

PROJECT ANGEL FOOD

FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

CONTENTS

Independent Auditors' Report.....	1-2
Statement of Financial Position.....	3
Statement of Activities	4
Statement of Functional Expenses.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-22

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Project Angel Food

Report on the Financial Statements

We have audited the accompanying financial statements of Project Angel Food, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Managements' Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of Project Angel Food as of June 30, 2016, were audited by other auditors whose report dated January 10, 2017, expressed an unmodified opinion. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Long Beach, California
December 19, 2017

PROJECT ANGEL FOOD

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

ASSETS

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 561,664	\$ 442,210
Accounts receivable	196,529	331,960
Pledges and contributions receivable	271,417	278,491
Prepaid expenses and other assets	84,273	70,546
Property and equipment, net	<u>6,519,148</u>	<u>6,514,908</u>
TOTAL ASSETS	<u>\$ 7,633,031</u>	<u>\$ 7,638,115</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 173,798	\$ 262,464
Accrued liabilities	279,542	278,986
Line of credit	640,000	673,013
Notes payable	<u>2,857,608</u>	<u>2,877,057</u>
TOTAL LIABILITIES	<u>3,950,948</u>	<u>4,091,520</u>
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
NET ASSETS		
Unrestricted	3,525,275	3,284,894
Temporarily restricted	<u>156,808</u>	<u>261,701</u>
TOTAL NET ASSETS	<u>3,682,083</u>	<u>3,546,595</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,633,031</u>	<u>\$ 7,638,115</u>

The accompanying notes are an integral part of these financial statements.

PROJECT ANGEL FOOD

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUE AND SUPPORT				
Support				
Individual contributions	\$ 648,208	\$ -	\$ 648,208	\$ 627,674
Direct mail contributions	521,944	-	521,944	465,174
Corporate and foundation grants	1,175,650	-	1,175,650	1,305,000
Donated goods and services	29,307	-	29,307	54,261
Total Support	2,375,109	-	2,375,109	2,452,109
Revenue				
Federal grants and contracts	396,810	-	396,810	564,231
State and local grants and contracts	160,822	-	160,822	71,675
Special event revenue, net of direct benefit to donors of \$424,110 and \$269,337, respectively	1,064,706	-	1,064,706	933,133
Other income	137,996	-	137,996	131,201
Total Revenue	1,760,334	-	1,760,334	1,700,240
Net assets released from restrictions	104,893	(104,893)	-	-
TOTAL REVENUE AND SUPPORT	4,240,336	(104,893)	4,135,443	4,152,349
EXPENSES				
Program services	3,378,786	-	3,378,786	3,435,822
Support services	621,169	-	621,169	663,333
TOTAL EXPENSES	3,999,955	-	3,999,955	4,099,155
CHANGE IN NET ASSETS	240,381	(104,893)	135,488	53,194
NET ASSETS, BEGINNING OF YEAR	3,284,894	261,701	3,546,595	3,493,401
NET ASSETS, END OF YEAR	\$ 3,525,275	\$ 156,808	\$ 3,682,083	\$ 3,546,595

The accompanying notes are an integral part of these financial statements.

