



FINANCIAL STATEMENTS

Year Ended June 30, 2017

with

Independent Auditors' Report

MEALS ON WHEELS PEOPLE, INC.

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Independent Auditors' Report

The Board of Directors
Meals on Wheels People, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Meals on Wheels People, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 the Organization as of June 30, 2017, 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.

Other Matter

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 5, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2017, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Huffman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
October 4, 2017

MEALS ON WHEELS PEOPLE, INC.

Statement of Financial Position

June 30, 2017 <i>(With Comparative Amounts for 2016)</i>	2017	2016
ASSETS		
Cash and cash equivalents	\$ 2,830,631	\$ 2,791,042
Investments <i>(Notes 3, 17, and 18)</i>	9,154,230	8,432,459
Accounts receivable - net:		
Medicaid	142,533	62,956
Older Americans Act	383,405	298,081
Nutrition Services Incentive Program	74,407	121,426
Contract meals <i>(Note 15)</i>	219,729	173,091
Other	<u>16,014</u>	<u>38,901</u>
Total accounts receivable - net	836,088	694,455
Prepaid expenses and deposits	216,764	215,998
Inventory	62,999	87,443
Bequests and contributions receivable <i>(Note 4)</i>	656,655	765,918
Beneficial interest in charitable remainder trusts <i>(Notes 5 and 17)</i>	245,690	220,039
Investments held related to charitable gift annuities <i>(Notes 6 and 17)</i>	26,055	30,771
Investments held at community foundations <i>(Notes 7, 17, and 18)</i>	304,135	273,320
Property, equipment, and leasehold improvements - net <i>(Note 8)</i>	<u>5,994,451</u>	<u>6,120,681</u>
	<u>\$ 20,327,698</u>	<u>\$ 19,632,126</u>

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

MEALS ON WHEELS PEOPLE, INC.

Statement of Financial Position

	2017	2016
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 183,879	\$ 300,975
Accrued payroll and compensated absences	248,471	256,390
Other accrued liabilities	62,910	86,507
Liability for charitable gift annuities (<i>Note 6</i>)	21,712	25,642
Total liabilities	516,972	669,514
Commitments (<i>Notes 9 and 13</i>)		
Net assets:		
Unrestricted:		
Available for operations	3,747,458	3,660,065
Board designated for advertising initiative	125,000	-
Board designated for the Joan Smith Executive Director Fund	124,895	104,197
Board designated for financial reserve	6,363,498	5,900,798
Board designated for capital reserve and maintenance	2,535,983	2,273,968
Net investment in property, equipment, and leasehold improvements	5,994,451	6,120,681
Total unrestricted net assets	18,891,285	18,059,709
Temporarily restricted (<i>Note 10</i>)	338,248	347,082
Permanently restricted (<i>Notes 7, 11, and 18</i>)	581,193	555,821
Total net assets	19,810,726	18,962,612
	\$ 20,327,698	\$ 19,632,126

MEALS ON WHEELS PEOPLE, INC.

Statement of Activities

Year Ended June 30, 2017 (With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2017	2016
Revenue, gains, and other support - net:					
Charges for services (<i>Note 15</i>):					
Older Americans Act	\$ 2,149,069	\$ -	\$ -	\$ 2,149,069	\$ 2,122,287
Nutrition Services Incentive Program	627,106	-	-	627,106	685,970
Medicaid and other	671,347	-	-	671,347	604,074
Local government	171,002	-	-	171,002	273,256
Contributions:					
Participants for meals	726,883	-	-	726,883	807,128
Center and Board fundraising	3,398,358	199,668	13,926	3,611,952	3,340,089
Special events:					
Gross revenue	650,007	-	-	650,007	728,772
Less direct cost of donor benefits	(55,349)	-	-	(55,349)	(48,692)
	594,658	-	-	594,658	680,080
Contract and sales (<i>Note 15</i>)	978,590	-	-	978,590	869,361
Interest and dividends	163,462	-	-	163,462	128,317
In-kind space	626,128	-	-	626,128	613,964
Other in-kind contributions	268,099	-	-	268,099	215,812
Miscellaneous	61,382	-	-	61,382	51,118
Net assets released from restrictions (<i>Note 12</i>):					
Satisfaction of program or time restrictions	208,781	(208,781)	-	-	-
Net revenue, gains, and other support	10,644,865	(9,113)	13,926	10,649,678	10,391,456
Operating expenses:					
Program services:					
Center operations	5,241,860	-	-	5,241,860	5,036,757
Kitchen operations	3,550,855	-	-	3,550,855	3,552,810
Supporting services:					
General and administrative	836,516	-	-	836,516	739,695
Fundraising	943,451	-	-	943,451	887,589
Total operating expenses	10,572,682	-	-	10,572,682	10,216,851
Increase (decrease) in net assets from operations	72,183	(9,113)	13,926	76,996	174,605
Gain (loss) on investments, net of investment fees of \$29,969 in 2017 and \$30,988 in 2016	809,305	-	-	809,305	(64,630)
Loss on disposition of property and equipment	(49,912)	-	-	(49,912)	(58,776)
Change in value of beneficial interest in trusts	-	279	11,446	11,725	21,414
Increase (decrease) in net assets	831,576	(8,834)	25,372	848,114	72,613
Net assets, beginning of year	18,059,709	347,082	555,821	18,962,612	18,889,999
Net assets, end of year	\$ 18,891,285	\$ 338,248	\$ 581,193	\$19,810,726	\$18,962,612

