

PROJECT ANGEL FOOD

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

PROJECT ANGEL FOOD
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

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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, 2012 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 2011 financial statements and, in our report dated May 9, 2012, 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, 2012, 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 March 27, 2013 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.

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

March 27, 2013
Los Angeles, California

PROJECT ANGEL FOOD

STATEMENT OF FINANCIAL POSITION June 30, 2012 With Summarized Totals at June 30, 2011

	Unrestricted	Temporarily Restricted	2012	2011
ASSETS				
Cash	\$ (2,094)	\$ 57,102	\$ 55,008	\$ 24,177
Accounts Receivable	158,915	-	158,915	190,156
Pledges and Contributions Receivable (Net)	348,193	405,560	753,753	433,368
Prepaid Expenses and Other Assets	2,500	-	2,500	94,738
Property and Equipment (Net)	7,030,047	-	7,030,047	7,270,724
TOTAL ASSETS	\$ 7,537,561	\$ 462,662	\$ 8,000,223	\$ 8,013,163
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 281,680	\$ -	281,680	\$ 350,768
Accrued Liabilities	242,268	-	242,268	353,404
Capital Lease Obligations	19,175	-	19,175	38,344
Line of Credit	896,999	-	896,999	900,000
Notes Payable	3,120,822	-	3,120,822	3,327,873
TOTAL LIABILITIES	4,560,944	-	4,560,944	4,970,389
NET ASSETS:				
Operating:				
Unrestricted	186,068	-	186,068	(1,308,269)
Temporarily Restricted	-	332,102	332,102	76,675
TOTAL OPERATING	186,068	332,102	518,170	(1,231,594)
Property and Equipment:				
Unrestricted	2,790,549	-	2,790,549	4,131,447
Temporarily Restricted	-	130,560	130,560	142,921
TOTAL PROPERTY AND EQUIPMENT	2,790,549	130,560	2,921,109	4,274,368
TOTAL NET ASSETS	2,976,617	462,662	3,439,279	3,042,774
TOTAL LIABILITIES AND NET ASSETS	\$ 7,537,561	\$ 462,662	\$ 8,000,223	\$ 8,013,163

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

With Summarized Totals for the Year Ended June 30, 2011

	2012						2011 Total
	Operating		Property and Equipment		Total		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted			
REVENUE AND SUPPORT:							
Public Support:							
Direct Marketing	\$ 756,911	\$ -	\$ -	\$ -	\$ 756,911	\$ 740,464	
Corporate and Foundation Grants	772,040	275,000	-	-	1,047,040	892,384	
Contributions	445,246	20,000	-	-	465,246	669,709	
Donated Services	16,077	-	-	-	16,077	21,713	
Bequests	351,733	-	-	-	351,733	5,500	
Capital Campaign	-	-	42,758	-	42,758	44,495	
TOTAL PUBLIC SUPPORT	2,342,007	295,000	42,758	-	2,679,765	2,374,265	
Fees from Government Agencies:							
Federal Grants and Contracts	343,987	-	-	-	343,987	407,179	
State and Local Grants and Contracts	72,988	-	-	-	72,988	60,826	
TOTAL FEES FROM GOVERNMENT AGENCIES	416,975	-	-	-	416,975	468,005	
Special Events Revenue:							
Gross Receipts	2,783,016	-	-	-	2,783,016	2,607,062	
Less: Costs of Direct Benefit to Donors	(1,183,978)	-	-	-	(1,183,978)	(1,159,495)	
NET SPECIAL EVENTS REVENUE	1,599,038	-	-	-	1,599,038	1,447,567	
Investment Income (Loss)	16	-	-	-	16	(72)	
Other Income	54,612	-	-	-	54,612	69,581	
Net Assets Released from Capital and Program Restrictions and Inter-Fund Transfers	12,641	(39,573)	39,293	(12,361)	-	-	
TOTAL REVENUE AND SUPPORT	4,425,289	255,427	82,051	(12,361)	4,750,406	4,359,346	
EXPENSES:							
Program Services	3,437,710	-	124,766	-	3,562,476	4,022,907	
Support Services	721,991	-	69,434	-	791,425	851,483	
TOTAL EXPENSES	4,159,701	-	194,200	-	4,353,901	4,874,390	
CHANGE IN NET ASSETS	265,588	255,427	(112,149)	(12,361)	396,505	(515,044)	
Net Assets - Beginning of Year - Reclassified	(79,520)	76,675	2,902,698	142,921	3,042,774	3,557,818	
NET ASSETS - END OF YEAR	\$ 186,068	\$ 332,102	\$ 2,790,549	\$ 130,560	\$ 3,439,279	\$ 3,042,774	

