

PROJECT ANGEL FOOD

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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YEAR ENDED JUNE 30, 2004

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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, 2004 and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the organization'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 June 30, 2003 financial statements, which were audited by other auditors and in their report dated September 25, 2004, they expressed an unqualified opinion on those 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, 2004, 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 July 23, 2004, 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 and grants. 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.

Green Hasson & Janks LLP

July 23, 2004
Los Angeles, California

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PROJECT ANGEL FOOD

STATEMENT OF FINANCIAL POSITION

June 30, 2004

With Summarized Totals at June 30, 2003

	Unrestricted	Temporarily Restricted	2004	2003
ASSETS				
Cash	\$ 345,522	\$ 111,089	\$ 456,611	\$ -
Accounts Receivable	172,954	-	172,954	217,942
Pledges Receivable	2,830	-	2,830	303,169
Prepaid Expenses	28,130	-	28,130	31,471
Deposits	37,872	-	37,872	33,716
Investments	432,461	-	432,461	399,783
Property and Equipment	170,052	2,224,576	2,394,628	2,492,114
	<u>\$ 1,189,821</u>	<u>\$ 2,335,665</u>	<u>\$ 3,525,486</u>	<u>\$ 3,478,195</u>
TOTAL ASSETS				
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Cash Overdraft	\$ -	\$ -	\$ -	\$ 32,980
Accounts Payable	198,489	-	198,489	69,459
Accrued Liabilities	159,616	-	159,616	216,562
Lines of Credit	-	-	-	303,020
Notes Payable	25,180	-	25,180	37,388
	<u>383,285</u>	<u>-</u>	<u>383,285</u>	<u>659,409</u>
	<u>383,285</u>	<u>-</u>	<u>383,285</u>	<u>659,409</u>
TOTAL LIABILITIES				
NET ASSETS:				
Unrestricted	579,448	-	579,448	235,865
Unrestricted - Board Designated	227,088	-	227,088	227,088
Temporarily Restricted	-	2,335,665	2,335,665	2,355,833
	<u>806,536</u>	<u>2,335,665</u>	<u>3,142,201</u>	<u>2,818,786</u>
	<u>806,536</u>	<u>2,335,665</u>	<u>3,142,201</u>	<u>2,818,786</u>
TOTAL NET ASSETS				
TOTAL LIABILITIES AND NET ASSETS				
	<u>\$ 1,189,821</u>	<u>\$ 2,335,665</u>	<u>\$ 3,525,486</u>	<u>\$ 3,478,195</u>
	<u>\$ 1,189,821</u>	<u>\$ 2,335,665</u>	<u>\$ 3,525,486</u>	<u>\$ 3,478,195</u>

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

With Summarized Totals for the Year Ended June 30, 2003

	Unrestricted	Temporarily Restricted	2004	2003
REVENUE AND SUPPORT:				
PUBLIC SUPPORT:				
Direct Marketing	\$ 1,211,809	\$ -	\$ 1,211,809	\$ 1,097,225
Corporate and Foundation Grants	473,231	150,000	623,231	605,770
Contributions	436,525	-	436,525	553,901
Wills and Bequests	256,289	-	256,289	30,435
Capital Campaign	-	54,215	54,215	-
In-kind contributions	117,129	71,874	189,003	4,180
TOTAL PUBLIC SUPPORT	2,494,983	276,089	2,771,072	2,291,511
FEES FROM GOVERNMENT AGENCIES:				
Federal Grants and Contracts	359,204	-	359,204	354,377
State and Local Grants and Contracts	49,999	-	49,999	49,999
TOTAL FEES FROM GOVERNMENT AGENCIES	409,203	-	409,203	404,376
SPECIAL EVENTS REVENUE:				
Gross Receipts	2,630,565	-	2,630,565	2,229,781
Less Costs of Direct Benefit to Donors	(1,026,370)	-	(1,026,370)	(874,291)
NET SPECIAL EVENTS REVENUE	1,604,195	-	1,604,195	1,355,490
Rental Income	158,551	-	158,551	158,550
Interest and Dividends	9,301	-	9,301	14,486
Gain (Loss) on Investments	16,405	-	16,405	(1,071)
Gain on Sale of Fixed Assets	2,600	-	2,600	1,500
Net Assets Released from Program Restrictions	296,257	(296,257)	-	-
TOTAL REVENUE AND SUPPORT	4,991,495	(20,168)	4,971,327	4,224,842
EXPENSES:				
Program Services	3,172,910	-	3,172,910	2,874,192
Support Services	1,475,002	-	1,475,002	1,526,663
TOTAL EXPENSES	4,647,912	-	4,647,912	4,400,855
CHANGE IN NET ASSETS	343,583	(20,168)	323,415	(176,013)
Net Assets - Beginning of Year	462,953	2,355,833	2,818,786	2,994,799
NET ASSETS - END OF YEAR	\$ 806,536	\$ 2,335,665	\$ 3,142,201	\$ 2,818,786

