

PROJECT ANGEL FOOD

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

PROJECT ANGEL FOOD
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YEAR ENDED JUNE 30, 2006

CONTENTS

	Page
Independent Auditors' Report	1
Statement of Financial Position.....	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows.....	5
Notes to Financial Statements	6
Supplemental Information	15
Schedule of Expenditures of Federal Awards.....	16



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, 2006 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 2005 financial statements and, in our report dated August 5, 2005, 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, 2006, 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 August 15, 2006 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 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

August 15, 2006
Los Angeles, California

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PROJECT ANGEL FOOD

STATEMENT OF FINANCIAL POSITION

June 30, 2006

With Summarized Totals at June 30, 2005

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2006</u>	<u>2005</u>
Cash	\$ 177,758	\$ 149,709	\$ 327,467	\$ 68,273
Investments	494,068	16,657	510,725	565,148
Accounts Receivable	200,546	40,000	240,546	347,537
Pledges Receivable	28,000	249,000	277,000	70,853
Prepaid Expenses	35,470	-	35,470	29,593
Deposits	38,755	-	38,755	35,204
Property and Equipment (Net)	<u>5,051,220</u>	<u>2,211,864</u>	<u>7,263,084</u>	<u>2,429,694</u>
TOTAL ASSETS	<u>\$ 6,025,817</u>	<u>\$ 2,667,230</u>	<u>\$ 8,693,047</u>	<u>\$ 3,546,302</u>
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 350,754	\$ -	\$ 350,754	\$ 101,290
Accrued Liabilities	178,077	-	178,077	202,890
Lines of Credit	631,102	-	631,102	45,000
Notes Payable	<u>4,210,395</u>	<u>-</u>	<u>4,210,395</u>	<u>12,971</u>
TOTAL LIABILITIES	5,370,328	-	5,370,328	362,151
NET ASSETS:				
Unrestricted	428,401	-	428,401	575,504
Unrestricted - Board Designated	227,088	-	227,088	227,088
Temporarily Restricted	<u>-</u>	<u>2,667,230</u>	<u>2,667,230</u>	<u>2,381,559</u>
TOTAL NET ASSETS	<u>655,489</u>	<u>2,667,230</u>	<u>3,322,719</u>	<u>3,184,151</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,025,817</u>	<u>\$ 2,667,230</u>	<u>\$ 8,693,047</u>	<u>\$ 3,546,302</u>

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

With Summarized Totals for the Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	2006	2005
REVENUE AND SUPPORT:				
Public Support:				
Direct Marketing	\$ 1,157,820	\$ -	\$ 1,157,820	\$ 1,122,139
Corporate and Foundation Grants	555,736	87,006	642,742	632,473
Contributions	635,045	-	635,045	562,099
In-Kind Contributions	172,224	-	172,224	61,926
Wills and Bequests	60,643	-	60,643	35,492
Capital Campaign	-	920,685	920,685	-
TOTAL PUBLIC SUPPORT	2,581,468	1,007,691	3,589,159	2,414,129
Fees from Government Agencies:				
Federal Grants and Contracts	327,015	-	327,015	340,276
State and Local Grants and Contracts	54,706	-	54,706	57,506
TOTAL FEES FROM GOVERNMENT AGENCIES	381,721	-	381,721	397,782
Special Events Revenue:				
Gross Receipts	1,918,740	-	1,918,740	2,906,537
Less Costs of Direct Benefit to Donors	(1,256,690)	-	(1,256,690)	(1,098,891)
NET SPECIAL EVENTS REVENUE	662,050	-	662,050	1,807,646
Rental Income (Net)	159,056	-	159,056	118,726
Interest and Dividends	12,736	5,385	18,121	15,600
Gain on Investments	1,258	-	1,258	14,456
Gain (Loss) on Sale of Fixed Assets	5,400	-	5,400	(1,408)
Net Assets Released from Program Restrictions	101,113	(101,113)	-	-
Net Assets Released from Capital Restrictions	626,292	(626,292)	-	-
TOTAL REVENUE AND SUPPORT	4,531,094	285,671	4,816,765	4,766,931
EXPENSES:				
Program Services	3,622,056	-	3,622,056	3,577,165
Support Services	1,056,141	-	1,056,141	1,147,816
TOTAL EXPENSES	4,678,197	-	4,678,197	4,724,981
CHANGE IN NET ASSETS	(147,103)	285,671	138,568	41,950
Net Assets - Beginning of Year	802,592	2,381,559	3,184,151	3,142,201
NET ASSETS - END OF YEAR	\$ 655,489	\$ 2,667,230	\$ 3,322,719	\$ 3,184,151