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

MEALS ON WHEELS PEOPLE, INC.

Statement of Functional Expenses

Year Ended June 30, 2017 (With Comparative Totals for 2016)

	Program Services			Supporting Services			Total	
	Center Operations	Kitchen Operations	Total	General and Administrative	Fundraising	Total	2017	2016
Salaries and related expenses:								
Salaries	\$ 2,433,026	\$ 871,888	\$ 3,304,914	\$ 476,310	\$ 340,648	\$ 816,958	\$ 4,121,872	\$ 3,926,216
Employee benefits and payroll taxes	652,353	270,090	922,443	87,551	58,058	145,609	1,068,052	1,116,665
Total salaries and related expenses	3,085,379	1,141,978	4,227,357	563,861	398,706	962,567	5,189,924	5,042,881
Other expenses:								
Food and related costs:								
Paid	384,402	1,736,417	2,120,819	9,278	5,511	14,789	2,135,608	2,121,918
In-kind	94,000	7,888	101,888	-	2,228	2,228	104,116	108,701
Small equipment	57,646	6,232	63,878	25,549	2,091	27,640	91,518	40,992
Mileage and travel	58,275	2,908	61,183	15,191	6,515	21,706	82,889	72,279
Insurance	60,573	15,147	75,720	6,737	728	7,465	83,185	83,614
Vehicle costs	-	118,748	118,748	-	-	-	118,748	116,151
Repairs and maintenance	61,415	29,479	90,894	-	84	84	90,978	92,781
Janitorial services and supplies	40,649	19,249	59,898	500	-	500	60,398	81,872
Subscriptions and memberships	5,302	90	5,392	5,187	3,847	9,034	14,426	14,830
Professional fees								
Paid	114,899	72,872	187,771	115,365	88,968	204,333	392,104	392,786
In-kind	-	-	-	-	129,191	129,191	129,191	8,385
Rent and utilities:								
Paid	267,713	275,274	542,987	29,012	20,152	49,164	592,151	558,003
In-kind	626,128	-	626,128	-	-	-	626,128	613,964
Office supplies, postage, and printing	83,111	8,865	91,976	13,090	142,840	155,930	247,906	176,219
Bank charges and credit card fees	-	-	-	13,027	21,163	34,190	34,190	36,178
Other miscellaneous:								
Paid	27,398	6,067	33,465	30,559	101,550	132,109	165,574	234,913
In-kind	17,469	175	17,644	-	17,148	17,148	34,792	62,726
Total other expenses	1,898,980	2,299,411	4,198,391	263,495	542,016	805,511	5,003,902	4,816,312
Depreciation and amortization	257,501	109,466	366,967	9,160	2,729	11,889	378,856	357,658
Total expenses	\$ 5,241,860	\$ 3,550,855	\$ 8,792,715	\$ 836,516	\$ 943,451	\$ 1,779,967	\$ 10,572,682	\$ 10,216,851

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

MEALS ON WHEELS PEOPLE, INC.

