

PROJECT ANGEL FOOD

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

PROJECT ANGEL FOOD
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

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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, 2009 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 2008 financial statements and, in our report dated January 8, 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, 2009, 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 23, 2009 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

October 23, 2009
Los Angeles, California

PROJECT ANGEL FOOD

STATEMENT OF FINANCIAL POSITION

June 30, 2009

With Summarized Totals at June 30, 2008

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2009</u>	<u>2008</u>
Cash	\$ 101,098	\$ 85,000	\$ 186,098	\$ 134,866
Investments	502	-	502	16,411
Accounts Receivable	94,229	-	94,229	32,740
Pledges and Contributions Receivable (Net)	232,132	314,018	546,150	392,018
Prepaid Assets	101,988	-	101,988	43,775
Property and Equipment (Net)	<u>7,727,859</u>	<u>-</u>	<u>7,727,859</u>	<u>7,952,629</u>
TOTAL ASSETS	<u>\$ 8,257,808</u>	<u>\$ 399,018</u>	<u>\$ 8,656,826</u>	<u>\$ 8,572,439</u>
 LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 149,729	\$ -	\$ 149,729	\$ 270,656
Accrued Liabilities	242,003	-	242,003	180,800
Line of Credit	808,000	-	808,000	170,000
Obligations Under Capital Lease	28,596	-	28,596	-
Notes Payable	<u>3,347,005</u>	<u>-</u>	<u>3,347,005</u>	<u>3,422,075</u>
TOTAL LIABILITIES	4,575,333	-	4,575,333	4,043,531
 NET ASSETS:				
Operating:				
Unrestricted	(464,491)	-	(464,491)	(129,206)
Temporarily Restricted	<u>-</u>	<u>85,000</u>	<u>85,000</u>	<u>-</u>
TOTAL OPERATING NET ASSETS	(464,491)	85,000	(379,491)	(129,206)
 Property and Equipment:				
Unrestricted	4,146,966	-	4,146,966	4,266,096
Temporarily Restricted	<u>-</u>	<u>314,018</u>	<u>314,018</u>	<u>392,018</u>
TOTAL PROPERTY AND EQUIPMENT	<u>4,146,966</u>	<u>314,018</u>	<u>4,460,984</u>	<u>4,658,114</u>
TOTAL NET ASSETS	<u>3,682,475</u>	<u>399,018</u>	<u>4,081,493</u>	<u>4,528,908</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,257,808</u>	<u>\$ 399,018</u>	<u>\$ 8,656,826</u>	<u>\$ 8,572,439</u>

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

With Summarized Totals for the Year Ended June 30, 2008

	2009				Total	2008 Total
	Operating		Property and Equipment			
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
REVENUE AND SUPPORT:						
Public Support:						
Direct Marketing	\$ 767,919	\$ -	\$ -	\$ -	\$ 767,919	\$ 1,038,472
Corporate and Foundation Grants	1,239,485	85,000	-	-	1,324,485	761,334
Contributions	594,453	-	-	-	594,453	527,878
Wills and Bequests	29,779	-	-	-	29,779	258,824
Capital Campaign	-	-	-	203,262	203,262	742,626
TOTAL PUBLIC SUPPORT	2,631,636	85,000	-	203,262	2,919,898	3,329,134
Fees from Government Agencies:						
Federal Grants and Contracts	359,036	-	-	-	359,036	329,575
State and Local Grants and Contracts	64,654	-	-	-	64,654	63,745
TOTAL FEES FROM GOVERNMENT AGENCIES	423,690	-	-	-	423,690	393,320
Special Events Revenue:						
Gross Receipts	2,390,380	-	-	-	2,390,380	2,633,628
Less: Costs of Direct Benefit to Donors	(896,933)	-	-	-	(896,933)	(1,093,149)
NET SPECIAL EVENTS REVENUE	1,493,447	-	-	-	1,493,447	1,540,479
Rental Income (Net)	-	-	-	-	-	31,194
Interest and Dividends	214	-	-	-	214	10,715
Loss on Investments	(3,240)	-	-	-	(3,240)	(2,820)
Bad Debt Expense	-	-	-	(40,500)	(40,500)	-
Gain on Sale of Fixed Assets	12,633	-	-	-	12,633	324,140
Net Assets Released from Capital Restrictions and Inter-Fund Transfers	165,692	-	75,070	(240,762)	-	-
TOTAL REVENUE AND SUPPORT	4,724,072	85,000	75,070	(78,000)	4,806,142	5,626,162
EXPENSES:						
Program Services	4,217,103	-	159,244	-	4,376,347	4,208,055
Support Services	842,254	-	34,956	-	877,210	1,070,406
TOTAL EXPENSES	5,059,357	-	194,200	-	5,253,557	5,278,461
CHANGE IN NET ASSETS	(335,285)	85,000	(119,130)	(78,000)	(447,415)	347,701
Net Assets - Beginning of Year	(129,206)	-	4,266,096	392,018	4,528,908	4,181,207
NET ASSETS - END OF YEAR	\$ (464,491)	\$ 85,000	\$ 4,146,966	\$ 314,018	\$ 4,081,493	\$ 4,528,908

