

**MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)**

**Financial Statements and
Independent Accountant's Review Report**

September 30, 2018

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Directors
Meals on Wheels of Lehigh County, Inc.
Allentown, PA

We have reviewed the accompanying financial statements of Meals on Wheels of Lehigh County, Inc. (a not-for-profit corporation), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses, and cash flows for the nine months then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

January 2, 2019

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
September 30, 2018

ASSETS:

Cash and Cash Equivalents	\$ 1,335
Cash and Cash Equivalents - Restricted	14,475
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$2,200)	11,838
Government Contracts Receivable	114,632
Investments (Note 3)	1,849,610
Equipment and Leasehold Improvements (Net of Accumulated Depreciation) (Note 4)	67,916
Investment in Outside Perpetual Trusts (Note 6)	<u>745,387</u>
Total Assets	<u><u>\$ 2,805,193</u></u>

LIABILITIES AND NET ASSETS:

Liabilities:

Accounts Payable	<u>\$ 96,622</u>
Total Liabilities	<u>96,622</u>

Net Assets:

Without Donor Restrictions	
Undesignated	244,582
Invested in Equipment and Leasehold Improvements	67,916
Designated by Governing Board (Note 8)	<u>1,581,439</u>
Total Without Donor Restrictions	1,893,937
With Donor Restrictions (Note 9)	<u>814,634</u>
Total Net Assets	<u>2,708,571</u>
Total Liabilities and Net Assets	<u><u>\$ 2,805,193</u></u>

See independent accountant's review report and notes to financial statements.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
STATEMENT OF ACTIVITIES
For the Nine Months Ended September 30, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total 9/30/2018
<u>OPERATING</u>			
<i><u>Revenues, Gains and Other Support:</u></i>			
Client Fees	\$ 260,746	\$ -	\$ 260,746
Lehigh County AAA	167,836	-	167,836
Waiver Program	84,928	-	84,928
Human Services Development Fund	19,627	-	19,627
Contributions	151,745	12,000	163,745
Grants	231,473	-	231,473
In-Kind Revenue	10,000	-	10,000
Income from Special Events	20,936	-	20,936
Miscellaneous Income	<u>277</u>	<u>-</u>	<u>277</u>
Total Revenue, Gains and Other Support	<u>947,568</u>	<u>12,000</u>	<u>959,568</u>
<i><u>Expenses:</u></i>			
Program Services	952,195	-	952,195
Management and General	122,427	-	122,427
Fund Raising	<u>53,473</u>	<u>-</u>	<u>53,473</u>
Total Expenses	<u>1,128,095</u>	<u>-</u>	<u>1,128,095</u>
Change in Net Assets from Operating Activities	<u>(180,527)</u>	<u>12,000</u>	<u>(168,527)</u>
<u>NON-OPERATING</u>			
Contribution of Interest in Outside Perpetual Trust	-	597,709	597,709
Investment Income (Net of Expenses)	17,191	-	17,191
Realized Gain on Investments	41,082	-	41,082
Unrealized Gain (Loss) on Investments	(12,370)	455	(11,915)
Change in Outside Perpetual Trust	<u>-</u>	<u>(2,534)</u>	<u>(2,534)</u>
Change in Net Assets from Non-Operating Activities	<u>45,903</u>	<u>595,630</u>	<u>641,533</u>
Change in Net Assets	(134,624)	607,630	473,006
Net Assets at Beginning of Year	<u>2,028,561</u>	<u>207,004</u>	<u>2,235,565</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,893,937</u>	<u>\$ 814,634</u>	<u>\$ 2,708,571</u>

See independent accountant's review report and notes to financial statements.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
For the Nine Months Ended September 30, 2018

	For the Nine Months Ended September 30, 2018			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 198,324	\$ 37,371	\$ 37,444	\$ 273,139
Case Workers	19,914	-	-	19,914
Employee Benefits	30,417	5,732	5,743	41,892
Payroll Taxes	13,759	2,592	2,598	18,949
Meals	623,852	-	-	623,852
Insurance	6,322	351	351	7,024
Mileage, Conferences and Meetings	721	816	262	1,799
Uncollectible Fees	6,552	-	-	6,552
Office Expenses and Supplies	5,669	810	1,620	8,099
Postage	3,442	257	1,438	5,137
Volunteer Mileage Supplements and Activities	6,149	-	-	6,149
Rent	9,944	2,376	-	12,320
Telephone	1,988	331	331	2,650
Maintenance Contracts	2,912	485	485	3,882
Professional Fees	-	31,530	1,046	32,576
Dues and Subscriptions	1,346	878	702	2,926
Computer Programming Services	19,398	1,078	1,078	21,554
Delivery Expense	462	-	-	462
Advertising and Public Relations	393	-	-	393
Building Repair	-	6,956	-	6,956
Travel and Entertainment	-	1,086	-	1,086
In-Kind Rent (Note 1)	-	9,465	-	9,465
In-Kind Expenses (Note 1)	134	26	375	535
Miscellaneous Expenses	497	498	-	995
Amortization	-	12,920	-	12,920
Depreciation	-	6,869	-	6,869
	<u>\$ 952,195</u>	<u>\$ 122,427</u>	<u>\$ 53,473</u>	<u>\$1,128,095</u>

