

Citymeals-on-Wheels

Consolidated Financial Report
June 30, 2023

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RSM US LLP

Independent Auditor's Report

Board of Directors
Citymeals-on-Wheels

Opinion

We have audited the consolidated financial statements of Citymeals-on-Wheels (the Organization), which comprise the consolidated statement of financial position as of June 30, 2023, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As described in Note 2 to the financial statements, in fiscal year 2023, the Organization adopted new accounting guidance, Accounting Standards Codification (ASC) 842 Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Report on Summarized Comparative Information

We have previously audited the Organization's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 19, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, 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 21, 2023

Citymeals-on-Wheels

Consolidated Statement of Financial Position

June 30, 2023

(With Summarized Comparative Financial Information as of June 30, 2022)

	2023	2022
Assets		
Cash	\$ 18,614,452	\$ 24,517,878
Investments at fair value	45,958,085	32,572,837
Grants and contributions receivable	1,337,044	2,986,601
Advances to providers	846,458	601,862
Prepaid expenses and other assets	2,630,139	2,387,700
Property and equipment, net	11,477,284	11,291,725
Operating lease right-of-use assets	4,639,179	-
Total assets	\$ 85,502,641	\$ 74,358,603
Liabilities and Net Assets		
Liabilities:		
Accounts payable to providers	\$ 421,522	\$ 422,916
Accrued expenses	188,280	176,646
Deferred rent	-	175,831
Deferred revenue	20,645	126,549
Loans payable	3,298,726	3,441,310
Operating lease liabilities	4,833,950	-
Total liabilities	8,763,123	4,343,252
Commitments		
Net assets:		
Without donor restrictions	72,823,176	68,039,704
With donor restrictions:		
Purpose and time restrictions	3,770,796	1,836,044
Perpetual in nature	145,546	139,603
Total net assets with donor restrictions	3,916,342	1,975,647
Total net assets	76,739,518	70,015,351
Total liabilities and net assets	\$ 85,502,641	\$ 74,358,603

See notes to consolidated financial statements.

Citymeals-on-Wheels

Consolidated Statement of Activities

Year Ended June 30, 2023

(With Summarized Comparative Financial Information for the Year Ended June 30, 2022)

	2023	2022
Change in net assets without donor restrictions:		
Support and revenue:		
Support:		
Contributions for meals programs	\$ 16,546,158	\$ 19,513,904
Contributions for administrative support	4,959,253	4,152,508
Government grants	4,855,697	5,211,171
Capital Campaign	1,480,000	777,000
Donated goods and services	749,527	642,409
Wholesale Ready-to-Eat packages	185,053	-
Net investment return (loss)	2,948,068	(4,424,713)
Net assets released from restrictions	1,253,641	941,184
Total support and revenue	32,977,397	26,813,463
Expenses:		
Program services:		
Weekend meals	12,423,592	11,588,024
Weekend Ready-to-Eat packages	603,495	-
Holiday contracted meals	423,537	310,610
Holiday meal packages	1,766,870	2,215,664
Emergency meal packages	1,989,895	1,631,522
Fresh produce program	39,779	29,063
Mobile food pantry	258,577	99,572
Non-meal assistance program	27,395	-
Donated meals	-	561,805
Wholesale Ready-to-Eat packages	291,966	-
Friendly visiting program	762,367	751,874
Program coordination	2,815,320	2,470,150
Total program services	21,402,793	19,658,284
Supporting services:		
Fund-raising	3,610,223	2,932,675
Cost of direct benefits to donors	76,603	208,850
General and administrative	3,104,306	2,780,063
Total supporting services	6,791,132	5,921,588
Total expenses	28,193,925	25,579,872
Change in net assets without donor restrictions	4,783,472	1,233,591
Change in net assets with donor restrictions:		
Contributions—time and purpose restricted	3,188,393	725,772
Net investment return (loss)	5,943	(8,101)
Net assets released from restrictions	(1,253,641)	(941,184)
Change in net assets with donor restrictions	1,940,695	(223,513)
Change in net assets	6,724,167	1,010,078
Net assets:		
Beginning	70,015,351	69,005,273
Ending	\$ 76,739,518	\$ 70,015,351

See notes to consolidated financial statements.

