

PROJECT ANGEL FOOD

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

PROJECT ANGEL FOOD
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

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GREEN HASSON & JANKS LLP
BUSINESS ADVISORS AND CPAs

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Project Angel Food

We have audited the accompanying statement of financial position of Project Angel Food (a nonprofit organization) as of June 30, 2010 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Project Angel Food's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Project Angel Food's 2009 financial statements and, in our report dated October 23, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project Angel Food as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010 on our consideration of Project Angel Food's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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To the Board of Directors
Project Angel Food
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Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal and Nonfederal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

Green Hasson & Janks LLP

November 30, 2010
Los Angeles, California

PROJECT ANGEL FOOD

STATEMENT OF FINANCIAL POSITION

June 30, 2010

With Summarized Totals at June 30, 2009

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010</u>	<u>2009</u>
Cash	\$ 23,408	\$ -	\$ 23,408	\$ 186,600
Accounts Receivable	32,908	-	32,908	94,229
Pledges and Contributions Receivable (Net)	480,099	199,519	679,618	546,150
Prepaid Assets	57,224	-	57,224	101,988
Property and Equipment (Net)	<u>7,465,581</u>	<u>-</u>	<u>7,465,581</u>	<u>7,727,859</u>
TOTAL ASSETS	<u>\$ 8,059,220</u>	<u>\$ 199,519</u>	<u>\$ 8,258,739</u>	<u>\$ 8,656,826</u>
 LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 296,912	\$ -	\$ 296,912	\$ 149,729
Accrued Liabilities	304,592	-	304,592	270,599
Line of Credit	830,000	-	830,000	808,000
Notes Payable	<u>3,269,417</u>	<u>-</u>	<u>3,269,417</u>	<u>3,347,005</u>
TOTAL LIABILITIES	4,700,921	-	4,700,921	4,575,333
 NET ASSETS:				
Operating:				
Unrestricted	(672,055)	-	(672,055)	(464,491)
Temporarily Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,000</u>
TOTAL OPERATING NET ASSETS	(672,055)	-	(672,055)	(379,491)
 Property and Equipment:				
Unrestricted	4,030,354	-	4,030,354	4,146,966
Temporarily Restricted	<u>-</u>	<u>199,519</u>	<u>199,519</u>	<u>314,018</u>
TOTAL PROPERTY AND EQUIPMENT	<u>4,030,354</u>	<u>199,519</u>	<u>4,229,873</u>	<u>4,460,984</u>
TOTAL NET ASSETS	<u>3,358,299</u>	<u>199,519</u>	<u>3,557,818</u>	<u>4,081,493</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,059,220</u>	<u>\$ 199,519</u>	<u>\$ 8,258,739</u>	<u>\$ 8,656,826</u>

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

With Summarized Totals for the Year Ended June 30, 2009

	2010						2009 Total
	Operating		Property and Equipment		Total		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted			
REVENUE AND SUPPORT:							
Public Support:							
Direct Marketing	\$ 714,767	\$ -	\$ -	\$ -	\$ 714,767	\$ 767,919	
Corporate and Foundation Grants	1,202,201	-	-	-	1,202,201	1,324,485	
Contributions	604,651	-	-	-	604,651	594,453	
Donated Services	48,378	-	-	-	48,378	-	
Wills and Bequests	88,559	-	-	-	88,559	29,779	
Capital Campaign	-	-	-	72,042	72,042	203,262	
TOTAL PUBLIC SUPPORT	2,658,556	-	-	72,042	2,730,598	2,919,898	
Fees from Government Agencies:							
Federal Grants and Contracts	438,263	-	-	-	438,263	359,036	
State and Local Grants and Contracts	74,061	-	-	-	74,061	64,654	
TOTAL FEES FROM GOVERNMENT AGENCIES	512,324	-	-	-	512,324	423,690	
Special Events Revenue:							
Gross Receipts	2,069,588	-	-	-	2,069,588	2,390,380	
Less: Costs of Direct Benefit to Donors	(938,970)	-	-	-	(938,970)	(896,933)	
NET SPECIAL EVENTS REVENUE	1,130,618	-	-	-	1,130,618	1,493,447	
Investment Income (Loss)	20	-	-	-	20	(3,026)	
Bad Debt Expense	-	-	-	(19,000)	(19,000)	(40,500)	
Other Income	5,026	-	-	-	5,026	12,633	
Net Assets Released from Capital Restrictions and Inter-Fund Transfers	174,953	(85,000)	77,588	(167,541)	-	-	
TOTAL REVENUE AND SUPPORT	4,481,497	(85,000)	77,588	(114,499)	4,359,586	4,806,142	
EXPENSES:							
Program Services	3,908,039	-	124,766	-	4,032,805	4,376,347	
Support Services	781,022	-	69,434	-	850,456	877,210	
TOTAL EXPENSES	4,689,061	-	194,200	-	4,883,261	5,253,557	
CHANGE IN NET ASSETS	(207,564)	(85,000)	(116,612)	(114,499)	(523,675)	(447,415)	
Net Assets - Beginning of Year	(464,491)	85,000	4,146,966	314,018	4,081,493	4,528,908	
NET ASSETS - END OF YEAR	\$ (672,055)	\$ -	\$ 4,030,354	\$ 199,519	\$ 3,557,818	\$ 4,081,493	

