

Meals-On-Wheels Greater San Diego, Inc. dba. Meals on Wheels San Diego County

Financial Statements

Years Ended September 30, 2018 and 2017



MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba MEALS ON WHEELS SAN DIEGO COUNTY
Financial Statements
Years Ended September 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
of Meals-on-Wheels Greater San Diego, Inc. dba Meals on Wheels San Diego County

Report on the Financial Statements

We have audited the accompanying financial statements of Meals-on-Wheels Greater San Diego, Inc. dba. Meals on Wheels San Diego County (the Organization), which comprise the statements of financial position as of September 30, 2018 and 2017, 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.

Auditors' 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 audit 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meals-on-Wheels Greater San Diego, Inc. dba Meals on Wheels San Diego County as of September 30, 2018 and 2017, 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.

Aldrich CPAs + Advisors LLP

San Diego, California
January 22, 2019

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Statements of Financial Position
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 86,996	\$ 38,679
Short-term investments	4,940,457	349,887
Accounts receivable, net of allowance for doubtful accounts of \$13,512 (2018) and \$15,625 (2017)	178,085	174,897
Prepaid expenses	48,488	49,455
Inventory	<u>15,958</u>	<u>20,542</u>
Total Current Assets	5,269,984	633,460
Long-Term Investments	3,843,238	3,525,330
Deposits	21,969	19,840
Property and Equipment, net of accumulated depreciation	<u>1,131,126</u>	<u>1,177,384</u>
Total Assets	<u>\$ 10,266,317</u>	<u>\$ 5,356,014</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 72,543	\$ 73,549
Accrued expenses	<u>88,734</u>	<u>84,334</u>
Total Current Liabilities	161,277	157,883
Net Assets:		
Unrestricted	6,143,405	1,530,662
Temporarily restricted	974,694	908,028
Permanently restricted	<u>2,986,941</u>	<u>2,759,441</u>
Total Net Assets	<u>10,105,040</u>	<u>5,198,131</u>
Total Liabilities and Net Assets	<u>\$ 10,266,317</u>	<u>\$ 5,356,014</u>

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**Statement of Activities**

Year Ended September 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support:				
Contributions	\$ 5,925,634	\$ 55,135	\$ 227,500	\$ 6,208,269
Fees for services	1,610,474	-	-	1,610,474
Special events	473,665	-	-	473,665
Less: Special events expenses	<u>(226,667)</u>	<u>-</u>	<u>-</u>	<u>(226,667)</u>
	246,998	-	-	246,998
Community outreach	232,536	-	-	232,536
Bequests	568,820	-	-	568,820
Government grants	100,438	-	-	100,438
Other income	36,007	-	-	36,007
Investment return, net	226,413	259,957	-	486,370
Net assets released from restrictions, satisfaction of program restrictions	<u>248,426</u>	<u>(248,426)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	9,195,746	66,666	227,500	9,489,912
Program and Supporting Expenses:				
Program services	3,796,251	-	-	3,796,251
Supporting services:				
Management and general	329,607	-	-	329,607
Fundraising	<u>457,145</u>	<u>-</u>	<u>-</u>	<u>457,145</u>
Total supporting services	786,752	-	-	786,752
Total Program and Supporting Expenses	<u>4,583,003</u>	<u>-</u>	<u>-</u>	<u>4,583,003</u>
Increase in Net Assets	4,612,743	66,666	227,500	4,906,909
Net Assets, beginning	<u>1,530,662</u>	<u>908,028</u>	<u>2,759,441</u>	<u>5,198,131</u>
Net Assets, ending	<u>\$ 6,143,405</u>	<u>\$ 974,694</u>	<u>\$ 2,986,941</u>	<u>\$ 10,105,040</u>