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2006

With Summarized Totals for the Year Ended June 30, 2005

	Program Services	Support Services			Total Expenses	
		Management and General	Fundraising	Total	2006	2005
Salaries	\$ 1,598,725	\$ 173,898	\$ 205,626	\$ 379,524	\$ 1,978,249	\$ 1,999,125
Employee Benefits	216,223	12,708	26,877	39,585	255,808	254,090
Payroll Taxes	144,736	15,032	19,112	34,144	178,880	181,620
TOTAL PERSONNEL COSTS	1,959,684	201,638	251,615	453,253	2,412,937	2,434,835
Food and Containers	709,062	-	-	-	709,062	757,979
Direct Mail	230,513	51,038	272,701	323,739	554,252	681,652
Occupancy	223,550	11,007	41,278	52,285	275,835	267,688
Utilities	2,907	67,502	10,887	78,389	81,296	83,676
Meal Delivery	78,274	393	336	729	79,003	77,614
Depreciation	59,683	1,285	11,176	12,461	72,144	75,656
Publicity and Community Relations	48,666	2,380	9,597	11,977	60,643	34,049
Consultants and Outside Services	8,411	31,387	15,981	47,368	55,779	41,754
Miscellaneous	42,565	262	11,960	12,222	54,787	13,148
Printing	37,999	1,587	11,491	13,078	51,077	48,027
Client Outreach and Education	38,487	-	-	-	38,487	14,789
Interest Expense	26,867	1,327	4,975	6,302	33,169	5,606
Insurance	27,253	1,188	4,455	5,643	32,896	38,038
Repairs and Maintenance	27,038	647	3,020	3,667	30,705	22,289
Postage	14,878	484	9,749	10,233	25,111	13,906
Office Supplies	13,082	784	2,571	3,355	16,437	20,754
Volunteer Management	15,766	10	37	47	15,813	16,914
Legal	12,404	613	2,297	2,910	15,314	4,943
Furniture and Equipment Rental	11,791	582	2,184	2,766	14,557	17,082
Travel	10,437	389	3,492	3,881	14,318	18,066
Dues, Subscriptions and Publications	8,886	138	1,490	1,628	10,514	10,407
Employment Recruitment	2,047	5,378	1,425	6,803	8,850	3,326
Staff and Board Development	6,210	362	1,154	1,516	7,726	12,326
Bank Charges	5,596	276	1,613	1,889	7,485	10,457
TOTAL 2006 FUNCTIONAL EXPENSES	\$ 3,622,056	\$ 380,657	\$ 675,484	\$ 1,056,141	\$ 4,678,197	
TOTAL 2005 FUNCTIONAL EXPENSES	\$ 3,577,165	\$ 368,792	\$ 779,024	\$ 1,147,816		\$ 4,724,981

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

With Summarized Totals for the Year Ended June 30, 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 138,568	\$ 41,950
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	90,800	88,094
Depreciation on Rental Property	6,356	6,356
Net Proceeds from Rental Activities	(165,412)	(125,082)
Gain on Investments	(1,258)	(14,576)
(Gain) Loss on Fixed Assets	(5,400)	1,408
Donated Property and Equipment	(132,500)	(3,500)
Donated Investments	(57,142)	(24,957)
Service Payback of Note Payable	(20,000)	-
Contributions Received for Capital Campaign	(920,685)	-
(Increase) Decrease in:		
Accounts Receivable	106,991	(174,583)
Pledges Receivable	(206,147)	(68,023)
Prepaid Expenses	(5,877)	(1,463)
Deposits	(3,551)	2,668
Increase (Decrease) in:		
Accounts Payable	249,464	(97,199)
Accrued Liabilities	(24,813)	43,274
	(950,606)	(325,633)
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (Purchase) Sale of Investments	112,823	(93,154)
Purchases of Property and Equipment	(573,046)	(133,924)
Net Proceeds from Rental Activity	165,412	125,082
Proceeds from Sale of Property and Equipment	5,400	6,500
	(289,411)	(95,496)
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Proceeds from Lines of Credit	586,102	45,000
Payments on Notes Payable	(7,576)	(12,209)
Contributions Received for Capital Campaign	920,685	-
	1,499,211	32,791
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	259,194	(388,338)
Cash - Beginning of Year	68,273	456,611
CASH - END OF YEAR	\$ 327,467	\$ 68,273
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest Including Capitalized Interest of \$114,427 in 2006	\$ 145,261	\$ 5,606
 SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Purchase of Property and Equipment Financed by Notes Payable	\$ 4,225,000	\$ -

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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 illness 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 over 90% of its contributions from private sources such as individual donors, corporations, foundations, and special events. The balance is obtained through government contracts.