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2010

With Summarized Totals for the Year Ended June 30, 2009

	2010				Total Expenses	2009 Total Expenses
	Program Services	Support Services		Total Support Services		
		Management and General	Fundraising			
Salaries	\$ 1,705,762	\$ 135,515	\$ 232,315	\$ 367,830	\$ 2,073,592	\$ 2,248,175
Employee Benefits	201,184	10,887	33,635	44,522	245,706	292,649
Payroll Taxes	127,602	14,048	17,545	31,593	159,195	195,617
TOTAL PERSONNEL COSTS	2,034,548	160,450	283,495	443,945	2,478,493	2,736,441
Food and Containers	944,887	-	-	-	944,887	977,460
Meal Delivery	84,126	227	483	710	84,836	71,678
Client Outreach and Education	790	-	109	109	899	9,465
Community Outreach	113,785	3,781	7,922	11,703	125,488	152,080
Volunteer Management	12,851	139	278	417	13,268	16,801
Occupancy	173,477	12,693	25,466	38,159	211,636	226,728
Utilities	91,955	6,161	12,587	18,748	110,703	106,462
Repairs and Maintenance	26,575	1,436	3,164	4,600	31,175	27,983
Insurance	38,115	2,789	5,578	8,367	46,482	87,310
Furniture and Equipment Rental	14,229	1,041	2,082	3,123	17,352	18,188
Staff and Board Development	278	20	41	61	339	315
Direct Mail	62,940	15,735	235,883	251,618	314,558	316,003
Consultants and Outside Services	79,042	1,822	3,645	5,467	84,509	74,215
Travel	1,275	88	704	792	2,067	2,487
Printing	17,839	1,258	4,828	6,086	23,925	20,283
Postage	6,286	249	12,244	12,493	18,779	18,848
Bank Charges	14,050	1,028	2,759	3,787	17,837	15,074
Interest Expense	30,744	2,232	4,482	6,714	37,458	43,878
Office Supplies	15,229	768	5,323	6,091	21,320	27,329
Dues, Subscriptions and Publications	6,885	37	1,177	1,214	8,099	7,663
Miscellaneous	11,525	844	1,355	2,199	13,724	3,506
Employment Recruitment	-	-	220	220	220	782
SUB-TOTAL	3,781,431	212,798	613,825	826,623	4,608,054	4,960,979
Depreciation	251,374	7,944	15,889	23,833	275,207	292,578
TOTAL 2010 FUNCTIONAL EXPENSES	\$ 4,032,805	\$ 220,742	\$ 629,714	\$ 850,456	\$ 4,883,261	
TOTAL 2009 FUNCTIONAL EXPENSES	\$ 4,376,347	\$ 287,756	\$ 589,454	\$ 877,210		\$ 5,253,557

