

Citymeals-on-Wheels

Consolidated Financial Report
June 30, 2020

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RSM US LLP

Independent Auditor's Report

Board of Directors
Citymeals-on-Wheels

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Citymeals-on-Wheels and its subsidiary (the Organization), which comprise the consolidated statement of financial position as of June 30, 2020, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citymeals-on-Wheels and its subsidiary as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2019 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 12, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

New York, New York
November 9, 2020

Citymeals-on-Wheels

Consolidated Statement of Financial Position

June 30, 2020

(with summarized comparative financial information as of June 30, 2019)

	2020	2019
Assets		
Cash	\$ 21,706,936	\$ 7,130,284
Investments at fair value	25,395,868	24,422,365
Grants and contributions receivable	5,343,072	1,660,877
Advances to providers	683,641	590,713
Prepaid expenses and other assets	1,820,126	659,344
Property and equipment, net	11,729,061	11,933,657
Total assets	\$ 66,678,704	\$ 46,397,240
Liabilities and Net Assets		
Liabilities:		
Accounts payable to providers	\$ 747,829	\$ 525,671
Accrued expenses and deferred rent	740,865	368,893
Deferred revenue	739,998	65,000
Loans payable	6,124,984	7,818,458
Total liabilities	8,353,676	8,778,022
Commitments		
Net assets:		
Without donor restrictions	54,483,884	36,750,681
With donor restrictions:		
Purpose and time restrictions	3,697,222	459,544
Perpetual in nature	143,922	408,993
Total net assets with donor restrictions	3,841,144	868,537
Total net assets	58,325,028	37,619,218
Total liabilities and net assets	\$ 66,678,704	\$ 46,397,240

See notes to consolidated financial statements.

Citymeals-on-Wheels

Consolidated Statement of Activities

Year Ended June 30, 2020

(with summarized comparative financial information for the year ended June 30, 2019)

	2020	2019
Change in net assets without donor restrictions:		
Support and revenue:		
Support:		
Contributions for meals programs	\$ 27,419,152	\$ 14,275,796
Contributions for administrative support	1,508,705	1,629,775
Government grants	6,112,368	4,200,104
Capital Campaign	5,313,848	2,333,250
Donated goods and services	582,501	395,155
Net investment return	615,408	1,142,556
Net assets released from restrictions	343,433	468,940
Reclassification of net assets with donor restrictions to without donor restrictions	215,688	-
Total support and revenue	42,111,103	24,445,576
Expenses:		
Program services:		
Weekend meals	9,943,982	9,665,805
Holiday meals	541,178	593,802
Holiday meal packages	1,283,466	1,931,638
Emergency meal packages	4,321,898	1,179,844
Fresh produce	21,746	37,320
Mobile food pantry	7,745	6,996
Non-meal assistance program	16,054	219,401
Friendly visiting program	804,371	908,329
Program coordination	2,259,782	2,262,953
Total program services	19,200,222	16,806,088
Supporting services:		
Fund-raising	2,335,061	2,518,870
Cost of direct benefits to donors	333,261	339,316
General and administrative	2,509,356	1,955,658
Total supporting services	5,177,678	4,813,844
Total expenses	24,377,900	21,619,932
Change in net assets without donor restrictions	17,733,203	2,825,644
Change in net assets with donor restrictions:		
Contributions – time and purpose restricted	3,594,189	320,000
Net investment return	(62,461)	22,770
Net assets released from restrictions	(343,433)	(468,940)
Reclassification of net assets with donor restrictions to without donor restrictions	(215,688)	-
Change in net assets with donor restrictions	2,972,607	(126,170)
Change in net assets	20,705,810	2,699,474
Net assets:		
Beginning	37,619,218	34,919,744
Ending	\$ 58,325,028	\$ 37,619,218

See notes to consolidated financial statements.

