

PROJECT ANGEL FOOD

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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YEAR ENDED JUNE 30, 2007

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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, 2007 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 2006 financial statements and, in our report dated August 15, 2006 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, 2007, 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 December 27, 2007 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

December 27, 2007
Los Angeles, California

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PROJECT ANGEL FOOD

STATEMENT OF FINANCIAL POSITION

June 30, 2007

With Summarized Totals at June 30, 2006

	Unrestricted	Temporarily Restricted	2007	2006 (As Restated)
ASSETS				
Cash	\$ 532,106	\$ -	\$ 532,106	\$ 327,467
Investments	18,454	-	18,454	510,725
Accounts Receivable	18,250	-	18,250	146,046
Pledges and Contributions Receivable (Net)	-	571,988	571,988	277,000
Prepaid Expenses	-	-	-	35,470
Deposits	40,266	-	40,266	38,755
Property and Equipment (Net)	6,721,077	2,205,508	8,926,585	7,263,084
TOTAL ASSETS	\$ 7,330,153	\$ 2,777,496	\$ 10,107,649	\$ 8,598,547
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 369,773	\$ -	\$ 369,773	\$ 350,754
Accrued Liabilities	325,023	-	325,023	178,077
Lines of Credit	305,000	-	305,000	631,102
Notes Payable	4,926,646	-	4,926,646	4,210,395
TOTAL LIABILITIES	5,926,442	-	5,926,442	5,370,328
NET ASSETS:				
Unrestricted	1,176,623	-	1,176,623	333,901
Unrestricted - Board Designated	227,088	-	227,088	227,088
TOTAL UNRESTRICTED NET ASSETS	1,403,711	-	1,403,711	560,989
Temporarily Restricted	-	2,777,496	2,777,496	2,667,230
TOTAL NET ASSETS	1,403,711	2,777,496	4,181,207	3,228,219
TOTAL LIABILITIES AND NET ASSETS	\$ 7,330,153	\$ 2,777,496	\$ 10,107,649	\$ 8,598,547

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

With Summarized Totals for the Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	2007	2006 (As Restated)
REVENUE AND SUPPORT:				
Public Support:				
Direct Marketing	\$ 1,059,657	\$ -	\$ 1,059,657	\$ 1,157,820
Corporate and Foundation Grants	681,614	100,000	781,614	642,742
Contributions	521,760	18,290	540,050	540,545
In-Kind Contributions	-	-	-	172,224
Wills and Bequests	16,427	-	16,427	60,643
Capital Campaign	-	1,393,791	1,393,791	920,685
TOTAL PUBLIC SUPPORT	2,279,458	1,512,081	3,791,539	3,494,659
Fees from Government Agencies:				
Federal Grants and Contracts	303,104	-	303,104	327,015
State and Local Grants and Contracts	61,918	-	61,918	54,706
TOTAL FEES FROM GOVERNMENT AGENCIES	365,022	-	365,022	381,721
Special Events Revenue:				
Gross Receipts	2,702,931	-	2,702,931	1,918,740
Less Costs of Direct Benefit to Donors	(1,332,014)	-	(1,332,014)	(1,256,690)
NET SPECIAL EVENTS REVENUE	1,370,917	-	1,370,917	662,050
Rental Income (Net)	185,628	-	185,628	159,056
Interest and Dividends	13,463	-	13,463	18,121
Gain on Investments	20,233	-	20,233	1,258
Gain on Sale of Fixed Assets	-	-	-	5,400
Net Assets Released from Capital Restrictions	1,401,815	(1,401,815)	-	-
TOTAL REVENUE AND SUPPORT	5,636,536	110,266	5,746,802	4,722,265
EXPENSES:				
Program Services	3,676,495	-	3,676,495	3,622,056
Support Services	1,117,319	-	1,117,319	1,056,141
TOTAL EXPENSES	4,793,814	-	4,793,814	4,678,197
CHANGE IN NET ASSETS	842,722	110,266	952,988	44,068
Net Assets - Beginning of Year (As Restated)	560,989	2,667,230	3,228,219	3,184,151
NET ASSETS - END OF YEAR	\$ 1,403,711	\$ 2,777,496	\$ 4,181,207	\$ 3,228,219

