

**PROJECT ANGEL FOOD**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

**PROJECT ANGEL FOOD**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2011**

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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, 2011 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 2010 financial statements and, in our report dated November 30, 2010, 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, 2011, 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 May 9, 2012 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*

May 9, 2012  
Los Angeles, California

## PROJECT ANGEL FOOD

### STATEMENT OF FINANCIAL POSITION June 30, 2011 With Summarized Totals at June 30, 2010

<b>ASSETS</b>	Unrestricted	Temporarily Restricted	2011	2010
Cash	\$ (52,498)	\$ 76,675	\$ 24,177	\$ 23,408
Accounts Receivable	190,156	-	190,156	32,908
Pledges and Contributions Receivable (Net)	290,447	142,921	433,368	679,618
Prepaid Expenses and Other Assets	94,738	-	94,738	57,224
Property and Equipment (Net)	7,270,724	-	7,270,724	7,465,581
<b>TOTAL ASSETS</b>	<b>\$ 7,793,567</b>	<b>\$ 219,596</b>	<b>\$ 8,013,163</b>	<b>\$ 8,258,739</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES:</b>				
Accounts Payable	\$ 350,768	\$ -	\$ 350,768	\$ 296,912
Accrued Liabilities	353,404	-	353,404	285,783
Capital Lease Obligations	38,344	-	38,344	18,809
Line of Credit	900,000	-	900,000	830,000
Notes Payable	3,327,873	-	3,327,873	3,269,417
<b>TOTAL LIABILITIES</b>	4,970,389	-	4,970,389	4,700,921
<b>NET ASSETS:</b>				
<b>Operating:</b>				
Unrestricted	(1,308,269)	-	(1,308,269)	(672,055)
Temporarily Restricted	-	76,675	76,675	-
<b>TOTAL OPERATING</b>	(1,308,269)	76,675	(1,231,594)	(672,055)
<b>Property and Equipment:</b>				
Unrestricted	4,131,447	-	4,131,447	4,030,354
Temporarily Restricted	-	142,921	142,921	199,519
<b>TOTAL PROPERTY AND EQUIPMENT</b>	4,131,447	142,921	4,274,368	4,229,873
<b>TOTAL NET ASSETS</b>	2,823,178	219,596	3,042,774	3,557,818
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 7,793,567</b>	<b>\$ 219,596</b>	<b>\$ 8,013,163</b>	<b>\$ 8,258,739</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**PROJECT ANGEL FOOD**

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2011

With Summarized Totals for the Year Ended June 30, 2010

	2011						2010 Total
	Operating		Property and Equipment		Total		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted			
<b>REVENUE AND SUPPORT:</b>							
<b>Public Support:</b>							
Direct Marketing	\$ 740,464	\$ -	\$ -	\$ -	\$ 740,464	\$ 714,767	
Corporate and Foundation Grants	717,384	175,000	-	-	892,384	1,202,201	
Contributions	669,709	-	-	-	669,709	604,651	
Donated Services	21,713	-	-	-	21,713	48,378	
Wills and Bequests	5,500	-	-	-	5,500	88,559	
Capital Campaign	-	-	40,707	3,788	44,495	72,042	
<b>TOTAL PUBLIC SUPPORT</b>	<b>2,154,770</b>	<b>175,000</b>	<b>40,707</b>	<b>3,788</b>	<b>2,374,265</b>	<b>2,730,598</b>	
<b>Fees from Government Agencies:</b>							
Federal Grants and Contracts	407,179	-	-	-	407,179	438,263	
State and Local Grants and Contracts	60,826	-	-	-	60,826	74,061	
<b>TOTAL FEES FROM GOVERNMENT AGENCIES</b>	<b>468,005</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>468,005</b>	<b>512,324</b>	
<b>Special Events Revenue:</b>							
Gross Receipts	2,607,062	-	-	-	2,607,062	2,069,588	
Less: Costs of Direct Benefit to Donors	(1,159,495)	-	-	-	(1,159,495)	(938,970)	
<b>NET SPECIAL EVENTS REVENUE</b>	<b>1,447,567</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,447,567</b>	<b>1,130,618</b>	
Investment Income (Loss)	(72)	-	-	-	(72)	20	
Bad Debt Expense	-	-	-	-	-	(19,000)	
Other Income	69,581	-	-	-	69,581	5,026	
Net Assets Released from Capital Restrictions and Inter-Fund Transfers	98,325	(98,325)	60,386	(60,386)	-	-	
<b>TOTAL REVENUE AND SUPPORT</b>	<b>4,238,176</b>	<b>76,675</b>	<b>101,093</b>	<b>(56,598)</b>	<b>4,359,346</b>	<b>4,359,586</b>	
<b>EXPENSES:</b>							
Program Services	4,022,907	-	-	-	4,022,907	4,032,805	
Support Services	851,483	-	-	-	851,483	850,456	
<b>TOTAL EXPENSES</b>	<b>4,874,390</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,874,390</b>	<b>4,883,261</b>	
<b>CHANGE IN NET ASSETS</b>	<b>(636,214)</b>	<b>76,675</b>	<b>101,093</b>	<b>(56,598)</b>	<b>(515,044)</b>	<b>(523,675)</b>	
Net Assets - Beginning of Year	(672,055)	-	4,030,354	199,519	3,557,818	4,081,493	
<b>NET ASSETS - END OF YEAR</b>	<b>\$ (1,308,269)</b>	<b>\$ 76,675</b>	<b>\$ 4,131,447</b>	<b>\$ 142,921</b>	<b>\$ 3,042,774</b>	<b>\$ 3,557,818</b>	