Citymeals-on-Wheels

Consolidated Statement of Functional Expenses

Year Ended June 30, 2020

(with summarized comparative financial information for the year ended June 30, 2019)

	2020						2019
	Program Services	Fund-Raising	Costs of Direct Benefit to Donors	General and Administrative	Total Supporting Services	Total	Summarized Comparative Total
Weekend Meals	\$ 9,943,982	\$ -	\$ -	\$ -	\$ -	\$ 9,943,982	\$ 9,665,805
Holiday Meals	541,178	-	-	-	-	541,178	593,802
Holiday Meal Packages	1,283,466	-	-	-	-	1,283,466	1,931,638
Emergency Meal Packages	4,321,898	-	-	-	-	4,321,898	1,179,844
Fresh produce program	21,746	-	-	-	-	21,746	37,320
Mobile Food Pantry	7,745	-	-	-	-	7,745	6,996
Non-meal assistance program	16,054	-	-	-	-	16,054	219,401
Friendly Visiting Program	804,371	-	-	-	-	804,371	908,329
Event expenses	-	363,707	-	-	363,707	363,707	460,501
List rental	-	118,728	-	-	118,728	118,728	128,027
Salaries and fringe benefits	1,466,089	878,476	-	916,007	1,794,483	3,260,572	2,943,088
Professional services and consultants	192,931	120,143	-	652,013	772,156	965,087	1,015,029
Temporary employment	-	6,850	-	16,966	23,816	23,816	32,022
Data processing	1,060	-	-	189,767	189,767	190,827	146,994
Equipment maintenance and rental	-	-	-	22,659	22,659	22,659	46,943
Supplies	5,939	1,149	-	33,114	34,263	40,202	45,041
Printing	4,600	434,805	-	19,798	454,603	459,203	454,845
Photography	-	7,430	-	3,914	11,344	11,344	8,075
Local travel	7,680	2,010	-	6,594	8,604	16,284	22,966
Insurance	19,254	18,356	-	21,765	40,121	59,375	57,750
Postage	31	207,827	-	23,597	231,424	231,455	228,956
Messenger	480	2,579	-	507	3,086	3,566	9,084
Depreciation	165,025	-	-	79,671	79,671	244,696	202,644
Occupancy	161,681	154,133	-	182,764	336,897	498,578	488,380
Training/miscellaneous	9,399	6,971	-	36,525	43,496	52,895	65,940
Telephone	10,064	6,302	-	10,567	16,869	26,933	23,832
Advertising	-	5,595	-	-	5,595	5,595	5,500
Bank fees	-	-	-	43,888	43,888	43,888	25,392
Interest expense	215,549	-	-	-	-	215,549	270,632
Donated goods and services	-	-	333,261	249,240	582,501	582,501	395,156
Total functional expenses	\$ 19,200,222	\$ 2,335,061	\$ 333,261	\$ 2,509,356	\$ 5,177,678	\$ 24,377,900	\$ 21,619,932

See notes to consolidated financial statements.

Citymeals-on-Wheels

Consolidated Statement of Cash Flows

Year Ended June 30, 2020

(with summarized comparative financial information for the year ended June 30, 2019)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 20,705,810	\$ 2,699,474
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	244,696	202,644
Realized and unrealized gains on investments	(170,597)	(632,096)
Donated investment securities	(419,830)	(371,216)
Capital campaign contribution collections for the distribution center	(5,313,848)	(2,333,250)
Changes in operating assets and liabilities:		
(Increase) decrease in grants and accounts receivable	(3,682,195)	704,285
(Increase) decrease in advances to providers	(92,928)	126,007
(Increase) decrease in prepaid expenses and other assets	(1,160,782)	273,626
Increase in accounts payable to providers	222,158	60,143
Increase (decrease) in accrued expenses and deferred rent	371,972	(201,647)
Increase (decrease) in deferred revenue	674,998	(66,400)
Net cash provided by operating activities	11,379,454	461,570
Cash flows from investing activities:		
Purchases of property and equipment, and warehouse improvements	(40,100)	(177,551)
Purchases of investments	(407,657)	(579,593)
Proceeds from sale of investments	24,581	2,535,861
Net cash (used in) provided by investing activities	(423,176)	1,778,717
Cash flows from financing activities:		
Loan additions	410,614	-
Loan payments	(2,104,088)	(2,100,562)
Capital campaign contribution collections for the distribution center	5,313,848	2,333,250
Net cash provided by financing activities	3,620,374	232,688
Net increase in cash	14,576,652	2,472,975
Cash:		
Beginning	7,130,284	4,657,309
Ending	\$ 21,706,936	\$ 7,130,284
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 213,482	\$ 275,449

See notes to consolidated financial statements.

