

PROJECT ANGEL FOOD

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

CONTENTS

	Page
Independent Auditor's 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



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, 2005 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 2004 financial statements and, in our report dated July 23, 2004, 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, 2005, 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 5, 2005, 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.

Green Hasson & Janks LLP

August 5, 2005
Los Angeles, California

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PROJECT ANGEL FOOD

STATEMENT OF FINANCIAL POSITION

June 30, 2005

With Summarized Totals at June 30, 2004

ASSETS	Unrestricted	Temporarily Restricted	2005	2004
Cash	\$ 57,150	\$ 11,123	\$ 68,273	\$ 456,611
Investments	462,932	102,216	565,148	432,461
Accounts Receivable (Net)	297,537	50,000	347,537	172,954
Pledges Receivable	70,853	-	70,853	2,830
Prepaid Expenses	29,593	-	29,593	28,130
Deposits	35,204	-	35,204	37,872
Property and Equipment (Net)	211,474	2,218,220	2,429,694	2,394,628
TOTAL ASSETS	\$ 1,164,743	\$ 2,381,559	\$ 3,546,302	\$ 3,525,486
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 101,290	\$ -	\$ 101,290	\$ 198,489
Accrued Liabilities	202,890	-	202,890	159,616
Lines of Credit	45,000	-	45,000	-
Notes Payable	12,971	-	12,971	25,180
TOTAL LIABILITIES	362,151	-	362,151	383,285
NET ASSETS:				
Unrestricted	543,724	-	543,724	579,448
Unrestricted - Board Designated	227,088	-	227,088	227,088
Temporarily Restricted	31,780	2,381,559	2,413,339	2,335,665
TOTAL NET ASSETS	802,592	2,381,559	3,184,151	3,142,201
TOTAL LIABILITIES AND NET ASSETS	\$ 1,164,743	\$ 2,381,559	\$ 3,546,302	\$ 3,525,486

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

With Summarized Totals for the Year Ended June 30, 2004

	Unrestricted	Temporarily Restricted	2005	2004
REVENUE AND SUPPORT:				
Public Support:				
Direct Marketing	\$ 1,122,139	\$ -	\$ 1,122,139	\$ 1,211,809
Corporate and Foundation Grants	455,473	177,000	632,473	623,231
Contributions	562,099	-	562,099	436,525
In-Kind Contributions	36,502	25,424	61,926	189,003
Wills and Bequests	35,492	-	35,492	256,289
Capital Campaign	-	-	-	54,215
TOTAL PUBLIC SUPPORT	2,211,705	202,424	2,414,129	2,771,072
Fees from Government Agencies:				
Federal Grants and Contracts	340,276	-	340,276	359,204
State and Local Grants and Contracts	57,506	-	57,506	49,999
TOTAL FEES FROM GOVERNMENT AGENCIES	397,782	-	397,782	409,203
Special Events Revenue:				
Gross Receipts	2,906,537	-	2,906,537	2,630,565
Less Costs of Direct Benefit to Donors	(1,098,891)	-	(1,098,891)	(1,026,370)
NET SPECIAL EVENTS REVENUE	1,807,646	-	1,807,646	1,604,195
Rental Income (Net)	118,726	-	118,726	158,551
Interest and Dividends	13,350	2,250	15,600	9,301
Gain on Investments	14,456	-	14,456	16,405
Gain (Loss) on Sale of Fixed Assets	(1,408)	-	(1,408)	2,600
Net Assets Released from Program Restrictions	127,000	(127,000)	-	-
Net Assets Released from Capital Restrictions	31,780	(31,780)	-	-
TOTAL REVENUE AND SUPPORT	4,721,037	45,894	4,766,931	4,971,327
EXPENSES:				
Program Services	3,577,165	-	3,577,165	3,172,910
Support Services	1,147,816	-	1,147,816	1,475,002
TOTAL EXPENSES	4,724,981	-	4,724,981	4,647,912
CHANGE IN NET ASSETS	(3,944)	45,894	41,950	323,415
Net Assets - Beginning of Year	806,536	2,335,665	3,142,201	2,818,786
NET ASSETS - END OF YEAR	\$ 802,592	\$ 2,381,559	\$ 3,184,151	\$ 3,142,201