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**Statement of Activities**

Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support:				
Contributions	\$ 1,706,326	\$ 88,523	\$ 57,041	\$ 1,851,890
Fees for services	1,657,475	-	-	1,657,475
Special events	477,777	-	-	477,777
Less: Special events expenses	<u>(226,585)</u>	<u>-</u>	<u>-</u>	<u>(226,585)</u>
	251,192	-	-	251,192
Community outreach	219,482	105	-	219,587
Bequests	233,706	-	-	233,706
Government grants	82,719	-	-	82,719
Other income	26,827	-	-	26,827
Investment return, net	45	347,264	-	347,309
Net assets released from restrictions, satisfaction of program restrictions	<u>265,286</u>	<u>(265,286)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	4,443,058	170,606	57,041	4,670,705
Program and Supporting Expenses:				
Program services	3,673,841	-	-	3,673,841
Supporting services:				
Management and general	296,072	-	-	296,072
Fundraising	<u>460,514</u>	<u>-</u>	<u>-</u>	<u>460,514</u>
Total supporting services	756,586	-	-	756,586
Total Program and Supporting Expenses	<u>4,430,427</u>	<u>-</u>	<u>-</u>	<u>4,430,427</u>
Increase in Net Assets	12,631	170,606	57,041	240,278
Net Assets, beginning	<u>1,518,031</u>	<u>737,422</u>	<u>2,702,400</u>	<u>4,957,853</u>
Net Assets, ending	<u>\$ 1,530,662</u>	<u>\$ 908,028</u>	<u>\$ 2,759,441</u>	<u>\$ 5,198,131</u>

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Statement of Functional Expenses
Year Ended September 30, 2018

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 1,532,776	\$ 223,012	\$ 231,455	\$ 454,467	\$ 1,987,243
Meal purchases	870,783	-	-	-	870,783
Occupancy	220,873	2,665	5,004	7,669	228,542
Employee benefits	146,417	26,921	24,485	51,406	197,823
Payroll taxes	136,181	15,709	18,397	34,106	170,287
Consulting services	99,489	27,143	15,465	42,608	142,097
In-kind expenses	134,047	-	840	840	134,887
Workers compensation	100,707	5,495	6,014	11,509	112,216
Contract service fees	71,154	5,192	29,811	35,003	106,157
Depreciation	85,406	3,484	9,360	12,844	98,250
Repair and maintenance	75,441	2,666	4,975	7,641	83,082
Travel	65,129	1,762	1,435	3,197	68,326
Postage	18,120	3,609	45,384	48,993	67,113
Printing and materials	16,331	1,954	41,382	43,336	59,667
General insurance	47,042	3,859	4,988	8,847	55,889
Other	35,749	2,059	7,700	9,759	45,508
Packaging supplies	45,149	-	-	-	45,149
Supplies	30,318	2,038	2,535	4,573	34,891
Telecommunications	29,243	932	3,859	4,791	34,034
Bad debt expense	24,273	-	-	-	24,273
Staff and board development	6,623	851	1,881	2,732	9,355
Advertising and marketing	4,508	30	1,975	2,005	6,513
Equipment	492	226	200	426	918
Total Program and Supporting Expenses	3,796,251	329,607	457,145	786,752	4,583,003
Special Events	-	-	226,667	226,667	226,667
Total Expenses	\$ 3,796,251	\$ 329,607	\$ 683,812	\$ 1,013,419	\$ 4,809,670

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Statement of Functional Expenses
Year Ended September 30, 2017

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 1,422,753	\$ 197,981	\$ 241,906	\$ 439,887	\$ 1,862,640
Meal purchases	901,986	-	-	-	901,986
Occupancy	199,275	2,782	4,020	6,802	206,077
Employee benefits	142,489	24,465	24,610	49,075	191,564
Payroll taxes	128,834	14,717	20,340	35,057	163,891
In-kind expenses	151,011	-	153	153	151,164
Workers compensation	119,063	4,339	5,734	10,073	129,136
Consulting services	83,567	24,807	14,384	39,191	122,758
Depreciation	92,220	3,288	9,724	13,012	105,232
Contract service fees	64,532	4,093	33,671	37,764	102,296
Repair and maintenance	69,402	3,075	3,863	6,938	76,340
Travel	64,587	1,609	3,003	4,612	69,199
Postage	14,482	3,631	39,674	43,305	57,787
Printing and materials	15,856	1,659	39,010	40,669	56,525
General insurance	44,986	3,543	5,018	8,561	53,547
Other	34,805	1,751	7,599	9,350	44,155
Packaging supplies	42,512	-	-	-	42,512
Supplies	28,990	2,110	1,922	4,032	33,022
Telecommunications	28,469	1,005	2,496	3,501	31,970
Bad debts	16,185	-	-	-	16,185
Advertising and marketing	4,016	-	1,860	1,860	5,876
Staff and board development	3,231	1,217	1,352	2,569	5,800
Equipment	590	-	175	175	765
Total Program and Supporting Expenses	3,673,841	296,072	460,514	756,586	4,430,427
Special Events	-	-	226,585	226,585	226,585
Total Expenses	\$ 3,673,841	\$ 296,072	\$ 687,099	\$ 983,171	\$ 4,657,012