Citymeals-on-Wheels

Consolidated Statement of Functional Expenses

Year Ended June 30, 2023

(With Summarized Comparative Financial Information for the Year Ended June 30, 2022)

	2023						2022	
	Program Services	Fund-Raising	Costs of Direct Benefit to Donors	General and Administrative	Total Supporting Services	Total	Summarized Comparative Total	
Weekend meals	\$ 12,423,592	\$ -	\$ -	\$ -	\$ -	\$ 12,423,592	\$ 11,588,024	
Weekend Ready-to-Eat packages	603,495	-	-	-	-	603,495	-	
Holiday contracted meals	423,537	-	-	-	-	423,537	310,610	
Holiday meal packages	1,766,870	-	-	-	-	1,766,870	2,215,664	
Emergency meal packages	1,989,895	-	-	-	-	1,989,895	1,631,522	
Fresh produce program	39,779	-	-	-	-	39,779	29,063	
Mobile food pantry	258,577	-	-	-	-	258,577	99,572	
Non-meal assistance program	27,395	-	-	-	-	27,395	-	
Donated meals	-	-	-	-	-	-	561,805	
Wholesale Ready-to-Eat packages	291,966	-	-	-	-	291,966	-	
Friendly visiting program	762,367	-	-	-	-	762,367	751,874	
Event expenses	-	687,431	-	-	687,431	687,431	603,169	
List rental	-	130,193	-	-	130,193	130,193	120,654	
Salaries and fringe benefits	1,795,477	1,374,674	-	1,326,865	2,701,539	4,497,016	3,687,859	
Professional services and consultants	477,859	292,284	-	768,313	1,060,597	1,538,456	1,530,480	
Temporary employment	-	-	-	1,722	1,722	1,722	15,482	
Data processing	13,466	10,950	-	137,138	148,088	161,554	163,416	
Equipment, maintenance and rental	-	-	-	28,462	28,462	28,462	21,864	
Supplies	21,743	793	-	60,861	61,654	83,397	67,831	
Printing	4,545	567,589	-	28,315	595,904	600,449	544,464	
Photography	-	11,450	-	1,575	13,025	13,025	11,592	
Local travel	8,078	5,369	-	6,542	11,911	19,989	15,273	
Insurance	26,433	22,025	-	26,810	48,835	75,268	79,525	
Postage	12,667	303,561	-	15,219	318,780	331,447	324,140	
Messenger	42	2,955	-	772	3,727	3,769	5,960	
Depreciation	153,376	-	-	6,840	6,840	160,216	216,913	
Occupancy	207,910	173,235	-	210,870	384,105	592,015	520,812	
Training/miscellaneous	17,439	10,249	-	94,236	104,485	121,924	54,349	
Telephone	10,554	10,723	-	21,133	31,856	42,410	41,064	
Advertising	-	6,742	-	-	6,742	6,742	7,106	
Bank fees	-	-	-	4,212	4,212	4,212	41,528	
Interest expense	65,731	-	-	-	-	65,731	70,396	
Donated goods and services	-	-	76,603	364,421	441,024	441,024	247,861	
Total functional expenses	\$ 21,402,793	\$ 3,610,223	\$ 76,603	\$ 3,104,306	\$ 6,791,132	\$ 28,193,925	\$ 25,579,872	

See notes to consolidated financial statements.

Citymeals-on-Wheels

Consolidated Statement of Cash Flows

Year Ended June 30, 2023

(With Summarized Comparative Financial Information for the Year Ended June 30, 2022)

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 6,724,167	\$ 1,010,078
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	160,216	216,913
Capital campaign contribution collections for the distribution center	(1,480,000)	(777,000)
Realized and unrealized (gains) losses on investments	(2,087,857)	4,821,847
Changes in operating assets and liabilities:		
Decrease in grants and contributions receivable	1,649,557	1,381,592
(Increase) decrease in advances to providers	(244,596)	102,556
Increase in prepaid expenses and other assets	(242,439)	(507,439)
Increase in operating lease right-of-use assets	(4,815,010)	-
Decrease in accounts payable to providers	(1,394)	(295,854)
Increase (decrease) in accrued expenses	11,634	(115,961)
(Decrease) increase in deferred revenue	(105,904)	6,632
Increase in operating lease liabilities	4,833,950	-
Net cash provided by operating activities	4,402,324	5,843,364
Cash flows from investing activities:		
Purchases of property and equipment	(345,775)	(23,270)
Purchases of investments	(14,972,391)	(4,051,309)
Proceeds from sale of investments	3,675,000	3,061,770
Net cash used in investing activities	(11,643,166)	(1,012,809)
Cash flows from financing activities:		
Loan payments	(142,584)	(137,918)
Capital campaign contribution collections for the distribution center	1,480,000	777,000
Net cash provided by financing activities	1,337,416	639,082
Net (decrease) increase in cash	(5,903,426)	5,469,637
Cash:		
Beginning	24,517,878	19,048,241
Ending	\$ 18,614,452	\$ 24,517,878
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 65,731	\$ 70,396
Supplemental cash flow information related to leases is as follows:		
Operating cash outflows—payments on operating leases	\$ 579,302	\$ -
Right-of-use assets obtained in exchange for new operating lease obligations	\$ 50,898	\$ -