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF CASH FLOWS

Year Ended June 30, 2010

With Summarized Totals for the Year Ended June 30, 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (523,675)	\$ (447,415)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	275,207	292,578
Loss on Investments	-	3,240
Loss (Gain) on Sale of Fixed Assets	2,792	(12,633)
Bad Debt Expense	19,000	40,500
Service Payback of Note Payable	(40,000)	(40,000)
Contributions Received for Capital Campaign	(72,042)	(202,597)
(Increase) Decrease in:		
Accounts Receivable	61,321	(61,489)
Pledges and Contributions Receivable	(152,468)	(194,632)
Prepaid Assets	44,764	(58,213)
Increase (Decrease) in:		
Accounts Payable	147,183	(120,927)
Accrued Liabilities	33,993	45,803
	(203,925)	(755,785)
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on Sale of Investments	-	13,171
Purchases of Property and Equipment	(15,721)	(23,812)
Proceeds from Sale of Property and Equipment	-	12,633
	(15,721)	1,992
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Line of Credit	22,000	638,000
Payments on Notes Payable	(37,588)	(35,070)
Contributions Received for Capital Campaign	72,042	202,597
	56,454	805,527
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	(163,192)	51,734
Cash - Beginning of Year	186,600	134,866
CASH - END OF YEAR	\$ 23,408	\$ 186,600
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	\$ 246,589	\$ 263,212
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and Equipment Financed by Capital Lease	\$ -	\$ 43,996

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 1 - ORGANIZATION

Project Angel Food's mission is to nourish the body and spirit of men, women and children affected by HIV/AIDS, cancer, and other life-threatening illnesses.

Project Angel Food is unique: they are the only organization that delivers freshly-cooked, nutritiously-appropriate meals, free-of-charge to men, women and children debilitated by life-threatening illnesses throughout all of Los Angeles County.

During the twelve months covered in this audit, Project Angel Food, as all non-profits, continued to face a challenging economy, but the agency is proud to state that "they never missed a meal and never missed a payroll." This consistency of service, both to clients and staff, reflects continuing Board and staff diligence regarding finances. Although some event fundraisers did not realize the money originally projected, this fiscal year was one of stabilization that will support the agency's work in the years to come. For example, in 2009 the entire staff at Project Angel Food worked with a pay freeze (and staff Directors undertook pay cuts), but when the agency reinstated pay increases in 2010 they did so as one-time-merit-pay rather than as salary raises. This policy enables the agency to honor the hard-work of the staff but keep escalating costs in check: increases of base pay compound annually and add an unsustainable pressure on Project Angel Food's short-and-long term finances.

Starting in January 2010, Project Angel Food marked its 21st year of uninterrupted service. In that time, they have cooked and delivered more than seven million meals. Despite the challenging economy, with the reliable commitment of more than 1,500 active volunteers, Project Angel Food never missed a meal, cooking and delivering 696,506 meals to people overwhelmed by life-threatening illnesses during fiscal year 2010, an 8% increase from fiscal year 2009.

During fiscal year 2010, the agency began an important new program: Community Garden Partnerships whereby Project Angel Food began working with community gardens to grow fresh, organic produce for their life-saving meals. The quality of the fruits and vegetables was so stellar, in fact, that they decided to expand the program and are also creating Project Angel Food Gardens (dedicated completely to the work of Project Angel Food) by planting gardens in unused urban plots, the use of which is donated by the land owner. Over time, this program should have a positive impact in the agency's expenses; it is already having a positive impact on the quality of the meals provided.

More than half of fiscal year 2010 total net loss of \$524,000 is attributable to depreciation expense, a non-cash charge of \$275,000. In the coming years, the agency will need to undertake focused fundraising beyond supporting normal operations, specifically to replace the kitchen equipment being depreciated, but that is not a current focus, since Project Angel Food recently moved into its new facility on Vine Street in September 2007. The remaining fiscal year loss of \$249,000 includes one-time expenses such as a non-cash write-off of \$19,000 in uncollected pledges from prior periods, as well as a non-cash accounting adjustment of \$85,000 for release of restricted income in the prior period. The resulting \$145,000 net loss represents the agency's true diminished core operating capacity.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 1 - ORGANIZATION (continued)

History of Project Angel Food

In 1989, Project Angel Food was conceived by a group of caring friends driven to action after witnessing their loved ones' health deteriorate as a result of disease and the malnutrition that accompanies it. Project Angel Food's first meals were cooked and delivered out of a donated church kitchen. Twenty-one years later, Project Angel Food is a nationally-respected organization with an involved Board of Directors, a professional staff and more than 1,500 active volunteers. Yet their goals remain consistent: they continue to combat the hardships endured by people with HIV/AIDS, cancer and other life-threatening illnesses through cooking and delivering free, nutritious meals to their homes.