Statement of Cash Flows

Year Ended June 30, 2017 (With Comparative Totals for 2016)	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 848,114	\$ 72,613
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	378,856	357,658
(Gain) loss on investments	(809,305)	64,630
Loss on disposition of property and equipment	49,912	58,776
Contribution of equipment	-	(36,000)
Reinvestment of interest and dividends held at community foundations	(1,943)	(60,579)
Change in value of beneficial interest in trusts	(11,725)	(21,414)
Change in liability for charitable gift annuities	840	4,087
Contribution of beneficial interest in charitable remainder trust	(13,926)	(27,575)
Payments for charitable gift annuities	(4,770)	(5,530)
Change in operating assets and liabilities:		
Accounts receivable - net	(141,633)	(98,626)
Prepaid expenses and deposits	(766)	(52,961)
Inventory	24,444	(2,892)
Bequests and contributions receivable	109,263	54,837
Accounts payable	(117,096)	3,803
Accrued payroll and compensated absences	(7,919)	43,079
Other accrued liabilities	(23,597)	(20,254)
Net cash provided by operating activities	278,749	333,652
Cash flows from investing activities:		
Distributions and proceeds from sale of investments	256,652	2,496,148
Purchases of investments	(193,274)	(2,446,354)
Distributions from amounts held at community foundations	-	134,681
Deposits to community foundations	-	(100)
Purchases of property, equipment, and leasehold improvements	(304,788)	(324,944)
Proceeds from sale of property and equipment	2,250	8,833
Net cash used by investing activities	(239,160)	(131,736)
Increase in cash and cash equivalents	39,589	201,916
Cash and cash equivalents, beginning of year	2,791,042	2,589,126
Cash and cash equivalents, end of year	\$ 2,830,631	\$ 2,791,042
Supplemental disclosures of noncash investing activities:		
Additions to property and equipment included in accounts payable	\$ -	\$ 41,639
Amounts transferred from community foundations to investments	-	5,700,610

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

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities - Meals on Wheels People, Inc. (the Organization) is a nonprofit organization, organized under the laws of the State of Oregon, the primary purpose of which is to provide older Americans with nutritionally balanced meals, socialization, and other needed social services. The Organization is funded by private and governmental grants, charges for services, contract and sales, and contributions from participants and the general public. Food is prepared in a central kitchen and delivered to 30 service centers, including 10 satellite locations, in Multnomah and Washington Counties in Oregon and Clark County in Washington. Meals are also delivered to homebound seniors by volunteers.

The mission of the Organization is to enrich the lives of seniors and assist them in maintaining independence by providing nutritious food, human connections, and social support. We also use our expertise and capacity to serve other nutritionally at risk populations. This is accomplished through an organization that is community based, emphasizes volunteer involvement, and is financially sound. Included are connecting people to services such as transportation, health and welfare counseling, nutrition education, shopping assistance, information and referral services, outreach, case management, case monitoring, and leisure and recreation opportunities. Each center conducts fundraising activities and some centers receive grants from cities to help support local operations.

The Board establishes general standards and policies and provides a central office and kitchen to provide support services to the centers. The Board also raises funds on a community-wide basis for operations and administrative support to the centers.

Summary of Significant Accounting Policies - The significant accounting policies followed by the Organization are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued
Summary of Significant Accounting Policies - Continued

Basis of Presentation - Continued - Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used in the financial statements for, among other things, depreciation and amortization expense (based on the estimated useful lives of the underlying assets), bequests receivable, the Organization's beneficial interest in charitable remainder trusts, liabilities under charitable gift annuities, and certain investments held at community foundations.

Cash and Cash Equivalents - The Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. On occasion throughout the year, cash and cash equivalent balances exceeded amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Investments - Investments are reported at fair value based on quoted market prices and consist of equity mutual funds, bond funds, and money market funds.

Accounts Receivable - Accounts receivable are recognized as meals and services are provided. Interest is not charged on past due accounts.

The Organization uses the allowance method to account for uncollectible accounts. The allowance for doubtful accounts is estimated by management based on various factors, including past history and current economic conditions. Receivables are written off when they are determined to be uncollectible and management has exhausted all reasonable collection efforts. At June 30, 2017, the allowance for doubtful accounts was \$4,723.

Total accounts receivable includes balances outstanding for greater than 90 days of \$30,008 at June 30, 2017.