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 4,906,909	\$ 240,278
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	98,250	105,230
Net realized and unrealized gains on investments	(361,701)	(269,579)
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,188)	(2,605)
Prepaid expenses	967	(4,410)
Inventory	4,584	(4,872)
Accounts payable	(1,006)	(22,770)
Accrued expenses	4,400	(837)
	<u>4,649,215</u>	<u>40,435</u>
Net Cash Flows Provided by Operating Activities		
Cash Flows from Investing Activities:		
Proceeds from sale of investments	822,804	457,100
Purchases of investments	(5,369,581)	(398,800)
Purchases of property and equipment	(51,992)	(71,614)
Increase (Decrease) in deposits	<u>(2,129)</u>	<u>613</u>
	<u>(4,600,898)</u>	<u>(12,701)</u>
Net Cash Flows Used by Investing Activities		
Net Increase in Cash and Cash Equivalents	48,317	27,734
Cash and cash equivalents, beginning	<u>38,679</u>	<u>10,945</u>
Cash and cash equivalents, ending	<u>\$ 86,996</u>	<u>\$ 38,679</u>

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Notes to Financial Statements
Years Ended September 30, 2018 and 2017

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

Meals-on-Wheels Greater San Diego, Inc. dba. Meals on Wheels San Diego County (the Organization) is a California nonprofit corporation formed in May of 1970. The Organization's purpose is to provide a variety of services throughout San Diego County to help senior adults remain independent. The Organization became active in January 1971, as the successor Organization to "Senior Adult Services," an unincorporated association.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Cash and Cash Equivalents

Cash equivalents are highly liquid debt instruments with original maturities of three months or less. Temporary cash accounts are included with investment brokerage accounts.

Investments

The Organization carries investments in marketable securities with readily determinable fair values and investments in debt securities at fair values in the statements of financial position. Investments acquired by gift are recorded at their fair market value at the date of the gift. Alternative investments, for which quoted market prices are not readily available, are valued at fair value by the investment manager based on factors deemed relevant by the manager including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer and meaningful third party transactions in the private market. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material. Realized and unrealized gains and losses are included in the changes in net assets in the statements of activities.

Investment return on restricted assets is reported as an increase in unrestricted net assets if the asset restriction expires in the reporting period in which the income is recognized. All other restricted investment return is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Investments with a maturity period one year or less are considered short-term investments with all other investments classified as long-term investments.

Accounts Receivable

Accounts receivable arise during the normal course of business. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts.

Inventory

Inventory consists primarily of food and packing supplies used in food preparation and is valued at the lower of cost (first-in, first-out method) or market.

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Notes to Financial Statements
Years Ended September 30, 2018 and 2017

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Equipment and improvements are recorded at cost or at estimated fair value at date of gift if donated. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of three to 40 years.

Revenue and Support

Meals-on-Wheels acquires funding from both contributions and revenue based on a fee-for-service model. Meals-on-Wheels delivers their meals based on client's specifications, varying factors such as number of meals delivered, number of days per weeks meals are delivered, etc.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period.

Contributed Materials and Services

Contributed materials are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to expense as appropriate.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with various programs. The services do not meet the criteria for recognition as a contribution, and are not reflected in the financial statements. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed.

Income Tax Status

The Organization is a qualified nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, the Organization remains subject to taxes on any net income which is derived from a trade or business, regularly carried on, and unrelated to its exempt purpose.

The Organization follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the statement of activities, when applicable. Management has determined that the Foundation has no uncertain tax positions at September 30, 2018 or 2017 and therefore no amounts have been accrued.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

The Organization defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Organization applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles.

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Notes to Financial Statements
Years Ended September 30, 2018 and 2017

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Fair Value Measurements (continued)

Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

As a practical expedient, certain financial instruments may be valued using net asset value (NAV) per share. NAV is the amount of net assets attributable to each share of outstanding capital stock at the end of the period.

The carrying value of cash, receivables, other current assets, and payables approximate fair values as of September 30, 2018 and 2017, due to the relative short maturities of these instruments.

Advertising

The cost of advertising is expensed as it is incurred.

Subsequent Events

The Organization has evaluated subsequent events through January 22, 2019 which is the date the financial statements were available to be issued.