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2007

With Summarized Totals for the Year Ended June 30, 2006

	Program Services	Support Services			Total Expenses	
		Management and General	Fundraising	Total	2007	2006
Salaries	\$ 1,610,162	\$ 177,261	\$ 241,584	\$ 418,845	\$ 2,029,007	\$ 1,978,249
Employee Benefits	197,454	14,910	23,013	37,923	235,377	255,808
Payroll Taxes	143,413	15,830	20,928	36,758	180,171	178,880
TOTAL PERSONNEL COSTS	1,951,029	208,001	285,525	493,526	2,444,555	2,412,937
Food and Containers	803,604	-	-	-	803,604	709,062
Direct Mail	19,516	148,566	302,339	450,905	470,421	554,252
Occupancy	250,637	17,418	29,418	46,836	297,473	275,835
Publicity and Community Relations	102,426	5,309	8,279	13,588	116,014	60,643
Utilities	71,434	4,559	7,171	11,730	83,164	81,296
Depreciation	66,793	2,377	10,063	12,440	79,233	72,144
Meal Delivery	77,639	454	233	687	78,326	79,003
Insurance	60,833	4,208	9,889	14,097	74,930	32,896
Consultants and Outside Services	33,421	17,700	5,868	23,568	56,989	55,779
Printing	46,882	1,019	5,371	6,390	53,272	51,077
Client Outreach and Education	47,953	-	-	-	47,953	38,487
Repairs and Maintenance	25,105	1,279	3,798	5,077	30,182	30,705
Interest Expense	23,073	1,571	2,449	4,020	27,093	33,169
Volunteer Management	24,480	-	-	-	24,480	15,813
Postage	11,875	491	8,053	8,544	20,419	25,111
Furniture and Equipment Rental	13,143	913	1,424	2,337	15,480	14,557
Office Supplies	12,834	675	1,418	2,093	14,927	16,437
Travel	10,592	671	3,472	4,143	14,735	14,318
Dues, Subscriptions and Publications	8,663	255	1,971	2,226	10,889	10,514
Miscellaneous	481	5,833	3,484	9,317	9,798	54,787
Bank Charges	3,618	592	3,270	3,862	7,480	7,485
Legal	6,246	434	677	1,111	7,357	15,314
Staff and Board Development	2,643	153	238	391	3,034	7,726
Employment Recruitment	1,575	17	414	431	2,006	8,850
TOTAL 2007 FUNCTIONAL EXPENSES	<u>\$ 3,676,495</u>	<u>\$ 422,495</u>	<u>\$ 694,824</u>	<u>\$ 1,117,319</u>	<u>\$ 4,793,814</u>	
TOTAL 2006 FUNCTIONAL EXPENSES	<u>\$ 3,622,056</u>	<u>\$ 380,657</u>	<u>\$ 675,484</u>	<u>\$ 1,056,141</u>		<u>\$ 4,678,197</u>

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

With Summarized Totals for the Year Ended June 30, 2006

	<u>2007</u>	<u>2006</u> (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 952,988	\$ 44,068
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	97,889	90,800
Depreciation on Rental Property	6,356	6,356
Net Proceeds from Rental Activities	(185,628)	(165,412)
Gain on Investments	(20,233)	(1,258)
Loss on Sale of Fixed Assets	-	(5,400)
Donated Property and Equipment	-	(132,500)
Donated Investments	(24,466)	(57,142)
Service Payback of Note Payable	(40,000)	(20,000)
Contributions Received for Capital Campaign	(1,382,425)	(920,685)
(Increase) Decrease in:		
Accounts Receivable	127,796	201,491
Pledges and Contributions Receivable	(294,988)	(206,147)
Prepaid Expenses	35,470	(5,877)
Deposits	(1,511)	(3,551)
Increase (Decrease) in:		
Accounts Payable	19,019	249,464
Accrued Liabilities	146,946	(24,813)
	<u>(562,787)</u>	<u>(950,606)</u>
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on Sale of Investments	536,970	112,823
Purchases of Property and Equipment	(1,767,746)	(573,046)
Net Proceeds from Rental Activity	185,628	165,412
Proceeds from Sale of Property and Equipment	-	5,400
	<u>(1,045,148)</u>	<u>(289,411)</u>
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Proceeds from (Payments on) Lines of Credit	(326,102)	586,102
Proceeds from Notes Payable	774,626	-
Payments on Notes Payable	(18,375)	(7,576)
Contributions Received for Capital Campaign	1,382,425	920,685
	<u>1,812,574</u>	<u>1,499,211</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE IN CASH	204,639	259,194
Cash - Beginning of Year	<u>327,467</u>	<u>68,273</u>
CASH - END OF YEAR	<u>\$ 532,106</u>	<u>\$ 327,467</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest Including Capitalized Interest of \$280,807 in 2007	\$ 307,900	\$ 145,261
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, 2007

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 1,400 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, 2007

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, 2007 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 \$2,766,130 at June 30, 2007.
- **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, 2007.