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 are also supported by government grants. 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:

	2023	2022
Meals programs	\$ 31,002,111	\$ 30,791,699
The LLC	12,679,425	12,313,600
General and administrative*	29,141,640	24,934,405
	<u>\$ 72,823,176</u>	<u>\$ 68,039,704</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:

	2023	2022
Administrative fund solicitations	\$ 4,936,753	\$ 4,152,508
Administrative funds from government grants	2,424,473	2,274,854
Investment gain (loss), net	2,933,958	(4,428,547)
Other	703,183	255,583
	<u>\$ 10,998,367</u>	<u>\$ 2,254,398</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:

	2023	2022
Fund-raising	\$ 3,686,826	\$ 3,141,525
General and administrative	3,104,306	2,780,063
	<u>\$ 6,791,132</u>	<u>\$ 5,921,588</u>

The Organization raised \$1,480,000 and \$777,000 from the capital campaign in the years ended June 30, 2023 and 2022, respectively, for the Distribution Center. The LLC's expenditures in the total amount of \$219,107 and \$240,769 for the years ended June 30, 2023 and 2022, respectively, are included in the consolidated statement of functional expenses.

Program descriptions:

Weekend meals: Home-delivered meals to eligible homebound meal recipients from partner providers throughout NYC.

Weekend Ready-to-Eat packages: Home-delivered meals to eligible homebound meal recipients from the Distribution Center

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

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

Emergency meal packages: A seven-pound four-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.

Donated meals: The donated meals come from local restaurants and are provided by volunteers to help people who need extra food.

Wholesale Ready-to-Eat packages: The sale of ready-to-eat meals from the Distribution Center with proceeds to go to continue the mission of Citymeals of meeting growing needs as the older adult population increases beyond all other age groups.

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

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

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 1. Organization (Continued)

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

Basis of presentation: 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 nonprofit organizations. All intercompany accounts and transactions between Citymeals and the LLC have been eliminated in consolidation.

Financial statement presentation: The classification of a nonprofit 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.

Exchange transactions: The Organization has revenue from sales of Wholesale Ready-to-Eat packages that is accounted for as an exchange transaction. The Organization recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue is recognized at the time of sale. A portion of invoice balance was due upon the delivery. There was no deferred revenue and receivable from the sale transactions as of June 30, 2023.

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

Concentration of credit risk: 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.

Property and equipment: 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.

Contractual commitments: 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.

Functional classification of expenses: 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.

Income tax: 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, 2023 and 2022, 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.

Summarized comparative information: 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, 2022, from which the summarized information was derived.

Use of estimates: 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.

Fair value measurements: The Organization applies the Financial Accounting Standards Board (FASB) 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.

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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.

Subsequent events: 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 21, 2023, for these consolidated financial statements.

Reclassification: Certain amounts reported in prior years in the consolidated financial statements have been reclassified to conform to the current year's presentation.

Leases: The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. Under ASU 2016-02, *Leases (Topic 842)*, a contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract, and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of twelve months or less. For all other leases, the Organization recognizes ROU assets and lease liabilities based on the present value of lease payments over the lease term at the commencement date of the lease (or July 1, 2022 for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index). Subsequent changes in an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Organization's leases may include a non-lease component representing additional services transferred to the Organization, such as common area maintenance for real estate. The Organization made an accounting policy election to account for each separate lease component and the non-lease components associated with that lease component as a single lease component. Non-lease components that are variable in nature are recorded in variable lease expense in the period incurred.