Note 2 – Investments

Investments consist of the following:

	<u>2018</u>	<u>2017</u>
Short-term investments	\$ 4,940,457	\$ 349,887
Long-term investments	<u>3,843,238</u>	<u>3,525,330</u>
	<u>\$ 8,783,695</u>	<u>\$ 3,875,217</u>

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Notes to Financial Statements
Years Ended September 30, 2018 and 2017

Note 2 – Investments, continued

The following table presents investments categorized according to the fair value hierarchy as of September 30, 2018:

	Level 1	Level 2	Level 3	NAV	Total
Money Market Funds	\$ 741,397	\$ -	\$ -	\$ -	\$ 741,397
Mutual Funds:					
Fixed income taxable	3,107,921	-	-	-	3,107,921
Commodities	67,414	-	-	-	67,414
Domestic large-cap blend	838,672	-	-	-	838,672
Domestic mid-cap growth	1,040,669	-	-	-	1,040,669
Real estate	509,305	-	-	-	509,305
Domestic small-cap blend	1,410,382	-	-	-	1,410,382
Diversified emerging markets	324,720	-	-	-	324,720
Foreign large-cap blend	743,215	-	-	-	743,215
	<u>\$ 8,783,695</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,783,695</u>

The following table presents investments categorized according to the fair value hierarchy as of September 30, 2017:

	Level 1	Level 2	Level 3	NAV	Total
Money Market Funds	\$ 417,499	\$ -	\$ -	\$ -	\$ 417,499
U.S. Gov. Mortgage Passthroughs	321	-	-	-	321
Mutual Funds:					
Fixed income taxable	978,146	-	-	-	978,146
Commodities	63,065	-	-	-	63,065
Domestic large-cap blend	414,805	-	-	-	414,805
Domestic mid-cap growth	522,388	-	-	-	522,388
Real estate	255,387	-	-	-	255,387
Domestic small-cap blend	678,336	-	-	-	678,336
Diversified emerging markets	188,223	-	-	-	188,223
Foreign large-cap blend	357,047	-	-	-	357,047
Total	<u>\$ 3,875,217</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,875,217</u>

The following schedule summarizes the investment return and its classification for the year ended September 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 58,479	\$ 76,216	\$ -	\$ 134,695
Investment expenses	(6,953)	(3,073)	-	(10,026)
Net realized gains	122,955	37,806	-	160,761
Net unrealized gains	51,932	149,008	-	200,940
	<u>\$ 226,413</u>	<u>\$ 259,957</u>	<u>\$ -</u>	<u>\$ 486,370</u>

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Notes to Financial Statements
Years Ended September 30, 2018 and 2017

Note 2 – Investments, continued

The following schedule summarizes the investment return and its classification for the year ended September 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 1,478	\$ 80,589	\$ -	\$ 82,067
Investment expenses	(1,619)	(2,718)	-	(4,337)
Net realized gains	186	32,887	-	33,073
Net unrealized gains	-	236,506	-	236,506
	<u>\$ 45</u>	<u>\$ 347,264</u>	<u>\$ -</u>	<u>\$ 347,309</u>

Note 3 – Property and Equipment

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Building	\$ 1,101,153	\$ 1,087,969
Land	374,571	374,571
Kitchen equipment and supplies	341,463	341,463
Vehicles	234,295	201,466
Furniture and equipment	147,431	146,400
Computers	94,416	117,451
	<u>2,293,329</u>	<u>2,269,320</u>
Less accumulated depreciation	<u>(1,162,203)</u>	<u>(1,091,936)</u>
	<u>\$ 1,131,126</u>	<u>\$ 1,177,384</u>

Note 4 – Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Unappropriated endowment earnings	\$ 856,297	\$ 765,889
Board leadership	60,436	52,071
Low income seniors	20,886	25,752
Delivery van fuel	16,649	24,721
Volunteer program	7,454	11,088
North county operations	3,979	2,250
Admin building renovation	3,841	6,991
Veteran meals	3,485	-
Other	1,667	8,834
East county operations	-	5,432
Seniors - Encinitas	-	5,000
	<u>\$ 974,694</u>	<u>\$ 908,028</u>

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Notes to Financial Statements
Years Ended September 30, 2018 and 2017

Note 4 – Restrictions on Net Assets, continued

Permanently restricted net assets consist of the Sunshine Brooks Endowment funds and the Meals-on-Wheels Endowment. The income from these funds can be used to support the Organization's activities.

Note 5 – Operating Leases

The Organization has operating lease agreements for its offices and certain equipment expiring at various dates through September 2033. Total rent expense for the years ended September 30, 2018 and 2017 was \$174,165 and \$153,295, respectively.