Volunteers are the heart and soul of Project Angel Food, assisting in preparing and delivering approximately 1,100 meals each day. From the kitchen in Hollywood 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.

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 provides nutritional supplements to support and encourage proper nutrition – all under the direction of professional chefs and registered dietitians. Project Angel Food also provides breakfast to those people most in need.

Due to the hard work of the kitchen and delivery volunteers, Project Angel Food is able to keep direct costs at approximately \$5 per meal. Project Angel Food does not charge a fee for services. The very specific dietary and nutritional requirements of the menus demand that Project Angel Food purchase most of the food it prepares.

Project Angel Food is the only free meal delivery program serving all of Los Angeles County. For some, the meals 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 its clients is an expression of love, hope and compassion. For Love, For Life, For as Long as It Takes.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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.
- **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, 2006 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 temporarily restricted net assets of \$2,667,230 at June 30, 2006.
- **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, 2006.

(c) **CASH**

Cash consists of interest bearing and non-interest bearing checking accounts and is maintained at one financial institution. The balance may, at times, exceed federally insured limits. However Project Angel Food has not experienced any losses in such accounts.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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 on investments.

(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. All accounts receivable are deemed to be fully collectible at June 30, 2006; therefore, no allowance for doubtful accounts has been recorded.

(f) 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.

(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 \$500 and the useful life is greater than one year. The estimated useful lives of property and equipment are as follows:

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

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 and certificates of deposit. 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, 2006, Project Angel Food recorded in-kind contributions of property and equipment of \$132,500 and food supplies of \$39,724.

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 37,920 hours valued at \$326,000.

(j) ADVERTISING COSTS

Project Angel Food expenses the costs of advertising as incurred. Total advertising expense was \$60,643 for the year ended June 30, 2006.

(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

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. Most of the indirect or shared costs are allocated among program and support services by the number of employees per department.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) **USE OF ESTIMATES**

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

(n) **COMPARATIVE TOTALS**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Project Angel Food's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

NOTE 3 - INVESTMENTS

Investments at June 30, 2006 consist of the following:

Bonds	\$ 246,032
Marketable Equities	182,804
Money Market Fund	<u>81,889</u>
TOTAL INVESTMENTS	<u>\$ 510,725</u>

NOTE 4 - PLEDGES RECEIVABLE

All pledges are deemed to be fully collectible at June 30, 2006; 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, 2006. Total pledges receivable of \$277,000 at June 30, 2006 are expected to be collected as follows:

Within One Year	\$ 58,542
In One to Five Years	<u>218,458</u>
TOTAL PLEDGES RECEIVABLE	<u>\$ 277,000</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2006 consist of the following:

Land and Building (See Below)	\$ 2,250,000
Construction in Progress	4,751,322
Leasehold Improvements	712,131
Kitchen Equipment	289,535
Office Equipment	281,607
Vehicles	213,155
Event Equipment	55,967
Furniture and Fixtures	<u>188,046</u>
TOTAL	8,741,763
Less: Accumulated Depreciation	<u>(1,478,679)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 7,263,084</u>

Project Angel Food received a donation of land and building (Alvarado) 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's net value of \$2,211,864 is recorded as a temporarily restricted net asset at June 30, 2006.

Depreciation expense for the year ended June 30, 2006 was \$97,156, of which \$18,656 is chargeable to the special events expense and netted with the special events revenue, and \$6,356 is netted with rental income.

Construction in progress represents costs of \$4,500,000 for the purchase of land and building (Vine Street), and planning and design costs of \$251,322 for alterations to the building. The building will be used as a facility to prepare and distribute meals. The remaining estimated cost to complete the facility is \$1,750,000.

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2006 consist of the following:

Accrued Vacation	\$ 123,784
Accrued Salaries	33,029
Other Accrued Liabilities	<u>21,264</u>
TOTAL ACCRUED LIABILITIES	<u>\$ 178,077</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS June 30, 2006

NOTE 7 - LINES OF CREDIT

Project Angel Food has a revolving line of credit in the amount of \$350,000 from a bank at an interest rate of 7.25%. The line of credit is secured by a deed of trust on land and building (Alvarado). The outstanding balance as of June 30, 2006 was \$340,000. This line of credit matures in July 2009.

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 2.75% over the 30-day LIBOR rate. The line of credit is secured by investments. The outstanding balance as of June 30, 2006 was \$291,102. The LIBOR rate was 5.35% as of June 30, 2006. The line of credit is due on demand.