PROJECT ANGEL FOOD

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	2017				Total Expenses	2016 Total Expenses
	Program Services	Support Services		Total Support Services		
		Management and General	Fundraising			
Salaries	\$ 1,380,315	\$ 117,832	\$ 185,164	\$ 302,996	\$ 1,683,311	\$ 1,724,982
Employee benefits	188,164	6,720	29,120	35,840	224,004	256,079
Payroll taxes	107,327	7,950	17,226	25,176	132,503	149,258
TOTAL PERSONNEL COSTS	1,675,806	132,502	231,510	364,012	2,039,818	2,130,319
Food and containers	742,254	-	-	-	742,254	694,036
Consultants and outside services	170,274	10,320	77,398	87,718	257,992	340,021
Interest expense	125,096	9,153	18,307	27,460	152,556	147,540
Utilities	112,391	2,366	3,550	5,916	118,307	114,718
Direct mail	70,869	-	43,012	43,012	113,881	109,028
Meal delivery	96,779	-	-	-	96,779	112,009
Community outreach	50,354	1,660	3,320	4,980	55,334	64,633
Insurance	46,174	2,173	5,975	8,148	54,322	48,367
Bank charges	16,096	671	35,110	35,781	51,877	47,169
Repairs and maintenance	45,551	1,486	2,475	3,961	49,512	44,885
Volunteer management	29,356	-	-	-	29,356	2,957
Office supplies	19,960	1,024	4,606	5,630	25,590	23,319
Miscellaneous	18,789	2,141	2,854	4,995	23,784	17,807
Furniture and equipment rental	20,128	894	1,342	2,236	22,364	20,153
Printing	11,655	853	1,706	2,559	14,214	10,526
Postage	4,031	101	5,948	6,049	10,080	7,101
Employment recruitment	5,877	2,894	179	3,073	8,950	41,691
Dues, subscriptions and publications	3,438	184	2,518	2,702	6,140	5,714
Travel	2,232	156	2,806	2,962	5,194	2,966
Occupancy	1,828	134	268	402	2,230	5,057
Staff and board development	185	13	25	38	223	288
Depreciation	109,663	3,576	5,959	9,535	119,198	108,851
TOTAL 2017 EXPENSES	\$ 3,378,786	\$ 172,301	\$ 448,868	\$ 621,169	\$ 3,999,955	
PERCENTAGE OF EXPENSES	84%	4%	11%	16%	100%	
TOTAL 2016 EXPENSES	\$ 3,435,822	\$ 189,336	\$ 473,997	\$ 663,333		\$ 4,099,155
PERCENTAGE OF EXPENSES	84%	5%	12%	16%		100%

The accompanying notes are an integral part of these financial statements.

PROJECT ANGEL FOOD

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 135,488	\$ 53,194
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	119,198	108,851
Amortization of debt issuance costs	11,942	11,942
Gain on sale of property and equipment	(8,753)	(10,745)
Contributions received for long-term purposes	-	(149,000)
Change in operating assets and liabilities:		
Accounts receivable	135,431	(260,271)
Pledges and contributions receivable	7,074	(250,644)
Prepaid expenses and other assets	(13,727)	18,634
Accounts payable	(88,666)	64,880
Accrued liabilities	556	29,098
Net Cash Provided By (Used In) Operating Activities	298,543	(384,061)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	8,753	10,745
Purchase of property and equipment	(56,580)	(87,703)
Net Cash Used In Investing Activities	(47,827)	(76,958)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(33,013)	220,000
Proceeds from note payable	-	69,608
Payments on notes payable	(98,249)	(79,231)
Contributions received for long-term purposes	-	157,706
Net Cash Provided By (Used In) Financing Activities	(131,262)	368,083
NET CHANGE IN CASH AND CASH EQUIVALENTS	119,454	(92,936)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	442,210	535,146
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 561,664	\$ 442,210
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 136,770	\$ 135,032
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of property and equipment financed by debt obligations	\$ 66,858	\$ 69,608

The accompanying notes are an integral part of these financial statements.

PROJECT ANGEL FOOD

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – Organization

Project Angel Food's mission is to feed and nourish the sick as they battle critical illness. Volunteers and staff cook and deliver nutritious meals, free of charge, to homes throughout Los Angeles County to alleviate hunger, prevent malnutrition, and return their clients to health.

Project Angel Food is unique: they are the only organization that delivers freshly cooked, nutritiously-appropriate meals, free-of-charge, to men, women and children debilitated by life-threatening illnesses throughout all of Los Angeles County.

During fiscal year 2017, Project Angel Food (the Organization) continued to provide lifesaving meals to the seriously ill throughout Los Angeles County. With the reliable commitment of more than 3,100 active volunteers, who provided more than 35,000 hours of service, Project Angel Food cooked and delivered 567,116 meals.