The Accompanying Notes are an Integral Part of These Financial Statements

## PROJECT ANGEL FOOD

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2011

With Summarized Totals for the Year Ended June 30, 2010

	2011				Total Expenses	2010 Total Expenses
	Program Services	Support Services		Total Support Services		
		Management and General	Fundraising			
Salaries	\$ 1,688,213	\$ 144,952	\$ 225,336	\$ 370,288	\$ 2,058,501	\$ 2,073,592
Employee Benefits	199,893	8,169	30,860	39,029	238,922	245,706
Payroll Taxes	137,925	10,462	22,822	33,284	171,209	159,195
<b>TOTAL PERSONNEL COSTS</b>	<b>2,026,031</b>	<b>163,583</b>	<b>279,018</b>	<b>442,601</b>	<b>2,468,632</b>	<b>2,478,493</b>
Food and Containers	1,005,194	-	-	-	1,005,194	944,887
Direct Mail	-	-	241,716	241,716	241,716	314,558
Occupancy	178,188	12,998	25,995	38,993	217,181	211,636
Community Outreach	99,357	3,318	6,637	9,955	109,312	125,488
Meal Delivery	107,838	320	740	1,060	108,898	84,836
Utilities	92,831	6,240	12,496	18,736	111,567	110,703
Consultants and Outside Services	43,659	2,386	19,703	22,089	65,748	84,509
Interest Expense	44,824	3,275	6,550	9,825	54,649	37,458
Insurance	43,161	2,925	5,851	8,776	51,937	46,482
Repairs and Maintenance	40,502	1,453	3,225	4,678	45,180	31,175
Printing	26,294	1,924	3,986	5,910	32,204	23,925
Office Supplies	20,401	1,090	4,712	5,802	26,203	21,320
Furniture and Equipment Rental	15,002	1,098	2,195	3,293	18,295	17,352
Miscellaneous	11,594	1,331	1,695	3,026	14,620	13,724
Bank Charges	11,019	1,006	2,582	3,588	14,607	17,837
Postage	5,412	136	7,890	8,026	13,438	18,779
Volunteer Management	10,439	-	3	3	10,442	13,268
Dues, Subscriptions and Publications	2,312	120	1,699	1,819	4,131	8,099
Travel	378	28	477	505	883	2,067
Employment Recruitment	726	8	15	23	749	220
Staff and Board Development	314	22	44	66	380	339
Client Outreach and Education	-	-	-	-	-	899
<b>SUB-TOTAL</b>	<b>3,785,476</b>	<b>203,261</b>	<b>627,229</b>	<b>830,490</b>	<b>4,615,966</b>	<b>4,608,054</b>
Depreciation	237,431	6,998	13,995	20,993	258,424	275,207
<b>TOTAL 2011 FUNCTIONAL EXPENSES</b>	<b>\$ 4,022,907</b>	<b>\$ 210,259</b>	<b>\$ 641,224</b>	<b>\$ 851,483</b>	<b>\$ 4,874,390</b>	
	83%	4%	13%	17%	100%	
<b>TOTAL 2010 FUNCTIONAL EXPENSES</b>	<b>\$ 4,032,805</b>	<b>\$ 220,742</b>	<b>\$ 629,714</b>	<b>\$ 850,456</b>		<b>\$ 4,883,261</b>
	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, 2011

