

**MEALS ON WHEELS OF SAN FRANCISCO, INC.
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2020



MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Meals On Wheels of San Francisco, Inc. and Subsidiary

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Meals On Wheels of San Francisco, Inc. and subsidiary (a nonprofit organization) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Meals On Wheels of San Francisco, Inc. and 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position, consolidating statement of activities and changes in net assets and schedule of expenditures of federal and nonfederal awards, as required by Title 2 U.S. *Code of Federal Regulations* (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2020, on our consideration of MOWSF’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MOWSF’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MOWSF’s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited MOWSF’s 2019 financial statements, and we expressed an unmodified audit opinion on those audited 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.

BPM LLP

San Francisco, California
November 12, 2020

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2020

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

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,636,886	\$ 1,867,399
Grants receivable	1,644,088	1,174,422
Pledges receivable, net	379,865	929,115
Inventory	221,168	-
Prepaid expenses	<u>154,523</u>	<u>109,538</u>
Total current assets	<u>7,036,530</u>	<u>4,080,474</u>
Non-current assets:		
Restricted cash	15,352,725	7,704,760
Investments in marketable securities	1,051,462	3,642,253
Deposits and other assets	157,345	77,232
Pledges receivable - non-current	150,000	-
Pledges receivable - capital campaign, net	6,336,049	7,704,093
NMTC loans receivable	26,389,390	-
Property and equipment, net	<u>36,963,274</u>	<u>10,962,697</u>
Total non-current assets	<u>86,400,245</u>	<u>30,091,035</u>
Total assets	<u>\$ 93,436,775</u>	<u>\$ 34,171,509</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 4,971,672	\$ -
Accrued expenses	1,140,367	1,765,530
Deferred special event revenue	125,000	-
Refundable advance from Paycheck Protection Program	1,360,000	-
NMTC notes payable	<u>1,968,114</u>	<u>-</u>
Total current liabilities	9,565,153	1,765,530
NMTC notes payable, net of current portion and debt discount	<u>48,560,175</u>	<u>3,356,317</u>
Total liabilities	<u>58,125,328</u>	<u>5,121,847</u>
Net assets:		
Without donor restrictions, including noncontrolling interests of \$140,470	8,855,540	8,162,824
With donor restrictions	<u>26,455,907</u>	<u>20,886,838</u>
Total net assets	<u>35,311,447</u>	<u>29,049,662</u>
Total liabilities and net assets	<u>\$ 93,436,775</u>	<u>\$ 34,171,509</u>

The accompanying notes are an integral part of these consolidated financial statements.

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2020
(with summarized comparative information for the year ended June 30, 2019)

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and support:				
Government grants	\$ 8,984,638	\$ -	\$ 8,984,638	\$ 8,856,845
Catering	1,344,193	-	1,344,193	1,030,974
Project income	113,380	-	113,380	185,763
Contributions	6,148,046	971,366	7,119,412	3,711,190
Special events (net of direct expenses of \$249,996 and \$1,191,366)	941,423	-	941,423	2,644,560
Donated materials and services	122,736	-	122,736	24,852
Other operating revenue	-	-	-	309,056
	<u>17,654,416</u>	<u>971,366</u>	<u>18,625,782</u>	<u>16,763,240</u>
Net assets released from restrictions	763,501	(763,501)	-	-
Total revenues and support	<u>18,417,917</u>	<u>207,865</u>	<u>18,625,782</u>	<u>16,763,240</u>
Expenses:				
Program expenses	15,192,980	-	15,192,980	13,328,266
Management and general	1,536,260	-	1,536,260	1,008,326
Fundraising	1,202,154	-	1,202,154	1,141,975
Total expenses	<u>17,931,394</u>	<u>-</u>	<u>17,931,394</u>	<u>15,478,567</u>
Change in net assets from operations	<u>486,523</u>	<u>207,865</u>	<u>694,388</u>	<u>1,284,673</u>
Nonoperating items:				
Capital campaign contributions	-	5,361,204	5,361,204	5,131,427
Capital campaign expenses	(59,060)	-	(59,060)	(203,808)
Realized and unrealized loss on marketable securities	(89,026)	-	(89,026)	(108,720)
Interest and dividend income, net	224,279	-	224,279	125,097
Total nonoperating	<u>76,193</u>	<u>5,361,204</u>	<u>5,437,397</u>	<u>4,943,996</u>
Change in net assets	562,716	5,569,069	6,131,785	6,228,669
Sale of interest in Nourish SF Kitchen LLC to noncontrolling shareholder	130,000	-	130,000	-
Net assets, beginning of year	<u>8,162,824</u>	<u>20,886,838</u>	<u>29,049,662</u>	<u>22,820,993</u>
Net assets, end of year	<u>\$ 8,855,540</u>	<u>\$ 26,455,907</u>	<u>\$ 35,311,447</u>	<u>\$ 29,049,662</u>

The accompanying notes are an integral
part of these consolidated financial statements.

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2020

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

	2020				2019 Total
	Meals and Other Programs	Management and General	Fundraising	Total	
Salaries and wages	\$ 5,297,886	\$ 816,768	\$ 655,492	\$ 6,770,146	\$ 5,039,930
Catered meals and food costs	5,409,346	-	-	5,409,346	6,080,851
Employee benefits	1,805,796	162,666	110,159	2,078,621	1,737,017
Contractual services	711,650	280,297	131,924	1,123,871	843,888
Office expense	554,960	37,097	25,916	617,973	158,272
Office supplies	134,488	101,500	186,742	422,730	405,915
Depreciation and amortization	271,376	70,823	3,978	346,177	290,849
Donor cultivation, printing, and mailing	-	-	297,190	297,190	1,262,550
Utilities and garbage	261,238	20,590	12,647	294,475	241,015
Repairs and maintenance expense	216,865	15,032	9,235	241,132	114,647
Client needs	215,783	-	-	215,783	272,183
Delivery expense	185,136	-	-	185,136	178,978
Travel and training	49,804	9,981	21,950	81,735	56,771
Insurance	70,785	7,876	1,083	79,744	84,853
Credit card and bank charges	1,151	6,384	54,474	62,009	84,955
Public relations	6,716	7,246	420	14,382	21,067
	15,192,980	1,536,260	1,511,210	18,240,450	16,873,741
Total operating expenses					
Less special events expenses	-	-	(249,996)	(249,996)	(1,191,366)
Less capital campaign expenses	-	-	(59,060)	(59,060)	(203,808)
Total operating expenses excluding event expenses	\$ 15,192,980	\$ 1,536,260	\$ 1,202,154	\$ 17,931,394	\$ 15,478,567

The accompanying notes are an integral part of these consolidated financial statements.