Project Angel Food Work

Six days a week volunteers arrive at Project Angel Food's kitchen at 8 am to begin a day of cooking and packing more than 1,600 meals that have been designed by an on-staff Registered Dietician to address the nutritional and physical needs of the people Project Angel Food serves. Once the meals are cooked, "plated" and sealed, they move to dispatch for routing. (A meal for Saturday is delivered on Friday.) Meals are then divided into routes that serve all of Los Angeles County – from Lancaster, to Long Beach, and Pomona to the West Valley. Project Angel Food will also deliver meals to a doctor's office or medical clinic if a client has such frequent doctors' visits that they cannot be home for deliveries.

Project Angel Food's professional staff of Registered Dieticians, certified by the American Dietetic Association, is specialized in nutrition and disease. For example, they understand that people undergoing chemotherapy often have no interest in eating and that every bite must be nutritionally powerful. Therefore, Project Angel Food purchases pasta with a high protein count, serves impactful vegetables like broccoli and spinach, and makes sure that desserts are nutritionally valuable such as apples and raisins.

Project Angel Food's meals also help manage a range of secondary medical conditions like hypertension, heart disease, and low body weight that can be brought on by poor nutrition, the stresses of a life-threatening illness, and its often grueling treatments. They also take great care to ensure their meals are both delicious and visually appealing - two very important considerations when feeding people facing life threatening illnesses and the depression that often accompanies it.

Project Angel Food's Breakfast - Critical First Meal program, which supplements their regular meal delivery, is aimed at their most vulnerable clients: those with so few resources that they rely exclusively on Project Angel Food for their food needs. Project Angel Food knows that the additional breakfast meal has a positive impact on their well-being by providing crucial calories and nutrients, and reducing the level of food insecurity. Breakfast is also vital because many of their clients take morning medications, and they no longer have to do so on an empty stomach (or worse, delay their medications until their mid-day meal arrives.)

Project Angel Food also empowers clients to make healthier, more informed eating choices overall. Throughout the year, each client speaks with a Registered Dietitian at regular intervals. For example, a client with significant fluctuations in his/her health will speak monthly with a dietitian, whereas someone with a more consistent medical scenario might only need to check in once or twice per year. During these nutritional counseling sessions, clients learn about the complex interrelationship between their diet, exercise and lifestyle patterns, disease status, medication and general health.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 1 - ORGANIZATION (continued)

The People Project Angel Food Serves

Project Angel Food proudly serves any man, woman, or child struggling with HIV/AIDS, cancer, or other life-threatening illness rendering them too weak to shop for groceries or cook their own meals. Clients range in age from 14 – 99 years old. Project Angel Food serves all of Los Angeles County and their client population reflects its diversity: 65% of their clients are people of color; they serve more women, 40%, than anytime in their history; they honor people of all sexual orientations.

Profiles of some of the 2,200 unduplicated people Project Angel Food serves in a given year are: a 35 year old Latino who suffers from HIV/AIDS and arthritis, a common side effect of some HIV medications; a 48 year old African American woman with breast cancer; a 33 year old Latina who has kidney failure and must undergo dialysis every day and is thus on the agency's renal diet; a 50 year old white male with an AIDS diagnosis who came on service at 80% of his ideal body weight and is at about 90% of his ideal body weight thanks to Project Angel Food meals

The majority of Project Angel Food's clients are everyday people who led productive lives and careers prior to their disability from life-threatening illness. The annual Project Angel Food's client survey reveals a wide range of occupations held by clients before their diagnosis – school teachers, nurse assistants, welders, carpenters, legal secretaries, engineers, accountants, truck drivers, computer technicians, hair stylists and salesmen.