Inventory - Inventory consists of food and related supplies and is valued at the lower of cost (average cost basis) or market.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued
Summary of Significant Accounting Policies - Continued

Property, Equipment, and Leasehold Improvements, and Depreciation and Amortization - The Organization follows the policy of capitalizing, at cost, all expenditures for equipment and leasehold improvements in excess of \$1,500.

Equipment and leasehold improvements received through donation are recorded at estimated fair value at date of donation. Depreciation and amortization have been computed using the straight-line method over the following estimated useful lives:

Equipment	2 - 20 years
Leasehold improvements	10 - 20 years
Building	50 years

Revenue Recognition - Charges for services and contracts and sales are recognized at the time services are provided and the revenues are earned.

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Temporarily restricted contributions are classified as unrestricted when the restriction is satisfied in the same fiscal year the contribution is received.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 are reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service or the expenditure for those assets has occurred.

Donated space (in-kind space) is recorded as a contribution at estimated fair rental value with an equivalent amount charged to expense.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued
Summary of Significant Accounting Policies - Continued

Donated Services and Inventory or Other In-kind Contributions - Numerous volunteers have donated significant amounts of time to the Organization's program services. Although no amounts have been reflected in the accompanying financial statements, management estimates the fair value of those services (based on \$18.89 per hour) to be \$4,740,000 for the year ended June 30, 2017. Donated food, supplies, and other miscellaneous items in the amount of \$138,908 have been reflected in the accompanying financial statements for the year ended June 30, 2017. Donated professional services in the amount of \$129,191 have been reflected in the accompanying financial statements for the year ended June 30, 2017.

Advertising - Advertising, which is primarily for employment and center promotion, is expensed when incurred. Advertising costs totaled \$77,710 for the year ended June 30, 2017.

Income Taxes - The Organization is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Organization is not classified as a private foundation. Certain activities of the Organization are subject to the Federal unrelated business income tax and similar state provisions. Unrelated business income tax was not generated from these activities during the year ended June 30, 2017.

GAAP prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and provides guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe the Organization has any uncertain tax positions. The Organization files informational returns. Generally, these returns are subject to examination by income tax authorities for three years from the filing of a return. The Organization has not paid any interest or penalties related to its income tax positions, and there are currently no audits for any tax periods in progress. Interest or penalties assessed by taxing authorities, if any, would be included with general and administrative expenses.

Functional Allocation of Expenses - Costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Summarized Financial Information for 2016 - The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Reclassifications - Certain reclassifications have been made to the 2016 information to conform with the 2017 presentation.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

2. Program and Supporting Services

Center Operations - The Organization's meal sites have the responsibility of providing a hot noon meal and programming for socialization for seniors living within their geographic area. Nutrition services include group dining on site and meals delivered to homebound clients (Meals-on-Wheels). Congregate meals provided totaled approximately 283,000 for the year ended June 30, 2017.

Centers are located in a variety of settings, including senior centers, multicultural centers, housing authority buildings, parks and recreation buildings, and churches.

In addition to providing meals, centers cooperate with other community agencies to provide opportunities for enrichment to the lives of seniors through activities, speakers, field trips, and health-related issues including clinics for foot care and blood pressure monitoring.

All new Meals-on-Wheels clients are visited by an outreach worker who works with the client to determine how the Organization can meet their nutritional needs and make referrals to other community resources as needed. Clients are revisited on an annual basis. Home-delivered meals totaled approximately 727,000 for the year ended June 30, 2017.

Kitchen Operations - The central kitchen provides meals for 20 anchor centers and 10 satellite locations. The meals are prepared in bulk, divided, and shipped to each center. Menus for these meals are prepared on a six-week cycle. Approximately 4,800 meals are prepared daily.

Meals are also provided to non-organization centers at 15 contract sites. Contract meals prepared for other organizations totaled approximately 235,000 for the year ended June 30, 2017.

Support Services - General and administrative activities include business management, recordkeeping, budgeting, financing, information technology, and related administrative activities. These services provide the necessary developmental, organizational, and management support for the effective operation of programs.