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2005

With Summarized Totals for the Year Ended June 30, 2004

	Program Services	Support Services		Total Support Services	Total Expenses	
		Management and General	Fundraising		2005	2004
Salaries	\$ 1,568,255	\$ 195,897	\$ 234,973	\$ 430,870	\$ 1,999,125	\$ 1,830,371
Employee Benefits	230,564	4,912	18,614	23,526	254,090	235,031
Payroll Taxes	141,678	16,558	23,384	39,942	181,620	151,364
TOTAL PERSONNEL COSTS	1,940,497	217,367	276,971	494,338	2,434,835	2,216,766
Food & Containers	757,979	-	-	-	757,979	588,019
Direct Mail	218,527	54,632	408,493	463,125	681,652	706,787
Occupancy	206,119	32,123	29,446	61,569	267,688	175,587
Utilities	66,933	8,694	8,049	16,743	83,676	82,796
Meal Delivery	75,435	165	2,014	2,179	77,614	67,572
Depreciation	67,329	4,070	4,257	8,327	75,656	157,506
Printing	37,284	4,744	5,999	10,743	48,027	68,666
Consultants and Outside Services	19,519	13,101	9,134	22,235	41,754	115,785
Insurance	29,725	4,188	4,125	8,313	38,038	51,755
Publicity and Community Relations	24,963	3,879	5,207	9,086	34,049	27,608
Repairs and Maintenance	19,506	1,452	1,331	2,783	22,289	17,465
Office Supplies	8,428	9,810	2,516	12,326	20,754	22,926
Travel	8,080	6,066	3,920	9,986	18,066	16,361
Furniture and Equipment Rental	13,153	2,050	1,879	3,929	17,082	15,199
Volunteer Management	16,597	165	152	317	16,914	17,435
Client Outreach and Education	14,789	-	-	-	14,789	164,097
Postage	7,764	617	5,525	6,142	13,906	18,101
Miscellaneous	10,562	1,355	1,231	2,586	13,148	22,998
Staff and Board Development	9,116	1,201	2,009	3,210	12,326	15,074
Bank Charges	7,959	1,351	1,147	2,498	10,457	12,095
Dues, Subscriptions and Publications	7,912	483	2,012	2,495	10,407	12,351
Interest Expense	4,317	673	616	1,289	5,606	13,358
Legal	3,806	593	544	1,137	4,943	17,770
Employment Recruitment	866	13	2,447	2,460	3,326	23,835
TOTAL 2005 FUNCTIONAL EXPENSES	\$ 3,577,165	\$ 368,792	\$ 779,024	\$ 1,147,816	\$ 4,724,981	
TOTAL 2004 FUNCTIONAL EXPENSES	\$ 3,172,910	\$ 632,006	\$ 842,996	\$ 1,475,002		\$ 4,647,912

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF CASH FLOWS

Year Ended June 30, 2005

With Summarized Totals for the Year Ended June 30, 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 41,950	\$ 323,415
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	88,094	157,506
Depreciation on Rental Property	6,356	-
Net Proceeds from Rental Activities	(125,082)	-
Gain on Investments	(14,576)	(16,405)
(Gain) Loss on Fixed Assets	1,408	(2,600)
Donated Property and Equipment	(3,500)	(6,010)
Donated Investments	(24,957)	(182,444)
(Increase) Decrease in:		
Accounts Receivable	(174,583)	44,988
Pledges Receivable	(68,023)	300,339
Prepaid Expenses	(1,463)	3,341
Deposits	2,668	(4,156)
Increase (Decrease) in:		
Cash Overdraft	-	(32,980)
Accounts Payable	(97,199)	129,030
Accrued Liabilities	43,274	(56,946)
	(325,633)	657,078
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (Purchase) Sale of Investments	(93,154)	166,171
Purchases of Property and Equipment	(133,924)	(54,010)
Net Proceeds from Rental Activity	125,082	-
Proceeds from Sale of Fixed Assets	6,500	2,600
	(95,496)	114,761
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Proceeds from (Payments on) Lines of Credit	45,000	(303,020)
Payments on Notes Payable	(12,209)	(12,208)
	32,791	(315,228)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	(388,338)	456,611
Cash - Beginning of Year	456,611	-
CASH - END OF YEAR	\$ 68,273	\$ 456,611
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	\$ 5,606	\$ 13,358

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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, 2005

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, 2005, 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 \$2,413,339 temporarily restricted net assets at June 30, 2005.
- **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, 2005.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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. The balance may, at times, exceed federally insured limits. However Project Angel Food has not experienced any losses in such accounts.

(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 (loss) 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, 2005; 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 five hundred dollars and the useful life is greater than one year.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) PROPERTY AND EQUIPMENT (continued)

The estimated useful lives of property and equipment are as follows:

Office Equipment	3 Years
Leasehold Improvements	5 Years
Vehicles	5 Years
Kitchen Equipment	7 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, 2005, Project Angel Food recorded in-kind contributions of \$61,926, property and equipment of \$3,500 and food supplies of \$58,426.