Evaluation of Project Angel Food Program

Project Angel Food's staff – Registered Dietitians, client services team, kitchen staff, dispatch and delivery driving crew – work together to monitor the number of meals planned, prepared, delivered and received. This system of checks and balances ensures that no one who needs a meal is missed, and keeps the nutrition and client services team aware of each particular client's health.

Project Angel Food also distributes an annual Client Satisfaction Survey to better understand the degree to which they are meeting their clients' needs. The survey also affords clients the chance to self-report on the impact the program is having on their lives with room for comments relating to services.

Project Angel Food also seeks ongoing verbal feedback and perspective from their clients in two ways. The Client Advisory Board (CAB) is a group that meets quarterly and is open to all clients of the agency. These meetings typically follow an agenda with a specific topic to discuss followed by a question-and-answer session that gives clients a forum to voice their opinions about the agency's services. In addition, Project Angel Food has two clients who serve on the agency's Board of Directors. These two client representatives bring a unique perspective to the organization's governance and make sure that the focus remains on the best interests of the people that Project Angel Food serves.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 1 - ORGANIZATION (continued)

Organizational Structure

Project Angel Food is governed by a twenty-one member volunteer Board of Directors including two former Client Representatives. The Board of Directors provides strategic vision and direction for agency endeavors, and assumes financial and legal oversight of the organization. A six-member management team oversees the daily operations of the agency. Forty-five staff members comprise the program, kitchen and dispatch teams (including client services, nutrition services and volunteer services), fulfilling the mission of the organization. They are supported by a dedicated corps of volunteers and the seven members of the development, special events and administrative staffs.

Volunteers continue to be the heart and soul of Project Angel Food. In fiscal year 2009, 1,500 volunteers contributed 56,358 hours of service, the equivalent of 30 full-time staff, and an incredible cost-saving to the organization. More importantly, volunteers provide a critical human touch to the Project Angel Food program with an element of caring and compassion that is unmatched and often missing from the lives of the people served.

Collaborations

Every week, Project Angel Food is an agency of collaboration. Nationally, they are an active member of the Association of Nutrition Services Agencies (ANSA). Locally, they collaborate with more than ninety social service and medical organizations throughout Los Angeles County but, of course, welcome referrals from all groups and individuals. By collaborating and building relationships with many organizations, Project Angel Food "drills" into the various communities of Los Angeles County and addresses the nutritional needs of the many people struggling with HIV/AIDS, cancer and other life-threatening illnesses.

Project Angel Food's Commitment to the Community

More than two decades of continuous service prove Project Angel Food's effectiveness in the preparation and delivery of quality food that support the specific nutritional needs of people affected by HIV/AIDS, cancer and other life-threatening illnesses. Today, Project Angel Food cooks and delivers more than 13,000 meals a week to people for whom a healthy meal, delivered with a warm smile, is truly life-saving. For Life, For Love, For as long as it takes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Project Angel Food are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Temporarily Restricted.** Project Angel Food reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose, capital or time restrictions. Project Angel Food has temporarily restricted net assets of \$199,519 at June 30, 2010.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit Project Angel Food to expend all of the income (or other economic benefits) derived from the donated assets. Project Angel Food has no permanently restricted net assets at June 30, 2010.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

(c) CASH

Project Angel Food maintains its cash in bank deposit accounts and other investment accounts which, at times, may exceed federally insured limits. Project Angel Food has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

(d) ACCOUNTS RECEIVABLE

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their fair value. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) ACCOUNTS RECEIVABLE (continued)

impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. At June 30, 2010, Project Angel Food evaluated the collectibility of accounts receivable and determined that no allowance for doubtful accounts was necessary.

(e) PLEDGES AND CONTRIBUTIONS RECEIVABLE

Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues in the period received. Project Angel Food reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Discounts for pledges (pledges due over one year) are recorded as reductions to contribution revenue and pledges receivable. Discounts increase contribution revenue when the pledge is received.

At June 30, 2010, Project Angel Food evaluated the collectibility of pledges receivable and determined that no allowance for uncollectible pledges was necessary.

(f) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred.