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2020

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

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 6,261,785	\$ 6,228,669
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	346,177	290,849
Realized and unrealized loss on investments in marketable securities	89,026	108,720
Bad debt expense	9,180	17,075
Discount on pledge receivables	(148,616)	(90,229)
Amortization of debt issuance costs	14,228	7,404
Contributions restricted for capital campaign	(5,361,204)	(5,131,829)
Changes in operating assets and liabilities:		
Grants receivable	(469,666)	111,030
Pledges receivable	845,790	(615,690)
Prepaid expenses	(44,985)	(19,822)
Inventory	(221,168)	-
Deposits and other assets	(80,113)	14,310
Accounts payable	2,272,555	(1,315,290)
Accrued expenses	(625,163)	379,494
Refundable advance from Paycheck Protection Program	1,360,000	-
Deferred special event revenue	125,000	-
Net cash provided by (used in) operating activities	4,372,826	(15,309)
Cash flows from investing activities:		
Issuance of notes receivable	(26,389,390)	-
Purchase of marketable securities	(4,439,530)	(406,708)
Proceeds from sale of marketable securities	6,811,295	272,031
Purchases of property and equipment	(296,315)	(2,758,144)
Net cash used in investing activities	(24,313,940)	(2,892,821)
Cash flows from financing activities:		
Proceeds from issuance of notes payable, net of debt issuance costs of \$890,890	30,097,787	-
Proceeds from contributions restricted for capital campaign	6,422,145	5,925,736
Payments on note payable	(6,291,366)	-
Proceeds from sale of noncontrolling interest in Nourish SF Kitchen, LLC	130,000	-
Net cash provided by financing activities	30,358,566	5,925,736
Net increase in cash and cash equivalents	10,417,452	3,017,606
Cash, cash equivalents, and restricted cash, beginning of year	9,572,159	6,554,553
Cash, cash equivalents, and restricted cash, end of year	\$ 19,989,611	\$ 9,572,159
Supplemental cash flow information and noncash transactions:		
Cash paid for interest	\$ 849,218	\$ 165,822
Property and equipment acquired through issuance of debt and accounts payable	\$ 26,050,439	\$ 751,524

The accompanying notes are an integral part of these consolidated financial statements.

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

1. Description of Organization and Summary of Significant Accounting Policies

Meals On Wheels of San Francisco, Inc. (“MOWSF”) is a California nonprofit corporation which provides meals to the elderly home-bound in San Francisco.

Organized in 1970, MOWSF was incorporated under the laws of the state of California. MOWSF provides the nutrition component that will allow home-bound San Francisco seniors to remain in their own homes for as long as appropriate, and fosters independent living with dignity in the home-bound senior population.

Nourish SF Kitchen LLC (“Nourish”) was established on May 28, 2019 as a limited liability company to complete the New Markets Tax Credit (“NMTC”) financing to construct The Sangiacomo Flynn Building to be used as the kitchen and food production facility for MOWSF (see Note 7). Nourish is operated by the same management as the 90% member MOWSF. Accordingly, MOWSF exerts control over the operations and governance of Nourish.

MOWSF has established the following programs:

Meal Programs

Home Delivery Meals – This program provides home-delivered nutrition services to individuals who are home-bound by reason of illness, incapacitation disability, isolation; who lack a support network; and who have no safe, healthy alternative for meals. The program consists of the procurement, preparation, service and delivery of meals, as well as nutrition education and nutrition counseling.

Home Delivered Groceries – Provides groceries to clients who still have the ability and facilities to cook at home.

Adults with Disabilities – This program enables persons with disabilities living in San Francisco to live independently, by promoting better health through improved nutrition, and reduced isolation through accessible and appropriate meals services.

Other Programs and Supportive Services – As part of its mission to “nourish the whole person” MOWSF engages in a variety of supportive programs designed to reduce isolation, provide social supports, improve safety in the home, assist with basic needs, or improve the specific conditions of underserved populations. These areas include: social work and case management support to clients, the promotion and use of volunteers for friendly visiting, shopping, and client needs projects; special donor contributions to assist clients, minor home repairs, programs that support pets of clients, and targeted partnerships to create learning/program designs aimed at special populations.

The San Francisco Department of Homelessness and Supportive Housing (“HSH”) operates Navigation Center Programs to provide critical resources to adults experiencing homelessness. As a part of the operations, HSH contracts with MOWSF to provide meals to the Navigation Center programs. Meals On Wheels SF prepares and delivers the meals as individual servings so that the Navigation Center Programs’ Service Providers can offer them to clients on a flexible schedule.

Additionally, in 2017 MOWSF embarked on a capital campaign to acquire property and build a new facility that will allow for greater expansion of programs and significantly increase the meals served to home-bound San Francisco seniors (see Note 7).

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

1. Description of Organization and Summary of Significant Accounting Policies, continued

A summary of significant accounting policies applied in the preparation of the accompanying financial statements follows:

Basis of Consolidation

The consolidated financial statements include the accounts of MOWSF and Nourish (collectively, the “Organization”). All material intercompany transactions and balances have been eliminated.

Basis of Accounting and Presentation

The financial statements of the Organization are prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America (“GAAP”) specific to nonprofit organizations. The Organization presents information about its net assets and activities by net assets classes: without donor restriction and with donor restriction.

Net Assets Without Donor Restriction

The portion of net assets that is not subject to donor imposed restriction. Net assets without donor restrictions also include funds set aside for specific purposes by the Board of Directors to enable the Organization to more efficiently manage cyclical cash flow variations and to minimize the need for working capital borrowing. The balance of designated net assets at June 30, 2020 was \$250,000. Noncontrolling interest represents third party limited member ownership in Nourish, for which MOWSF serves as managing member.

Net Assets With Donor Restriction

Net assets with donor restriction represent net assets subject to donor-imposed restrictions. The originating contributions requires MOWSF to maintain them permanently or is limited in accordance with specific donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of MOWSF according to the intentions of the donors.

Cash and Cash Equivalents

The Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents, except those that are held for investment purposes. Cash and cash equivalents restricted as to use are segregated.

Cash and restricted cash at June 30, 2020, consisted of the following:

Cash and cash equivalents	<u>\$ 4,636,886</u>
Restricted cash:	
Cash - restricted to purchase of property and equipment	13,648,504
Cash - restricted to service debt	<u>1,704,221</u>
Total restricted cash	<u>15,352,725</u>
Total cash and restricted cash shown in the statement of cash flows	<u><u>\$ 19,989,611</u></u>

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

1. Description of Organization and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents, continued

Restricted cash of \$1,704,221 consists of \$1,521,121 of cash reserved to service debt on three of the four NMTC loans (see Note 10) and \$183,100 reserved to service debt on two of the three bridge loans as discussed (see Note 10).

Grants Receivable

Grants receivable represent unreimbursed expenditures incurred under the terms of the grant agreements. In the opinion of management, grants receivable are collectible in full; therefore, no allowance for doubtful accounts was assessed at June 30, 2020.