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

A lessee that is not a public business entity is permitted to use a risk-free discount rate for its leases, determined using a period comparable with that of the lease term, as an accounting policy election for all leases. In order to ease the accounting burden of determining incremental borrowing rates under ASC 842, the Organization has made this accounting policy election for all leases. The risk-free discount rates were obtained using U.S. Treasury securities as posted on the Federal Reserve website. The Organization uses the implicit rate when readily determinable.

Recently adopted accounting pronouncement: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations related to their leasing arrangements. This comprehensive new standard amends and supersedes existing lease accounting guidance and is intended to increase transparency and comparability among organizations by recognizing right-of-use (ROU) lease assets and lease liabilities on the consolidated statement of financial position (statement of financial position) and requiring disclosure of key information about leasing arrangements. Lease expense continues to be recognized in a manner similar to legacy U.S. GAAP. The Organization adopted the new lease standard on July 1, 2022 using the optional transition method to the modified retrospective approach. Under this transition provision, results for reporting periods beginning on July 1, 2022 are presented under Topic 842, while prior period amounts continue to be reported and disclosed in accordance with the Organization's historical accounting treatment under ASC Topic 840, Leases.

To reduce the burden of adoption and ongoing compliance with Topic 842, a number of practical expedients and policy elections are available under the new guidance. The Organization elected the "package of practical expedients" permitted under the transition guidance, which among other things, did not require reassessment of whether contracts entered into prior to adoption are or contain leases, and allowed carryforward of the historical lease classification for existing leases. The Organization has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term at adoption on July 1, 2022.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities related to the Organization's operating leases of \$ 5,042,206 and \$5,218,038 respectively on July 1, 2022. The adoption of the new lease standard did not materially impact our consolidated change in net assets or consolidated cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Recently issued accounting pronouncements: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other provisions, this ASU requires the allowance for credit losses to reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. This ASU is effective for fiscal years beginning after December 15, 2022. The Organization is evaluating the impact of adoption of this standard on the consolidated financial statements.

In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. This ASU provides narrow-scope improvements to Topic 326. For entities that have not yet adopted ASU 2016-13 as of November 26, 2019, the effective dates for ASU 2019-11 are the same as the effective dates and transition requirements in ASU 2016-13. 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, the following financial assets are available to meet annual operating needs over the next 12 months:

	2023	2022
Financial assets at June 30:		
Cash and cash equivalents	\$ 18,614,452	\$ 24,517,878
Investments	45,958,085	32,572,837
Grants and contributions receivable	1,337,044	2,986,601
Total financial assets at June 30	<u>65,909,581</u>	<u>60,077,316</u>
Less those unavailable for general expenditures within one year:		
Donor restricted assets	1,432,403	86,740
Donor restricted investments	145,546	139,603
Receivable to be collected between one and five years	55,000	630,000
To be used for loan payments	208,315	208,315
Total financial assets unavailable within one year	<u>1,841,264</u>	<u>1,064,658</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 64,068,317</u>	<u>\$ 59,012,658</u>

Note 4. Investments

The following are major categories of investments at June 30, grouped by the fair value hierarchy:

Description	Total	FY2023		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 5,472,261	\$ 5,472,261	\$ -	\$ -
Mutual funds:				
Fixed income	11,243,696	11,243,696	-	-
Equities:				
Domestic equities	10,989,242	10,989,242	-	-
International equities	3,849,134	3,849,134	-	-
Emerging markets	1,848,142	1,848,142	-	-
Common stocks	33,440	33,440	-	-
Exchange-traded and closed-end funds	50,077	50,077	-	-
Preferred stocks	7,089	7,089	-	-
Corporate fixed income	27,412	-	27,412	-
Treasury bill	9,741,467	-	9,741,467	-
Subtotal of investments in the fair value hierarchy	<u>43,261,960</u>	<u>33,493,081</u>	<u>9,768,879</u>	<u>-</u>
Alternative investment fund measured at NAV ⁽¹⁾	2,696,125	-	-	-
	<u>\$ 45,958,085</u>	<u>\$ 33,493,081</u>	<u>\$ 9,768,879</u>	<u>\$ -</u>

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Notes to Consolidated Financial Statements

Note 4. Investments (Continued)