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2009

With Summarized Totals for the Year Ended June 30, 2008

	2009				Total Expenses	2008 Total Expenses
	Program Services	Support Services		Total Support Services		
		Management and General	Fundraising			
Salaries	\$ 1,843,452	\$ 178,719	\$ 226,004	\$ 404,723	\$ 2,248,175	\$ 2,157,430
Employee Benefits	243,792	17,252	31,605	48,857	292,649	265,960
Payroll Taxes	160,729	15,700	19,188	34,888	195,617	179,263
TOTAL PERSONNEL COSTS	2,247,973	211,671	276,797	488,468	2,736,441	2,602,653
Food and Containers	977,460	-	-	-	977,460	905,663
Meal Delivery	71,006	85	587	672	71,678	85,404
Client Outreach and Education	6,406	-	3,059	3,059	9,465	29,053
Community Outreach	137,182	4,405	10,493	14,898	152,080	222,798
Volunteer Management	16,801	-	-	-	16,801	17,478
Occupancy	185,917	13,604	27,207	40,811	226,728	234,029
Utilities	88,878	5,861	11,723	17,584	106,462	97,550
Repairs and Maintenance	23,665	1,439	2,879	4,318	27,983	78,436
Insurance	71,979	5,110	10,221	15,331	87,310	48,269
Furniture and Equipment Rental	14,914	1,091	2,183	3,274	18,188	14,317
Staff and Board Development	258	19	38	57	315	2,865
Direct Mail	101,801	25,450	188,752	214,202	316,003	425,343
Consultants and Outside Services	61,584	4,180	8,451	12,631	74,215	58,432
Travel	865	59	1,563	1,622	2,487	43,580
Printing	16,684	1,090	2,509	3,599	20,283	41,480
Postage	8,209	351	10,288	10,639	18,848	32,425
Bank Charges	10,881	796	3,397	4,193	15,074	14,046
Interest Expense	36,012	2,622	5,244	7,866	43,878	32,413
Office Supplies	19,973	1,161	6,195	7,356	27,329	21,954
Dues, Subscriptions and Publications	6,048	422	1,193	1,615	7,663	6,595
Miscellaneous	2,875	210	421	631	3,506	3,666
Employment Recruitment	681	36	65	101	782	3,398
Legal	-	-	-	-	-	717
SUB-TOTAL	4,108,052	279,662	573,265	852,927	4,960,979	5,022,564
Depreciation	268,295	8,094	16,189	24,283	292,578	255,897
TOTAL 2009 FUNCTIONAL EXPENSES	\$ 4,376,347	\$ 287,756	\$ 589,454	\$ 877,210	\$ 5,253,557	
TOTAL 2008 FUNCTIONAL EXPENSES	\$ 4,208,055	\$ 351,421	\$ 718,985	\$ 1,070,406		\$ 5,278,461

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

With Summarized Totals for the Year Ended June 30, 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (447,415)	\$ 347,701
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	292,578	255,897
Depreciation on Rental Property	-	1,059
Net Proceeds from Rental Activities	-	(31,194)
Loss on Investments	3,240	2,820
Gain on Sale of Fixed Assets	(12,633)	(324,140)
Bad Debt Expense	40,500	-
Donated Investments	-	(27,379)
Service Payback of Note Payable	(40,000)	(32,222)
Contributions Received for Capital Campaign	(202,597)	(742,626)
(Increase) Decrease in:		
Accounts Receivable	(61,489)	(14,490)
Pledges and Contributions Receivable	(194,632)	179,970
Prepaid Assets	(58,213)	(3,509)
Increase (Decrease) in:		
Accounts Payable	(120,927)	(99,117)
Accrued Liabilities	61,203	(84,223)
	(740,385)	(571,453)
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on Sale of Investments	12,669	26,602
Purchases of Property and Equipment	(23,812)	(1,497,402)
Net Proceeds from Rental Activity	-	31,194
Proceeds from Sale of Property and Equipment	12,633	2,538,542
	1,490	1,098,936
NET CASH PROVIDED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Proceeds from (Payments on) Line of Credit	638,000	(135,000)
Payments on Notes Payable	(35,070)	(1,532,349)
Payments on Capital Leases	(15,400)	-
Contributions Received for Capital Campaign	202,597	742,626
	790,127	(924,723)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	51,232	(397,240)
Cash - Beginning of Year	134,866	532,106
CASH - END OF YEAR	\$ 186,098	\$ 134,866
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest Including Capitalized Interest of \$76,785 in 2008	\$ 263,212	\$ 244,428
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, 2009