With Summarized Totals for the Year Ended June 30, 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ (515,044)	\$ (523,675)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	258,424	275,207
Loss on Sale of Fixed Assets	909	2,792
Bad Debt Expense	-	19,000
Service Payback of Note Payable	(40,000)	(40,000)
Contributions Received for Capital Campaign	(44,495)	(72,042)
(Increase) Decrease in:		
Accounts Receivable	(157,248)	61,321
Pledges and Contributions Receivable	246,250	(152,468)
Prepaid Expenses and Other Assets	(37,514)	44,764
Increase in:		
Accounts Payable	53,856	147,183
Accrued Liabilities	67,621	43,780
	<b>(167,241)</b>	<b>(194,138)</b>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITY:</b>		
Purchases of Property and Equipment	(41,941)	(15,721)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from Line of Credit	70,000	22,000
Proceeds from Notes Payable	125,000	-
Payments on Notes Payable	(26,544)	(37,588)
Payments on Capital Leases	(3,000)	(9,787)
Contributions Received for Capital Campaign	44,495	72,042
	<b>209,951</b>	<b>46,667</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>769</b>	<b>(163,192)</b>
Cash - Beginning of Year	<b>23,408</b>	<b>186,600</b>
<b>CASH - END OF YEAR</b>	<b>\$ 24,177</b>	<b>\$ 23,408</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash Paid During the Year for Interest	\$ 261,115	\$ 246,589
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
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, 2011

### 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, and acknowledged that the agency's deficits had to be addressed and, additionally, a financial reserve needed to be built. To that end, at a Board and Staff Management Retreat in April 2011, it was decided that the agency needed to reduce expenses and increase income. Expense reductions involved a change in the delivery of some meals and the refinement of the agency's client eligibility. While these changes began in May 2011, they required planning and a period of implementation, and thus did not impact on the agency's finances until the start of the following fiscal year, July 1, 2011. Even with these changes, the agency's Board and Management are confident that they are meeting the agency's mission of providing freshly-cooked, nutritiously-robust meals to the most vulnerable people who are too sick, from a life-threatening illness, to cook their own meals.

Even during challenging economic times, the agency feels it is important to recognize the staff who diligently work day-after-day, week-after-week, in fulfilling the agency's mission, and thus continued the policy of providing one-time-merit-pay (rather than as salary raises). This merit pay 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 2011, Project Angel Food marked its 22nd year of uninterrupted service. In that time, they have cooked and delivered more than 7.5 million meals. With the reliable commitment of more than 1,500 active volunteers, who provided more than 53,000 hours, in the time period covered in this audit, Project Angel Food cooked and delivered 763,629 meals.

During fiscal year 2011, 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 1,600 pounds of fresh produce. 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.

About half of the fiscal year 2011 total net loss of \$515,044 is attributable to depreciation expense, a non-cash charge of \$258,424, leaving a core operating deficit of \$256,620. However, Project Angel Food expects to operate with an operating surplus in fiscal year 2012 as result of the expense reductions discussed above. Consistent with last year, 83 percent of operating expenses were spent on direct programs, with remaining expense spent on fundraising and administration.

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.

# PROJECT ANGEL FOOD

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### 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-two 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 1,300 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'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.

# PROJECT ANGEL FOOD

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### 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, 41%, 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.

#### **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, 97% 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, 96%, 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 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.

# PROJECT ANGEL FOOD

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### 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 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 2011, 1,500 volunteers contributed 53,595 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, 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 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, 2011

### 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 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 \$219,596 at June 30, 2011.
- **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, 2011.

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, 2011, Project Angel Food evaluated the collectibility of accounts receivable and determined that no allowance for doubtful accounts was necessary.

# PROJECT ANGEL FOOD

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (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, 2011.

At June 30, 2011, Project Angel Food evaluated the collectibility of pledges receivable and determined that no allowance for uncollectible pledges was necessary.

#### (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, 2011.

# PROJECT ANGEL FOOD

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **(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, 2011, Project Angel Food recognized donated services of approximately 1,848 hours valued at \$21,713.

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 53,595 hours valued at \$555,058.

#### **(j) ADVERTISING COSTS**

Project Angel Food expenses the costs of advertising (Community Outreach) as incurred. The total expense was \$109,312 for the year ended June 30, 2011.

#### **(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.

# PROJECT ANGEL FOOD

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(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, 2010, from which the summarized information was derived.

**(p) RECLASSIFICATION**

For comparability, certain June 30, 2010 amounts have been reclassified, where appropriate, to conform with the financial statement presentation used at June 30, 2011.