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 1. Organization

Citymeals-on-Wheels' (Citymeals) mission is to provide weekend and holiday meals, emergency food packages and other food-related services to the homebound elderly and other at-risk elderly populations in New York City, supplementing, through private dollars, the government's limited weekday-only meal program, which is administered by the New York City Department for the Aging (DFTA). Citymeals works in cooperation with DFTA and with local voluntary agencies, the same agencies with which the city contracts for delivery of weekday meals.

The consolidated financial statements include the accounts of Citymeals and Citymeals-on-Wheels Property, LLC (the LLC) (collectively referred to as the Organization). The LLC is a single-member limited liability company of which Citymeals is the sole member.

Citymeals raises funds from the general public (e.g., corporations, private foundations, public charities and individuals) for the provision of meals for the homebound elderly (program services) by means of direct-mail solicitations, media campaigns and by sponsoring special fund-raising events. All funds raised for the meals programs are considered by management to be unavailable for covering administrative or fund-raising costs. Separate solicitation requests are sent to corporations, private foundations and board members to supplement an annual grant received from DFTA for administrative purposes. Citymeals also raises contributions for the LLC to fund the financing, renovation, and programs running out of the Citymeals Emergency Food Distribution Center (the Distribution Center). Interest and investment income, unless explicitly restricted by donors, is available to be used for administrative purposes.

Net assets without donor restrictions as of June 30 are for the following purposes:

	2020	2019
Meals programs	\$ 17,767,530	\$ 4,515,956
The LLC	11,760,580	6,865,401
General and administrative*	24,955,774	25,369,324
	<u>\$ 54,483,884</u>	<u>\$ 36,750,681</u>

*These funds are available for general and administrative purposes as well as meals programs.

The Organization raised the following administrative funds in the year ended June 30:

	2020	2019
Administrative fund solicitations	\$ 1,508,705	\$ 1,629,775
Administrative funds from government grants	2,014,064	2,374,032
Investment gain, net	601,322	1,137,904
Other	602,916	414,096
	<u>\$ 4,727,007</u>	<u>\$ 5,555,807</u>

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 1. Organization (Continued)

The Organization incurred the following administrative expenses for the year ended June 30:

	2020	2019
Fund-raising, excluding the LLC expenses of \$37,121 and \$86,170, respectively	\$ 2,631,201	\$ 2,772,016
General and administrative	2,509,356	1,955,658
	<u>\$ 5,140,557</u>	<u>\$ 4,727,674</u>

The Organization raised \$5,313,848 and \$2,333,250 from the capital campaign in the years ended June 30, 2020 and 2019, respectively, for the Distribution Center. The LLC's expenditures in amounts of \$419,679 and \$518,819 for the years ended June 30, 2020 and 2019, respectively, are included in the consolidated statement of functional expenses.

Program descriptions:

Weekend meals: Home-delivered Saturday and/or Sunday meals to eligible homebound meal recipients.

Holiday meals: Festive meals served on culturally appropriate holidays when other meal providers are closed.

Holiday meal packages: Three-meal boxes of shelf-stable food delivered in advance of holidays when other meal providers are closed.

Emergency meal packages: A 7-pound 4-meal package of shelf-stable food delivered directly to eligible homebound meal recipients.

Fresh food program: This program gives fresh fruit or vegetables daily to meal recipients living in neighborhoods lacking good access to fresh produce.

Mobile food pantry: This program delivers supplemental shelf stable food to meal recipients who are most at risk for hunger and malnutrition.

Non-meal assistance program: A program created to support nonfood necessities, like carrying cases and small equipment for food preparation, and delivery to the providers.