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2012

With Summarized Totals for the Year Ended June 30, 2011

	2012				Total Expenses	2011 Total Expenses
	Program Services	Support Services		Total Support Services		
		Management and General	Fundraising			
Salaries	\$ 1,504,383	\$ 128,423	\$ 201,807	\$ 330,230	\$ 1,834,613	\$ 2,058,501
Employee Benefits	194,609	6,950	30,118	37,068	231,677	238,922
Payroll Taxes	158,240	11,721	25,396	37,117	195,357	171,209
TOTAL PERSONNEL COSTS	1,857,232	147,094	257,321	404,415	2,261,647	2,468,632
Food and Containers	734,316	-	-	-	734,316	1,005,194
Direct Mail	-	-	219,780	219,780	219,780	241,716
Occupancy	176,615	12,923	25,846	38,769	215,384	217,181
Community Outreach	90,556	2,985	5,971	8,956	99,512	109,312
Meal Delivery	86,631	-	875	875	87,506	108,898
Utilities	92,839	6,711	12,304	19,015	111,854	111,567
Consultants and Outside Services	51,242	3,106	23,292	26,398	77,640	65,748
Interest Expense	35,444	2,593	5,187	7,780	43,224	54,649
Insurance	40,474	2,926	5,364	8,290	48,764	51,937
Repairs and Maintenance	35,545	1,185	2,765	3,950	39,495	45,180
Printing	26,904	1,969	3,937	5,906	32,810	32,204
Office Supplies	17,112	878	3,949	4,827	21,939	26,203
Furniture and Equipment Rental	12,802	937	1,873	2,810	15,612	18,295
Miscellaneous	12,202	1,389	1,852	3,241	15,443	14,620
Bank Charges	22,098	2,062	5,304	7,366	29,464	14,607
Postage	3,797	95	5,600	5,695	9,492	13,438
Volunteer Management	1,237	-	-	-	1,237	10,442
Dues, Subscriptions and Publications	800	43	586	629	1,429	4,131
Travel	516	36	648	684	1,200	883
Employment Recruitment	20,092	207	414	621	20,713	749
Staff and Board Development	1,682	102	243	345	2,027	380
SUB-TOTAL	3,320,136	187,241	583,111	770,352	4,090,488	4,615,966
Depreciation	242,340	7,902	13,171	21,073	263,413	258,424
TOTAL 2012 FUNCTIONAL EXPENSES	\$ 3,562,476	\$ 195,143	\$ 596,282	\$ 791,425	\$ 4,353,901	
	82%	4%	14%	18%	100%	
TOTAL 2011 FUNCTIONAL EXPENSES	\$ 4,022,907	\$ 210,259	\$ 641,224	\$ 851,483		\$ 4,874,390
	83%	4%	13%	17%		100%

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

With Summarized Totals for the Year Ended June 30, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 396,505	\$ (515,044)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	263,413	258,424
Loss on Sale of Fixed Assets	-	909
Service Payback of Note Payable	(40,000)	(40,000)
Contributions Received for Capital Campaign	(42,758)	(44,495)
(Increase) Decrease in:		
Accounts Receivable	31,241	(157,248)
Pledges and Contributions Receivable	(320,385)	246,250
Prepaid Expenses and Other Assets	92,238	(37,514)
Increase (Decrease) in:		
Accounts Payable	(69,088)	53,856
Accrued Liabilities	(111,136)	67,621
	200,030	(167,241)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITY:		
Purchase of Property and Equipment	(22,736)	(41,941)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Line of Credit	-	70,000
Proceeds from Notes Payable	-	125,000
Payments on Line of Credit	(3,001)	-
Payments on Notes Payable	(167,051)	(26,544)
Payments on Capital Leases	(19,169)	(3,000)
Contributions Received for Capital Campaign	42,758	44,495
	(146,463)	209,951
NET INCREASE IN CASH	30,831	769
Cash - Beginning of Year	24,177	23,408
CASH - END OF YEAR	\$ 55,008	\$ 24,177
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	\$ 43,224	\$ 261,115
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and Equipment Financed by Capital Lease	\$ -	\$ 22,535

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 continued to provide life-saving meals to the seriously ill throughout Los Angeles County and also conclude the fiscal year in a positive financial position. With the reliable commitment of more than 3,500 active volunteers, who provided more than 53,000 hours of service, Project Angel Food cooked and delivered 600,000 meals. The financial positive result of \$396,000, after depreciation expense of \$263,000, was achieved, in this still fragile economy, by management at the direction of the Board of Directors. Specific actions taken were outlined in prior year audits.