Fundraising activities include conducting fundraising campaigns, preparing and distributing fundraising materials, and conducting other activities involving soliciting contributions from individuals, foundations, and others.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

3. Investments

Investments consist of the following at June 30:

	2017	2016
Domestic equity mutual funds	\$ 3,763,744	\$ 3,836,127
International equity mutual funds	2,486,618	1,875,175
Bond funds	2,623,805	2,391,221
Money market funds	<u>280,063</u>	<u>329,936</u>
	<u>\$ 9,154,230</u>	<u>\$ 8,432,459</u>

Investments include permanently restricted donor contributions of \$99,490 at June 30, 2017. Earnings on these funds must be used in support of center operations.

4. Bequests and Contributions Receivable

The Organization had unconditional promises to give representing the following at June 30:

	2017	2016
Bequests receivable	\$ 501,855	\$ 662,331
Other contributions receivable	<u>154,800</u>	<u>103,587</u>
	<u>\$ 656,655</u>	<u>\$ 765,918</u>

Management expects to collect on these unconditional promises to give within the next year.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

5. Beneficial Interest in Charitable Remainder Trusts

The Organization is the beneficiary of three charitable remainder trusts. All or a portion of the remaining principal and income of the trusts is to be distributed to the Organization upon termination. The estimated fair value of the charitable remainder trusts at June 30, using a discount rate of 5 percent, is as follows:

	2017	2016
Temporarily restricted	\$ 2,815	\$ 2,536
Permanently restricted	<u>242,875</u>	<u>217,503</u>
	<u>\$ 245,690</u>	<u>\$ 220,039</u>

The beneficial interest of certain trusts has been restricted by the donors as a permanent endowment. As such, these amounts have been classified as permanently restricted net assets in the accompanying statement of financial position.

6. Investments Held Related to Charitable Gift Annuities

It is the Organization's policy to separately maintain amounts received upon the issuance of charitable gift annuities until the annuity obligations have been fully satisfied.

Investments held related to charitable gift annuities are carried at fair value and consist of bond funds totaling \$26,055 at June 30, 2017.

The liability for charitable gift annuities represents the present value of total expected payments that will be made to the donors. The Organization estimated the liability based on actuarial assumptions at the time the annuities were issued. The present value of each annuity is calculated based on applicable mortality tables using discount rates ranging from 3 to 5 percent.

7. Investments Held at Community Foundations

Oregon Community Foundation: The Organization has an agreement with Oregon Community Foundation (OCF) in order to achieve improved performance results with respect to investments and enhance long-term planned giving goals. Under the terms of the agreement, OCF will distribute annually 4.5 percent of the fair market value of the fund based on the preceding 12-quarter average balance to the Organization. No income distributions were received from OCF during the year ended June 30, 2017. Additional distributions up to the entire balance of the fund may be made on a resolution of both of the organizations' Boards of Directors. Investments held at OCF totaled \$238,828 at June 30, 2017. Investments held at OCF are valued at estimated fair value (*Note 17*). These funds have been restricted by the donors as a permanent endowment. As such, these amounts have been classified as permanently restricted net assets in the accompanying statement of financial position.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

7. Investments Held at Community Foundations - Continued

A portion of the investments held at OCF consists of investments in limited partnerships and real estate whose fair values have been estimated by OCF management in the absence of readily determinable market values. These estimates are based on information provided by the fund managers or the general partners, and real estate appraisals; therefore, the reported values may differ from the values that would have been used had a quoted market price existed.

Community Foundation for Southwest Washington: The Organization has an agreement with the Community Foundation for Southwest Washington (CFSWW) in order to establish a fund whereby donors can contribute monies to be used to serve the elderly in the State of Washington.

Under the terms of the agreement, CFSWW shall make charitable distributions from the fund for the benefit of the Organization. Investments held at CFSWW totaled \$65,307 at June 30, 2017. Investments held at CFSWW are valued at estimated fair value (*Note 17*). These funds have been classified as Board designated for financial reserve in the accompanying statement of financial position.

A portion of the investments held at CFSWW consists of investments in limited partnerships and real estate whose fair values have been estimated by CFSWW's management in the absence of readily determinable market values. These estimates are based on information provided by the fund managers or the general partners, and real estate appraisals; therefore, the reported values may differ from the values that would have been used had a quoted market price existed.

8. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at June 30:

	2017	2016
Land	\$ 929,566	\$ 929,566
Building	5,728,271	5,728,271
Kitchen equipment	1,199,490	1,246,144
Service center equipment	630,960	641,135
Office equipment	600,852	520,381
Vehicles	69,817	69,817
Leasehold improvements	951,601	931,851
	<u>10,110,557</u>	<u>10,067,165</u>
Less accumulated depreciation and amortization	<u>(4,116,106)</u>	<u>(3,946,484)</u>
	<u>\$ 5,994,451</u>	<u>\$ 6,120,681</u>

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

9. Commitments

The Organization leases certain space, vehicles, and equipment under various non-cancelable operating lease agreements expiring through October 2020. Minimum payments remaining under the non-cancelable operating leases are as follows at June 30, 2017:

Years Ending June 30,	Amount
2018	\$ 305,943
2019	274,044
2020	184,542
2021	<u>13,874</u>
	<u><u>\$ 778,403</u></u>

The Organization also leases other facilities and equipment under various month-to-month operating lease agreements. Total expense under all operating lease agreements (including donated space) was \$1,115,594 for the year ended June 30, 2017.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30:

	2017	2016
Center projects	\$ 123,446	\$ 70,937
Beneficial interest in charitable remainder trusts held by others	2,815	2,536
Joan Smith Executive Director Fund	49,180	49,180
Purpose restrictions	8,007	165,842
Other contributions receivable	<u>154,800</u>	<u>58,587</u>
	<u><u>\$ 338,248</u></u>	<u><u>\$ 347,082</u></u>

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

11. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following at June 30:

	2017	2016
Center programs	\$ 338,318	\$ 338,318
Beneficial interest in charitable remainder trusts held by others	<u>242,875</u>	<u>217,503</u>
	<u>\$ 581,193</u>	<u>\$ 555,821</u>

12. Net Assets Released from Restrictions

During the year ended June 30, 2017, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

Satisfaction of program or time restrictions:	
Center projects	\$ 50,946
Program activities and other bequests and contributions receivable	<u>157,835</u>
	<u>\$ 208,781</u>

13. Retirement Plan

The Organization maintains a defined contribution retirement plan (the Plan) that covers all eligible employees. The Organization makes a matching contribution of employee salary deferrals equal to 100 percent of the deferrals, not to exceed 2 percent of eligible compensation. In addition, the Organization makes an additional contribution equal to 3 percent of an employee's eligible compensation. Employer contributions to the Plan during the year ended June 30, 2017, totaled \$168,618.

14. Joint Costs

The Organization conducts certain activities that include requests for contributions, as well as program and management and general components. These activities include the distribution of the Organization's annual report and publication of newsletters. Management feels that the costs of conducting these activities are immaterial, and has accounted for these costs as fundraising expenditures in the statement of functional expenses.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

15. Concentrations

The Organization received approximately 34 percent of its operational funding from governmental agencies during the year ended June 30, 2017. If a significant reduction in the level of this funding were to occur, it would affect the Organization's ability to provide programs and services.

Substantially all of the Organization's contract and sales revenue reported in the accompanying statement of activities was derived from four customers in 2017. Sales to these customers accounted for 85 percent of total contract and sales revenue for the year ended June 30, 2017. Included in contract meals receivable in the accompanying statement of financial position were amounts due from these customers totaling \$168,353 at June 30, 2017.

16. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject the Organization to concentrations of risk consist principally of: cash and cash equivalents; accounts receivable; investments (*Note 3*); bequests and contributions receivable (*Note 4*); beneficial interest in charitable remainder trusts (*Note 5*); and investments held at community foundations (*Note 7*).

The Organization's investments, including those held related to charitable gift annuities and those held by community foundations, as well as its beneficial interest in charitable remainder trusts, are exposed to various risks, such as interest rate, market, and credit risk. The value, liquidity, and related income of these investments are sensitive to changes in economic conditions, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

17. Fair Value Measurements

GAAP provides the framework for measuring fair value. The classification of assets and liabilities within the fair value hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

At June 30, 2017, there were no liabilities measured at fair value.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

17. Fair Value Measurements - Continued

The three levels of the fair value hierarchy under GAAP and the valuation methodologies used for assets are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

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

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

Level 3: Fair value is based on significant unobservable inputs.