Pledges Receivable

Unconditional promises to give are recognized as support and assets in the period received. Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in the future years are recorded at the present value of their estimated future cash flows determined using a fair value measurement that is the risk-free interest rate applicable for the year in which the promises are received. For the year ended June 30, 2020, the discount rates used ranged from 0.16% to 3.03%. The pledges receivable discount at June 30, 2020 was \$157,103. Conditional promises to give are excluded from revenue and support until the conditions are substantially met. See Note 10 for additional details on conditional promises to give. A provision has been made for uncollectible amounts based on specific identification of risks related to individual pledges.

Investments in Marketable Securities

MOVSF is required to consider the use of market-based information over entity specific information in valuing its financial assets measured at fair value, using a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

Level 1 – inputs to the valuation methodology - quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology - quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.

Level 3 – inputs to the valuation methodology - unobservable and significant to the fair value measurement.

An asset's or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

1. Description of Organization and Summary of Significant Accounting Policies, continued

Investments in Marketable Securities, continued

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted prices in active markets (all Level 1 measurements) in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restriction if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Property and Equipment, Net

Property and equipment are recorded at cost or, if donated, at estimated fair market value at the date of donation. Depreciation is provided on the straight-line method of accounting over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	30
Automobiles and trucks	5
Office furniture and equipment	5
Software	3

Depreciation is computed based on the month the asset is placed in service.

Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Renewals and betterments in excess of \$5,000 are capitalized.

The Organization capitalizes interest charges incurred on borrowed funds used to construct new buildings or renovate existing buildings. Capitalized interest is recorded as part of the asset to which it relates and amortized over the life of the capital asset. At June 30, 2020, net capitalized interest amounted to \$890,890.

NMTC Loans Receivable

NMTC loans receivable are stated at the principal amount. Payments of the loans receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balance. Interest on loans receivable is recognized over the term of the loan and is calculated using the interest method on principal amounts outstanding. MOWSF has one class of financing receivables from a highly credible institution. Management assesses the credit quality of loans receivable based on indicators such as collateralization, collection experience and management's internal metrics. As of June 30, 2020, no allowance for losses have been recognized. Loans receivable are periodically assessed for impairment based on relevant facts and circumstances. Management reviews the collectability of the loans receivable on an ongoing basis, and no reserve for doubtful loans receivable has been established.

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

1. Description of Organization and Summary of Significant Accounting Policies, continued

Refundable Advance on Paycheck Protection Program

MOWSF received a refundable advance from the Paycheck Protection Program (“PPP”) to be used to cover eligible expenses as defined in the program. These funds were accounted for as a conditional contribution when received. The funds will be recognized as revenue once all conditions are met according to the terms and conditions of the program and notification from this program that the qualifying expenses have been approved. If these conditions are not met in full, the monies not approved by the PPP would have to be repaid with accrued interest at the rate of 1%. Management believes they will be able to comply with the terms and conditions of this program and receive 100% forgiveness of the advance. See Note 10 for additional details.

Revenue Recognition

Government Grants

MOWSF receives government grants from cost-reimbursable contracts. These contracts are conditioned upon certain performance requirements such as number of meals served, and / or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when MOWSF has met these conditions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statement of financial position. There were no amounts received in advance related to government grants as of June 30, 2020, but there were amounts outstanding as conditional promises to give (see Note 10).

Catering Income

MOWSF has contracts with San Francisco’s Navigation Center to provide meals to individuals experiencing homelessness in San Francisco. These contracts are treated as conditional contributions and revenues from catering income are recognized when MOWSF performs services in accordance with the partner contract.

Project Income and Other Operating Revenue

Project income consists of client contributions and are recognized when received. Other operating revenue mainly consists of revenues from the Home Delivered Groceries program and rental revenue from The Sangiacomo Flynn Building (see Note 7). Revenue is recognized when MOWSF renders the services stipulated in the contract.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received or unconditionally promised, as without donor restriction or with donor restriction depending on the existence of any donor restrictions. Unconditional promises to give becoming due in the next year are recorded at their net realizable value. All contributions, including conditional contributions, with donor restriction and income whose restrictions or conditions are met in the same year as the revenue is received are recognized as revenue without donor restriction. If the restriction is released in a different reporting period, such revenue is required to be reported as support with donor restriction and then reclassified to net assets without donor restriction upon fulfillment of the restrictions. Contributions with donor restriction received that are for the acquisition and construction of long-live assets will be released when the assets are placed into service.

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

1. Description of Organization and Summary of Significant Accounting Policies, continued

Revenue Recognition, continued

Donated Materials and Services

In-kind contributions are reflected as contributions on the date of donation at fair value and are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. MOWSF recognizes the fair value of contributed services received if such services (a) create or enhance non-financial assets or (b), require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

MOWSF receives services from general volunteers associated with the programs and fundraising campaigns which do not meet the criteria for financial statement recognition and therefore are not included in these financial statements.

Special Event Revenue

MOWSF records revenue from a special event at the time of the event.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets and consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services that are benefited based on estimates of time and usage determined by management.

The statement of functional expenses reports certain categories of expenses that are attributable to one or more program or supporting functions of MOWSF. Those expenses include the salary and fringe benefits of the Finance, Human Resources, Development, Executive, Communications and Information Technology departments. These expenses are allocated on the basis of full time equivalent positions.

Vendors, such as legal, and other general support contracts are allocated on a time and material basis as indicated in the invoices and approved by the department head.

Income Taxes

The Internal Revenue Service has determined that MOWSF is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and by the Franchise Tax Board under Section 23701(d) of the California Revenue and Taxation Code. As a result, MOWSF is exempt from paying income taxes, and thus no provision for income taxes has been reflected in these financial statements. However, income from certain activities not directly related to MOWSF's tax-exempt purpose was \$47,076 for the year ended June 30, 2020 and is subject to income tax. Cumulative net operating losses of \$198,473 will be carried forward and may be applied to the return filed for the 2021 tax year.

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

1. Description of Organization and Summary of Significant Accounting Policies, continued

Income Taxes, continued

Nourish is a passthrough entity for income tax purposes and is not subject to federal income tax, but may be subject to certain minimum state taxes. Nourish's members are liable for taxes based on Nourish's income or loss. Nourish follows the authoritative guidance on accounting for and disclosure of uncertainty in tax positions, which requires Nourish to determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the consolidated financial statements is reduced by the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority. Nourish has determined that there is no effect on the financial statements from this authoritative guidance.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Change in Accounting Principles

During the year ended June 30, 2020, MOWSF adopted the requirements of the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The accounting for contributions has been modified to distinguish whether grants or contracts should be accounted for as non-reciprocal contributions, or as exchange transactions that follow revenue recognition accounting.