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2004

With Summarized Totals for the Year Ended June 30, 2003

	Program Services	Support Services		Total Support Services	Total Expenses	
		Management and General	Fundraising		2004	2003
Salaries	\$ 1,272,322	\$ 313,148	\$ 244,901	\$ 558,049	\$ 1,830,371	\$ 1,700,763
Employee Benefits	183,716	34,753	16,562	51,315	235,031	191,239
Payroll Taxes	113,865	18,994	18,505	37,499	151,364	151,242
TOTAL PERSONNEL COST	1,569,903	366,895	279,968	646,863	2,216,766	2,043,244
Food	588,019	-	-	-	588,019	623,616
Direct Mail - Management and Production	170,283	42,183	348,825	391,008	561,291	640,441
Rent	136,983	21,057	17,547	38,604	175,587	229,720
Client Outreach and Education	160,997	3,100	-	3,100	164,097	14,724
Depreciation	127,418	18,978	11,110	30,088	157,506	109,269
Consultants and Outside Services	59,903	20,029	35,853	55,882	115,785	86,731
Direct Mail - List Management	26,660	6,604	54,612	61,216	87,876	93,415
Utilities	65,759	8,499	8,538	17,037	82,796	73,429
Printing	48,895	1,673	18,098	19,771	68,666	49,862
Automotive	65,215	677	1,680	2,357	67,572	93,533
Direct Mail - Other	17,480	4,331	35,809	40,140	57,620	-
Insurance	31,572	16,776	3,407	20,183	51,755	49,401
Publicity and Community Relations	11,333	11,780	4,495	16,275	27,608	38,384
Employment Recruitment	640	20,991	2,204	23,195	23,835	3,634
Miscellaneous	3,290	17,174	2,534	19,708	22,998	43,449
Office Supplies	18,127	1,386	3,413	4,799	22,926	20,777
Postage	5,322	6,165	6,614	12,779	18,101	18,191
Legal	-	17,770	-	17,770	17,770	13,463
Repairs and Maintenance	12,496	4,415	554	4,969	17,465	33,491
Volunteer Recruitment	17,435	-	-	-	17,435	18,717
Travel	5,661	9,927	773	10,700	16,361	11,501
Furniture and Equipment Rental	11,855	1,824	1,520	3,344	15,199	15,712
Staff and Board Development	8,492	5,074	1,508	6,582	15,074	10,069
Interest Expense	-	13,147	211	13,358	13,358	15,612
Dues, Subscriptions and Publications	6,046	3,486	2,819	6,305	12,351	13,373
Bank Charges	3,126	8,065	904	8,969	12,095	37,097
TOTAL 2004 FUNCTIONAL EXPENSES	\$ 3,172,910	\$ 632,006	\$ 842,996	\$ 1,475,002	\$ 4,647,912	
TOTAL 2003 FUNCTIONAL EXPENSES	\$ 2,874,192	\$ 570,063	\$ 956,600	\$ 1,526,663		\$ 4,400,855