Friendly visiting program: A program connects elderly homebound clients with volunteers for companionship.

Program coordination: Direct expenses incurred by employees involved in program management (mainly salaries and fringe benefits) and allocated share of occupancy expenses.

Note 2. Summary of Significant Accounting Policies

The Organization follows the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for not-for-profit organizations. All intercompany accounts and transactions between Citymeals and the LLC have been eliminated in consolidation.

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

The classification of a not-for-profit organization's net assets and its support and revenue is based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Unconditional contributions received are recorded as support with or without donor restrictions, depending on the existence or nature of any donor restrictions. Donor-restricted gifts of cash and other assets whose restrictions are met in the same reporting period are reported as support and revenue without donor restrictions. The restriction on contributions for building and equipment is released when such building and equipment are placed in service. Contributions receivable due within one year are recorded at their net realizable value. Contributions receivable due in more than one year are recorded at the present value of their net realizable value, using risk-adjusted interest rates at the time the promise is received.

Grants awarded by governmental agencies are recognized as revenue without donor restrictions as the program expenditures are incurred.

Donated goods and services are recorded at fair value and reflected as both revenue and expense in the accompanying consolidated statement of activities.

Investments are stated at fair value, with the resulting investment gain or loss recognized in the consolidated statement of activities.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is being provided for by the straight-line method over the term of the lease. The Organization capitalizes the cost of all property and equipment purchases that are greater than \$10,000.

Citymeals enters into annual contractual commitments with weekend, weekday and holiday meal providers. Approximately 20% of contracts are advanced to providers when the contracts are signed, usually each year in June or July. Payments to or refunds from meal providers are made pursuant to contract provisions with a final settlement made shortly after year-end.

The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Citymeals is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and all of Citymeals' activities were performed in accordance with its tax-exempt purpose. Citymeals is not classified as a private foundation, and is subject to unrelated business income tax (UBIT), if applicable. For the years ended June 30, 2020 and 2019, Citymeals did not have UBIT expenses and liabilities. The LLC is treated as a disregarded entity for tax purposes. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to these consolidated financial statements.

The consolidated statement of functional expenses includes certain prior-year summarized comparative information in total but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2019, from which the summarized information was derived.

The preparation of consolidated financial statements in conformity with U.S. 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Organization applies the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement, which provides a framework for measuring fair value under U.S. GAAP. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in ASC 820-10, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument. Financial assets and liabilities carried at fair value are classified and disclosed as Level 1, 2 or 3 depending on the type of inputs used to arrive at fair value.

FASB Accounting Standards Update (ASU) 2015-07, Subtopic 820-10, also provides that fair value may be measured at the net asset value (NAV) provided by the issuer for certain entities that calculate fair value using NAV per share as a practical expedient. Such investments recorded at NAV are not classified within the fair value hierarchy.

The Organization evaluates events occurring after the date of the consolidated financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the consolidated financial statements. Such evaluation is performed through the date the consolidated financial statements were available for issuance, which was November 9, 2020 for these consolidated financial statements.

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization. Accordingly, management cannot presently estimate the overall operational and financial impact to the Organization.

Recently adopted accounting pronouncement: In August 2018, FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The guidance in this ASU provides a framework for determining whether a transaction should be accounted for as an exchange transaction or as a contribution. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor imposed restriction. The adoption of ASU 2018-18 had no impact on the Organization's financial position, activities, net assets, or cash flows as of the adoption date or for the years ended June 30, 2020 and 2019.

Recently issued accounting pronouncements: In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The new standard is effective for fiscal years beginning after December 15, 2019. The Organization is evaluating the impact of this standard on the consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Due to the coronavirus pandemic, the FASB recently proposed the effective date of the ASU be deferred to fiscal years beginning after December 15, 2021. The Organization is evaluating the impact of this standard on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU removes, modifies, and adds certain disclosure requirements of ASC Topic 820. The ASU is effective for all entities for fiscal years beginning after December 15, 2019. The Organization is evaluating the impact of adoption of this standard on the consolidated financial statements.