Property and equipment are capitalized if the cost of an asset is greater than or equal to \$1,500 and the useful life is greater than one year. The estimated useful lives of property and equipment are as follows:

Building	50 Years
Kitchen Equipment	7 Years
Furniture and Fixtures	7 Years
Vehicles	5 Years
Office Equipment	3 Years
Event Equipment	3 Years

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) LONG-LIVED ASSETS

Project Angel Food reviews the carrying value of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized during the year ended June 30, 2010.

(h) DONATED MATERIALS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. For the year ended June 30, 2010, Project Angel Food recognized donated services of approximately 1,810 hours valued at \$48,378.

Project Angel Food receives a significant amount of contributed time from volunteers that does not meet the recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements. Project Angel Food receives donated services in the form of kitchen assistants, drivers, Board of Directors and committee members, creative consultants, event volunteers, and office assistants. The hours contributed is estimated by management to be approximately 56,358 hours valued at \$583,131.

(i) ADVERTISING COSTS

Project Angel Food expenses the costs of advertising (Community Outreach) as incurred. The total expense was \$125,488 for the year ended June 30, 2010.

(j) INCOME TAXES

Project Angel Food is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

(k) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing Project Angel Food's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Project Angel Food uses salary dollars and the number of employees per department to allocate indirect costs.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) FUND ACCOUNTING

Project Angel Food maintains two funds – the Operating Fund and the Property and Equipment Fund. The purpose of the Operating Fund is to capture all revenue and expense associated with the normal operations of fulfilling Project Angel Food’s mission. The purpose of the Property and Equipment Fund is to account for all revenue and expense related to those assets that management has determined will not be replaced through normal operations, specifically Project Angel Food’s building and capitalized kitchen equipment. Instead, those assets will be replaced only through dedicated capital campaigns.

(m) 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 reported amounts of assets, liabilities, revenues and expenses as of the date and for the period presented.

(n) COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Project Angel Food’s financial statements for the year ended June 30, 2009, from which the summarized information was derived.

(o) RECLASSIFICATION

For comparability, the June 30, 2009 amounts have been reclassified, where appropriate, to conform with the financial statement presentation used at June 30, 2010.

(p) CODIFICATION STANDARDS

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (the ASC). The ASC has become the single source of non-governmental accounting principles generally accepted in the United States (GAAP) recognized by the FASB in preparation of financial statements. Project Angel Food adopted the ASC as of June 30, 2010. The ASC does not change GAAP and did not have an effect on the Project Angel Food’s financial position, results of operations or cash flows.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) SUBSEQUENT EVENTS

Project Angel Food has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2010 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through November 30, 2010, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

NOTE 3 - PLEDGES AND CONTRIBUTIONS RECEIVABLE

Pledges and contributions receivable at June 30, 2010 are expected to be collected as follows:

Within One Year	\$ 547,386
In One to Five Years	103,705
In Six to Ten Years	<u>42,481</u>
GROSS PLEDGES AND CONTRIBUTIONS RECEIVABLE	693,572
Present Value Discount	<u>(13,954)</u>
PLEDGES AND CONTRIBUTIONS RECEIVABLE (NET)	<u>\$ 679,618</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2010 consist of the following:

Land and Building	\$ 6,971,699
Kitchen Equipment	873,361
Furniture and Fixtures	204,870
Vehicles	146,032
Office Equipment	135,744
Event Equipment	<u>55,967</u>
TOTAL	8,387,673
Less: Accumulated Depreciation	<u>(922,092)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 7,465,581</u>

Depreciation expense for the year ended June 30, 2010 was \$275,207.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2010 consist of the following:

Accrued Vacation	\$	140,546
Accrued Salaries		76,964
Future Event Sponsorship Income		45,000
Other Accrued Liabilities		42,082
TOTAL ACCRUED LIABILITIES	\$	304,592

NOTE 6 - LINE OF CREDIT

Project Angel Food has a revolving line of credit in the amount of \$900,000 from a bank at an interest rate of 1% over the bank's prime rate. The bank's prime rate was 3.25% as of June 30, 2010. The line of credit is secured by a deed of trust on land and building (Vine Street). This line of credit matures on October 1, 2012. The loan contains certain financial covenants with respect to tangible net worth and net income. As of June 30, 2010, \$830,000 was borrowed against the line.