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

The Organization recognizes transfers into and out of levels within the fair value hierarchy at the actual date of the event or change in circumstances that caused the transfer.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

17. Fair Value Measurements - Continued

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis as of June 30, 2017, (there were no assets valued using a level 2 type measurement):

	Total	Level 1	Level 3
Investments:			
Domestic equity mutual funds	\$ 3,763,744	\$ 3,763,744	\$ -
International equity mutual funds	2,486,618	2,486,618	-
Bond funds	2,623,805	2,623,805	-
Money market funds	280,063	280,063	-
	<u>9,154,230</u>	<u>9,154,230</u>	<u>-</u>
Total investments	9,154,230	9,154,230	-
Beneficial interest in charitable remainder trusts	245,690	-	245,690
Investments held related to charitable gift annuities	26,055	26,055	-
Investments held at community foundations	304,135	-	304,135
	<u>304,135</u>	<u>-</u>	<u>304,135</u>
Total assets at fair value	<u>\$ 9,730,110</u>	<u>\$ 9,180,285</u>	<u>\$ 549,825</u>

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

Mutual funds, bond funds, money market funds, and investments held related to charitable gift annuities: Valued based on quoted market prices in active markets of shares held by the Organization at year end, and are classified as Level 1.

Beneficial interest in charitable remainder trusts: The expected future inflows from the trusts are based on the fair value of the underlying investments and the life expectancy of the donor, and have been discounted using a discount rate of 5 percent. Since there are unobservable inputs that are significant in determining the fair value, this asset is classified as Level 3.

Investments held at community foundations: Assets held at community foundations (the foundations) represent the Organization's share of a pooled investment portfolio managed by the foundations. The Organization's share of the pooled investment portfolio is not actively traded and significant other observable inputs are not available. However, as described in *Note 7*, the underlying investments of the foundations are measured by management of the foundations using a variety of valuation methods including Level 1, Level 2, and Level 3 inputs. As such, this asset is classified as Level 3.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

17. Fair Value Measurements - Continued

A summary of the fair value measurements using unobservable inputs (Level 3) for the year ended June 30, 2017, is as follows:

	Beneficial Interest in Charitable Trusts	Investments Held at Community Foundations	Total
Balance, June 30, 2016	\$ 220,039	\$ 273,320	\$ 493,359
Change in value	11,725	-	11,725
Contributions	13,926	-	13,926
Interest and dividends	-	1,943	1,943
Realized and unrealized gains	-	31,580	31,580
Fees paid	-	(2,708)	(2,708)
Balance, June 30, 2017	<u>\$ 245,690</u>	<u>\$ 304,135</u>	<u>\$ 549,825</u>

18. Endowment Funds

The Organization's endowment consists of certain investments (*Note 3*), funds held at OCF (*Note 7*), and a beneficial interest in a charitable remainder trust (*Note 5*). As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Financial accounting standards provide guidance for the classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted 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, if any, 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 consistent with the standard of prudence prescribed by UPMIFA.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

18. Endowment Funds - Continued

Investment Strategy and Endowment Spending Policies

Management has adopted an investment and spending policy for the endowment. The spending policy calls for a 4.5 percent distribution of the fair market value of the endowment based on the preceding 12-quarter average balance to the Organization.

OCF follows a total-return strategy in which investment decisions are made with the intent of maximizing the long-term total return of the investment portfolio, combining market-value changes (realized and unrealized) and current yield (interest and dividends). Funds held with OCF are invested in a mixture of equities, fixed-income instruments, alternative investment classes, such as hedge funds, distressed debt, private investments, and cash. The Organization believes the investment and spending policy is consistent with the Organization's objective to maintain purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition at June 30, 2017:

	Permanently Restricted
Donor restricted endowment funds	\$ 338,318
Interest in charitable remainder trust	<u>242,875</u>
	<u><u>\$ 581,193</u></u>

Changes in endowment net assets for the year ended June 30, 2017:

	Permanently Restricted
Endowment net assets, beginning of year	\$ 555,821
Change in value of beneficial interest in charitable remainder trust	11,446
Contribution	<u>13,926</u>
Endowment net assets, ending of year	<u><u>\$ 581,193</u></u>

19. Subsequent Events

Management has evaluated subsequent events through October 4, 2017, the date the financial statements were available to be issued.