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 3. Liquidity and Availability of Resources

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities. As of June 30, 2020, the following financial assets are available to meet annual operating needs of the 2021 fiscal year:

	2020	2019
Financial assets at June 30:		
Cash and cash equivalents	\$ 21,706,936	\$ 7,130,284
Investments	25,395,868	24,422,365
Grants and contributions receivable	5,343,072	1,660,877
Total financial assets at June 30	<u>52,445,876</u>	<u>33,213,526</u>
Less those unavailable for general expenditures within one year:		
Donor restricted assets	96,112	101,170
Donor restricted investments	144,181	408,993
Receivable to be collected between one and five years	1,933,711	70,000
To be used for loan payments	2,108,545	2,104,087
Total financial assets unavailable within one year	<u>4,282,549</u>	<u>2,684,250</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 48,163,327</u>	<u>\$ 30,529,276</u>

Note 4. Investments

The following table presents the Organization's investments measured at fair value as of June 30:

Description	Fair Value Measurements		
	Quoted Prices in Active Markets for Identical Assets		
	2020		
	Total	Level 1	Level 2
Cash equivalents	\$ 3,146,671	\$ 3,146,671	\$ -
Mutual funds:			
Fixed income	10,059,234	10,059,234	-
Equities:			
Domestic equities	6,238,374	6,238,374	-
International equities	2,813,223	2,813,223	-
Emerging markets	1,328,632	1,328,632	-
Common stock	80,249	80,249	-
Exchange-traded and closed fund	152,990	152,990	-
Preferred stock	49,918	49,918	-
Corporate fixed income	38,297	38,297	-
Subtotal of investments in the fair value hierarchy	<u>23,907,588</u>	<u>23,907,588</u>	-
Alternative investment fund measured at NAV ⁽¹⁾	1,488,280		-
	<u>\$ 25,395,868</u>	<u>\$ 23,907,588</u>	<u>\$ -</u>

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 4. Investments (Continued)

Description	Fair Value Measurements		
	Quoted Prices in Active Markets for Identical Assets		
	2019		
	Total	Level 1	Level 2
Cash equivalents	\$ 2,795,586	\$ 2,795,586	\$ -
Mutual funds:			
Fixed income	10,440,996	10,440,996	-
Equities:			
Domestic equities	5,873,900	5,873,900	-
International equities	3,199,825	3,199,825	-
Emerging markets	1,604,754	1,604,754	-
Common stock	121,461	121,461	-
Exchange-traded and closed fund	169,152	169,152	-
Preferred stock	43,975	43,975	-
Corporate fixed income	65,901	65,901	-
Treasury securities	106,815	-	106,815
	<u>\$ 24,422,365</u>	<u>\$ 24,315,550</u>	<u>\$ 106,815</u>

(1) The fair value amount was estimated by using NAV as a practical expedient as of the measurement date. Investment under this method is not categorized in the fair value hierarchy. The fair value amount presented is for the reconciliation purpose.

Alternative investment fund represents an investment in a private investment company. The investment company fund's objective is to generate long term growth in assets by investing primarily in equity and equity related securities. There are no unfunded capital commitments. After one year of investment, the investment is allowed to be redeemed at the end of a quarter with 90 days prior notice.

Note 5. Grants and Contributions Receivable

All unconditional grants and contributions receivable have been recorded at their estimated realizable value. Those receivable that are payable over a year have been discounted to their present value using a discount rate of 0.89%. The discount rate is considered to be a Level 3 input in the fair value hierarchy (Note 2).

