

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

Financial Statements

Year Ended September 30, 2023



MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY
Financial Statements
Year Ended September 30, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Meals-on-Wheels Greater San Diego, Inc. dba. Meals on Wheels San Diego County (a non-profit organization), which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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. County, Inc. as of September 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Meals-on-Wheels Greater San Diego, Inc. County, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Meals-on-Wheels Greater San Diego, Inc. County, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Meals-on-Wheels Greater San Diego, Inc. County, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Meals-on-Wheels Greater San Diego, Inc. County, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Aldrich CPAs + Advisors LLP

San Diego, California
January 23, 2024

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**Statement of Financial Position**September 30, 2023

ASSETS

Current Assets:

Cash and cash equivalents	\$	185,897
Restricted cash		2,660,112
Short-term investments		8,837,250
Accounts receivable, net of allowance for doubtful accounts of \$10,660		325,954
Prepaid expenses		67,843
Inventory		46,475

Total Current Assets 12,123,531

Long-term investments		3,858,364
Deposits		14,436
Property and equipment, net of accumulated depreciation		11,938,384
Right-of-use asset - operating leases, net of accumulated amortization		1,733,585
Right-of-use asset - finance leases, net of accumulated amortization		41,630

Total Assets \$ 29,709,930

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$	372,289
Accrued expenses		408,304
Current portion of long-term debt		251,816
Current portion of lease liabilities - operating lease		140,036
Current portion of lease liabilities - finance leases		25,160

Total Current Liabilities 1,197,605

Long-term debt, net of current portion		11,826,945
Lease liabilities - operating lease, net of current portion		1,626,869
Lease liabilities - finance leases, net of current portion		14,997

Total Liabilities 14,666,416

Net Assets:

Without Donor Restrictions		10,626,914
With Donor Restrictions		4,416,600

Total Net Assets 15,043,514

Total Liabilities and Net Assets \$ 29,709,930

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

Year Ended September 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Contributions	\$ 2,991,931	\$ 467,328	\$ 3,459,259
Fees for services	2,508,323	-	2,508,323
Bequests	2,042,388	-	2,042,388
Special events	482,023	-	482,023
Less: Special events expenses	<u>(161,436)</u>	-	<u>(161,436)</u>
	320,587	-	320,587
Government grants	120,213	-	120,213
Other income	43,840	-	43,840
Gain on sale of property and equipment	27,998	-	27,998
Investment return, net	430,418	263,082	693,500
Net assets released from restrictions, satisfaction of program restrictions	<u>109,455</u>	<u>(109,455)</u>	<u>-</u>
Total Revenue and Support	8,595,153	620,955	9,216,108
Program and Supporting Expenses:			
Program services	7,392,800	-	7,392,800
Supporting services:			
Management and general	669,912	-	669,912
Fundraising	821,109	-	821,109
Total supporting services	<u>1,491,021</u>	-	<u>1,491,021</u>
Total Program and Supporting Expenses	<u>8,883,821</u>	-	<u>8,883,821</u>
Change in Net Assets	(288,668)	620,955	332,287
Net Assets, beginning	<u>10,915,582</u>	<u>3,795,645</u>	<u>14,711,227</u>
Net Assets, ending	<u>\$ 10,626,914</u>	<u>\$ 4,416,600</u>	<u>\$ 15,043,514</u>

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

Statement of Functional Expenses

Year Ended September 30, 2023

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 3,273,009	\$ 357,782	\$ 312,998	\$ 670,780	\$ 3,943,789
Meal purchases	1,854,756	-	-	-	1,854,756
Occupancy	373,665	12,046	5,897	17,943	391,608
Fee for services (non-employee)	183,223	114,631	79,718	194,349	377,572
Employee benefits	268,805	37,832	22,633	60,465	329,270
Payroll taxes	257,130	22,744	22,895	45,639	302,769
Depreciation	238,641	14,587	14,478	29,065	267,706
Printing and materials	11,245	2,309	192,336	194,645	205,890
Contracts and leases	125,716	30,577	39,581	70,158	195,874
Travel	121,956	12,754	6,022	18,776	140,732
Other	92,879	9,033	26,572	35,605	128,484
Repair and maintenance	112,808	11,140	4,200	15,340	128,148
Packaging supplies	111,127	-	-	-	111,127
Contributed nonfinancial assets	105,601	-	-	-	105,601
General insurance	72,986	9,772	9,695	19,467	92,453
Telecommunications	57,317	5,402	3,504	8,906	66,223
Postage	3,974	5,665	49,973	55,638	59,612
Supplies	47,770	8,103	3,196	11,299	59,069
Staff and board development	24,125	14,733	3,068	17,801	41,926
Advertising and marketing	9,834	406	23,894	24,300	34,134
Workers compensation	29,467	396	449	845	30,312
Bad debt	16,766	-	-	-	16,766
Total Program and Supporting Expenses	7,392,800	669,912	821,109	1,491,021	8,883,821
Special Events	-	-	161,436	161,436	161,436
Total Expenses	\$ 7,392,800	\$ 669,912	\$ 982,545	\$ 1,652,457	\$ 9,045,257