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF CASH FLOWS

Year Ended June 30, 2003

With Summarized Totals for the Year Ended June 30, 2004

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 323,415	\$ (176,013)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	157,506	109,269
(Gain) Loss on Investments	(16,405)	1,071
Reinvested Interest and Dividends	(8,747)	(14,033)
Gain on Sale of Fixed Assets	(2,600)	(1,500)
Donated Property and Equipment	(6,010)	(2,105)
Investment Fees	2,456	-
Donated Investments	(182,444)	(2,075)
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	44,988	(99,578)
Decrease in Pledges Receivable	300,339	75,000
Decrease in Prepaid Expenses	3,341	634
(Increase) in Deposits	(4,156)	-
Increase (Decrease) in Cash Overdraft	(32,980)	32,980
Increase (Decrease) in Accounts Payable	129,030	(123,350)
(Decrease) in Accrued Liabilities	(56,946)	(24,700)
	650,787	(224,400)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
	650,787	(224,400)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(54,010)	(37,329)
Proceeds from Sale of Fixed Assets	2,600	1,500
Net Proceeds from Sale and (Purchase) of Investments	172,462	(23,916)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
	121,052	(59,745)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Proceeds from (payments on) Lines of Credit	(303,020)	252,348
Payments on Notes Payable	(12,208)	(4,217)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
	(315,228)	248,131
NET INCREASE (DECREASE) IN CASH	456,611	(36,014)
Cash - Beginning of Year	-	36,014
CASH - END OF YEAR	\$ 456,611	\$ -
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	\$ 13,358	\$ 15,612
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and Equipment Purchased with Notes Payable	\$ -	\$ 41,605

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - ORGANIZATION

The Project Angel Food mission is to nourish the body and spirit of men, women, and children affected by HIV/AIDS and other serious illnesses. Project Angel Food delivers free meals prepared with love. We act out of a sense of urgency because hunger and illness cannot wait.

Since its founding in 1989 by Marianne Williamson, Project Angel Food has maintained that no person with any serious illnesses should also face hunger and loneliness. Any person struggling with a serious illness, who lives within the agency's geographic area, will qualify for service based on being bed-bound or homebound and unable to cook, prepare or obtain food due to health reasons. Project Angel Food receives its funding from private, individual and government contributions.

Proper nutritional care is an important element in maintaining and improving client health. Menus are specifically prepared to provide meals high in protein and complex carbohydrates. Approximately 37% of Project Angel Food's clients have dietary restrictions and receive special meals such as no added salt, diabetic, and no dairy. Project Angel Food also provides nutritional supplements to support and encourage proper nutrition – all under the direction of professional chefs and registered dietitians.

Volunteers are the heart and soul of Project Angel Food, assisting in preparing and delivering approximately 1,100 meals each day. Directly, and through a network of satellite drop-off points in Compton, Pasadena, Silver Lake, North Hollywood, Crenshaw, Santa Monica, and the South Bay, volunteers help deliver meals to clients throughout Los Angeles.

Thanks to the hard work of the kitchen and delivery volunteers, Project Angel Food is able to keep direct costs at approximately \$5 per meal, at no cost to our clients. The very specific dietary and nutritional requirements of the menus demand that Project Angel Food purchase most of the food it prepares. Unrestricted private donations provide the majority of Project Angel Food's operating funds.

Project Angel Food is the only free meal delivery program serving all of Los Angeles County. We have never created a waiting list and we do not prioritize who gets our services. Food is equally available to each person that is in need. As the demographics of the diseases change, so does our client base. Today, more than half of Project Angel Food's clients are non-Caucasian and Project Angel Food is providing service to an increasing number of women. For some, the meal they receive from Project Angel Food is their only food source and the person that delivers their meal is their only human interaction of the day.