During fiscal year 2017, the Organization also continued its important program of Community Garden Partnerships, whereby Project Angel Food grows some of its own fresh, organic produce for their life-saving meals in community gardens and gardens dedicated solely to the Organization's work. Since the Community Garden Partnerships inception, the Organization has harvested more than 4,000 pounds of fresh produce. Over time, this program has had a positive impact on the quality of the meals provided and in the Organization's expenses.

History of Project Angel Food

In 1989, Project Angel Food was conceived by a group of caring friends driven to action after witnessing their loved ones' health deteriorate as a result of disease and the malnutrition that accompanies it. Project Angel Food's first meals were cooked and delivered out of a donated church kitchen. In January 2014, Project Angel Food marked its 25th year of uninterrupted service. Currently, Project Angel Food has cooked and delivered 11 million meals. Today, Project Angel Food is a nationally recognized organization with an involved Board of Directors, a professional staff, and more than 3,100 active volunteers. Yet its goals remain consistent: it continues to combat the hardships endured by people with HIV/AIDS, cancer and other life-threatening illnesses through cooking and delivering free, nutritious meals to their homes.

PROJECT ANGEL FOOD

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – Organization (Continued)

Project Angel Food Work

Six days a week, volunteers arrive at Project Angel Food’s kitchen at 8 am to begin a day of cooking and packing 1,200 meals that have been designed by an on-staff Registered Dietician to address the nutritional and physical needs of the people Project Angel Food serves. Once the meals are cooked, “plated” and sealed, they move to dispatch. Meals are divided into routes that serve all of Los Angeles County - from Lancaster to Long Beach and Pomona to the West Valley.

Project Angel Food’s professional staff of Registered Dieticians, certified by the American Dietetic Association, is specialized in nutrition and disease. For example, they understand that people undergoing chemotherapy often have no interest in eating and that every bite must be nutritionally powerful. Therefore, Project Angel Food purchases food with a high protein count, serves impactful vegetables like broccoli and spinach, and makes sure that desserts are nutritionally valuable such as apples and oranges.

Project Angel Food’s meals also help manage a range of secondary medical conditions like hypertension, heart disease, and low body weight that can be brought on by poor nutrition, the stresses of a life-threatening illness and its often grueling treatments. They also take great care to ensure their meals are both delicious and visually appealing - two very important considerations when feeding people facing life-threatening illnesses and the depression that often accompanies it.

Project Angel Food’s Breakfast - Critical First Meal program, which supplements their regular meal delivery, is aimed at their most vulnerable clients: those with so few resources that they rely exclusively on Project Angel Food for their food needs. Project Angel Food knows that the additional breakfast meal has a positive impact on their clients’ well-being by providing crucial calories and nutrients and reducing the level of food insecurity. Breakfast is also vital because many of their clients take morning medications and they no longer have to do so on an empty stomach (or worse, delay their medications until their midday meal arrives).

Project Angel Food also empowers clients to make healthier, more informed eating choices overall. Throughout the year, each client speaks with a Registered Dietician at regular intervals. For example, a client with significant fluctuations in his/her health may speak monthly with a dietician, whereas someone with a more consistent medical scenario might only need to check in once or twice per year. During these nutritional counseling sessions, clients learn about the complex interrelationship between their diet, exercise and lifestyle patterns, disease status, medication and general health.

PROJECT ANGEL FOOD

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – Organization (Continued)

Project Angel Food Work (Continued)

The Organization understands the many roles it plays in people's recovery from, or stabilization with, a life-threatening illness. For example, illness can be isolating and the Project Angel Food delivery driver can too often be the only human interaction a client has in his/her homebound day. With this in mind, Project Angel Food also delivers birthday bags on each person's special day, filled with utilitarian items and special treats; the gift bags are decorated by elementary school children. National holidays are also recognized with special desserts or small gifts.