The change in accounting principle was adopted on a modified prospective basis in 2020. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of July 1, 2019. In comparison to the year ended June 30, 2019, government grant and catering income is treated as conditional contributions rather than exchange transactions, however, there was no change in amounts of revenue recognized due to the effect of adopting the new accounting principles in 2020.

During May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the requirements in Accounting Standards Codification ("ASC") Topic 605, *Revenue Recognition*, and most industry-specific guidance. This ASU is based on the principle that revenue is recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services once the transfer of goods or services to customers takes place. The new guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized. ASU 2014-09 was adopted by MOWSF on a modified retrospective basis as of July 1, 2019. The adoption of the standard did not have a significant impact on MOWSF's accounting treatment for revenue from contracts.

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

1. Description of Organization and Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (842)*. The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The new guidance is effective for fiscal years beginning after December 15, 2021 and interim periods beginning the following year. Early application is permitted. MOWSF is in the process of evaluating the impact of the new guidance on its financial statements. In June 2020, FASB issued ASU No. 2020-05, which effectively delayed the adoption date to an effective date for private entities for annual periods beginning after December 15, 2021.

Measure of Operations

The Organization's measure of operations is its changes in net assets from operating activities, excluding investment related activity, revenues and expenses from its current capital campaign, and other infrequent items.

Prior Year Summarized Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

2. Liquidity and Availability

Financial assets available for general expenditure consisted of the following:

Cash and cash equivalents	\$ 4,636,886
Grants receivable	1,644,088
Pledges receivable, net	529,865
Restricted cash	15,352,725
Investments in marketable securities	1,051,462
Pledges receivable - capital campaign, net	6,336,049
NMTC loans receivable	<u>26,389,390</u>
Total financial assets	55,940,465
Less net assets with donor restrictions unavailable for general expenditure in the coming year	(3,120,105)
Less contractually restricted liquid assets per loan covenants	(1,000,000)
Less receivables meant for the capital campaign	(6,336,049)
Less restricted cash not available in the coming year	(15,352,725)
Less Board-designated net assets	(250,000)
Less NMTC loans receivable not available in the coming year	<u>(26,389,390)</u>
Financial assets available for general expenditure over the next year	<u>\$ 3,492,196</u>

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

2. Liquidity and Availability, continued

MOWSF has steady contract revenues from its contracts with the city and county of San Francisco and expects contract revenues to be approximately \$10.3 million over the next 12 months. To support liquidity requirements, the board-designated net assets of \$250,000 can be made available, if needed.

3. In-kind Contributions

The fair value of in-kind contributions included in donated materials and services on the consolidated statement of activities and changes in net asset for the year ended June 30, 2020 is comprised of the following:

Special event auction items	\$ 51,706
Materials and supplies	<u>71,030</u>
Donated materials and services	<u>\$ 122,736</u>

4. Pledges Receivable

Pledges receivable with and without donor restriction as of June 30, 2020 is as follows:

Without donor restriction	\$ 468,499
With donor restriction:	
Annual campaign	61,366
Capital campaign	<u>6,336,049</u>
Total pledges receivable, net	<u>\$ 6,865,914</u>

Pledges receivable other than those related to the capital campaign as of June 30, 2020 is as follows:

Receivable in less than one year	\$ 379,865
Receivable in one to five years	<u>150,000</u>
Non-capital campaign pledges receivable	<u>\$ 529,865</u>

Capital campaign pledges are not included in current assets due to the long-term nature of the restrictions for use in construction of The Sangiacomo Flynn Building. Capital campaign pledges receivable as of June 30, 2020 is as follows:

Receivable in less than one year	\$ 3,365,944
Receivable in one to five years	<u>3,127,208</u>
	6,493,152
Less discount to net present value	<u>(157,103)</u>
Capital campaign pledges receivable, net	<u>\$ 6,336,049</u>

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

5. Investments in Marketable Securities

MOWSF considers all investments in marketable securities to be long-term assets. Board approval is required prior to use. Such funds are expected to be utilized for the development, or expansion, of program services and their related infrastructure costs.

At June 30, 2020, fair values of assets measured on a recurring basis are as follows:

	<u>Level 1</u>
Money market funds	\$ 103,680
Mutual funds:	
Two year fixed income	249,202
Two year global fixed income	<u>698,580</u>
	<u>\$ 1,051,462</u>

6. NMTC Loans Receivable

As part of the NMTC funding, MOWSF made a set of three leverage loans totaling \$26,389,390 to the Chase NMTC MOWSF Investment Fund, LLC (the "Investment Fund") ("NMTC Loans Receivable"), (see Note 8).

The value of loans receivable as of June 30, 2020 are as follows:

Loan A-1	\$ 5,400,000
Loan A-2	3,500,000
Loan B	<u>17,489,390</u>
Total	<u>\$ 26,389,390</u>

Interest is earned on the NMTC loans receivable at a rate of 1.066% per annum. Payments are due on a quarterly basis by the 10th of the month following the end of the quarters of February 28, May 31, August 31 and November 30. Interest only payments will commence on September 10, 2019 and continue until December 10, 2026 at which point, quarterly payments of Principal and Interest are to be made in the following amounts: Loan A-1: \$69,154, Loan A-2: \$44,822 and Loan B: \$223,974. The loans receivable are collateralized by the CDE interests and secured by the Fund Pledge Agreement as defined in the Fund Loan Agreement between MOWSF and the Investment Fund.

At June 30, 2020, the scheduled maturities of the NMTC loans receivable are as follows:

	<u>Bridge Note A-1</u>	<u>Bridge Note A-2</u>	<u>Bridge Note B</u>	<u>Total Notes Payable</u>
Years ending June 30:				
2021 - 2025	\$ -	\$ -	\$ -	\$ -
Thereafter	<u>5,400,000</u>	<u>3,500,000</u>	<u>17,489,390</u>	<u>26,389,390</u>
	<u>\$ 5,400,000</u>	<u>\$ 3,500,000</u>	<u>\$ 17,489,390</u>	<u>\$ 26,389,390</u>

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

7. Property and Equipment

At June 30, 2020, property and equipment consists of the following:

Land	\$ 5,845,000
Software	97,038
Building and improvements	1,189,710
Office furniture and equipment	645,947
Automobiles and trucks	1,275,648
Construction in progress - The Sangiacomo Flynn Building	<u>30,084,786</u>
	39,138,129
Less accumulated depreciation	<u>(2,174,855)</u>
	<u>\$ 36,963,274</u>

As part of the New Market Tax Credit transaction (see Note 8), MOWSF transferred land and property located at 2230 Jerrold Avenue in San Francisco (“The Sangiacomo Flynn Building”), to Nourish. MOWSF began to renovate the space by demolishing the existing building and is currently working on building a new facility to expand programmatic operations. In total the asset is anticipated to cost \$43 million and has been completed and placed into service in August 2020 (see Note 17).