Project Angel Food's mission is to make sure that the connection with our clients is an expression of love, hope and compassion.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(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.
- **Unrestricted - Board Designated.** These are comprised of resources that the Board of Directors has established to be utilized for discretionary purposes. For purposes of complying with net assets accounting, these net assets are included in unrestricted net assets at June 30, 2004, with a balance of \$227,088.
- **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 \$2,335,665 temporarily restricted net assets at June 30, 2004.
- **Permanently Restricted.** These net assets are received by 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, 2004.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) CASH

Cash consists of interest bearing and non interest bearing checking accounts and is maintained at one financial institution. Cash in excess of the Federal Deposit Insurance Corporation's (FDIC) insurance limit at June 30, 2004 was \$389,839.

(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 the estimated net realizable value. The allowance for doubtful accounts 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 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. All accounts receivable are deemed to be fully collectible at June 30, 2004. Therefore, no allowance for doubtful accounts has been recorded.

(e) 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.

(f) INVESTMENTS

Project Angel Food values its investments at fair value. Unrealized gains or losses (including investments bought, sold and held during the year) are reflected in the Statement of Activities as gain (loss) on investments.

(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 five hundred dollars and the useful life is greater than one year.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) PROPERTY AND EQUIPMENT (continued)

In 2004, Project Angel Food changed the estimated useful life of office equipment from five years to three years. The estimated useful lives of property and equipment are as follows:

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

(h) CONCENTRATION OF CREDIT RISK

Project Angel Food holds investments in the form of short-term money market investments, common stocks of publicly held companies, certificates of deposit, and U.S. Governmental debt securities. Market values of such investments and credit ratings of bond issuers are routinely reviewed by the Board of Directors.

(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 fiscal year ended June 30, 2004, Project Angel Food recorded in-kind contributions of \$189,003, of which \$182,444 for stocks, \$6,010 for property and equipment and \$549 for supplies.

Project Angel Food receives a significant amount of contributed time from volunteers that does not meet the two 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 \$424,000.

(j) ADVERTISING COSTS

Project Angel Food expenses the costs of advertising as incurred. Total advertising expense was \$27,608 for the year ending June 30, 2004.

(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.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) FUNCTIONAL ALLOCATION OF EXPENSES

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 the number of employees per department.

(m) USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses as of the date and for the period presented.

(n) RECLASSIFICATION

For comparability, certain June 30, 2003 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at June 30, 2004.

(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, 2003, from which the summarized information was derived.

NOTE 3 - PLEDGES RECEIVABLE

All pledges are deemed to be fully collectible at June 30, 2004; therefore, no allowance for doubtful pledges has been recorded. Pledges receivable are recorded as support when pledged unless designated otherwise. Additionally, all pledges are valued at their estimated fair value at June 30, 2004. Total pledges receivable of \$2,830 at June 30, 2004 are expected to be collected within one year.

As of June 30, 2004, Project Angel Food received a conditional pledge in the amount of \$40,000, related to general support, to be received upon receipt of matching contributions from new donors, or new donations from existing donors by April 30, 2005. As of June 30, 2004 conditions had not yet been met therefore no amount has been recorded at year end.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 4 - INVESTMENTS

Investments at June 30, 2004 consist of the following:

Bonds	\$ 171,235
Mutual Funds	155,956
U.S. Government Securities	79,663
Money Market Fund	<u>25,607</u>
<i>TOTAL INVESTMENTS</i>	<u>\$ 432,461</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2004 consist of the following:

Land and Building (See Below)	\$ 2,250,000
Leasehold Improvements	702,872
Kitchen Equipment	285,781
Office Equipment	263,539
Vehicles	187,905
Furniture and Fixtures	<u>44,984</u>
<i>TOTAL</i>	3,735,081
Less: Accumulated Depreciation	<u>(1,340,453)</u>
<i>PROPERTY AND EQUIPMENT (NET)</i>	<u>\$ 2,394,628</u>

Project Angel Food received a donation of land and building valued at \$2,250,000 during the fiscal year ended June 30, 2000. The donor has restricted Project Angel Food from selling the property for ten years. The property, net of accumulated depreciation of \$25,424, is recorded as a temporarily restricted net asset at June 30, 2004 (See Note 11).