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

Year Ended September 30, 2023

Cash Flows from Operating Activities:	
Change in net assets	\$ 332,287
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	280,651
Gain on sale of property and equipment	(27,998)
Net realized and unrealized gains on investments	(234,232)
Non-cash operating lease expense	33,320
Changes in operating assets and liabilities:	
Accounts receivable, net	(59,854)
Prepaid expenses	594
Inventory	21,234
Accounts payable	217,265
Accrued expenses	183,983
Net Cash Flows Provided by Operating Activities	<u>747,250</u>
Cash Flows from Investing Activities:	
Proceeds from sale of investments	1,473,440
Purchases of investments	(932,025)
Proceeds from the sale of property and equipment	40,500
Purchases of property and equipment	<u>(10,682,916)</u>
Net Cash Flows Used by Investing Activities	(10,101,001)
Cash Flows from Financing Activities:	
Proceeds from long-term debt	12,100,000
Payments of long-term debt	(21,239)
Payments on finance lease obligations	<u>(14,416)</u>
Net Cash Flows Provided by Financing Activities	<u>12,064,345</u>
Net Change in Cash and Cash Equivalents and Restricted Cash	2,710,594
Cash and Cash Equivalents and Restricted Cash, beginning	<u>135,415</u>
Cash and Cash Equivalents and Restricted Cash, ending	<u><u>\$ 2,846,009</u></u>
Cash and Cash Equivalents and Restricted Cash Consist of the following:	
Cash and cash equivalents	\$ 185,897
Restricted cash	<u>2,660,112</u>
	<u><u>\$ 2,846,009</u></u>
Supplemental Disclosures Non-Cash Investing and Financing Activities:	
Right-of-use assets obtained in exchange for new operating lease liabilities	<u>\$ 1,891,341</u>
Right-of-use assets obtained in exchange for new finance lease liabilities	<u><u>\$ 54,573</u></u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

Year Ended September 30, 2023

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

The Organization adopted Accounting Standards Update (ASU) 2016-02, *Leases* as of October 1, 2022. The standard provides guidance on the recognition, measurement, presentation, and disclosure of leases. The new standard supersedes previous accounting principles generally accepted in the United States of America (US GAAP) guidance on leases and requires substantially all leases to be reported on the statement of financial position as right-of-use assets and lease liabilities, as well as additional disclosures (See Note 9). The Organization adopted this standard using the modified retrospective approach. Upon adoption, the Organization recognized right-of-use-assets and operating lease liabilities of \$1,945,914.

Financial Statement Presentation

The financial statements of the Organization have been prepared in accordance with 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, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

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 and Restricted Cash

Cash equivalents are highly liquid debt instruments with original maturities of three months or less. Temporary cash accounts are included with investment brokerage accounts. Restricted cash is limited in use to payment of building improvements and is held in a separate bank account as required.

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

Notes to Financial Statements

Year Ended September 30, 2023

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

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.

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

The accounts receivable arise in the normal course of operations. 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

The Organization recognizes revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services.

Revenues for the Organization primarily consist of fee-for-service contracts and contributions. 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. Management has determined that these sources of revenue are most appropriately classified as exchange transactions, and therefore, revenue is recognized as performance obligations are met, which is typically when services are performed.

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. Grants and other revenues which are considered contracts for services, are not recorded as contributions with donor restrictions.

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

Notes to Financial Statements

Year Ended September 30, 2023

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

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.

Donated materials and equipment, with significant determinable values, are reflected as contributions in the accompanying financial statements at their estimated fair values at date of receipt. Such items are capitalized or charged to operations as appropriate. The Organization receives donated services from unpaid volunteers who assist in fundraising and program services. No amounts have been recognized in the statement of activities for these services because the criteria for recognition as contributions of such volunteer efforts have not been satisfied. The fair market values of contributed professional services are 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 based on time and effort. 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 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. The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Organization may be subject to tax on income which is not related to its exempt purpose. For the year ended September 30, 2023, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

The Organization follows the provisions of uncertain tax positions as addressed in the Financial Accounting Standards Board (FASB) Accounting Standards Codification. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions for the year ended September 30, 2023.

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

Notes to Financial Statements

Year Ended September 30, 2023

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

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 US GAAP. 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.

The carrying value of cash, receivables, other current assets, and payables approximate fair values as of September 30, 2023 due to the relative short maturities of these instruments.