During fiscal year 2012, the agency also continued its important program of Community Garden Partnerships whereby Project Angel Food grows some of its own fresh, organic produce for their life-saving meals in community gardens and gardens dedicated solely to the agency's work. Since the Garden Program's inception, the agency has harvested more than 2,300 pounds of fresh produce. Over time, this program has had a positive impact on the quality of the meals provided and in the agency's expenses.

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. In January 2013, Project Angel Food marked its 24th year of uninterrupted service. In that time, they have cooked and delivered more than 8 million meals. Today, Project Angel Food is a nationally-recognized organization with an involved Board of Directors, a professional staff and more than 3,500 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 1,200 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. Meals are divided into routes that serve all of Los Angeles County - from Lancaster to Long Beach and Pomona to the West Valley.

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 food with a high protein count, serves impactful vegetables like broccoli and spinach, and makes sure that desserts are nutritionally valuable such as apples and oranges.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - ORGANIZATION (continued)

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 clients' 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 may 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.

The agency understands the many roles it plays in people's recovery from, or stabilization with, a life-threatening illness. For example, illness can be isolating and the Project Angel Food delivery driver can too often be the only human interaction a client has in his/her homebound day. With this in mind, Project Angel Food also delivers birthday bags on each person's special day, filled with utilitarian items and special treats; the gift bags are decorated by elementary school children. National holidays are also recognized with special desserts or small gifts

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, 42%, than any time in their history; they honor people of all sexual orientations.

The lives of the 2,200 unduplicated people Project Angel Food serves in a given year have taken a difficult turn due to the ravages of HIV/AIDS, cancer and other life-threatening illness. A 33-year-old single mother with two children battling breast cancer, an elderly couple in their 80's coping with renal disease, and older man in his 60's with HIV/AIDS, who came back onto service after a period of recovery (a common occurrence among our HIV/AIDS clients as they age).

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 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.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - ORGANIZATION (continued)

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.

Their work is effective. According to the most recent annual client survey, 98% of clients report Project Angel Food meals have helped them improve their health and 95% feel that they learned a lot about good nutrition while on service thus empowering them to eat healthier on their own. Furthermore, an equal number, 95%, felt that Project Angel Food service has reduced their anxiety about food while helping them take their medications. In addition, a majority of the client base comes through referrals from doctors, hospitals, clinics, and other partnering medical organizations who know about the agency's long history of responsive nutritional support and its positive impact on managing chronic, life-threatening disease.

Project Angel Food also seeks ongoing verbal feedback and perspective from their clients through the Client Advisory Board (CAB) and the Project Angel Food Board of Directors has two places for former clients who serve as full members. 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.

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 seven-member management team oversees the daily operations of the agency. Thirty-five staff members comprise the program, kitchen and dispatch teams as well as client services, nutrition services and volunteer services, fulfilling the mission of the organization. They are supported by a dedicated corps of volunteers and the eight members of the development, special events, finance and administrative staffs.

Volunteers continue to be the heart and soul of Project Angel Food. In fiscal year 2012, 3,500 volunteers contributed 53,000 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. Representing the breadth of the Los Angeles County community as well, the agency's volunteers are retired senior citizens, high school and college students, unemployed individuals, people with flexible work schedules, and many corporate and community groups. Project Angel Food also embraces specific groups such as adults with developmental delays to volunteer, or individuals who are deaf (their head chef is able to communicate with sign language). Walk into the kitchen on any day and you'll see a stunning diversity of humanity united in their commitment to help people in need and make a positive impact on their community.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - ORGANIZATION (continued)

Collaborations

Every week, Project Angel Food is an agency of collaboration, working with more than ninety social service and medical organizations throughout Los Angeles County. They also, 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 12,000 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:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income 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 \$462,662 at June 30, 2012.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **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, 2012.

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 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, 2012, 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. The discount rate used by Project Angel Food was 2.4% at June 30, 2012.

At June 30, 2012, Project Angel Food evaluated the collectibility of pledges receivable and determined that no allowance for uncollectible pledges was necessary.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) BEQUESTS

Bequests are recognized as support when all of the following conditions are met: the demise of the testator; the amount of the bequest is known. Project Angel Food is certain that, based on the estate's net assets, the amount bequeathed is realizable; and, the probate court has declared the will valid.

(g) 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

(h) 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, 2012.

(i) 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, 2012, Project Angel Food recognized donated services of approximately 1,160 hours valued at \$16,077.

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 53,000 hours valued at \$583,000.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) ADVERTISING COSTS

Project Angel Food expenses the costs of advertising (Community Outreach) as incurred. The total expense was \$99,512 for the year ended June 30, 2012.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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, 2011, from which the summarized information was derived.

