific site		65,443	84,106
	$	192,055	191,536

NOTE 9 - IN-KIND CONTRIBUTIONS

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. Donated services recognized as revenue and expense in the statements of activities for the years ended December 31, 2019 and 2018, respectively, consisted of the following:

		2019	2018
Healthcare services	$	-	36,618
Legal services		-	22,701
Total donated services	$	-	59,319

The Organization also received $870,648 and $925,715 in donations of food, clothing and other supplies, which were included in donated goods and services in the statements of activities for the years ended December 31, 2019 and 2018, respectively.

Certain services that were donated are acknowledged but are not recognized as contributions because they do not meet the requirements mentioned above. These include the following:

Full time volunteers donated 17,263 hours to the Marquard Center and Franciscan House of Mary & Joseph during 2019. Using a valuation of $30.46 per hour, which is a valuation announced by Independent Sector for 2019, less the amount paid in stipends, it is estimated that $482,696 in additional program expenses would have been incurred during 2019 if not for the services of these volunteers.

Full time volunteers donated 18,291 hours to the Marquard Center and Franciscan House of Mary & Joseph during 2018. Using a valuation of $28.48 per hour, which is a valuation announced by Independent Sector for 2018, less the amount paid in stipends, it is estimated that $475,791 in additional program expenses would have been incurred during 2018 if not for the services of these volunteers.

The hourly value of time is based on the average hourly earnings of all non-management, non-agricultural workers as determined by the Bureau of Labor Statistics, with a 12 percent increase to estimate for fringe benefits.

NOTE 10 - SUPPORTING ORGANIZATION

The Fr. Tom Fratus Foundation (Foundation) is a supporting organization of the Organization under Section 509(a)(3) of the Internal Revenue Code (IRC). The purpose of the Foundation is to support the Organization in providing services. The Foundation has its own board of directors. The Foundation raises funds to support the Organization through fundraising events and through active solicitation from individuals and businesses. During 2019 and 2018, there were no contributions from the Foundation to the Organization.

NOTE 11 - OPERATING LEASES

The Organization is obligated under certain operating leases, primarily for certain office space and office equipment which expire on various dates until 2024.

Total rent expense under all operating leases amounted to approximately $165,300 and $90,450 for the years ended December 31, 2019 and 2018, respectively. These amounts are allocated between rent, equipment repairs/rental and maintenance and laundry on the statements of functional expenses.

The aggregate future minimum lease commitment on these leases as of December 31, 2019 is as follows:

2020	$	165,837
2021		46,549
2022		47,490
2023		48,456
2024		9,583

NOTE 12 - TAX STATUS

The Organization has been determined to be exempt from income tax under Section 501(c)(3) of the IRC, and accordingly, no provision has been made for either federal or state income taxes.

The Organization has evaluated the tax positions taken for all open tax years. Currently, the 2016, 2017 and 2018 tax years are open and subject to examination by the Internal Revenue Service; however, the Organization is not currently under audit nor has the Organization been contacted by this jurisdiction.

Based on the evaluation of the Organization's tax positions, management believes all positions would be upheld under an examination; therefore, no provision for the effects of uncertain tax positions has been recorded for the years ended December 31, 2019 and 2018.