See independent accountant's review report and notes to financial statements.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
STATEMENT OF CASH FLOWS
For the Nine Months Ended September 30, 2018

Cash Flows from Operating Activities:

Change in Net Assets	\$ 473,006
Adjustments to Reconcile Change in Net Assets to	
Net Cash Used by Operating Activities:	
Depreciation and Amortization	19,789
Contribution of Interest In Outside Perpetual Trust	(597,709)
Change in Value of Outside Perpetual Trust	2,534
Realized Gain on Investments	(41,082)
Unrealized Loss on Investments	11,915
Increase in Receivables and	
Prepays	(9,996)
Increase in Accounts Payable and	
Accrued Expenses	<u>11,192</u>
Net Cash Used by Operating Activities	<u>(130,351)</u>

Cash Flows from Investing Activities:

Purchase of Equipment and Leasehold Improvements	(3,075)
Proceeds from Sale of Investments	730,767
Purchase of Investments	<u>(722,935)</u>
Net Cash Provided by Investing Activities	<u>4,757</u>
Net Decrease in Cash and Cash Equivalents	(125,594)
Cash and Cash Equivalents at Beginning of Period	<u>141,404</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$ 15,810</u></u>

Supplemental Data:

In-Kind Rent	\$ 9,465
In-Kind Other	\$ 535
Contribution of Interest in Outside Perpetual Trust	\$ 597,709

See independent accountant's review report and notes to financial statements.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Meals on Wheels of Lehigh County, Inc. is a not-for-profit corporation organized under the laws of the Commonwealth of Pennsylvania. Its mission is to enhance the wellness and independence of adults, who are primarily homebound, by providing nutritious meals and supportive services.

On August 22, 2018, the Lehigh County Orphans Court approved the merger of Meals on Wheels of Lehigh County and Meal on Wheels of Northampton County to become Meals on Wheels of the Greater Lehigh Valley. The merger was completed to provide efficiency and increase effectiveness of similar programs run by the two Organizations. While the merger occurred at this date, the assets of the Organization were not fully transferred at that time. The financial statements herein reflect the assets titled to Meals on Wheels of Lehigh County, Inc. as of September 30, 2018.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization 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-imposed stipulations. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations. Some donor 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 has been fulfilled, or both.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Revenues

Revenues are reported as increases in unrestricted net assets. Revenues relate to client fees charged for meal delivery services. Fees are charged on a sliding scale based on the client's income and ability to pay. Contributions offset the costs associated with meal delivery that are not covered by fees.

Contributions

Contributions, including 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, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution and nature of fund raising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as an increase in net assets without donor restrictions.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the net assets without donor restrictions class. Contributions of cash or other assets to be used to acquire land, buildings and equipment without such donor stipulations are reported as revenues of the net assets with donor restrictions class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and highly liquid investments held in various checking and savings accounts with initial maturity dates of less than three months, unless such funds are held as a portion of the investment portfolio.

Accounts Receivable

Accounts receivable represents client fees outstanding. Accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon a periodic review of individual accounts.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Grants Receivable

Grants receivable consist mainly of grants from state and local agencies. Management determines the allowance for doubtful accounts by identifying economic conditions and historical aging of grants. These amounts are due to the Organization in the next year and the Organization believes all grants receivable at September 30, 2018 will be fully collected. Accordingly, no allowance for doubtful accounts is required.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are reported as increases (decreases) in net assets without donor restrictions unless restricted by donors.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on estimated useful lives of the related assets. Additions are capitalized while maintenance and repairs that do not improve or extend the original useful lives of the respective assets are expenses as incurred.

	<u>Years</u>
Leasehold Improvements	20
Furniture and Fixtures	5 - 10
Computer Equipment	5

Intangible Assets

The Organization has a video which is used to raise awareness of its programs. The video cost \$15,500 and will be amortized over eight years, the expected period of use. Additionally, \$12,063 was spent on website design and those costs will be amortized over five years. Total amortization expense was \$12,920 for 2018.