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, faced many challenges as the economy faltered. In the fall of 2008, the agency saw a dramatic reduction in donations (as much as 25% reduction in some areas of funding over the prior year, such as direct mail). This loss in income was exacerbated by an increase in certain key expenses as well. Examples of food prices included brown rice 65% increase from the year prior, carrots 29% increase, apples 132% increase and green beans 29% increase. Additionally, gas prices unexpectedly rose in the fall of 2008, also having a tremendous impact on delivery costs and the agency's finances. Agency leadership made expense reductions, including the management team taking a pay reduction, the remaining staff having a pay freeze for all of 2009, and a change in some delivery routes. The core work of Project Angel Food – the cooking and delivery of healthy meals – was protected through all of these decisions, but the agency's budget was razor thin.

Starting in January 2009, Project Angel Food marked its 20th year of uninterrupted service. In that time, they have cooked and delivered more than six 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 641,765 meals to people overwhelmed by life-threatening illnesses during FY 2009.

Two-thirds of the fiscal year 2009 net loss is attributable to depreciation (a non-cash charge of \$293,000). The agency will need to fundraise to replace the kitchen equipment being depreciated, but those efforts have been postponed since Project Angel Food recently moved into its new facility on Vine Street in September 2007. The remaining loss of \$154,000 includes one-time expenses such as write-off of a \$40,000 capital restricted pledge, benefit pay-outs, reduction in donations, and increased expenses discussed above.

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 Foods first meals were cooked and delivered out of a donated church kitchen. Twenty 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

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 1 - ORGANIZATION (continued)

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 we serve. 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.

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, 2009

NOTE 1 - ORGANIZATION (continued)

The People Project Angel Food Serves

Project Angel Food proudly serves any man, woman, or child struggling by 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.

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 they serve.

Organizational Structure

Project Angel Food is governed by a twenty-one member volunteer Board of Directors including two Client Representatives nominated by the Client Advisory Board. 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.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 1 - ORGANIZATION (continued)

Volunteers continue to be the heart and soul of Project Angel Food. In fiscal year 2009, 1,500 volunteers contributed 53,372 hours of service, the equivalent of 27 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 address 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

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:

- **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.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **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 program or capital restrictions. Project Angel Food has temporarily restricted net assets of \$399,018 at June 30, 2009.
- **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, 2009.

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) CONCENTRATION OF CREDIT RISK

Project Angel Food maintains its cash and investments 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 and investments. Furthermore, market values of such investments and credit ratings of bond issuers are routinely reviewed by the Board of Directors.

(d) INVESTMENTS

Investments in marketable securities with readily determinable fair market values and all investments in debt securities are reported at fair value. Interest and dividend income and gains and losses on investments are reflected in the statement of activities as increases or decreases in unrestricted net assets unless their use is restricted by donor stipulations or law.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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 estimated net realizable 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, 2009, Project Angel Food evaluated the collectibility of accounts receivable and determined that no allowance for doubtful accounts was necessary.

(f) CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at estimated net realizable 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, 2009, Project Angel Food evaluated the collectibility of pledges receivable and determined that no allowance for uncollectible pledges was necessary.

(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.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) PROPERTY AND EQUIPMENT (continued)

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
Leasehold Improvements	5 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, 2009.

(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.

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 55,383 hours valued at \$576,965.

(j) ADVERTISING COSTS

Project Angel Food expenses the costs of advertising as incurred. Total advertising expense was \$152,080 for the year ended June 30, 2009.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 - Operating Fund and Property & 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 & 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, 2008, from which the summarized information was derived.

