

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

Financial Statements

Year Ended September 30, 2019



**MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**  
**Financial Statement**  
Year Ended September 30, 2019

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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 Statement

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 statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis-of-Matter Regarding a Change in Accounting Principle

As discussed in Note 1 to the financial statements, Meals-on-Wheels Greater San Diego, Inc. dba Meals-on-Wheels San Diego County adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

*Aldrich CPAs + Advisors LLP*

San Diego, California  
January 29, 2020

**MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**  
**Statement of Financial Position**  
September 30, 2019

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**ASSETS**

Current Assets:

Cash and cash equivalents	\$	62,222
Short-term investments		5,207,568
Accounts receivable, net of allowance for doubtful accounts of \$12,061		189,123
Prepaid expenses		56,690
Inventory		<u>15,038</u>

Total Current Assets 5,530,641

Long-Term Investments		3,802,034
Deposits		14,436
Property and Equipment, net of accumulated depreciation		<u>1,112,063</u>

Total Assets \$ 10,459,174

**LIABILITIES AND NET ASSETS**

Current Liabilities:

Accounts payable	\$	122,964
Accrued expenses		<u>115,468</u>

Total Current Liabilities 238,432

Net Assets:

Without Donor Restrictions		6,321,272
With Donor Restrictions		<u>3,899,470</u>

Total Net Assets 10,220,742

Total Liabilities and Net Assets \$ 10,459,174

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

**Statement of Activities**

Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Contributions	\$ 1,672,270	\$ 37,602	\$ 1,709,872
Fees for services	1,624,803	-	1,624,803
Bequests	423,568	-	423,568
Special events	610,092	1,899	611,991
Less: Special events expenses	<u>(200,427)</u>	-	<u>(200,427)</u>
	409,665	1,899	411,564
Investment return, net	237,983	134,176	372,159
Community outreach	209,806	-	209,806
Government grants	157,852	-	157,852
Other income	37,631	-	37,631
Gain on sale of property and equipment	2,223	-	2,223
Net assets released from restrictions, satisfaction of program restrictions	<u>235,842</u>	<u>(235,842)</u>	<u>-</u>
Total Revenue and Support	5,011,643	(62,165)	4,949,478
Program and Supporting Expenses:			
Program services	3,961,775	-	3,961,775
Supporting services:			
Management and general	355,101	-	355,101
Fundraising	<u>516,900</u>	-	<u>516,900</u>
Total supporting services	872,001	-	872,001
Total Program and Supporting Expenses	<u>4,833,776</u>	<u>-</u>	<u>4,833,776</u>
Change in Net Assets	177,867	(62,165)	115,702
Net Assets, beginning	<u>6,143,405</u>	<u>3,961,635</u>	<u>10,105,040</u>
Net Assets, ending	<u>\$ 6,321,272</u>	<u>\$ 3,899,470</u>	<u>\$ 10,220,742</u>

**MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**  
**Statement of Functional Expenses**  
Year Ended September 30, 2019

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 1,628,317	\$ 243,967	\$ 216,857	\$ 460,824	\$ 2,089,141
Meal purchases	920,886	-	-	-	920,886
Occupancy	246,129	2,773	4,336	7,109	253,238
Employee benefits	155,017	23,456	20,976	44,432	199,449
Contract service fees	71,766	6,159	120,572	126,731	198,497
Payroll taxes	142,253	16,423	17,178	33,601	175,854
Consulting services	98,308	28,584	14,392	42,976	141,284
Depreciation	93,997	4,437	10,178	14,615	108,612
In-kind expenses	92,562	386	671	1,057	93,619
Repair and maintenance	78,454	3,425	5,395	8,820	87,274
Travel	81,204	2,156	3,347	5,503	86,707
Workers compensation	76,884	4,101	4,782	8,883	85,767
General insurance	48,873	5,752	6,406	12,158	61,031
Printing and materials	18,348	1,948	39,524	41,472	59,820
Postage	16,524	3,995	35,130	39,125	55,649
Other	40,673	3,069	7,599	10,668	51,341
Packaging supplies	42,569	-	-	-	42,569
Supplies	30,638	2,147	3,065	5,212	35,850
Telecommunications	31,244	1,135	3,376	4,511	35,755
Bad debt expense	31,557	-	-	-	31,557
Other	15,572	1,188	3,116	4,304	19,876
Total Program and Supporting Expenses	3,961,775	355,101	516,900	872,001	4,833,776
Special Events	-	-	200,427	200,427	200,427
Total Expenses	\$ 3,961,775	\$ 355,101	\$ 717,327	\$ 1,072,428	\$ 5,034,203

**MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**  
**Statement of Cash Flows**  
Year Ended September 30, 2019

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Cash Flows from Operating Activities:	
Change in net assets	\$ 115,702
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	108,612
Gain on sale of property and equipment	(2,223)
Net realized and unrealized gains on investments	(131,247)
Changes in operating assets and liabilities:	
Accounts receivable, net	(11,038)
Prepaid expenses	(8,202)
Inventory	920
Accounts payable	50,421
Accrued expenses	<u>26,734</u>
Net Cash Flows Provided by Operating Activities	149,679
Cash Flows from Investing Activities:	
Proceeds from sale of investments	586,687
Purchases of investments	(681,347)
Purchases of property and equipment	(89,826)
Increase in deposits	<u>7,533</u>
Net Cash Flows Used by Investing Activities	<u>(174,453)</u>
Net Decrease in Cash and Cash Equivalents	(24,774)
Cash and cash equivalents, beginning	<u>86,996</u>
Cash and cash equivalents, ending	<u>\$ <u>62,222</u></u>

**MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**  
**Notes to Financial Statement**  
Year Ended September 30, 2019

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**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's primary program is meal delivery to senior adults throughout San Diego County. The Organization became active in January 1971, as the successor Organization to "Senior Adult Services," an unincorporated association.

New Accounting Pronouncement

During the year ended September 30, 2019, the Organization adopted ASU No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions until the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets with donor restrictions, liquidity, and expenses by both their natural and functional classification.

Financial Statement Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding their financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.
- Net assets with donor restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates

The preparation of financial statement 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.

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 statement 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 statement of activities.



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

Investments, continued

Investment return on restricted assets is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions, 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 net realizable value.

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 net assets without donor restrictions or net assets with 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 purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement 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 support without donor restrictions and increase net assets without donor restrictions.

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 statement. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed.

Advertising

The Organization follows the policy of charging the cost of advertising to expense as incurred.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries and related expenses (benefits, payroll taxes, etc) and professional fees are allocated on the basis of time and effort.

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

Functional Allocation of Expenses, continued

All other expenses are broken out by accounts and are charged to the program or service based on direct usage or using full time equivalents as an allocation method.

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 Organization has no uncertain tax position at September 30, 2019 and therefore no amounts have been accrued.

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. 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, 2019, due to the relative short maturities of these instruments.

Future Accounting Standards

The Financial Accounting Standards Board (FASB) has issued three substantial ASUs which will become effective in future years.

The amendments in ASU 2014-09 *Revenue from Contracts with Customers* and subsequent updates require that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption of the new standard is to be applied on a full retrospective basis or modified retrospective basis. The Organization is in the process of assessing how this new ASU and subsequent updates will affect the Organization's reporting of revenues. This assessment includes determining the effect of the new standard on the Organization's financial statements, accounting systems, business processes, and internal controls. This update is effective for fiscal years beginning after December 15, 2018. The Organization is evaluating the effect that the provisions of ASU 2014-09 will have on its financial statement and related disclosures.

**MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**  
**Notes to Financial Statement**  
Year Ended September 30, 2019

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

Future Accounting Standards, continued

In June 2018, ASU 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* was issued to provide guidance on the accounting and reporting of grants and contributions. This guidance will assist nonprofit organizations in evaluating if a transaction is an exchange transaction or a contribution. Clarification was also added to determine if a contribution is conditional or unconditional and how each of these should be recorded. This update is effective for transactions in which the entity serves as the resource recipient for fiscal years beginning after December 15, 2018. The Organization is evaluating the effect that the provisions of ASU 2018-08 will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02 *Leases*. The primary change in US GAAP addressed by ASU 2016-02 is the requirement for a lessee to recognize on the statement of financial position a liability to make lease payments (“lease liability”) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 also requires qualitative and quantitative disclosures to enable users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Organization is evaluating the effect that the provisions of ASU 2016-02 will have on its financial statements and related disclosures.

Subsequent Events

The Organization has evaluated subsequent events through January 29, 2020 which is the date the financial statement were available to be issued.

**Note 2 – Liquidity and Availability**

The following reflects the Organization’s financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual obligations within one year of the statement of financial position date.