(p) RECLASSIFICATION

For comparability, certain June 30, 2011 amounts have been reclassified, where appropriate, to conform with the financial statement presentation used at June 30, 2012.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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, 2012 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 27, 2013, the date these financial statements were available to be issued. Subsequent to year end, the executive director tendered her resignation effective June 30, 2013. A search for a replacement is underway. No other material events or transactions were noted to have occurred.

NOTE 3 - PLEDGES AND CONTRIBUTIONS RECEIVABLE

Pledges and contributions receivable at June 30, 2012 are expected to be collected as follows:

Within One Year	\$ 653,334
In One to Five Years	<u>110,585</u>
GROSS PLEDGES AND CONTRIBUTIONS RECEIVABLE	763,919
Present Value Discount	<u>(10,166)</u>
PLEDGES AND CONTRIBUTIONS RECEIVABLE (NET)	<u>\$ 753,753</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2012 consist of the following:

Land and Building	\$ 6,971,699
Kitchen Equipment	873,361
Furniture and Fixtures	213,870
Office Equipment	189,915
Vehicles	152,829
Event Equipment	<u>55,967</u>
TOTAL	8,457,641
Less: Accumulated Depreciation	<u>(1,427,594)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 7,030,047</u>

Depreciation expense for the year ended June 30, 2012 was \$263,413.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2012 consist of the following:

Accrued Vacation	\$	146,755
Accrued Salaries		84,448
Other Accrued Liabilities		11,065
TOTAL ACCRUED LIABILITIES	\$	242,268

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, 2012. The line of credit is secured by a deed of trust on land and building (Vine Street). This line of credit matures on November 1, 2013. The loan contains certain financial covenants with respect to tangible net worth and net income. As of June 30, 2012, \$896,999 was borrowed against the line.

NOTE 7 - CAPITAL LEASE OBLIGATIONS

Project Angel Food leases certain property and equipment with lease terms through February 2015. Obligations under these leases have been recorded in the accompanying financial statements at the present value of future minimum lease payments discounted at an interest rate of 9.75% per annum. Depreciation expense on this property and equipment for the year ended June 30, 2012 was \$9,230.

The following is a summary of property and equipment held under capital leases:

Vehicles	\$	46,149
Less: Accumulated Depreciation		(22,319)
NET PROPERTY AND EQUIPMENT HELD UNDER CAPITAL LEASES	\$	23,830

The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments are as follows:

Years Ending June 30		
2013	\$	9,535
2014		5,847
2015		4,446
TOTAL		19,828
Less: Amount Representing Interest		(653)
PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS		19,175
Less: Current Portion		9,195
LONG-TERM PORTION OF OBLIGATIONS UNDER CAPITAL LEASES	\$	9,980

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2012:

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	\$ 2,913,044
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	<u>207,778</u>
TOTAL NOTES PAYABLE	<u><u>\$ 3,120,822</u></u>

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

Years Ending June 30	
2013	\$ 86,278
2014	89,599
2015	93,158
2016	<u>2,851,787</u>
TOTAL	<u><u>\$ 3,120,822</u></u>

NOTE 9 - 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 10 - TEMPORARILY RESTRICTED NET ASSETS

Project Angel Food has restrictions on certain net assets placed upon by the donors as well as restrictions in the time period that the contributions will be received. A detail of the programs with temporarily restricted net assets is as follows:

Capital Campaign Pledges	\$ 130,560
Database Upgrades and Implementation of New Software	37,102
Cookie Expansion Program	20,000
Time Restrictions	<u>275,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u><u>\$ 462,662</u></u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 11 - 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, 2012

PROJECT ANGEL FOOD

SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2012

Federal Awards	Contract Number	Federal CFDA Number	Governmental Revenue		Program Expenditures from Governmental Revenue
Agency - Program Grant Title			Federal	Nonfederal	
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	\$ 207,778	\$ -	\$ 207,778
U.S. Department of Health and Human Services Passed through the Department of Health Services of the County of Los Angeles Ryan White Title I	H-700267 OAPP	93.914	129,487	-	129,487
Federal Emergency Management Agency Passed through the Emergency Food and Shelter Program	069500-271	97.024	105,000	-	105,000
TOTAL MAJOR AWARDS			<u>442,265</u>	<u>-</u>	<u>442,265</u>
Non-Major Awards					
U.S. Department of Housing and Urban Development Passed through the Los Angeles Housing Department HOPWA	112172 & 120332	14.241	109,500	-	109,500
Nonfederal Awards					
City of West Hollywood	2009-2010	N/A	-	72,988	72,988
TOTAL NON-MAJOR AWARDS			<u>109,500</u>	<u>72,988</u>	<u>182,488</u>
TOTAL FEDERAL AND NONFEDERAL AWARDS			<u>\$ 551,765</u>	<u>\$ 72,988</u>	<u>\$ 624,753</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