



FINANCIAL STATEMENTS

Year Ended June 30, 2016

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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 7, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 5, 2016, 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.

Hoffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
October 5, 2016

MEALS ON WHEELS PEOPLE, INC.

Statement of Financial Position

June 30, 2016 <i>(With Comparative Amounts for 2015)</i>	2016	2015
ASSETS		
Cash and cash equivalents	\$ 2,791,042	\$ 2,589,126
Investments <i>(Notes 3, 17, and 18)</i>	8,432,459	2,546,779
Accounts receivable - net:		
Medicaid	62,956	57,078
Older Americans Act	298,081	254,100
Nutrition Services Incentive Program	121,426	86,688
Contract meals <i>(Note 15)</i>	173,091	159,474
Other	<u>38,901</u>	<u>38,489</u>
Total accounts receivable - net	694,455	595,829
Prepaid expenses and deposits	215,998	163,037
Inventory	87,443	84,551
Bequests and contributions receivable <i>(Note 4)</i>	765,918	820,755
Beneficial interest in charitable remainder trusts <i>(Notes 5 and 17)</i>	220,039	171,050
Investments held related to charitable gift annuities <i>(Notes 6 and 17)</i>	30,771	32,502
Investments held at community foundations <i>(Notes 7, 17, and 18)</i>	273,320	6,345,695
Property, equipment, and leasehold improvements - net <i>(Note 8)</i>	<u>6,120,681</u>	<u>6,143,365</u>
	<u>\$ 19,632,126</u>	<u>\$ 19,492,689</u>

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

MEALS ON WHEELS PEOPLE, INC.

Statement of Financial Position

	2016	2015
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 300,975	\$ 255,533
Accrued payroll and compensated absences	256,390	213,311
Other accrued liabilities	86,507	106,761
Liability for charitable gift annuities <i>(Note 6)</i>	25,642	27,085
Total liabilities	669,514	602,690
Commitments <i>(Notes 9 and 13)</i>		
Net assets:		
Unrestricted:		
Available for operations	3,575,479	2,821,814
Board designated for advertising initiative	36,964	150,000
Board designated for technology initiative	47,622	100,000
Board designated for the Joan Smith Executive Director Fund	104,197	104,197
Board designated for financial reserve	5,900,798	6,007,377
Board designated for capital reserve and maintenance	2,273,968	2,357,481
Net investment in property, equipment, and leasehold improvements	6,120,681	6,143,365
Total unrestricted net assets	18,059,709	17,684,234
Temporarily restricted <i>(Note 10)</i>	347,082	702,396
Permanently restricted <i>(Notes 11 and 18)</i>	555,821	503,369
Total net assets	18,962,612	18,889,999
	\$ 19,632,126	\$ 19,492,689

MEALS ON WHEELS PEOPLE, INC.