Cash and cash equivalents	\$ 62,222
Investments	5,207,568
Accounts receivable	<u>189,123</u>
Total Financial Assets Available for General Operations	5,458,913
Less amounts not available to be used within one year:	
Restricted by donor with time or purpose restrictions	<u>(97,436)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,361,477</u>

**MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**  
**Notes to Financial Statement**  
Year Ended September 30, 2019

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**Note 2 – Liquidity and Availability, continued**

The Organization is substantially supported by donor-restricted contributions. Because a donor’s restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization has an endowment of \$3,802,034. The Organization does not intend to spend from its endowment other than amounts appropriated for general expenditures as part of its annual appropriation process.

**Note 3 – Concentration of Credit Risk**

The Organization maintains its cash at various financial institutions. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. The Organization account balances may, at times, exceed the limits.

**Note 4 – Investments**

Investments consist of the following:

Short-term investments	\$ 5,207,568
Long-term investments	<u>3,802,034</u>
	<u>\$ 9,009,602</u>

The following table presents investments categorized according to the fair value hierarchy as of September 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Money Market Funds	\$ 987,201	\$ -	\$ -	\$ -	\$ 987,201
Mutual Funds:				-	
Fixed income taxable	3,325,789	-	-	-	3,325,789
Commodities	60,992	-	-	-	60,992
Domestic large-cap blend	1,050,790	-	-	-	1,050,790
Domestic mid-cap growth	780,649	-	-	-	780,649
Real estate	560,178	-	-	-	560,178
Domestic small-cap blend	1,180,337	-	-	-	1,180,337
Diversified emerging markets	318,859	-	-	-	318,859
Foreign large-cap blend	744,807	-	-	-	744,807
	<u>\$ 9,009,602</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,009,602</u>

**MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**  
**Notes to Financial Statement**  
Year Ended September 30, 2019

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**Note 5 – Property and Equipment**

Property and equipment consist of the following:

Building	\$ 1,115,454
Land	374,571
Kitchen equipment and supplies	342,519
Vehicles	281,804
Furniture and equipment	126,855
Computers	<u>78,561</u>
	2,319,764
Less accumulated depreciation	<u>(1,207,701)</u>
	<u>\$ 1,112,063</u>

**Note 6 – Restrictions on Net Assets**

Net assets with donor restrictions consist of the following:

Purpose Restrictions:	
Board leadership	\$ 68,836
Delivery van fuel	11,299
Volunteer program	9,040
Veteran meals	3,409
Technology	2,849
Admin building renovation	1,800
Other	<u>203</u>
	97,436
Endowments:	
Subject to appropriation and expenditure when a specified event occurs:	
General Use	<u>3,802,034</u>
	<u>\$ 3,899,470</u>

**MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**  
**Notes to Financial Statement**  
Year Ended September 30, 2019

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**Note 7 – Restrictions on Net Assets, continued**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

Satisfaction of purpose restrictions		
Appropriated expenditures, endowments	\$	177,880
Delivery van fuel		35,350
Low income seniors		14,916
Volunteer program		3,929
Admin building renovation		3,691
Veteran meals		<u>76</u>
	\$	<u><u>235,842</u></u>

**Note 8 – 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 year ended September 30, 2019 was \$208,281.

Future minimum lease payments at September 30, 2019 are as follows:

Year Ending September 30,		
<u>2020</u>	\$	204,314
2021		204,026
2022		175,749
2023		166,142
2024		171,127
Thereafter		<u>1,790,649</u>
Total	\$	<u><u>2,712,007</u></u>

**Note 9 – 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 year ended September 30, 2019.

**MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**  
**Notes to Financial Statement**  
Year Ended September 30, 2019

**Note 10 – 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, 2019, the endowment net assets composition by type of fund consists of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor designated funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	\$ -	\$ 2,989,441	\$ 2,989,441
Accumulated investment gains	-	812,593	812,593
	<u>\$ -</u>	<u>\$ 3,802,034</u>	<u>\$ 3,802,034</u>

Changes in endowment net assets for the year ended September 30, 2019, consist of the following

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 3,843,238	\$ 3,843,238
Contributions	-	2,500	2,500
Appropriated expenditures	-	(177,880)	(177,880)
Investment return, net	-	134,176	134,176
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,802,034</u>	<u>\$ 3,802,034</u>

**Note 10 – Endowments, continued**

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.

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