For the year ended June 30, 2020, depreciation and amortization expense amounted to \$346,177.

8. New Market Tax Credits

On May 28, 2019, Nourish SF Kitchen LLC (“Nourish”) was established to facilitate construction of The Sangiacomo Flynn Building, a 35,794 square-foot kitchen to be located in San Francisco’s Bayview District. During the year ended June 30, 2020, MOWSF contributed \$6 million in equity to Nourish to establish a 90% membership interest. The remaining 10% was purchased by a third party, Food Runners, for \$130 thousand.

In September 2019, the Organization entered into a financing arrangement to fund a significant portion of the construction costs for The Sangiacomo Flynn Building. Nourish received total funding prior to taxes and fees of approximately \$11.8 million through the federal new markets tax credit (“NMTC”) program. This was used toward the approximately \$43 million project. The remaining project costs were to be covered by funds raised from the MOWSF Capital Campaign and a set of three bridge loans totaling \$17.4 million from MOWSF to Nourish (“bridge loans”) (see Note 9.)

Four Community Development Entities, the San Francisco Community Investment Fund (“SFCIF”), Community Vision Capital and Consulting (“CVCC”), Chase New Markets Corporation (“CNMC”), and Capital Impact Partners (“CIP”). (collectively, the “CDEs”), received allocations of NMTCs pursuant to Section 45D of the Internal Revenue Code to assist eligible businesses in making investments in certain low- income communities.

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

8. New Market Tax Credits, continued

The availability of NMTCs allowed Chase Community Equity, LLC (“CCE”) to invest approximately \$11.8 million in the Chase NMTC MOWSF Investment Fund, LLC (the “Investment Fund”). In addition, MOWSF made a set of three leverage loans totaling approximately \$26.4 million to the Investment Fund (“NMTC Loans Receivable”) (Note 6).

The Investment Fund used the total proceeds to make equity contributions to funds established by the CDEs, with \$18 million invested in SFCIF Sub CDE 9, LLC (“SFCIF LLC”), \$7 million in Northern California Community Loan Fund NMTC Sub-CDE 23, LLC (“NCCLF LLC”), \$2.4 million in Chase New Markets Corporation Sub-CDE 170, LLC (“CNMC LLC”) and \$11 million in Impact CDE 71, LLC (“Impact LLC”) (collectively, the “CDE Funds”).

Each of the CDE Funds then made four NMTC enhanced mortgage loans (“NMTC Loans Payable”) to Nourish to finance The Sangiacomo Flynn Building construction. The 16 NMTC Loans Payable of \$36.94 million are secured by the Investment Fund’s membership interests in the CDE Funds (“Fund Pledged Collateral”) (see Note 9).

As a condition of making the NMTC Loans to Nourish, the CDE Funds required that MOWSF guarantee the payment of the interest on the NMTC Loans and the completion of construction of The Sangiacomo Flynn Building. The guarantee is in effect until maturity of the NMTC Loans. In addition, MOWSF and Nourish have jointly and severally guaranteed any obligations to Chase Community Equity, LLC arising from the occurrence of a NMTC recapture event, as defined in the indemnity agreement.

After the expiration of the NMTCs on September 19, 2026, Chase Community Equity, LLC has until December 18, 2026 to exercise its right, but not an obligation, to require MOWSF to purchase all of Chase Community Equity, LLC’s interest in the Investment Fund for a put exercise price of \$1,000. If the put is not exercised, MOWSF has the option, during the period from December 18, 2026 to March 18, 2027, to purchase Chase Community Equity, LLC’s interest in the Investment Fund at a price based on a formula as stipulated in the Investment Fund Put and Call Agreement.

MOWSF intends to record any gain or loss associated with either option at the date it is exercised. The options do not represent embedded derivatives and accordingly, have not been accounted for as derivative instruments in the consolidating financial statements.

In accordance with NMTC rules and regulation, as the borrower, MOWSF created a separate division for MOWSF’s Portion of Business (“POB”) related to the NMTC financing. MOWSF maintains a segregated set of accounts for its POB related financial information and such breakdown is presented separately in the supplementary consolidating statements.

After year end, The Sangiacomo Flynn Building was completed and MOWSF began a 30 year lease with Nourish (see Note 17).

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

9. Notes Payable

Bridge Loans

During the year, MOWSF entered into three note payable agreements to Nourish with an aggregate principal value of \$17,400,000. These transactions were made to bridge the difference between the amount needed to finance the New Market Tax Credit transaction of \$26,389,390 and what had been raised from the MOWSF Capital Campaign. Collectively, these loans are referred to as the “bridge loans”.

Loan A is a four year bridge loan with a principal balance of \$8,500,000. This loan has an annual interest rate of Prime minus 0.25% that is payable monthly. At June 30, 2020, the outstanding principal balance was \$4,500,000. Total interest for the year ended June 30, 2020 was \$283,747, which was capitalized to construction in progress for The Sangiacomo Flynn Building.

Loan B is a 7 year loan with a principal balance of \$5,400,000. The loan has a 6.5% interest rate with interest only payments until September 19, 2026 with the entire principal balance come due at that time. During the year, MOWSF paid down approximately \$400,000 of the loan and at June 30, 2020, had an ending principal balance of \$4,996,837. Total interest for the year ended June 30, 2020 was \$224,009, which was capitalized to construction in progress for The Sangiacomo Flynn Building.

Loan C is a 7 year loan with a principal balance of \$3,500,000. The loan has a 5.75% interest rate with interest payments made on a quarterly basis. Payments on the principal will be paid in \$500,000 increments each year on September 20th until the maturity of the loan on September 20, 2026, at which point all remaining principal comes due. Total interest for the year ended June 30, 2020 was \$143,111, which was capitalized to construction in progress for The Sangiacomo Flynn Building.

The bridge loans are collateralized by all the business assets of MOWSF, the capital campaign pledges, MOWSF's interest in the Investment Fund loan documents, and the debt service reserve. The loans have certain loan covenants including a minimum of \$1 million in operating reserves, lease and debt coverage ratio, and days cash on hand. All loan covenants at year end were met.

Notes payable are presented net of debt issuance costs of \$876,662. Debt issuance costs are the direct costs to complete the issuance of debt. The costs consist of various fees and commissions paid to the bank for the issuance of the debt. These costs are amortized on an effective interest basis over the term of the loans

CDE Loans

Each of the CDE Funds (see Note 8) made four NMTC enhanced mortgage loans (“NMTC Loans Payable”) to Nourish to finance The Sangiacomo Flynn Building construction. The various NMTC loans payables are structured such that interest only payments will be made for the seven years after the commencement of the loan, December 2019. Starting December 2026, payments on the interest and principal of the loan will be made on a quarterly basis in the amounts below until maturity in September 2054. The notes bear interest at 1% per annum. Each of the loans are collateralized by the Deed of Trust, the underlying land, the assignment of any leases or rents associated with it, and the assignment of the construction documents. Further, MOWSF guarantees payment and secures the interest and fees.