Operating Measure

Results from operations in the statement of activities reflect all transactions increasing or decreasing net assets except those items of a capital nature such as items associated with acquisition of property and improvements, and activities related to investments.

Non-operating activities principally include the following: contributions and other resources intended for investment in capital assets, contributions received for permanently restricted purposes; investment income, including realized and unrealized gains or losses on investments; and other activities considered to be of a more unusual or non-recurring nature.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Income Taxes

Meals on Wheels of Lehigh County, Inc. is a not-for-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The accounting standard for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefits from an uncertain tax position only if it more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or liabilities recorded for the nine months ended September 30, 2018.

The Organization has filed income tax returns in the United States. Additionally, the Organization files various reports in multiple states where contributions are solicited. The Organization is no longer subject to U.S. tax examinations by taxing authorities for years before 2015.

Donated Services, Goods and Facilities

A substantial number of volunteers have donated numerous hours to the Organization's program services during the year; however, these donated services are not reflected in the financial statements because they do not meet the criteria for recognition.

The Organization occupies space provided by the County of Lehigh at no cost to the Organization. Based on the square footage of the space and a reasonable rate applied, the Organization has recognized an in-kind contribution related to rent expense of \$9,465 for the nine months ended September 30, 2018. Throughout the nine months ended September 30, 2018, the Organization received various other in-kind contributions totaling \$535, and recognized expenses related to the donated amounts.

Concentration of Credit Risk

The Organization maintains cash balances which may exceed federally insured limits. It historically has not experienced any credit related losses.

The Organization invests in various types of marketable securities, bonds and money market funds, as well as the Lehigh Valley Community Foundation. The Organization has established guidelines relative to diversification and maturities that target certain safety and liquidity risks. These guidelines are periodically reviewed and modified. Investment securities, in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that the changes in the value of investment securities will occur in the near term.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Concentration of Provider

The Organization relies on Meals on Wheels of Northampton County, Inc. to provide meals for daily distribution to its various clients.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and supporting services 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. Expenses that can be identified with a specific program, fundraising, or support service are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated based on estimates made for time spent by key personnel between functions, space occupied by function, and other objective bases.

Advertising

Advertising costs are expensed when incurred.

Adoption of New Accounting Standards

The Organization has adopted the provisions of ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*.

2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Financial Assets, as of September 30, 2018	\$ 2,805,193
Less: those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions	
Restricted by donor with time or purpose restrictions	(814,634)
Board designations	
Quasi-endowment fund, primarily for long-term investing in future use	(1,581,439)
Invested in Equipment and Leasehold Improvements	<u>(67,916)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 341,204</u>

Board designated assets could be utilized to meet operational needs if necessary with board approval.

The Organization has merged with Meals on Wheels of Northampton County to become Meals on Wheels of the Greater Lehigh Valley.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

3. Investments

Investments are comprised of the following:

	<u>9/30/2018</u>	
	<u>Cost</u>	<u>Market</u>
Cash Equivalents	\$ 30,410	\$ 30,410
Diversifying Assets	42,273	41,161
Equity Funds	781,445	1,276,279
Fixed Income	453,830	446,988
Invested with Lehigh Valley Community Foundation	<u>36,310</u>	<u>54,772</u>
	<u><u>\$ 1,344,268</u></u>	<u><u>\$ 1,849,610</u></u>

The Organization has its endowment funds deposited with Lehigh Valley Community Foundation. \$36,310 of these assets are permanently restricted as of September 30, 2018.

A summary of earnings on investments for the nine months ended September 30, 2018 are as follows:

	<u>9/30/2018</u>
Interest and Dividends	\$ 24,951
Unrealized Gains	(11,915)
Realized Gains	41,082
Investment Fees	<u>(7,760)</u>
	<u><u>\$ 46,358</u></u>

4. Equipment and Leasehold Improvements

Equipment and Leasehold Improvements consist of:

	<u>9/30/2018</u>
Furniture and Fixtures	\$ 116,605
Leasehold Improvements	67,992
Computer Equipment	<u>26,080</u>
	210,677
Less: Accumulated Depreciation	<u>(142,761)</u>
	<u><u>\$ 67,916</u></u>

Depreciation charged to expense was \$6,869 for the nine months ended September 30, 2018.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

5. Fair Value Measurements

Financial Accounting Standards Board ASC 820-10 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. |
| Level 2 | <p>Inputs to the valuation methodology include:</p> <ul style="list-style-type: none">• 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 that are derived principally from or corroborated by observable market data by correlation or other means. <p>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.</p> |
| Level 3 | Inputs to the valuation methodology are unobservable, are significant to the fair value measurement and include management's judgments about the assumptions market participants would use in pricing the asset or liability. |

The asset's or liability'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. Investments classified within Level 3 whose fair value measurements consider several inputs may include Level 1 and/or Level 2 inputs as components of the overall fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at September 30, 2018.