Project Angel Food has a construction line of credit in the amount of \$1,275,000 from a bank at an interest rate of 1% over the bank's prime rate. The bank's prime rate was 8.25% at June 30, 2006. The line is secured by a deed of trust on land and building (Alvarado and Vine Street). There was no amount drawn on this line as of June 30, 2006. This line of credit matures in January 2007.

NOTE 8 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2006:

Note Payable - Bank, Secured by a Deed of Trust on Land and Building (Vine Street), Interest Only Payments Due Monthly at an Interest Rate of 6.95% through February 2007, Principal and Interest Payments of \$20,520 Thereafter with a Final Principal and Interest Payment of \$2,736,889 in February 2016	\$ 3,100,000
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Note Payable - Bank, Secured by a Deed of Trust on Land and Building (Alvarado and Vine Street), Interest Only Payments Due Monthly at an Interest Rate of 1% over the Bank's Prime Rate, Principal and Unpaid Interest Due in January 2007	725,000
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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 October 2015	380,000
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Note Payable - Corporation, Secured by Vehicle, Non-Interest Bearing, Payable in 48 Monthly Payments of \$415, Matures July 2007	<u>5,395</u>
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TOTAL NOTES PAYABLE	<u><u>\$ 4,210,395</u></u>
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The bank's prime rate as of June 30, 2006 was 8.25%.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS June 30, 2006

NOTE 8 - NOTES PAYABLE (continued)

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

Years Ending June 30

2007	\$ 783,375
2008	72,726
2009	75,704
2010	77,639
2011	80,415
Thereafter	<u>3,120,536</u>
TOTAL	\$ <u>4,210,395</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

(a) OBLIGATION UNDER OPERATING LEASE

Project Angel Food leases office space under a lease that expires December 31, 2006. Future minimum lease payments under this agreement for the year ended June 30, 2007 is \$132,000. Rent expense under this operating lease for the year ended June 30, 2006 was \$252,647.

(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, 2006, Project Angel Food conducted direct mail campaigns with total expenses of \$554,252 that included appeals for contributions, prospecting, and renewals and incurred joint costs of \$329,855. In addition, Project Angel Food conducted public education services which included newsletters with total expense of \$43,290. These activities are deemed to be joint activities and are allocated as follows:

Program	\$ 230,513
General and Administrative	51,038
Fundraising	<u>91,594</u>
TOTAL JOINT COSTS	\$ <u>373,145</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2006 consist of the following:

Alvarado Land and Buildings	\$ 2,211,864
Capital Campaign	415,366
Time Restrictions	<u>40,000</u>
<i>TOTAL TEMPORARILY RESTRICTED NET ASSETS</i>	<u>\$ 2,667,230</u>

NOTE 12 - FEES FROM GOVERNMENT AGENCIES

Government contracts for the year ended June 30, 2006 consist of \$381,721 for food programs.

NOTE 13 - RENTAL INCOME

Rental income consists of the following for the year ended June 30, 2006:

Rental Income	\$ 181,513
Depreciation Expense	(6,356)
Other Expenses	<u>(16,101)</u>
<i>RENTAL INCOME (NET)</i>	<u>\$ 159,056</u>

Project Angel Food receives rental income from the Alvarado property. Under the operating lease terms, expiring September 30, 2010, the future minimum rentals are as follows:

Years Ending June 30

2007	\$ 191,984
2008	206,422
2009	235,127
2010	276,405
2011	<u>71,093</u>
<i>TOTAL</i>	<u>\$ 981,031</u>

NOTE 14 - IRREVOCABLE TRUSTS AND ESTATES

Project Angel Food has been notified of interests in four irrevocable trusts and estates in which the amounts were either immaterial or indeterminable as of June 30, 2006. Therefore, no amounts have been recorded in the accompanying financial statements.

NOTE 15 - 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, 2006

PROJECT ANGEL FOOD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2006

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	14-218	\$ 400,000	\$ -	\$ 400,000
TOTAL MAJOR AWARDS			<u>400,000</u>	<u>-</u>	<u>400,000</u>
Non-Major Awards					
Federal Emergency Management Agency Pass-through Emergency Food and Shelter Program	069500-271	83.523	107,940	-	107,940
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	145,017	-	145,017
U.S. Department of Housing and Urban Development Passed through the Los Angeles Housing Department HOPWA	10667	14.241	<u>74,058</u>		<u>74,058</u>
TOTAL NON-MAJOR AWARDS			<u>327,015</u>	<u>-</u>	<u>327,015</u>
TOTAL FEDERAL AWARDS			<u>\$ 727,015</u>	<u>\$ -</u>	<u>\$ 727,015</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