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

9. Notes Payable, continued

***CDE Loans*, continued**

As security for the NMTC loans, Nourish granted each of the CDEs a mortgage on The Sangiacomo Flynn Building. Further, the interest on the loans are guaranteed by MOWSF. Quarterly interest only payments on the NMTC loans commenced December 1, 2019, at an interest rate of 1%. Beginning December 1, 2026, principal and interest payments are due and payable in quarterly installments.

The details of the various CDE NMTC loans payable provided to Nourish are as follows:

	<u>After 7 Year Interest Only Period</u>	<u>Original Principal Amount</u>
SFCIF Sub CDE 9, LLC		
Loan A-1.1	\$ 26,350	\$ 2,564,644
Loan A-2.1	\$ 17,079	1,662,269
Loan B.1	\$ 85,343	8,306,307
Loan C.1	\$ 50,620	<u>4,926,780</u>
Subtotal		<u>17,460,000</u>
NCCLF NMTC Sub-CDE 23, LLC		
Loan A-1.2	\$ 10,247	997,361
Loan A-2.2	\$ 6,642	646,438
Loan B.2	\$ 33,189	3,230,230
Loan C.2	\$ 19,686	<u>1,915,971</u>
Subtotal		<u>6,790,000</u>
CNMC Sub-CDE 170, LLC		
Loan A-1.3	\$ 3,513	341,953
Loan A-2.3	\$ 2,277	221,636
Loan B.3	\$ 11,379	1,107,508
Loan C.3	\$ 7,489	<u>728,903</u>
Subtotal		<u>2,400,000</u>
Impact CDE 71, LLC		
Loan A-1.4	\$ 15,371	1,496,042
Loan A-2.4	\$ 9,963	969,657
Loan B.4	\$ 49,783	4,845,345
Loan C.4	\$ 30,607	<u>2,978,956</u>
Subtotal		<u>10,290,000</u>
Total NMTC Loans		<u><u>\$ 36,940,000</u></u>

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

9. Notes Payable, continued

***CDE Loans*, continued**

Interest expense related to the NMTC Loans for the year ended June 30, 2020 was \$908,245, of which \$890,890 was capitalized to construction in progress for The Sangiacomo Flynn Building and \$17,355 was expensed. Interest expense related to the bridge loans payable for the year ended June 30, 2020 was \$199,654.

	Bridge Loan A	Bridge Loan B	Bridge Loan C	Other NMTC Loans	Total NMTC Notes Payable
2021	\$ 1,468,114	\$ -	\$ 500,000	\$ -	\$ 1,968,114
2022	2,500,000	-	500,000	-	3,000,000
2023	1,000,000	-	500,000	-	1,500,000
2024	1,000,000	-	500,000	-	1,500,000
2025	-	-	500,000	-	500,000
Thereafter	-	4,996,837	1,000,000	36,940,000	42,936,837
Less unamortized debt issuance costs	-	-	(134,748)	(741,914)	(876,662)
	<u>\$ 5,968,114</u>	<u>\$ 4,996,837</u>	<u>\$ 3,365,252</u>	<u>\$ 36,198,086</u>	<u>\$ 50,528,289</u>

10. Conditional Promises to Give/Refundable Advance

MOWSF's outstanding conditional promises to give and refundable advances are as follows as of June 30, 2020:

	Term of Agreements	Total Award	2020 Grants Recognized / Conditions Met	2020 Conditions Not Yet Met	2020 Refundable Advance
Government grants	July 1, 2017 - June 30, 2020	Not to exceed \$ 28,995,356	\$ 8,984,638	\$ -	\$ -
Paycheck Protection Program	April 17, 2020 - April 17, 2022	1,360,000	-	1,360,000	1,360,000
Total		<u>\$ 30,355,356</u>	<u>\$ 8,984,638</u>	<u>\$ 1,360,000</u>	<u>\$ 1,360,000</u>

On April 17, 2020, MOWSF received a refundable advance in the amount of \$1,360,000 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for funding to qualifying entities for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The funding will be recognized as revenue once MOWSF applies for and receives notice that they have spent the proceeds appropriately for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels within 24 weeks of receipt of the funds. Any amounts not spent for eligible purposes and not granted forgiveness will need to be returned with accrued interest at the rate of 1%. If MOWSF reduces its workforce prior to the completion of the 24 week period, a portion of the advance will need to be returned with accrued interest at a rate of 1%. The maturity date is two years from the date of the disbursement. Loans are deferred 10 months after the end of the 24 week period, approximately 1 year and 4 months after MOWSF received the funds. Interest will accrue during the deferment period. MOWSF intends to use 100% of the proceeds for purposes consistent with the PPP.

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

11. Noncontrolling Interests

As part of the NMTC transaction, MOWSF created a new subsidiary, Nourish, along with another third party investor, Food Runners. Food Runners invested \$130,000 for a 10% membership interest in Nourish. Food Runners has a noncontrolling equity investment, which is separately presented on the consolidated statement of financial position as a component of net assets without donor restrictions. Changes in consolidated net assets without donor restrictions for the year ended June 30, 2020 are summarized as follows:

	Controlling Interests	Noncontrolling Interests	Total Net Assets Without Donor Restrictions
	<u> </u>	<u> </u>	<u> </u>
Net assets without donor restrictions, beginning of year	\$ 8,162,824	\$ -	\$ 8,162,824
Investments by noncontrolling interests	-	130,000	130,000
Change in net assets	<u>552,246</u>	<u>10,470</u>	<u>562,716</u>
Net assets without donor restrictions, end of year	<u>\$ 8,715,070</u>	<u>\$ 140,470</u>	<u>\$ 8,855,540</u>

12. Net Assets With Donor Restrictions

At June 30, 2020, net assets with donor restrictions are held for the following purposes:

Passage of time	\$ 815,000
Development of Plant Based Food Menu	12,865
Capital campaign and building	<u>25,628,042</u>
	<u>\$ 26,455,907</u>

Net assets with donor restrictions that were released from donor restriction by incurring expenses satisfying the purposes specified by donors or by occurrence of passage of time are as follows for the year ended June 30, 2020:

Assistance to Social Security Recipients	\$ 50,000
Development of Plant Based Food Menu	48,501
Passage of Time	<u>665,000</u>
Total	<u>\$ 763,501</u>

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

13. Commitments and Contingencies

MOWSF has entered into one building lease and a furniture and fixtures lease with Nourish. The building lease extends for 30 years, and the furniture and fixtures lease has a range of lease terms ranging between 10 and 20 years. Both leases begin subsequent to year end at which point payments will come due on a quarterly basis. In addition, MOWSF has a series of smaller leases for office equipment with terms ranging between 1 and 2 years.