(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, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) INVESTMENTS

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

(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, 2007; therefore, no allowance for doubtful accounts has been recorded.

(f) PLEDGES AND CONTRIBUTIONS RECEIVABLE

Unconditional contributions, including pledges recorded at estimated net realizable value, are recognized as revenues when the pledge is 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. Conditional promises to give are not included as support until such time as the conditions are substantially met. 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. An average discount rate of 4.5% has been used to calculate the present value of pledges receivable at June 30, 2007. All pledges and contributions receivable are deemed to be fully collectible at June 30, 2007; therefore, no allowance for doubtful pledges and contributions receivable has been recorded.

(g) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) PROPERTY AND EQUIPMENT (continued)

Property and equipment are capitalized if the cost of an asset is greater than or equal to \$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
Event Equipment	3 Years
Furniture and Fixtures	7 Years

(h) LONG-LIVED ASSETS

Project Angel Food reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. No impairment losses were recognized on long-lived assets during the year ended June 30, 2007.

(i) 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.

(j) DONATED MATERIALS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Project Angel Food receives a significant amount of contributed time from volunteers that does not meet the recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements. Project Angel Food receives donated services in the form of kitchen assistants, drivers, Board of Directors and committee members, creative consultants, event volunteers, and office assistants. The hours contributed is estimated by management to be approximately 43,040 hours valued at \$ 444,000.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) **ADVERTISING COSTS**

Project Angel Food expenses the costs of advertising as incurred. Total advertising expense was \$116,014 for the year ended June 30, 2007.

(l) **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.

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

(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, 2006, from which the summarized information was derived.

NOTE 3 - INVESTMENTS

Investments at June 30, 2007 consist of the following:

Marketable Equities	\$	11,874
Money Market Fund		<u>6,580</u>
TOTAL INVESTMENTS	\$	<u>18,454</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 4 - PLEDGES AND CONTRIBUTIONS RECEIVABLE

Pledges and contributions receivable of \$560,622 at June 30, 2007 are expected to be collected as follows:

Within One Year	\$ 316,694
In One to Five Years	<u>278,485</u>
GROSS PLEDGES AND CONTRIBUTIONS RECEIVABLE	595,179
Present Value Discount	<u>(23,191)</u>
PLEDGES AND CONTRIBUTIONS RECEIVABLE (NET)	<u><u>\$ 571,988</u></u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2007 consist of the following:

Land and Building (See Below)	\$ 2,250,000
Construction in Progress	6,507,085
Leasehold Improvements	712,131
Kitchen Equipment	289,535
Office Equipment	293,589
Vehicles	213,155
Event Equipment	55,967
Furniture and Fixtures	<u>188,046</u>
TOTAL	10,509,508
Less: Accumulated Depreciation	<u>(1,582,923)</u>
PROPERTY AND EQUIPMENT (NET)	<u><u>\$ 8,926,585</u></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 restricted Project Angel Food from selling the property for ten years, unless a selling price in excess of \$2,500,000 was received. The property's net value of \$2,205,508 is therefore recorded as a temporarily restricted net asset at June 30, 2007. Subsequent to the year ended June 30, 2007, in September 2007, the Alvarado property was sold, satisfying the donor's condition, for a selling price of approximately \$2,540,000.

Depreciation expense for the year ended June 30, 2007 was \$104,245, 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.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 5 - PROPERTY AND EQUIPMENT (continued)

Construction in progress represents costs of \$4,500,000 for the purchase of land and building (Vine Street), and planning, design and construction costs of \$2,007,085 for alterations to the building. The building will be used as a facility to prepare and distribute meals. Subsequent to the year ended June 30, 2007, in September 2007, this facility was completed and placed into service.

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2007 consist of the following:

Accrued Vacation	\$	129,114
Construction Retentions		127,110
Accrued Salaries		45,579
Other Accrued Liabilities		<u>23,220</u>
TOTAL ACCRUED LIABILITIES	\$	<u>325,023</u>

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, 2007 was \$305,000. This line of credit matures in July 2009. This line of credit was paid in full following the sale of the Alvarado property referred to in Note 5.