Cash management funds: Measured at cost, which approximates fair value.

Common stocks, mutual funds, fixed income funds and diversifying assets: Valued at the closing price reported on the active market on which the individual securities are traded.

Invested with Lehigh Valley Community Foundation: Measured at the reported value by the Foundation, which approximates fair value. The Organization does not have discretion over investment composition of funds held with the Foundation.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

5. Fair Value Measurements (Continued)

Outside Perpetual Trusts: Measured based on the Organization's pro-rata share of the Trust assets, which approximates the expected future cash flows from the Trust.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2018.

	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash Management Funds	\$ 30,410	\$ -	\$ -	\$ 30,410
Equity Mutual Funds				
Foreign Large Blend	231,868	-	-	231,868
Foreign Small/Mid Growth	76,501	-	-	76,501
Infrastructure	38,563	-	-	38,563
Large Blend	213,399	-	-	213,399
Mid Cap Equity	58,076	-	-	58,076
Mid Cap Value	56,368	-	-	56,368
Small Growth	52,476	-	-	52,476
Small Value	23,215	-	-	23,215
Common Stocks				
Consumer Discretion	76,397	-	-	76,397
Consumer Staples	44,433	-	-	44,433
Energy	24,761	-	-	24,761
Financials	64,534	-	-	64,534
Health Care	82,683	-	-	82,683
Industrials	62,892	-	-	62,892
Information Technology	141,565	-	-	141,565
Materials	17,336	-	-	17,336
Telecommunications	11,212	-	-	11,212
Diversifying Assets				
Commodities Broad Basket	41,161	-	-	41,161
Fixed Income				
Intermediate-Term Bond	446,988	-	-	446,988
Invested with Lehigh Valley Community Foundation	-	54,772	-	54,772
	<u>\$ 1,794,838</u>	<u>\$ 54,772</u>	<u>\$ -</u>	<u>\$ 1,849,610</u>
Beneficial Interest in Outside Perpetual Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 745,387</u>	<u>\$ 745,387</u>

There were no transfers between Level 1, Level 2, and Level 3 investments as of September 30, 2018. Transfers are recognized at the end of the reporting period.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

5. Fair Value Measurements (Continued)

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the nine months ended September 30, 2018.

	<u>Outside Perpetual Trust</u>
Balance, Beginning of Year	\$ 150,212
Contribution	597,709
Change in Value of Beneficial Interest	<u>(2,534)</u>
Balance, as of September 30, 2018	<u><u>\$ 745,387</u></u>

The change in value of beneficial interest is included in the non-operating section in the Statement of Activities and is related to assets still held at the statement of financial position date.

6. Beneficial Interest in Perpetual Trusts

The Organization is named as a beneficiary in two perpetual trusts held by a corporate trustee. The amounts recorded as an asset represents the pro-rata share of the trusts' net assets that provides for distribution of income to the Organization as beneficiary. Income is disbursed annually as a percentage of the value of the investment at its valuation date. The Organization is a 5% beneficiary in the first trust and the share of assets was \$147,678 as of September 30, 2018. Income distribution received from the first trust was \$5,600 for nine months ended September 30, 2018. The Organization is a one-sixth beneficiary in the second trust and the share of assets was \$597,709 as of September 30, 2018. There was no income distribution from the second trust for the nine months ended September 30, 2018.

7. Endowment Net Assets

The Organization's endowment consists of donor-restricted funds and a quasi-endowment fund designated by the Board of Directors. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

MEALS ON WHEELS OF LEHIGH COUNTY, INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
September 30,2018

7. Endowment Net Assets (Continued)

Interpretation of Relevant Law

The Organization classifies as net assets with donor restrictions (a) the original value of gift donated to the donor-restricted endowment, and (b) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The earnings portion of the donor-restricted endowment fund is maintained until those amounts are appropriated for expenditures by the Organization in a manner consistent with the standard of prudence prescribed by the laws of the Commonwealth of Pennsylvania Act 141. In accordance with the laws of the Commonwealth of Pennsylvania Act 141, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters, Strategies and Spending Policy: The Organization has deposited the donor-restricted endowment funds with Lehigh Valley Community Foundation. The Foundation is responsible for the prudent investment of funds and determining the amount of funds distributable. The Foundation has been granted variance power therefore, the return objectives, risk parameters and strategies are removed from the Organization. The Quasi-endowment funds are under the control of the Organization. The Organization has chosen an investment objective of a 70% stocks and 30% bonds allocation with an equity emphasis.