Statement of Activities

Year Ended June 30, 2016 (With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
Revenue, gains, and other support - net:					
Charges for services (<i>Note 15</i>):					
Older Americans Act	\$ 2,122,287	\$ -	\$ -	\$ 2,122,287	\$ 2,269,565
Nutrition Services Incentive Program	685,970	-	-	685,970	674,242
Medicaid and other	596,900	-	-	596,900	608,018
Local government	273,256	-	-	273,256	255,892
Contributions:					
Participants for meals	807,128	-	-	807,128	790,952
Center and Board fundraising	3,095,587	216,927	27,575	3,340,089	3,602,411
Special events:					
Gross revenue	728,772	-	-	728,772	866,673
Less direct cost of donor benefits	(48,692)	-	-	(48,692)	(42,316)
	680,080	-	-	680,080	824,357
Contracts and sales (<i>Note 15</i>)	869,361	-	-	869,361	575,552
Interest and dividends	128,317	-	-	128,317	101,315
In-kind space	613,964	-	-	613,964	611,628
Other in-kind contributions	215,812	-	-	215,812	170,020
Miscellaneous	51,118	-	-	51,118	32,633
Net assets released from restrictions (<i>Note 12</i>):					
Satisfaction of program or time restrictions	568,778	(568,778)	-	-	-
Net revenue, gains, and other support	10,708,558	(351,851)	27,575	10,384,282	10,516,585
Operating expenses:					
Program services:					
Center operations	5,036,757	-	-	5,036,757	4,816,920
Kitchen operations	3,552,810	-	-	3,552,810	3,645,305
Supporting services:					
General and administrative	846,250	-	-	846,250	703,238
Fundraising	773,860	-	-	773,860	792,802
Total operating expenses	10,209,677	-	-	10,209,677	9,958,265
Increase (decrease) in net assets from operations	498,881	(351,851)	27,575	174,605	558,320
Loss on investments, net of investment fees of \$30,888 in 2016 and \$39,137 in 2015	(64,630)	-	-	(64,630)	(36,660)
Loss on disposition of property and equipment	(58,776)	-	-	(58,776)	(15,114)
Change in value of beneficial interest in trusts	-	(3,463)	24,877	21,414	(4,300)
Increase (decrease) in net assets	375,475	(355,314)	52,452	72,613	502,246
Net assets, beginning of year	17,684,234	702,396	503,369	18,889,999	18,387,753
Net assets, end of year	\$ 18,059,709	\$ 347,082	\$ 555,821	\$ 18,962,612	\$ 18,889,999

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

MEALS ON WHEELS PEOPLE, INC.

Statement of Functional Expenses

Year Ended June 30, 2016 (With Comparative Totals for 2015)

	Program Services			Supporting Services			Total	
	Center Operations	Kitchen Operations	Total	General and Administrative	Fundraising	Total	2016	2015
Salaries and related expenses:								
Salaries	\$ 2,330,127	\$ 840,102	\$ 3,170,229	\$ 442,843	\$ 313,144	\$ 755,987	\$ 3,926,216	\$ 3,844,212
Employee benefits and payroll taxes	677,886	288,373	966,259	90,482	59,924	150,406	1,116,665	1,184,220
Total salaries and related expenses	3,008,013	1,128,475	4,136,488	533,325	373,068	906,393	5,042,881	5,028,432
Other expenses:								
Food and related costs:								
Paid	338,842	1,776,612	2,115,454	6,347	117	6,464	2,121,918	2,126,425
In-kind	60,883	21,348	82,231	-	26,470	26,470	108,701	73,068
Small equipment	16,828	4,425	21,253	16,680	3,059	19,739	40,992	50,631
Mileage and travel	60,154	3,650	63,804	3,688	4,787	8,475	72,279	64,524
Insurance	60,181	15,657	75,838	7,070	706	7,776	83,614	80,600
Vehicle costs	2,247	113,904	116,151	-	-	-	116,151	114,387
Repairs and maintenance	68,262	24,331	92,593	-	188	188	92,781	88,324
Janitorial services and supplies	47,014	34,858	81,872	-	-	-	81,872	77,872
Subscriptions and memberships	7,612	-	7,612	3,534	3,684	7,218	14,830	19,005
Professional fees								
Paid	114,869	54,210	169,079	89,934	133,773	223,707	392,786	345,991
In-kind	-	-	-	-	8,385	8,385	8,385	5,836
Rent and utilities:								
Paid	242,664	268,983	511,647	26,649	19,707	46,356	558,003	548,590
In-kind	613,964	-	613,964	-	-	-	613,964	611,628
Office supplies, postage, and printing	71,971	7,460	79,431	11,003	85,784	96,787	176,218	140,783
Bank charges and credit card fees	-	-	-	14,336	21,842	36,178	36,178	36,660
Other miscellaneous:								
Paid	26,938	3,558	30,496	127,668	69,576	197,244	227,740	116,103
In-kind	40,578	995	41,573	-	21,153	21,153	62,726	91,116
Total other expenses	1,773,007	2,329,991	4,102,998	306,909	399,231	706,140	4,809,138	4,591,543
Depreciation and amortization	255,737	94,344	350,081	6,016	1,561	7,577	357,658	338,290
Total expenses	\$ 5,036,757	\$ 3,552,810	\$ 8,589,567	\$ 846,250	\$ 773,860	\$ 1,620,110	\$ 10,209,677	\$ 9,958,265

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

MEALS ON WHEELS PEOPLE, INC.