	The Sangiaco Flynn Building Lease	Furniture and Fixtures Lease	Various Equipment Leases	Notes Payable
2021	\$ 280,833	\$ 150,000	\$ 22,428	\$ 453,261
2022	339,810	180,000	22,302	542,112
2023	343,205	180,000	3,880	527,085
2024	346,638	180,000	-	526,638
2025	350,105	180,000	-	530,105
Thereafter	48,175,337	3,935,500	-	52,110,837
	<u>\$ 49,835,928</u>	<u>\$ 4,805,500</u>	<u>\$ 48,610</u>	<u>\$ 54,690,038</u>

Total rent expense was \$205,964 for the year ended June 30, 2020.

Litigation

MOWSF is involved in various actions in the ordinary course of business. In the opinion of management, the outcome of these matters, individually or in the aggregate, would not have a material effect on MOWSF's financial statements as of June 30, 2020.

COVID-19

During the year ended June 30, 2020, COVID-19 became a global pandemic and resulted in unprecedented actions by governments around the world to curtail the spread of the disease. These events have resulted in a high level of uncertainty. The outcome and timeframe is highly unpredictable and as such, the financial impact to operations cannot be estimated. As an essential business, the Organization did not shut down for any period of time and adopted an appropriate protocol for compliance with County and State guidelines.

14. Concentrations

The Organization places its cash in bank and short-term money market instruments with reputable financial institutions, to minimize credit risk, however, balances may periodically exceed insurance Federal Deposit Insurance Corporation ("FDIC"), Securities Investor Protection Corporation ("SIPC") and other similar insurance limits.

For the year ended June 30, 2020, MOWSF received approximately 55% of its revenue and support from government contracts. At June 30, 2020, 90% of grants receivable are from one government agency. In addition, MOWSF, as a recipient of governmental funding, is vulnerable to the budgetary constraints of its funding sources. However, MOWSF does not expect any near term reduction of funding.

Continued

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

14. Concentrations, continued

For the year ended June 30, 2020, MOWSF received 51% of promises to give from three donors, primarily related to the capital campaign.

15. Retirement Plan

The Organization has a Simple IRA Plan (the “Plan”) that is available to all eligible participants. Employee elective deferrals are governed by provisions of the Plan and IRS regulations regarding maximum salary deferrals and compensation limits. For the year ended June 30, 2020, employer contributions totaled \$171,792.

16. Related Party Transactions

MOWSF had a total of \$5,359,110 pledges outstanding from board members at June 30, 2020. There were approximately \$2,885,804 of contributions made by board members during the year ended June 30, 2020.

Further, in order to facilitate the NMTC transaction, MOWSF made a contribution to Food Runners of \$130 thousand. Food Runners then used this \$130 thousand to purchase a 10% stake in Nourish.

17. Subsequent Events

Subsequent events have been evaluated through November 12, 2020, which is the date the financial statements were available to be issued. Management concluded that there are no material subsequent events that require recognition or disclosure other than the following and as disclosed in Note 12.

Subsequent to year end, the new MOWSF kitchen and food production facility construction was completed on August 21, 2020. The total project costs amounted to approximately \$43 million.

In July 2020, MOWSF signed an amendment on its agreement with the City and County of San Francisco to extend its contract through December 31, 2020 with additional incremental funding in an amount not to exceed \$5,305,108.

SUPPLEMENTARY INFORMATION

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

As of June 30, 2020

ASSETS	MOWSF			Nourish	Eliminations	Total
	POB	Non-POB	Total			
Current assets:						
Cash and cash equivalents	\$ 4,576,410	\$ -	\$ 4,576,410	\$ 60,476	\$ -	\$ 4,636,886
Contracts receivable	1,634,237	9,851	1,644,088	-	-	1,644,088
Pledges receivable, net	-	379,865	379,865	-	-	379,865
Inventory	221,168	-	221,168	-	-	221,168
Intercompany receivable from Nourish	624,027	-	624,027	-	(624,027)	-
Prepaid expenses	151,482	-	151,482	3,041	-	154,523
Total current assets	7,207,324	389,716	7,597,040	63,517	(624,027)	7,036,530
Non-current assets:						
Restricted cash	82,475	2,852,509	2,934,984	12,417,741	-	15,352,725
Investments in marketable securities	-	1,051,462	1,051,462	-	-	1,051,462
Deposits and other assets	-	157,345	157,345	-	-	157,345
Pledges receivable - non-current	-	150,000	150,000	-	-	150,000
Pledges receivable - capital campaign, net	-	6,336,049	6,336,049	-	-	6,336,049
NMTC loans receivable	-	26,389,390	26,389,390	-	-	26,389,390
Property and equipment, net	31,295,935	-	31,295,935	34,922,185	(29,254,846)	36,963,274
Investment in subsidiary	-	5,879,422	5,879,422	-	(5,879,422)	-
Total non-current assets	31,378,410	42,816,177	74,194,587	47,339,926	(35,134,268)	86,400,245
Total assets	\$ 38,585,734	\$ 43,205,893	\$ 81,791,627	\$ 47,403,443	\$ (35,758,295)	\$ 93,436,775
LIABILITIES AND NET ASSETS						
Current liabilities:						
Accounts payable	\$ 596,291	\$ -	\$ 596,291	\$ 4,375,381	\$ -	\$ 4,971,672
Accrued expenses	1,048,536	-	1,048,536	91,831	-	1,140,367
Deferred special event revenue	125,000	-	125,000	-	-	125,000
Refundable advance from Paycheck Protection Program	1,360,000	-	1,360,000	-	-	1,360,000
Intercompany payable to Meals on Wheels	-	-	-	624,027	(624,027)	-
NMTC notes payable	-	1,968,114	1,968,114	-	-	1,968,114
Total current liabilities	3,129,827	1,968,114	5,097,941	5,091,239	(624,027)	9,565,153
Intercompany payable to Nourish	29,254,846	-	29,254,846	-	(29,254,846)	-
NMTC notes payable, net of current portion and debt discount	-	12,362,089	12,362,089	36,198,086	-	48,560,175
Total liabilities	32,384,673	14,330,203	46,714,876	41,289,325	(29,878,873)	58,125,328
Net assets:						
Without donor restrictions, including noncontrolling interests of \$140,470	6,201,061	2,419,783	8,620,844	6,114,118	(5,879,422)	8,855,540
With donor restrictions	-	26,455,907	26,455,907	-	-	26,455,907
Total net assets	6,201,061	28,875,690	35,076,751	6,114,118	(5,879,422)	35,311,447
Total liabilities and net assets	\$ 38,585,734	\$ 43,205,893	\$ 81,791,627	\$ 47,403,443	\$ (35,758,295)	\$ 93,436,775