Grants and contributions receivable as of June 30 are due as follows:

	2020	2019
In less than one year	\$ 3,409,361	\$ 1,590,877
In between one year and five years	1,984,000	70,000
	5,393,361	1,660,877
Less discount to present value	(50,289)	-
Grants and contributions receivable, net	<u>\$ 5,343,072</u>	<u>\$ 1,660,877</u>

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 6. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following as of June 30:

	2020	2019	Estimated Useful Life
Land	\$ 6,412,500	\$ 6,412,500	
The Distribution Center and improvements	5,552,678	5,552,678	39 years
Furniture and equipment	1,107,811	1,067,711	5 years
Computer software	178,278	178,278	3 years
	<u>13,251,267</u>	<u>13,211,167</u>	
Less accumulated depreciation	<u>(1,522,206)</u>	<u>(1,277,510)</u>	
	<u>\$ 11,729,061</u>	<u>\$ 11,933,657</u>	

Note 7. Loans Payable

In connection with the purchase of the Distribution Center, the Organization took out a bridge loan with interest at a rate per annum equal to the Adjusted London Interbank Offer Rate. On August 23, 2016, the maximum loan limit was increased from \$10,000,000 to \$13,000,000. The outstanding balance on the bridge loan as of June 30, 2017 was \$10,000,000. On August 21, 2017, the bridge loan was paid off with two separate loans of \$6,000,000 and \$4,000,000 with stated interest rate of 2.89% and 3.78% per annum, respectively. The \$6,000,000 and \$4,000,000 loans mature on August 21, 2020 and August 21, 2027, respectively.

The aggregate outstanding balance on these loans as of June 30, 2020 and 2019 was \$5,714,310 and \$7,818,458, respectively. The subsequent payment of \$2,000,000 toward the \$6,000,000 loan was made in August 2020 to pay-off the remaining balance of the loan.

Interest expense for the above loans for the years ended June 30, 2020 and 2019 was \$215,549 and 270,632, respectively.

The above loans have certain covenants that are required to be maintained. The financial covenant requires the Organization to maintain unrestricted cash and investments to funded debt ratio. The negative covenant states that the Organization shall not grant additional liens on its assets or make loans to affiliates, guaranty the debt of a third party absent the Lender's consent. Lastly, the reporting covenant requires the Organization to provide the annual audited consolidated financial statements within 150 days of the Organization's fiscal year and a covenant compliance certificate signed by an authorized officer of the Organization.

In April 2020, the Organization received a loan in an amount of \$409,958 under the U.S. Small Business Administration (SBA)'s Paycheck Protection Program (PPP) established by the CARES Act. The loan's maturity date is April 10, 2022. The interest rate is 0.98% per annum. The loan, or a portion thereof, is eligible for forgiveness by the SBA if the qualifying entity meets certain conditions. Whether an entity qualifies for a PPP loan, and whether it meets the necessary conditions for forgiveness, requires careful consideration of the PPP requirements and the individual entity's facts and circumstances. As guidance requires funds are spent prior to forgiveness, the Organization has not applied for loan forgiveness as of November 9, 2020. The PPP loan balance plus accrued interest in the total amount of \$410,614 are included in loans payable balance on the consolidated statement of financial position.

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 7. Loans Payable (Continued)

Future aggregate principal payments on these loans are as follows:

Years ending June 30:	
2021	\$ 2,108,544
2022	523,393
2023	117,178
2024	121,399
2025	126,483
Thereafter	3,127,987
	<u>\$ 6,124,984</u>

Note 8. Functional Allocation of Expenses

Certain expenses are attributable to more than one program or supporting function. The following expenses are allocated consistently based on employees' time and effort. All other expenses are charged directly to either program or supporting function.

- Salaries and fringe benefits
- Occupancy
- Telephone
- Insurance

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	2020	2019
Subject to the passage of time	\$ 2,126,111	\$ 338,374
Purpose restricted	1,571,111	121,170
	<u>3,697,222</u>	<u>459,544</u>
Endowment:		
Original gift amount – perpetual in nature	500,000	500,000
Reclassification of net assets with donor restrictions to without donor restrictions	(300,000)	-
Underwater endowment	(56,078)	(91,007)
	<u>143,922</u>	<u>408,993</u>
Total net assets with donor restrictions	<u>\$ 3,841,144</u>	<u>\$ 868,537</u>

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 9. Net Assets With Donor Restrictions (Continued)