NOTE 7 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2010:

Note Payable - Bank, Secured by a Deed of Trust on Land and Building (Vine Street), Interest at 6.95%, Monthly Principal and Interest Payments of \$20,520 with a Final Principal and Interest Payment of \$2,736,889 in January 2016	\$	2,981,639
Note Payable - Government Agency, Secured by a Deed of Trust on Land and Building (Vine Street), Service Payback Loan Amortized over a Ten Year Period Ending September 2015		287,778
TOTAL NOTES PAYABLE	\$	3,269,417

Future minimum payments, by year, and in the aggregate, under these notes consist of the following:

Years Ending June 30	
2011	\$ 80,289
2012	83,180
2013	86,278
2014	89,599
2015	93,158
Thereafter	2,836,913
TOTAL	\$ 3,269,417

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Project Angel Food's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Project Angel Food has no provision for the possible disallowance of program costs on its financial statements.

NOTE 9 - ALLOCATION OF JOINT COSTS

During the year ended June 30, 2010, Project Angel Food conducted direct mail campaigns with total expenses of \$314,558 that included appeals for contributions, prospecting, and renewals and incurred joint costs of \$104,900. In addition, Project Angel Food conducted public education services which included a newsletter insert in the Los Angeles Times with a total expense of \$75,000. These activities are deemed to be joint activities and are allocated as follows:

Program	\$ 112,940
Special Events Expense	25,000
Fundraising	26,225
General and Administrative	<u>15,735</u>
TOTAL JOINT COSTS	<u>\$ 179,900</u>

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 consist of pledges for the capital campaign totaling \$199,519 for the year ended June 30, 2010.

NOTE 11 - IRREVOCABLE TRUSTS AND ESTATES

Project Angel Food has been notified of interests in irrevocable trusts and estates in which the amounts were either immaterial or indeterminable as of June 30, 2010. Therefore, no amounts have been recorded in the accompanying financial statements.

NOTE 12 - RETIREMENT PLAN

Project Angel Food maintains a tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code which covers substantially all of its full time employees. It is an employee only contribution plan.

PROJECT ANGEL FOOD

SUPPLEMENTAL INFORMATION

YEAR ENDED JUNE 30, 2010

PROJECT ANGEL FOOD

SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2010

Federal Awards Agency - Program Grant Title	Contract Number	Federal CFDA Number	Governmental Revenue		Program Expenditures from Governmental Revenue
			Federal	Nonfederal	
Major Awards					
U.S. Department of Health and Human Services Pass-through Department of Health Services of the County of Los Angeles Ryan White Title I	H-700267 OAPP	93.914	\$ 131,504	\$ -	\$ 131,504
Federal Emergency Management Agency Pass-through Emergency Food and Shelter Program	069500-271	97.024	192,596	-	192,596
Federal Emergency Management Agency Pass-through Emergency Food and Shelter Program - ARRA Funds	069500-271	97.114	25,685	-	25,685
TOTAL MAJOR AWARDS			<u>349,785</u>	-	<u>349,785</u>
Non-Major Awards					
U.S. Department of Housing and Urban Development Passed through the Community Development Department of the City of Los Angeles Community Development Block Grant (Loan)	C-109150	14.218	287,778	-	287,778
U.S. Department of Housing and Urban Development Passed through the Los Angeles Housing Department HOPWA	10667	14.241	88,478	-	88,478
Nonfederal Awards					
City of West Hollywood	2009-2010	N/A	-	74,061	74,061
TOTAL NON-MAJOR AWARDS			<u>376,256</u>	<u>74,061</u>	<u>450,317</u>
TOTAL FEDERAL AND NONFEDERAL AWARDS			<u>\$ 726,041</u>	<u>\$ 74,061</u>	<u>\$ 800,102</u>

Summary of Significant Accounting Policies:

1. Basis of Accounting - The Schedule of Expenditures of Federal and Nonfederal Awards has been reported on the accrual basis of accounting.
2. Project Angel Food is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See Independent Auditors' Report