Description	Total	FY2022 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 4,726,078	\$ 4,726,078	\$ -	\$ -
Mutual funds:				
Fixed income	11,349,870	11,349,870	-	-
Equities:				
Domestic equities	9,006,409	9,006,409	-	-
International equities	3,316,744	3,316,744	-	-
Emerging markets	1,746,061	1,746,061	-	-
Common stocks	42,871	42,871	-	-
Exchange-traded and closed-end funds	52,370	52,370	-	-
Preferred stocks	7,227	7,227	-	-
Corporate fixed income	13,507	-	13,507	-
Subtotal of investments in the fair value hierarchy	30,261,137	30,247,630	13,507	-
Alternative investment fund measured at NAV ⁽¹⁾	2,311,700	-	-	-
	<u>\$ 32,572,837</u>	<u>\$ 30,247,630</u>	<u>\$ 13,507</u>	<u>\$ -</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.

Cash equivalents such as money market funds are valued at quoted market prices that represent the NAV of shares held by the Organization at year-end.

Mutual funds and exchange traded close-end funds are valued at the daily closing price as reported by the fund. These funds are required to publish their daily NAV and to transact at that price. The mutual funds and exchange traded and close-end funds held by the Organization are deemed to be actively traded.

Common stocks and preferred stocks are valued at the closing price reported on the active market on which the individual securities are traded.

Corporate fixed income is valued by independent pricing sources or broker dealers using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Treasury bill is valued using valuation inputs utilized by the independent pricing service include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data including market research publications.

The 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. The investment is allowed to be redeemed at the end of a quarter with 90 days prior notice.

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Notes to Consolidated Financial Statements

Note 5. Grants and Contributions Receivable

All unconditional grants and contributions receivable have been recorded at their estimated realizable value. Those receivables that are payable over a year have been discounted to their present value using a discount rate of 0.89%.

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

	2023	2022
In less than one year	\$ 1,282,220	\$ 2,361,892
In between one year and five years	55,000	630,000
	1,337,220	2,991,892
Less discount to present value	(176)	(5,291)
Grants and contributions receivable, net	<u>\$ 1,337,044</u>	<u>\$ 2,986,601</u>

As of June 30, 2023 and 2022, approximately 84% and 86% of the outstanding balances were due from three and four donors/funders, respectively.

Note 6. Property and Equipment, Net

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

	2023	2022	Estimated Useful Life (Years)
Land	\$ 6,412,500	\$ 6,412,500	
The Distribution Center and improvements	5,552,678	5,552,678	39
Furniture and equipment	1,140,825	1,107,811	5
Computer software	201,548	201,548	3
Construction in progress	312,761	-	
	13,620,312	13,274,537	
Less accumulated depreciation	(2,143,028)	(1,982,812)	
	<u>\$ 11,477,284</u>	<u>\$ 11,291,725</u>	

Note 7. Loans Payable

In connection with the financing of the Distribution Center, the Organization has a loan amount of \$4,000,000 with a stated interest rate of 1.95%. This loan matures on August 21, 2027. The balance of this loan as of June 30, 2023 and 2022 was \$3,298,726 and \$3,441,310, respectively.

Interest expense for the years ended June 30, 2023 and 2022 was \$65,731 and \$70,396, respectively.

The outstanding loan has 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.

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Notes to Consolidated Financial Statements

Note 7. Loans Payable (Continued)

Future aggregate principal payments on these loans are as follows:

Years ending June 30:

2024	\$	145,438
2025		148,299
2026		151,217
2027		154,192
2028		2,699,580
	\$	<u>3,298,726</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.

- Salaries and fringe benefits
- Occupancy
- Telephone
- Insurance

All other expenses are charged directly to either program or supporting function.

Note 9. Donated Goods and Services

The Organization receives donated goods and services including food and non-food items and legal services. Donated food and non-food items and legal services are reported as contributions at their estimated value on the date of receipt and reported as expense when utilized. The Organization receives items to be sold at its fundraising events. Contributed auction items are valued at the gross selling price received.

The donated goods and services are not restricted by donors for specific purpose other than general program and administrative use.