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.

Future Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments-Credit Losses*. The standard requires timelier recording of credit losses on loans and other financial instruments by transitioning from an incurred-loss model to expected loss model. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new guidance affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash, but does not require a specific credit loss method, allowing an organization to use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022. The Organization is still evaluating the effects that the provisions of ASU 2016-13 will have on its financial statements and related disclosures.

Subsequent Events

The Organization has evaluated subsequent events through January 23, 2024, which is the date the financial statements were available to be issued.

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

Notes to Financial Statements

Year Ended September 30, 2023

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	\$	185,897
Restricted cash		2,660,112
Investments		8,837,250
Accounts receivable, net of allowance for doubtful accounts		<u>325,954</u>
Total financial assets available for general operations		12,009,213
Less amounts not available to be used within one year:		
Restricted by donor - time or purpose restrictions		(558,237)
Restricted by donor - endowment		<u>(3,858,364)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u><u>7,592,612</u></u>

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 \$3,858,364. 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 and Fair Value Measurement

Investments consist of the following at September 30, 2023:

Short-term investments	\$	8,837,250
Long-term investments		<u>3,858,364</u>
	\$	<u><u>12,695,614</u></u>

MEALS-ON-WHEELS GREATER SAN DIEGO, INC. dba. MEALS ON WHEELS SAN DIEGO COUNTY**Notes to Financial Statements**

Year Ended September 30, 2023

Note 4 – Investments and Fair Value Measurement, continued

The following table presents investments categorized according to the fair value hierarchy at September 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Money Market Funds	\$ 8,899,830	\$ -	\$ -	\$ -	\$ 8,899,830
Mutual Funds:					
Fixed income taxable	1,330,149	-	-	-	1,330,149
Domestic mid-cap growth	588,466	-	-	-	588,466
Domestic large-cap blend	556,112	-	-	-	556,112
Foreign large-cap blend	436,763	-	-	-	436,763
Domestic small-cap blend	393,266	-	-	-	393,266
Real estate	264,712	-	-	-	264,712
Diversified emerging markets	186,248	-	-	-	186,248
Commodities	40,068	-	-	-	40,068
	<u>\$ 12,695,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,695,614</u>

Note 5 – Property and Equipment

Property and equipment consist of the following at September 30, 2023:

Land	\$ 6,662,036
Building	5,146,731
Vehicles	766,430
Kitchen equipment and supplies	600,164
Computers	268,035
Furniture and equipment	<u>222,609</u>
	13,666,005
Less accumulated depreciation	<u>(1,727,621)</u>
	<u>\$ 11,938,384</u>

Note 6 – Long-Term Debt

Long-term debt consists of the following at September 30, 2023:

Note payable to a financial institution, due in aggregate monthly payments starting at \$21,240, including interest at 4.86%, matures August 2048.	\$ 12,078,761
Less current portion of long-term debt	<u>(251,816)</u>
	<u>\$ 11,826,945</u>

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

Notes to Financial Statements

Year Ended September 30, 2023

Note 6 – Long-Term Debt, continued

Future principal payments of long-term debt at September 30, 2023 are as follows:

<u>Year Ending September 30,</u>	
2024	\$ 251,816
2025	266,165
2026	279,581
2027	293,673
2028	306,971
Thereafter	<u>10,680,555</u>
	<u>\$ 12,078,761</u>

Note 7 – Contributed Non-Financial Assets

The Organization recognized contributed nonfinancial assets within revenue, including event tickets, event auction items, food, gift cards, senior client care packages, and other miscellaneous items. Contributed nonfinancial assets are valued and reported at the estimated fair value in the financial statements based on current rates for similar products. Contributed nonfinancial assets solicited for use at special events, such as the auction held in conjunction with the annual gala, are monetized.

Many individuals donate their time in performing a variety of tasks to assist the Organization's operations. In addition to the amounts recognized in the statement of activities, management estimates the Organization received approximately 119,370 volunteer hours with an estimated value of \$2,148,660 valued at \$18 per hour for the year ended September 30, 2023.