**(q) SUBSEQUENT EVENTS**

Project Angel Food has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2011 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through May 9, 2012, 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, 2011 are expected to be collected as follows:

Within One Year	\$ 318,212
In One to Five Years	<u>125,322</u>
<b>GROSS PLEDGES AND CONTRIBUTIONS RECEIVABLE</b>	443,534
Present Value Discount	<u>(10,166)</u>
<b>PLEDGES AND CONTRIBUTIONS RECEIVABLE (NET)</b>	<u>\$ 433,368</u>

## PROJECT ANGEL FOOD

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

#### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2011 consist of the following:

Land and Building	\$ 6,971,699
Kitchen Equipment	873,361
Furniture and Fixtures	213,870
Vehicles	168,859
Office Equipment	167,179
Event Equipment	55,967
<b>TOTAL</b>	<b>8,450,935</b>
Less: Accumulated Depreciation	(1,180,211)
<b>PROPERTY AND EQUIPMENT (NET)</b>	<b>\$ 7,270,724</b>

Depreciation expense for the year ended June 30, 2011 was \$258,424.

#### NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2011 consist of the following:

Accrued Vacation	\$ 156,944
Future Event Sponsorship Income	101,500
Accrued Salaries	66,523
Other Accrued Liabilities	28,437
<b>TOTAL ACCRUED LIABILITIES</b>	<b>\$ 353,404</b>

#### 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, 2011. 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, 2011, \$900,000 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 leases payments discounted at an interest rate of 9.75% per annum. Depreciation expense on this property and equipment for the year ended June 30, 2011 was \$5,796.

## PROJECT ANGEL FOOD

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011

#### NOTE 7 - CAPITAL LEASE OBLIGATIONS (continued)

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

Vehicles	\$	53,990
Less: Accumulated Depreciation		(5,796)
		48,194
<b><i>NET PROPERTY AND EQUIPMENT HELD UNDER CAPITAL LEASES</i></b>	<b>\$</b>	<b>48,194</b>

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

<b>Years Ending June 30</b>		
2012	\$	19,844
2013		9,535
2014		5,847
2015		3,898
		39,124
<b><i>TOTAL</i></b>		<b>39,124</b>
Less: Amount Representing Interest		(780)
		38,344
<b><i>PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS</i></b>		<b>38,344</b>
Less: Current Portion		(19,529)
		18,815
<b><i>LONG-TERM PORTION OF OBLIGATIONS UNDER CAPITAL LEASES</i></b>	<b>\$</b>	<b>18,815</b>

#### NOTE 8 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2011:

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	\$ 2,955,095
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	247,778
Note Payable - Donor , Secured by Collateral from Anticipated Receivables to Borrower through September 2011, Interest at 8%, Repaid Subsequent to Year End	125,000
<b><i>TOTAL NOTES PAYABLE</i></b>	<b>\$ 3,327,873</b>

**PROJECT ANGEL FOOD**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 8 - NOTES PAYABLE (continued)**

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

<b>Years Ending June 30</b>	
2012	\$ 208,180
2013	86,278
2014	89,599
2015	93,158
2016	<u>2,850,658</u>
<b>TOTAL</b>	<b><u>\$ 3,327,873</u></b>

**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	\$ 142,921
Database Upgrades and Implementation of New Software	71,675
Garden Program	<u>5,000</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$ 219,596</u></b>

**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, 2011

**PROJECT ANGEL FOOD**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS**  
**Year Ended June 30, 2011**

<b>Federal Awards</b> Agency - Program Grant Title	<u>Contract Number</u>	<u>Federal CFDA Number</u>	<u>Governmental Revenue</u>		<u>Program Expenditures from Governmental Revenue</u>
			<u>Federal</u>	<u>Nonfederal</u>	
<b>Major Awards</b>					
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	\$ 247,778	\$ -	\$ 247,778
U.S. Department of Housing and Urban Development Passed through the Los Angeles Housing Department HOPWA	10667	14.241	<u>125,581</u>	<u>-</u>	<u>125,581</u>
<b>TOTAL MAJOR AWARDS</b>			<u>373,359</u>	<u>-</u>	<u>373,359</u>
<b>Non-Major Awards</b>					
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	128,267	-	128,267
Federal Emergency Management Agency Passed through the Emergency Food and Shelter Program	069500-271	97.024	153,331	-	153,331
<b>Nonfederal Awards</b> City of West Hollywood	2009-2010	N/A	<u>-</u>	<u>60,826</u>	<u>60,826</u>
<b>TOTAL NON-MAJOR AWARDS</b>			<u>281,598</u>	<u>60,826</u>	<u>342,424</u>
<b>TOTAL FEDERAL AND NONFEDERAL AWARDS</b>			<u>\$ 654,957</u>	<u>\$ 60,826</u>	<u>\$ 715,783</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