Category	Utilization in Programs/Activities	Valuation Techniques and Inputs	2023	2022
Food and non-food items	Food, drinks and gifts for fundraising events	Estimated fair value based on current Retail value of identical or similar products	\$ 75,807	\$ 64,397
Auction items	Auction at fundraising events	Gross selling price received	235,087	144,453
Program foods	Food for program beneficiaries	Estimated fair value based on wholesale values that would be received for selling similar products	74,212	394,548
Legal and consulting services	General and administrative	Estimated fair value based on current rates for similar services	364,421	39,011
			<u>\$ 749,527</u>	<u>\$ 642,409</u>

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Notes to Consolidated Financial Statements

Note 10. Net Assets With Donor Restrictions

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

	2023	2022
Subject to the passage of time	\$ 2,535,000	\$ 1,270,000
Purpose restricted	1,235,796	566,044
	<u>3,770,796</u>	<u>1,836,044</u>
Endowment:		
Original gift amount—perpetual in nature	200,000	200,000
Underwater endowment	(54,454)	(60,397)
	<u>145,546</u>	<u>139,603</u>
Total net assets with donor restrictions	<u>\$ 3,916,342</u>	<u>\$ 1,975,647</u>

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.

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, 2023 and 2022, the endowment fund had a deficiency of \$54,454 and \$60,397, respectively. The original value of this endowment was \$200,000. 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 \$1,253,641 and \$941,184 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, 2023 and 2022, respectively.

Note 11. Leases

The Organization leases premises for general office uses from an unrelated party under an operating lease agreement that has initial term from transition of 9.83 years. This lease includes one option to renew of five years, generally at the Organization's sole discretion, with renewal terms that can extend the lease term. The option to extend a lease is included in the lease term when it is reasonably certain that the Organization will exercise that option. The Organization also leases equipment from an unrelated party under an operating lease that has a remaining term of 5.25 years. The equipment lease does not contain a renewal option. The Organization's leases generally do not contain any material restrictive covenants.

Operating lease cost is recognized on a straight-line basis over the lease term. In the year ended June 30, 2023, the total lease expense from the above operating leases is \$598,259. In the year ended June 30, 2022, the total rent expense was \$520,812.

Citymeals-on-Wheels

Notes to Consolidated Financial Statements

Note 11. Leases (Continued)

Supplemental information related to leases is as follows as of June 30, 2023:

Weighted-average remaining lease term for operating leases:	8.8 years
Weighted-average discount rate for operating leases	2.89%

Future undiscounted cash flows for each of the next five years and thereafter and reconciliation to the operating lease liabilities recognized on the consolidated statement of financial position as of June 30, 2023, is as follows:

Years ending June 30:	
2024	\$ 594,687
2025	605,828
2026	617,191
2027	628,782
2028	632,065
Thereafter	2,395,654
Total lease payments	<u>5,474,207</u>
Less imputed interest	(640,257)
Total present value of lease liabilities	<u>\$ 4,833,950</u>

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable leases are as follows as of June 30, 2022:

Years ending June 30:	
2023	\$ 522,000
2024	522,000
2025	522,000
2026	522,000
2027	435,000
	<u>\$ 2,523,000</u>

In June, 2023, the Organization entered into an agreement with its landlord to rent additional space for a term to commence on July 1, 2023 and to end on March 31, 2027. The lease undiscounted cash flows as of the lease commencement date was \$553,595.

Note 12. 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, 2023 and 2022, amounted to approximately \$157,000 and \$146,000, respectively. The officers of the Organization serve as trustees of the Plan.

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Notes to Consolidated Financial Statements

Note 13. Summarized Financial Data

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

	2023		2022	
	Citymeals	The LLC	Citymeals	The LLC
Total assets	\$ 68,133,599	\$ 17,369,042	\$ 58,127,922	\$ 16,230,681
Total liabilities	5,464,397	3,298,726	901,941	3,441,311
Net assets	<u>\$ 62,669,202</u>	<u>\$ 14,070,316</u>	<u>\$ 57,225,981</u>	<u>\$ 12,789,370</u>
Total revenue and gains	\$ 33,266,314	\$ 1,651,778	\$ 25,812,897	\$ 777,053
Total expenses	27,823,093	370,832	25,339,103	240,769
Change in net assets	<u>\$ 5,443,221</u>	<u>\$ 1,280,946</u>	<u>\$ 473,794</u>	<u>\$ 536,284</u>

The LLC net assets of \$14,070,316 and \$12,789,370 includes \$1,390,893 and \$475,770 restricted by donors for the Distribution Center as of June 30, 2023 and 2022, respectively.

Note 14. 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.