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

Notes to Financial Statements

Year Ended September 30, 2023

Note 8 – Restrictions on Net Assets

Net assets with donor restrictions consist of the following:

Purpose Restrictions:		
Food and packaging	\$	329,320
Board leadership		94,031
Volunteer program		52,912
Care navigation program		20,160
Senior and veteran clients		18,350
CalFresh expansion		15,153
Staff travel		10,000
Emergency meal packs		9,440
Meal scholarship		4,737
Other		4,134
		<u>558,237</u>
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
General Use		<u>3,858,364</u>
	\$	<u><u>4,416,601</u></u>

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		
Emergency meal packs	\$	47,221
Volunteer program		40,775
Delivery van fuel		9,886
Other		9,844
Meal scholarship		1,729
	\$	<u><u>109,455</u></u>

Note 9 – Leasing Arrangements

The Organization has operating and finance leases of office buildings, copiers and printers under agreements with contractual periods ranging from 1 to 5 years. Certain lease agreements contain scheduled rent escalation clauses and others include rental payments adjusted periodically depending on an index or rate. Some of the leases contain one or more options to extend. The exercise of lease renewal options is generally at the Organization's sole discretion. Options that are reasonably certain to be exercised, considering all relevant economic and financial factors, are included in the lease term. Leases with an initial term of 12 months or less are not recorded on the statement of financial position. Lease expense is recognized for these leases on a straight-line basis over the lease term. The lease agreements do not contain any material residual value guarantees.

The Organization has elected the practical expedient to account for the lease and non-lease components as a single lease component (e.g., maintenance and operating services). Therefore, for those leases, the lease payments used to measure the lease liability include all of the fixed consideration in the contract. All variable payments not based on a market rate, or an index are expensed as incurred.

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

Notes to Financial Statements

Year Ended September 30, 2023

Note 9 – Leasing Arrangements, continued

The Organization determines if an arrangement is or contains a lease at contract inception. The Organization recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the unpaid lease payments at the lease commencement date. Key estimates and judgments include how the Organization determines the discount rate, the lease term, and the lease payments.

When the discount rate implicit in a lease is not readily determinable, the Organization calculates the lease liability using the risk-free rate.

The following summarizes the leases right-of-use assets as of September 30, 2023:

<u>Operating Leases</u>	
Operating lease right-of-use-assets	\$ <u>1,733,585</u>
Current portion of operating lease liabilities	\$ 140,036
Operating lease liabilities, net of current portion	<u>1,626,869</u>
	\$ <u>1,766,905</u>
 <u>Finance Leases</u>	
Property and equipment	\$ 54,573
Accumulated amortization	(12,943)
	<u>41,630</u>
Current portion of finance lease liabilities	\$ 25,160
Finance lease liabilities, net of current portion	<u>14,997</u>
	\$ <u>40,157</u>

The amounts contractually due on lease liabilities as of September 30, 2023 were as follows:

<u>Year Ending September 30,</u>	<u>Operating</u>	<u>Finance</u>
2024	\$ 202,052	\$ 16,275
2025	207,573	16,275
2026	213,261	9,697
2027	207,118	-
2028	207,152	-
Thereafter	<u>1,071,414</u>	-
Total lease payments	2,108,570	42,247
Less amount representing imputed interest	<u>(341,665)</u>	<u>(2,090)</u>
Present value of lease liabilities	\$ <u>1,766,905</u>	\$ <u>40,157</u>

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Notes to Financial Statements

Year Ended September 30, 2023

Note 9 – Leasing Arrangements, continued

The following summarizes the line items in the statement of activity which include the components of lease expense for the year ended September 30, 2023:

Operating leases:		
Operating lease expense, included in occupancy	\$	224,692
Finance leases:		
Amortization of lease assets, included in contracts and leases		12,943
Interest on lease liabilities, included in contracts and leases		1,859
Total lease cost	\$	<u>239,494</u>

Supplemental cash flow information related to leases were as follows at September 30, 2023:

Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from finance leases	\$	1,728
Financing cash flows from finance leases	\$	14,547
Operating cash flows from operating leases	\$	191,372
Right-of-use assets obtained in exchange for new lease liabilities:		
Operating leases	\$	1,891,341
Finance leases	\$	54,573

Supplemental statement of financial position information related to leases were as follows at September 30, 2023:

Weighted average remaining lease term - Operating leases	3.51
Weighted average remaining lease term - Finance leases	9.55
Weighted average discount rate - Operating leases	3.95%
Weighted average discount rate - Finance leases	3.68%

Note 10 – 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. Total pension expense was \$63,846 for the year ended September 30, 2023.

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Notes to Financial Statements

Year Ended September 30, 2023

Note 11 – 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 retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 retained in perpetuity is subject to appropriation 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, 2023, 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	\$ -	\$ 3,044,060	\$ 3,044,060
Accumulated investment gains	-	814,304	814,304
	<u>\$ -</u>	<u>\$ 3,858,364</u>	<u>\$ 3,858,364</u>

Changes in endowment net assets for the year ended September 30, 2023, consist of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 3,595,280	\$ 3,595,280
Distributions	-	(103,250)	(103,250)
Investment return, net	-	366,334	366,334
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,858,364</u>	<u>\$ 3,858,364</u>

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Notes to Financial Statements

Year Ended September 30, 2023

Note 11 – 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.