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 66,100 hours valued at \$597,000.

(j) ADVERTISING COSTS

Project Angel Food expenses the costs of advertising as incurred. Total advertising expense was \$34,049 for the year ending June 30, 2005.

(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, 2005

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. Most of the 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, 2004 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at June 30, 2005.

(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, 2004, from which the summarized information was derived.

NOTE 3 - INVESTMENTS

Investments at June 30, 2005 consist of the following:

Bonds	\$	272,721
Mutual Funds		168,806
U.S. Government Securities		119,809
Money Market Fund		<u>3,812</u>
TOTAL INVESTMENTS	\$	<u>565,148</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 4 - PLEDGES RECEIVABLE

All pledges are deemed to be fully collectible at June 30, 2005; 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, 2005. Total pledges receivable of \$70,853 at June 30, 2005 are expected to be collected within one year.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2005 consist of the following:

Land and Building (See Below)	\$ 2,250,000
Leasehold Improvements	712,131
Kitchen Equipment	285,781
Office Equipment	282,711
Vehicles	225,145
Event Equipment	55,967
Furniture and Fixtures	<u>48,442</u>
TOTAL	3,860,177
Less: Accumulated Depreciation	<u>(1,430,483)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 2,429,694</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 \$2,218,220, is recorded as a temporarily restricted net asset at June 30, 2005 (See Note 11).

Depreciation expense for the year ended June 30, 2005 was \$94,450, out of which \$12,437 is chargeable to the special events expense and netted with the special events revenue.

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2005 consist of the following:

Accrued Vacation	\$ 120,478
Accrued Salaries	44,557
Other Accrued Liabilities	<u>37,855</u>
TOTAL ACCRUED LIABILITIES	<u>\$ 202,890</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS June 30, 2005

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 the land and building. The outstanding balance as of June 30, 2005 was \$45,000.

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, 2005. The reference rate was 6.25% as of June 30, 2005

NOTE 8 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2005:

Note Payable - Corporation, Secured by Vehicle, Non-Interest Bearing, Payable in 48 Monthly Payments of \$415, Matures July 2007	\$ 9,960
Note Payable - Corporation, Secured by Vehicle, Non-Interest Bearing, Payable in 36 Monthly Payments of \$602, Matures November 2005	<u>3,011</u>
<i>TOTAL NOTES PAYABLE</i>	<u>\$ 12,971</u>

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

Year Ending June 30	
2006	\$ 7,991
2007	4,565
2008	<u>415</u>
<i>TOTAL</i>	<u>\$ 12,971</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS June 30, 2005

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 are as follows:

Years Ending June 30	
2006	\$ 252,000
2007	<u>132,000</u>
TOTAL	<u>\$ 384,000</u>

Rent expense under this operating lease for the year ended June 30, 2005 was \$244,524.

(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, 2005, Project Angel Food conducted direct mail campaigns with total expenses of \$681,652 that included appeals for contributions, prospecting, and renewals and incurred joint costs of \$326,309. In addition, Project Angel Food conducted public education services which included newsletters with total expense of \$36,200. These activities are deemed to be joint activities and are allocated as follows:

	Total Joint Costs
Program	\$ 218,527
General and Administrative	54,632
Fundraising	<u>89,350</u>
TOTAL	<u>\$ 362,509</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2005 consist of the following:

Alvarado Land and Buildings	\$ 2,218,220
Capital Campaign	113,339
Breakfast Program	<u>50,000</u>
<i>TOTAL TEMPORARILY RESTRICTED NET ASSETS</i>	<u><u>\$ 2,381,559</u></u>

NOTE 12 - FEES FROM GOVERNMENT AGENCIES

Government contracts for the year ended June 30, 2005 consist of \$397,782 for food programs.

NOTE 13 - RENTAL INCOME

Rental income consists of the following at June 30, 2005:

Rental Income	\$ 164,550
Depreciation Expense	(6,356)
Other Expenses	<u>(39,468)</u>
<i>RENTAL INCOME (NET)</i>	<u><u>\$ 118,726</u></u>

Project Angel Food receives rental income from a donated property. Under the operating lease terms, expiring August 30, 2009, the future minimum rentals are as follows:

Years Ending June 30

2006	\$ 153,588
2007	191,984
2008	206,422
2009	235,127
2010	276,405
Thereafter	<u>47,269</u>
<i>TOTAL</i>	<u><u>\$ 1,110,795</u></u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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, 2005. 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.