Project Angel Food has a revolving line of credit in the amount of \$400,000 from a bank at an interest rate of 1% over the bank's prime rate. The line of credit is secured by a deed of trust on land and building (Vine Street). There was no amount drawn on this line of credit as of June 30, 2007. This line of credit matures in May 2009.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 8 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2007:

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 January 2016	\$ 3,087,020
Note Payable - Bank, Construction Loan in the Principal Amount of \$1,275,000, 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 January 2008, Repaid in Full in September 2007 Following the Sale of the Alvarado Property	1,275,000
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	340,000
Note Payable - Bank, Equipment Loan in the Principal Amount up to \$1,575,000, Advances Available until January 1, 2008, Only \$224,626 Drawn as of June 30, 2007, Additional Advances Not Expected to be Taken, Secured by a Deed of Trust on Land and Building (Alvarado and Vine Street), Interest Payments Due Monthly at an Interest Rate of 2.25% over the 30-Day LIBOR Index, Principal Payments of \$11,667 per Month Beginning February 2008, Due October 2009	<u>224,626</u>
TOTAL NOTES PAYABLE	<u>\$ 4,926,646</u>

The bank's prime rate and the 30-day LIBOR index as of June 30, 2007 was 8.25% and 5.32%, respectively.

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

Years Ending June 30	
2008	\$ 1,487,768
2009	160,326
2010	77,639
2011	80,279
2012	86,279
Thereafter	<u>3,034,355</u>
TOTAL	<u>\$ 4,926,646</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 - ALLOCATION OF JOINT COSTS

During the year ended June 30, 2007, Project Angel Food conducted direct mail campaigns with total expenses of \$470,421 that included appeals for contributions, prospecting, and renewals and incurred joint costs of \$174,990. In addition, Project Angel Food conducted public education services which included newsletters with total expense of \$30,394. These activities are deemed to be joint activities and are allocated as follows:

Program	\$ 19,515
General and Administrative	148,566
Fundraising	<u>37,303</u>
TOTAL JOINT COSTS	<u>\$ 205,384</u>

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2007 consist of the following:

Alvarado Land and Buildings	\$ 2,205,508
Capital Campaign	394,547
Program Restrictions	100,000
Time Restrictions	<u>66,075</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 2,766,130</u>

NOTE 12 - FEES FROM GOVERNMENT AGENCIES

Government contracts for the year ended June 30, 2007 consist of \$365,022 for food programs.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 13 - RENTAL INCOME

Rental income from the Alvarado property consists of the following for the year ended June 30, 2007:

Rental Income	\$	191,984
Depreciation Expense		<u>(6,356)</u>
<i>RENTAL INCOME (NET)</i>	<i>\$</i>	<i><u>185,628</u></i>

Subsequent to the year ended June 30, 2007, in September 2007, the Alvarado property was sold and Project Angel Food's operating leases terminated.

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, 2007. 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.

NOTE 16 - RESTATEMENT OF BEGINNING NET ASSETS

The financial statements for the year ended June 30, 2006 have been restated to correct an error in the accounting for certain accounts receivable. The effect of the restatement of beginning net assets is summarized as follows:

	Net Assets		
	Unrestricted	Temporarily Restricted	Total
Beginning Net Assets - As Previously Reported	\$ 655,489	\$ 2,667,230	\$ 3,322,719
Correction of Accounts Receivable	<u>(94,500)</u>	-	<u>(94,500)</u>
<i>BEGINNING NET ASSETS - AS RESTATED</i>	<i>\$ 560,989</i>	<i>\$ 2,667,230</i>	<i>\$ 3,228,219</i>

PROJECT ANGEL FOOD

SUPPLEMENTAL INFORMATION

YEAR ENDED JUNE 30, 2007

PROJECT ANGEL FOOD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2007

Federal Awards 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>	
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	\$ 340,000	\$ -	\$ 340,000
TOTAL MAJOR AWARDS			<u>340,000</u>	<u>-</u>	<u>340,000</u>
Non-Major Awards					
Federal Emergency Management Agency Pass-through Emergency Food and Shelter Program	069500-271	83.523	93,245	-	93,245
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	135,801	-	135,801
U.S. Department of Housing and Urban Development Passed through the Los Angeles Housing Department HOPWA	10667	14.241	<u>74,058</u>	<u>-</u>	<u>74,058</u>
TOTAL NON-MAJOR AWARDS			<u>303,104</u>	<u>-</u>	<u>303,104</u>
TOTAL FEDERAL AWARDS			<u>\$ 643,104</u>	<u>\$ -</u>	<u>\$ 643,104</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