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2020

	MOWSF						Total	
	Non-POB			POB	Total	Nourish Total		Eliminations
	Without Donor Restrictions	With Donor Restrictions						
Revenues and support:								
Government grants	\$ -	\$ -	\$ 8,984,638	\$ 8,984,638	\$ -	\$ -	\$ 8,984,638	
Catering	-	-	1,344,193	1,344,193	-	-	1,344,193	
Project income	-	-	113,380	113,380	-	-	113,380	
Contributions	5,915,969	971,366	232,077	7,119,412	-	-	7,119,412	
Special events (net of direct expenses of \$249,996 and \$1,191,366)	941,423	-	-	941,423	-	-	941,423	
Donated materials and services	122,736	-	-	122,736	-	-	122,736	
	6,980,128	971,366	10,674,288	18,625,782	-	-	18,625,782	
Net assets released from restrictions	763,501	(763,501)	-	-	-	-	-	
Total revenues and support	7,743,629	207,865	10,674,288	18,625,782	-	-	18,625,782	
Expenses:								
Program expenses	8,406	-	15,184,574	15,192,980	-	-	15,192,980	
Management and general	1,896	-	1,533,564	1,535,460	800	-	1,536,260	
Fundraising	434,049	-	768,105	1,202,154	-	-	1,202,154	
Total expenses	444,351	-	17,486,243	17,930,594	800	-	17,931,394	
Change in net assets from operations	7,299,278	207,865	(6,811,955)	695,188	(800)	-	694,388	
Nonoperating items:								
Capital campaign contributions	-	5,361,204	-	5,361,204	-	-	5,361,204	
Capital campaign expenses	(59,060)	-	-	(59,060)	-	-	(59,060)	
Realized and unrealized loss on marketable securities	(89,026)	-	-	(89,026)	-	-	(89,026)	
Interest and dividend income, net	118,783	-	-	118,783	105,496	-	224,279	
Total nonoperating	(29,303)	5,361,204	-	5,331,901	105,496	-	5,437,397	
Change in net assets	7,269,975	5,569,069	(6,811,955)	6,027,089	104,696	-	6,131,785	
Sale of interest in Nourish SF Kitchen LLC to noncontrolling member	-	-	-	-	130,000	-	130,000	
Equity contribution from MOWSF to Nourish	-	-	-	-	5,879,422	(5,879,422)	-	
Net assets, beginning of year	(4,850,192)	20,886,838	13,013,016	29,049,662	-	-	29,049,662	
Net assets, end of year	<u>\$ 2,419,783</u>	<u>\$ 26,455,907</u>	<u>\$ 6,201,061</u>	<u>\$ 35,076,751</u>	<u>\$ 6,114,118</u>	<u>\$ (5,879,422)</u>	<u>\$ 35,311,447</u>	

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS

For the year ended June 30, 2020

	<u>Federal Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
FEDERAL			
U.S. Department of Health and Human Services			
(Pass-through from the City and County of S.F.			
Office on the Aging and Adult Services)			
Aging Cluster			
COVID19 - Special Programs for the Aging, Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	0000427819	\$ 34,486
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	0000341116	693,584
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	0000341099	15,564
COVID19 - Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	0000427819	10,956
Total Special Programs for the Aging - Title III, Part C - Nutrition Services			<u>720,104</u>
Nutrition Services Incentive Program	93.053	0000141116	1,356,551
Nutrition Services Incentive Program	93.053	0000341099	39,681
Total Nutrition Services Incentive Program			<u>1,396,232</u>
Total Aging Cluster			<u>2,150,822</u>
Medicaid Cluster			
Medical Assistance Program	93.778	0000221970	85,313
Medical Assistance Program	93.778	0000341099	373,255
Total Medicaid Cluster			<u>458,568</u>
Total Federal Programs - U.S. Department of Health and Human Services			<u>\$ 2,609,390</u>
STATE			
California Department of Aging			
Title III, Part C Nutrition Services	N/A	0000341116	\$ 120,514
COVID19 - Title III, Part C Nutrition Services	N/A	0000427819	55,245
Total State			<u>\$ 175,759</u>
LOCAL			
City and County of San Francisco			
Title III, Part C Nutrition Services	N/A	0000341116	\$ 3,488,952
COVID19 - Title III, Part C Nutrition Services	N/A	0000427819	662,667
Total Local			<u>\$ 4,151,619</u>

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS

For the year ended June 30, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the activity of Meals On Wheels of San Francisco, Inc. and Subsidiary (“MOWSF”) under its program with a federal government agency for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of MOWSF, it is not intended to and does not present MOWSF’s financial position, changes in net assets, or cash flows.

2. Summary of Significant Accounting Policies

- a. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b. MOWSF did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
Meals On Wheels of San Francisco, Inc. and Subsidiary

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Meals On Wheels of San Francisco, Inc. and Subsidiary ("MOWSF"), which comprise the consolidated statement of financial position as of June 30, 2020, and 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, and have issued our report thereon dated November 12, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered MOWSF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of MOWSF's internal control. Accordingly, we do not express an opinion on the effectiveness of MOWSF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entities' financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MOWSF's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MOWSF's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MOWSF's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BPM LLP

San Francisco, California
November 12, 2020

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Meals On Wheels of San Francisco, Inc.

Report on Compliance for Each Major Federal Program

We have audited Meals On Wheels of San Francisco, Inc.'s ("MOWSF") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on MOWSF's major federal program for the year ended June 30, 2020. MOWSF's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of MOWSF's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MOWSF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of MOWSF's compliance.

Opinion on Each Major Federal Program

In our opinion, MOWSF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of MOWSF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered MOWSF's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MOWSF's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing over compliance and the results of that testing based on requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BPM LLP

San Francisco, California
November 12, 2020

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2020

Section I: Summary of Audit Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of independent auditors' report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| • Material weaknesses identified? | No |
| • Significant deficiencies identified? | None reported |
| 3. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 4. Internal control over major programs: | |
| • Material weaknesses identified? | No |
| • Significant deficiencies identified? | None reported |
| 5. Type of Auditors' report issued on compliance for major programs: | Unmodified |
| 6. Audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? | No |
| 7. Identification of major programs: | |

<u>Name of Federal Program or Cluster</u>	<u>CFDA Numbers</u>
Aging Cluster	
<i>Special Programs for the Aging, Title III, Part B - Grants for Supportive Services and Senior Centers</i>	# 93.044
<i>Special Programs for the Aging - Title III, Part C - Nutrition Services</i>	# 93.045
<i>Nutrition Services Incentive Program</i>	# 93.053

- | | |
|---|-----------|
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. Auditee qualified as a low risk auditee? | Yes |

MEALS ON WHEELS OF SAN FRANCISCO, INC. AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2020

Section II: Financial Statement Findings

No matters were reported.

Section III: Federal Award Findings and Questioned Costs

No matters were reported.

Section IV: Status of Prior Year Findings

No matters were reported.