Statement of Cash Flows

Year Ended June 30, 2016 (With Comparative Totals for 2015)	2016	2015
Cash flows from operating activities:		
Increase in net assets	\$ 72,613	\$ 502,246
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	357,658	338,290
Loss on investments	64,630	36,660
Loss on disposition of property and equipment	58,776	15,114
Contribution of equipment	(36,000)	-
Reinvestment of interest and dividends held at community foundations	(60,579)	(60,712)
Change in value of beneficial interest in trusts	(21,414)	4,300
Change in liability for charitable gift annuities	4,087	4,070
Distribution from beneficial interest in charitable remainder trust	-	20,746
Contribution of beneficial interest in charitable remainder trust	(27,575)	-
Payments for charitable gift annuities	(5,530)	(5,530)
Change in operating assets and liabilities:		
Accounts receivable - net	(98,626)	(169,095)
Prepaid expenses and deposits	(52,961)	(47,864)
Inventory	(2,892)	(6,112)
Bequests and contributions receivable	54,837	1,266,403
Accounts payable	3,803	61,074
Accrued payroll and compensated absences	43,079	(11,737)
Other accrued liabilities	(20,254)	(21,566)
Net cash provided by operating activities	333,652	1,926,287
Cash flows from investing activities:		
Proceeds from sale of investments	2,496,148	25,100
Purchases of investments	(2,446,354)	(755,455)
Distributions from amounts held at community foundations	134,681	265,764
Deposits to community foundations	(100)	-
Purchases of property, equipment, and leasehold improvements	(324,944)	(216,411)
Proceeds from sale of property and equipment	8,833	5,000
Net cash used by investing activities	(131,736)	(676,002)
Increase in cash and cash equivalents	201,916	1,250,285
Cash and cash equivalents, beginning of year	2,589,126	1,338,841
Cash and cash equivalents, end of year	\$ 2,791,042	\$ 2,589,126
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, 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, 2016 and 2015, the allowance for doubtful accounts was \$2,000.

Total accounts receivable includes balances outstanding for greater than 90 days of \$8,715 and \$13,964 at June 30, 2016 and 2015, respectively.

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

Contribution Recognition - 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 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. At June 30, 2016, the Organization had a \$100,000 conditional promise to give to fund technology enhancements. This contribution will be recognized as revenue once certain conditions imposed by the donor are satisfied by the Organization.

In-Kind Space - Donated space is recorded as a contribution at estimated fair rental value with an equivalent amount charged to expense.

Donated Services and Inventory - 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 \$4,728,000 and \$5,821,000 for the years ended June 30, 2016 and 2015, respectively. Donated food, supplies, and other miscellaneous items in the amount of \$171,427 and \$164,184 have been reflected in the accompanying financial statements for the years ended June 30, 2016 and 2015, respectively. Donated professional services in the amount of \$8,385 and \$5,836 have been reflected in the accompanying financial statements for the years ended June 30, 2016 and 2015, respectively. Donated equipment in the amount of \$36,000 and \$-0- have been reflected in the accompanying financial statements for the years ended June 30, 2016 and 2015, respectively.

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

Advertising - Advertising, which is primarily for employment and center promotion, is expensed when incurred. Advertising costs totaled \$138,279 and \$41,215 for the years ended June 30, 2016 and 2015, respectively.

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, 2016.

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 2015 - 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, 2015, from which the summarized information was derived.

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 329,000 for the year ended June 30, 2016.

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.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

2. Program and Supporting Services - Continued

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 777,100 for the year ended June 30, 2016.

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 5,200 meals are prepared daily.