Net assets with donor restrictions that are perpetual in nature are restricted to investments in endowments, whereas the interest and dividend income can be appropriated to support the Organization's programs. The related realized and unrealized gains on investments are required to be added to the restricted net assets that are perpetual in nature for growth purposes. The Organization maintains a broadly diversified investment portfolio. The current spending policy is to appropriate for operations in each calendar year amounts that are earned on its endowment. During the year ended June 30, 2020, the Organization received a clarification from the donor's investment manager that \$300,000 of the original endowment amount of \$500,000 was not restricted by the donor. The investment balance in an amount of \$215,688 related to the original \$300,000 endowment was reclassified from net assets with donor restrictions to net assets without donor restrictions on the consolidated statement of activities. The Organization transferred this amount from the investment account held for the endowment in July 2020.

From time to time, the fair value of investments associated with the endowment fund may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the Organization to retain as a fund of perpetual duration. As of June 30, 2020 and 2019, the endowment fund had a deficiency of \$55,819 and \$91,007, respectively. The original value of this endowment was \$200,000 and \$500,000, respectively. The decrease of \$300,000 in the original value is due to the reclassification as explained in the above paragraph. This deficiency resulted from unfavorable market fluctuations and continued appropriation of the interest and dividend income as stipulated by the donor.

Net assets with donor restrictions subject to the passage of time or purpose restricted in the total amount of \$343,433 and \$468,940 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors in the years ended June 30, 2020 and 2019, respectively.

Note 10. Commitments

On June 16, 2016, the Organization entered into a substitution, lease modification and extension agreement (lease extension agreement) with the landlord of office space. In connection with the lease extension agreement, the Organization relocated to a different portion of the same floor in the same building. The renewal lease agreement expires in September 2027.

At June 30, 2020, the future minimum annual rental commitments under the leases are as follows:

Years ending June 30:	
2021	\$ 477,000
2022	484,000
2023	522,000
2024	522,000
2025	522,000
Thereafter	957,000
	<u>\$ 3,484,000</u>

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 10. Commitments (Continued)

Rent expense charged to operations for the years ended June 30, 2020 and 2019 amounted to approximately \$499,000 and \$488,000, respectively.

Deferred rent payable of \$198,485 and \$206,063 is included in accrued expenses and deferred rent in the consolidated statement of financial position as of June 30, 2020 and 2019, respectively. This amount represents the difference between the cumulative amounts recorded for rent expense recognized on a straight-line basis over the term of the office lease as compared to the cumulative required amounts paid under the lease.

Note 11. 403(b) Retirement Plan

The Organization sponsors a 403(b) defined contribution pension plan (the Plan) covering eligible employees, as defined by the plan. Employer contributions are based on a percentage of the employees' salaries, ranging from 4% to a maximum of 8%. 403(b) contributions contributed by the Organization for the years ended June 30, 2020 and 2019 amounted to approximately \$127,000 and \$112,000, respectively. The officers of the Organization serve as trustees of the plan.

Note 12. Summarized Financial Data

Below is summarized financial data of Citymeals and the LLC included in these consolidated financial statements prior to intercompany eliminations.

	2020		2019	
	Citymeals	The LLC	Citymeals	The LLC
Total assets	\$ 49,192,053	\$ 17,486,651	\$ 31,703,750	\$ 14,693,490
Total liabilities	2,627,606	5,726,070	949,932	7,828,090
Net assets	<u>\$ 46,564,447</u>	<u>\$ 11,760,581</u>	<u>\$ 30,753,818</u>	<u>\$ 6,865,400</u>
Total revenue and gains	\$ 39,768,850	\$ 5,314,860	\$ 21,981,504	\$ 2,337,902
Total expenses	23,958,221	419,679	21,101,113	518,819
Change in net assets	<u>\$ 15,810,629</u>	<u>\$ 4,895,181</u>	<u>\$ 880,391</u>	<u>\$ 1,819,083</u>

Note 13. Contingency

The Organization is subject to ongoing litigation in the ordinary course of their operations. In the opinion of management, none of the actions currently pending will have a material impact on their consolidated financial position due to adequate insurance coverage in the event of adverse outcomes of these matters.