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2004 consist of the following:

Accrued Vacation	\$ 112,976
Accrued Salaries	31,219
Other Accrued Liabilities	<u>15,421</u>
<i>TOTAL ACCRUED LIABILITIES</i>	<u>\$ 159,616</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS June 30, 2004

NOTE 7 - LINES OF CREDIT

Project Angel Food has a revolving line of credit in the amount of \$350,000 from a bank at a variable interest rate ranging from 1.0% to 2.375% over the bank's reference rate. The line of credit is secured by a deed of trust on the land and building. There was no outstanding balance as of June 30, 2004.

Project Angel Food has a revolving line of credit in the amount of \$300,000 from a financial institution at a variable interest rate of 3.125% over the financial institution's reference rate. The line of credit is secured by Investments. There was no outstanding balance as of June 30, 2004.

The reference rate was 4.0% as of June 30, 2004

NOTE 8 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2004:

Note payable - Corporation, secured by vehicle, non-interest bearing, payable in 48 monthly payments of \$415, matures July 2007	\$ 14,940
Note payable - Corporation, secured by vehicle, non-interest bearing, payable in 36 monthly payments of \$602, matures November 2005	<u>10,240</u>
<i>TOTAL NOTES PAYABLE</i>	<u>\$ 25,180</u>

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

Year Ending June 30	
2005	\$ 12,208
2006	7,992
2007	<u>4,980</u>
<i>TOTAL</i>	<u>\$ 25,180</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 9 - COMMITMENTS AND CONTINGENCIES

(a) **OBLIGATION UNDER OPERATING LEASE**

Project Angel Food leases office space under a lease that expired June 30, 2004. Subsequent to year end, Project Angel Food entered into a new lease agreement for office space. Future minimum lease payments are as follows:

Years Ending June 30

2005	\$	244,524
2006		252,000
2007		<u>132,000</u>
TOTAL	\$	<u>628,524</u>

Rent expense under this operating lease for the year ended June 30, 2004 was \$175,587.

(b) **CONTRACTS**

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 - ALLOCATION OF JOINT COSTS

During the year ended June 30, 2004, Project Angel Food conducted direct mail campaigns with total expenses of \$706,787 that included appeals for contributions and incurred joint costs of \$351,445. In addition, Project Angel Food conducted public education services which included newsletters with total expense of \$68,666. These activities are deemed to be joint activities and are allocated as follows:

	<u>Newsletters</u>	<u>Direct Mail</u>	<u>Total</u>
Program	\$ 34,333	\$ 210,867	\$ 245,200
Fund Raising	20,600	87,861	108,461
General and Administrative	<u>13,733</u>	<u>52,717</u>	<u>66,450</u>
TOTAL	\$ 68,666	\$ 351,445	\$ 420,111

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2004, consist of the following:

Alvarado Land and Building	\$ 2,224,576
Capital Campaign	<u>111,089</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 2,335,665</u>

NOTE 12 - FEES FROM GOVERNMENT AGENCIES

Government contracts for the year ended June 30, 2004 consist of \$409,203 for food programs.

NOTE 13 – RENTAL INCOME

Project Angel Food receives rental income from a donated property. Under the operating lease terms, expiring August 30, 2005, the future minimum rentals are as follows:

Years Ending June 30

2005	\$ 158,550
2006	<u>26,425</u>
TOTAL	<u>\$ 184,975</u>

NOTE 14 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2004, a member of Project Angel Food Board of Director was a partner in a law firm, that provided \$18,001 in legal services to Project Angel Food. The amount due to this firm at June 30, 2004 was \$792.

NOTE 15 - IRREVOCABLE TRUSTS AND ESTATES

Project Angel Food has been notified of interests in five irrevocable trusts and estates in which the amounts were either immaterial or indeterminable as of June 30, 2004. Therefore, no amounts have been recorded in the accompanying financial statements.

NOTE 16 – 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.