Meals are also provided to non-Meals on Wheels People, Inc. Centers at five contract sites. Contract meals prepared for other organizations totaled approximately 219,000 for the year ended June 30, 2016.

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.

3. Investments

Investments consist of the following at June 30:

	2016	2015
Domestic equity mutual funds	\$ 3,836,127	\$ 1,091,142
International equity mutual funds	1,875,175	265,436
Bond funds	2,391,221	1,190,201
Money market funds	329,936	-
	<u>\$ 8,432,459</u>	<u>\$ 2,546,779</u>

During the year ended June 30, 2016, the Organization transferred \$5,700,610 out of its investments held at community foundations (*Note 7*) to its investment portfolio.

Investments include permanently restricted donor contributions of \$126,000 and \$-0-, respectively, at June 30, 2016 and 2015. Earnings on these funds must be used in support of center operations.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

4. Bequests and Contributions Receivable

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

	2016	2015
Bequests receivable	\$ 662,331	\$ 625,100
Other contributions receivable	<u>103,587</u>	<u>195,655</u>
	<u>\$ 765,918</u>	<u>\$ 820,755</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 765,918	\$ 810,255
One to five years	<u>-</u>	<u>10,500</u>
	<u>\$ 765,918</u>	<u>\$ 820,755</u>

Management has elected not to calculate any discount to present value on pledges due beyond one year as such amount would not be significant.

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:

	2016	2015
Temporarily restricted	\$ 2,536	\$ 5,999
Permanently restricted	<u>217,503</u>	<u>165,051</u>
	<u>\$ 220,039</u>	<u>\$ 171,050</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.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

6. 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 \$30,771 at June 30, 2016.

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. Income distributions of \$134,681 and \$265,764 were received from OCF during the years ended June 30, 2016 and 2015, respectively. Additional distributions up to the entire balance of the fund may be made on a resolution of both of the organizations' Boards of Directors. During the year ended June 30, 2016, the Organization transferred \$5,700,610 out of OCF to its investment portfolio (*Note 3*). Investments held at OCF totaled \$212,318 and \$6,283,605 at June 30, 2016 and 2015, respectively. Investments held at OCF are valued at estimated fair value (*Note 17*).

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.

Investments held at OCF also include permanently restricted donor contributions of \$212,318 and \$338,318, respectively, at June 30, 2016 and 2015. Earnings on these funds must be used in support of center operations.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

7. Investments Held at Community Foundations - Continued

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 \$61,002 and \$62,090 at June 30, 2016 and 2015, respectively. 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:

	2016	2015
Land	\$ 929,566	\$ 929,566
Building	5,728,271	5,728,271
Kitchen equipment	1,246,144	1,182,268
Service center equipment	641,135	572,627
Office equipment	520,381	537,337
Vehicles	69,817	65,194
Leasehold improvements	<u>931,851</u>	<u>957,079</u>
	10,067,165	9,972,342
Less accumulated depreciation and amortization	<u>(3,946,484)</u>	<u>(3,828,977)</u>
	<u><u>\$ 6,120,681</u></u>	<u><u>\$ 6,143,365</u></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, 2016:

Years Ending June 30,	Amount
2017	\$ 392,815
2018	187,293
2019	131,406
2020	68,329
2021	13,874
	<u>13,874</u>
	<u>\$ 793,717</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 \$1,061,750 and \$1,035,778 for the years ended June 30, 2016 and 2015, respectively.