The Organization had adopted endowment investment and spending policies which have been approved by the Board of Directors. The goal of the endowment investment policy is to preserve principal while seeking to achieve a balance between the ability to generate current income and the desire to increase further income as a result of fund growth.

The Board of Directors seeks to enhance the total return of board designated quasi-endowment investments which may be derived from capital appreciation and earnings. Annually, the Board may designate a withdrawal based on the rolling 3 year average of the returns. The Board may elect to withdraw up to 5% of the principal based on the prior calendar year-end balance, which the Directors shall select after determination that such percentage is consistent with the long term preservation of the real value of the assets. The Board may also choose not to withdraw any amount in a particular year, if cash flow is sufficient for operations of the agency.

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7. Endowment Net Assets (Continued)

The composition of net assets and the changes in endowment net assets as of September 30, 2018 are as follows:

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
<u>Endowment Net Asset Composition by Type of Fund as of September 30, 2018</u>			
Board designated endowment funds	\$ 984,679	\$ -	\$ 984,679
Donor-restricted endowment funds			
Original Donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 36,310	\$ 36,310
Accumulated investment gains	-	18,462	18,462
	<u>\$ 984,679</u>	<u>\$ 54,772</u>	<u>\$ 1,039,451</u>
<u>Changes in Endowment Net Assets for the Nine Months Ended September 30, 2018</u>			
Endowment net assets, beginning of year	\$ 963,045	\$ 54,317	\$ 1,017,362
Designated by Board	-	-	-
Contributions	-	-	-
Investment Income	13,245	-	13,245
Net Appreciation	8,389	455	8,844
Net Appropriated for Expenditure	-	-	-
	<u>\$ 984,679</u>	<u>\$ 54,772</u>	<u>\$ 1,039,451</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or state law requires the Organization to retain as a fund of perpetual duration. There was no deficiency at September 30, 2018.

8. Designated Net Assets Without Donor Restrictions

The Organization has designated a portion of its net assets to be set aside as an operating reserve. The amount designated was \$596,760 for 2018. This amount is held in a separate investment account.

The Board has designated a portion of its net assets as quasi-endowment to support future operations. The amount designated was \$984,679 for 2018. This amount is held in a separate investment account.

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9. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

	<u>9/30/2018</u>
Timing Restrictions:	
Bountiful Bowl	\$ 10,865
MOW Association of America	1,975
Outreach and Education	1,000
Blizzard Bags	500
Volunteer Dinner	135
Endowment earnings	18,462
Perpetuity Restrictions:	
Outside Perpetual Trusts	745,387
Endowment Fund	<u>36,310</u>
	<u><u>\$ 814,634</u></u>

The income from the outside perpetual trusts is expendable for operating purposes. The income from the donor-restricted funds remains restricted until released from timing restrictions.

In 2011, the Organization established the Endowment Fund of Meals on Wheels of Lehigh County, Inc. as a permanent agency endowment fund of the Lehigh Valley Community Foundation.

The Foundation has been granted variance power in that in the event that it becomes unnecessary, undesirable, impractical, or impossible to utilize the fund for such purposes or if Meals on Wheels of Lehigh County, Inc. ceases to exist or be recognized as a tax exempt charitable organization, the Foundation shall have the right to utilize the Fund for such charitable purposes as it deems appropriate in accordance with the Foundation's governing instruments. The value of the fund was \$54,772 as of September 30, 2018.

10. Line of Credit

The Organization obtained a line of credit for up to \$50,000 with BB&T Bank, bearing interest at 5.25%. The Organization had no principal balance outstanding as of September 30, 2018. Interest expense incurred was \$-0- for the nine months ended September 30, 2018.

11. Retirement Plan

The Organization contributes 5% of the employee's annual salary to a 403(b) retirement plan. Employees can contribute additional amounts. Employer contributions totaled \$8,694 for the nine months ended September 30, 2018.

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12. Operating Lease

The Organization leases office space and equipment under long-term operating lease agreements. Rental expense on the leases was \$12,825 for the nine months ended September 30, 2018.

Future minimum lease payments are as follows:

Twelve months ending September 30,

2019	\$4,290
2020	1,500
2021	1,375

13. Subsequent Events

Management has evaluated subsequent events through January 2, 2019, which is the date the financial statements were available to be issued.