(p) RECLASSIFICATION

For comparability, the June 30, 2008 amounts have been reclassified, where appropriate, to conform with the financial statement presentation used at June 30, 2009.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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, 2009 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 23, 2009, 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, 2009 are expected to be collected as follows:

Within One Year	\$ 371,702
In One to Five Years	136,893
In Six to Ten Years	<u>57,312</u>
GROSS PLEDGES AND CONTRIBUTIONS RECEIVABLE	565,907
Present Value Discount	<u>(19,757)</u>
PLEDGES AND CONTRIBUTIONS RECEIVABLE (NET)	<u>\$ 546,150</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2009 consist of the following:

Land and Building	\$ 6,971,699
Kitchen Equipment	873,361
Furniture and Fixtures	204,870
Vehicles	166,973
Office Equipment	120,023
Event Equipment	<u>55,967</u>
TOTAL	8,392,893
Less: Accumulated Depreciation	<u>(665,032)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 7,727,859</u>

Depreciation expense for the year ended June 30, 2009 was \$292,578.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2009 consist of the following:

Accrued Vacation	\$	138,653
Accrued Salaries		65,627
Other Accrued Liabilities		37,723
TOTAL ACCRUED LIABILITIES	\$	242,003

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 4.25% as of June 30, 2009. The line of credit is secured by a deed of trust on land and building (Vine Street). The outstanding balance as of June 30, 2009 was \$808,000. This line of credit matures on September 1, 2011.

NOTE 7 - CAPITAL LEASE OBLIGATIONS

The company leases certain property and equipment with lease terms through November 2012. 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 4% per annum. Depreciation expense on this property and equipment for the year ended June 30, 2009 was \$8,799.

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

Vehicles	\$	43,996
Less: Accumulated Depreciation		(8,799)
NET PROPERTY AND EQUIPMENT HELD UNDER CAPITAL LEASES	\$	35,197

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		
2010	\$	21,001
2011		6,343
2012		2,409
TOTAL		29,753
Less: Amount Representing Interest		(1,157)
PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS		28,596
Less: Current Portion		(20,194)
LONG-TERM PORTION OF OBLIGATIONS UNDER CAPITAL LEASES	\$	8,402

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS June 30, 2009

NOTE 8 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2009:

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 \$ 3,019,227

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 327,778

TOTAL NOTES PAYABLE \$ 3,347,005

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

Years Ending June 30

2010	\$ 77,591
2011	80,289
2012	83,180
2013	86,278
2014	89,599
Thereafter	<u>2,930,068</u>
TOTAL	<u>\$ 3,347,005</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.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 10 - ALLOCATION OF JOINT COSTS

During the year ended June 30, 2009, Project Angel Food conducted direct mail campaigns with total expenses of \$316,003 that included appeals for contributions, prospecting, and renewals and incurred joint costs of \$169,668. In addition, Project Angel Food conducted public education services which included a newsletter insert in the Los Angeles Times with total expense of \$70,000. These activities are deemed to be joint activities and are allocated as follows:

Program	\$	148,421
Special Events Expense		23,310
Fundraising		42,417
General and Administrative		25,450
		<hr/>
TOTAL JOINT COSTS	\$	239,668

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2009 consist of the following:

Pledges Receivable for Fiscal Year Ending June 30, 2010:		
Capital Campaign	\$	314,018
Meal Deliveries		85,000
		<hr/>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$	399,018

NOTE 12 - FEES FROM GOVERNMENT AGENCIES

Government contracts for the year ended June 30, 2009 consist of \$423,690 for food programs.

NOTE 13 - 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, 2009. Therefore, no amounts have been recorded in the accompanying financial statements.

NOTE 14 - 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, 2009

PROJECT ANGEL FOOD

**SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2009**

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 Housing and Urban Development Passed through the Community Development Department of the City of Los Angeles Community Development Block Grant (Loan)	C-109150	14,F59218	\$ 327,778	\$ -	\$ 327,778
Federal Emergency Management Agency Pass-through Emergency Food and Shelter Program	069500-271	97.024	96,143	-	96,143
Federal Emergency Management Agency Pass-through Emergency Food and Shelter Program - ARRA Funds	069500-271	97.114	<u>51,370</u>	<u>-</u>	<u>51,370</u>
TOTAL MAJOR AWARDS			<u>475,291</u>	<u>-</u>	<u>475,291</u>
Non-Major Awards					
U.S. Department of Health and Human Services Passed through Department of Health Services of the County of Los Angeles Ryan White Title I	H-700267 OAPP	93.914	126,892	-	126,892
U.S. Department of Housing and Urban Development Passed through the Los Angeles Housing Department HOPWA	10667	14.241	84,631	-	84,631
City of West Hollywood	2008-2009	N/A	<u>-</u>	<u>64,654</u>	<u>64,654</u>
TOTAL NON-MAJOR AWARDS			<u>211,523</u>	<u>64,654</u>	<u>276,177</u>
TOTAL FEDERAL AND NONFEDERAL AWARDS			<u>\$ 686,814</u>	<u>\$ 64,654</u>	<u>\$ 751,468</u>

Summary of Significant Accounting Policies:

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

See Independent Auditors' Report