10. Temporarily Restricted Net Assets

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

	2016	2015
Center projects	\$ 70,937	\$ 126,118
Beneficial interest in charitable remainder trusts held by others	2,536	5,999
Joan Smith Executive Director Fund	49,180	48,928
Purpose restrictions	165,842	125,000
Bequest restricted for Clark County Centers	-	150,696
Bequest restricted for Ambleside Center	-	125,000
Other contributions receivable	58,587	120,655
	<u>58,587</u>	<u>120,655</u>
	<u>\$ 347,082</u>	<u>\$ 702,396</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:

	2016	2015
Center programs	\$ 338,318	\$ 338,318
Beneficial interest in charitable remainder trust held by others	<u>217,503</u>	<u>165,051</u>
	<u>\$ 555,821</u>	<u>\$ 503,369</u>

12. Net Assets Released from Restrictions

During the year ended June 30, 2016, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

Satisfaction of program or time restrictions:	
Center projects	\$ 94,009
Program activities and other bequests and contributions receivable	<u>474,769</u>
	<u>\$ 568,778</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 years ended June 30, 2016 and 2015, totaled \$139,534 and \$151,830, respectively.

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 35 and 36 percent of its funding from governmental agencies during the years ended June 30, 2016 and 2015, respectively. 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 2016 and 2015. Sales to these customers accounted for 92 and 91 percent of total contract and sales revenue, respectively, for the years ended June 30, 2016 and 2015, respectively. Included in contract meals receivable in the accompanying statement of financial position were amounts due from these customers totaling \$151,194 and \$140,164 at June 30, 2016 and 2015, respectively.

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.

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.

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, 2016 (there were no assets valued using a level 2 type measurement):

	Total	Level 1	Level 3
Investments:			
Domestic equity mutual funds	\$ 3,836,127	\$ 3,836,127	\$ -
International equity mutual funds	1,875,175	1,875,175	-
Bond funds	2,391,221	2,391,221	-
Money market funds	329,936	329,936	-
	<hr/>	<hr/>	<hr/>
Total investments	8,432,459	8,432,459	-
Beneficial interest in charitable remainder trusts	220,039	-	220,039
Investments held related to charitable gift annuities	30,771	30,771	-
Investments held at community foundations	273,320	-	273,320
	<hr/>	<hr/>	<hr/>
Total assets at fair value	<u>\$ 8,956,589</u>	<u>\$ 8,463,230</u>	<u>\$ 493,359</u>

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

17. Fair Value Measurements - Continued

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.

A summary of the fair value measurements using unobservable inputs (Level 3) for the year ended June 30, 2016, is as follows:

	Beneficial Interest in Charitable Trusts	Investments Held at Community Foundations	Total
Balance, June 30, 2015	\$ 171,050	\$ 6,345,695	\$ 6,516,745
Change in value	21,414	-	21,414
Contributions	27,575	100	27,675
Interest and dividends	-	60,579	60,579
Realized and unrealized losses	-	(277,469)	(277,469)
Fees paid	-	(20,294)	(20,294)
Distributions	-	(134,681)	(134,681)
Transfers (<i>Note 7</i>)	-	(5,700,610)	(5,700,610)
Balance, June 30, 2016	<u>\$ 220,039</u>	<u>\$ 273,320</u>	<u>\$ 493,359</u>

A portion of the investments held at the foundations was transferred to the Organization's investment portfolio (*Note 3*).

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

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.

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.

MEALS ON WHEELS PEOPLE, INC.

Notes to Financial Statements - Continued

18. Endowment Funds - Continued

Endowment net asset composition at June 30, 2016:

	Permanently Restricted
Donor restricted endowment funds	\$ 338,318
Interest in charitable remainder trust	<u>217,503</u>
	<u><u>\$ 555,821</u></u>

Changes in endowment net assets for the year ended June 30, 2016:

	Permanently Restricted
Endowment net assets, beginning of year	\$ 503,369
Change in value of beneficial interest in charitable remainder trust	24,877
Contribution	<u>27,575</u>
	<u><u>\$ 555,821</u></u>

Management believes the amount of unspent accumulated earnings in excess of this historic dollar value, if any, is immaterial and has, therefore, classified all endowment related activity (other than new principal contributions and change in value of the beneficial interest in the charitable remainder trust) as a component of unrestricted net assets in the accompanying statement of activities.

19. Subsequent Events

Management has evaluated subsequent events through October 5, 2016, the date the financial statements were available to be issued.