Future minimum lease payments at September 30, 2018 are as follows:

Year Ending September 30,	
2019	\$ 203,182
2020	200,774
2021	204,423
2022	175,749
2023	166,382
Thereafter	<u>1,961,776</u>
Total	<u>\$ 2,912,286</u>

Note 6 – Pension Plan

The Organization has a 401(k) Profit Sharing Plan covering all full-time employees that are at least 21 years old, have completed one year of service, and worked 1,000 hours during the calendar year. A qualified employee is fully vested after four years. Funding of the plan is made at the discretion of management. There was no pension expense for the years ended September 30, 2018 and 2017.

Note 7 – Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per financial institution. As of September 30, 2018, no losses have occurred in the bank deposit accounts and management does not believe that the Organization is exposed to any significant credit risk on cash.

Note 8 – Functional Allocation of Expenses

Salaries and related expenses are allocated to the various programs and supporting services based on actual or estimated time employees spend on each function. The remaining expenses are specifically allocated whenever practical, or are allocated based on space utilization.

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Notes to Financial Statements
 Years Ended September 30, 2018 and 2017

Note 9 – Endowments

The Organization’s endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Organization has interpreted Uniform Prudent Management of Constitution Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner that is consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Organization
- 7) The investment policies of the Organization

At September 30, 2018, the endowment net assets composition by type of fund consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>856,297</u>	\$ <u>2,986,941</u>	\$ <u>3,843,238</u>

At September 30, 2017, the endowment net assets composition by type of fund consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>765,889</u>	\$ <u>2,759,441</u>	\$ <u>3,525,330</u>

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Notes to Financial Statements
Years Ended September 30, 2018 and 2017

Note 9 – Endowments, continued

Changes in endowment net assets for the year ended September 30, 2018, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 765,889	\$ 2,759,441	\$ 3,525,330
Contributions to endowment fund during the year	-	-	227,500	227,500
Investment return:				
Investment income	-	76,216	-	76,216
Investment expenses	-	(3,073)	-	(3,073)
Net realized and unrealized gains	-	186,814	-	186,814
Total investment return	-	259,957	-	259,957
Appropriation of endowment assets for expenditure	-	(169,549)	-	(169,549)
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>856,297</u>	\$ <u>2,986,941</u>	\$ <u>3,843,238</u>

Changes in endowment net assets for the year ended September 30, 2017, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 583,294	\$ 2,702,400	\$ 3,285,694
Contributions to endowment fund during the year	-	-	57,041	57,041
Investment return:				
Investment income	-	80,589	-	80,589
Investment expenses	-	(2,718)	-	(2,718)
Net realized and unrealized gains	-	269,393	-	269,393
Total investment return	-	347,264	-	347,264
Appropriation of endowment assets for expenditure	-	(164,669)	-	(164,669)
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>765,889</u>	\$ <u>2,759,441</u>	\$ <u>3,525,330</u>

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide funding for the operating expenses of programs supported by its endowments and increase the value of the original contributed capital by an amount not less than the annual increase in the Consumer Price Index (CPI). In order to meet this objective, the endowment asset portfolio is structured to achieve a compounded annual return, net of investment management expenses, of 6% plus the annual rate of inflation (Target Return) over ten years. In achieving the Target Return, the Organization seeks to maintain a level of portfolio risk, as measured by the annualized monthly standard deviation, commensurate with the portfolio's market-related index. The market-related index is made up of selected market indices that are representative of the asset classes in which the portfolio is invested and which is weighted in the same percentages as the asset classes in which the portfolio is invested.

Note 9 – Endowments, continued

Investment Strategy

The investment strategy of the Organization is to develop a diversified portfolio of investments. For equity investments, the selection of such holdings is based on the merits of long-term ownership without the intent of short-term trading. To achieve the Target Return, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy

The Organization has a policy of appropriating for distribution each year an amount equal to 5% of the average balance of the assets associated with the endowments for the previous twelve quarters. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow at the average annual rate of inflation over ten years. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return. The spending rate policy is reviewed annually by the Finance Committee

Note 10 – Subsequent Event

Through January 18, 2019, the fair market value of the Organization's investments has declined in value by approximately \$200,000. Due to current inherent uncertainties in the U.S. financial markets, it is at least reasonably possible that further changes in the near term would materially affect investment amounts reported in future financial statements.