The People Project Angel Food Serves

Project Angel Food proudly serves any man, woman, or child struggling with HIV/AIDS, cancer, or other life-threatening illness rendering them too weak to shop for groceries or cook their own meals. Clients range in age from 20 to 107 years old. Project Angel Food serves all of Los Angeles County and their client population reflects its diversity: during 2017, 79% of their clients are people of color; they serve many women (which are 43% of their clients during 2017); and they honor people of all sexual orientations.

The lives of the 2,303 unduplicated people Project Angel Food serves in a given year have taken a difficult turn due to the ravages of HIV/AIDS, cancer and other life-threatening illnesses. These include a 30-year-old client living with HIV and colon cancer; while he is undergoing both chemo and radiation, the weekly meals from Project Angel Food enable him to keep his weight up and relieve the stress of worrying about how to eat healthy during cancer treatments. The Organization has a 72-year-old client living with congestive heart failure and COPD. She is on 24-hour oxygen and has mobility issues getting around. Because of the meals from Project Angel Food, she knows she can count on always having healthy, nutritious meals on hand. There are many, many others.

The majority of Project Angel Food's clients are everyday people who led productive lives and careers prior to their disability from life-threatening illness. The annual Project Angel Food client survey reveals a wide range of occupations held by clients before their diagnosis - school teachers, nurse assistants, welders, carpenters, legal secretaries, engineers, accountants, truck drivers, computer technicians, hair stylists and sales persons.

PROJECT ANGEL FOOD

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – Organization (Continued)

Evaluation of Project Angel Food Program

Project Angel Food's staff include Registered Dietitians, client services teams, kitchen staff, and a dispatch and delivery driving crew, who work together to monitor the number of meals planned, prepared, delivered and received. This system of checks and balances ensures that no one who needs a meal is missed, and keeps the nutrition and client services team aware of each particular client's health.

Project Angel Food also distributes an annual Client Satisfaction Survey to better understand the degree to which they are meeting their clients' needs. The survey also affords clients the chance to self-report on the impact the program is having on their lives, with room for comments relating to services.

The Organization's work is effective. According to the most recent annual client survey for 2017, 97% of clients report Project Angel Food meals have helped them improve their health and 96% feel that they learned a lot about good nutrition while on service, thus empowering them to eat healthier on their own. Furthermore, an equal number, 97%, felt that Project Angel Food service has reduced their anxiety about food while helping them take their medications. In addition, a majority of the client base comes through referrals from doctors, hospitals, clinics, and other partnering medical organizations who know about the Organization's long history of responsive, nutritional support and its positive impact on managing chronic, life-threatening disease.

Project Angel Food also seeks ongoing verbal feedback and perspective from their clients through the Client Advisory Board (CAB). Client representatives bring a unique perspective to the Organization's governance and make sure that the focus remains on the best interests of the people that Project Angel Food serves.

Organizational Structure

Project Angel Food is governed by a volunteer Board of Directors. The Board of Directors provides strategic vision and direction for agency endeavors, and assumes financial and legal oversight of the Organization. A seven-member management team oversees the daily operations of the Organization. Thirty-five staff members comprise the program, kitchen and dispatch teams, as well as client services, nutrition services and volunteer services, fulfilling the mission of the Organization. They are supported by a dedicated corps of volunteers and the eight members of the development, special events, finance and administrative staffs.

PROJECT ANGEL FOOD

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 – Organization (Continued)

Organizational Structure (Continued)

Volunteers continue to be the heart and soul of Project Angel Food. More importantly, volunteers provide a critical human touch to the Project Angel Food program, with an element of caring and compassion that is unmatched and often missing from the lives of the people served. Representing the breadth of the Los Angeles County community as well, the Organization’s volunteers are retired senior citizens, high school and college students, unemployed individuals, people with flexible work schedules, and many corporate and community groups. Project Angel Food also embraces specific groups such as adults with developmental delays to volunteer, or individuals who are deaf (their Kitchen Manager is able to communicate with sign language). Walk into the kitchen on any day and you’ll see a stunning diversity of humanity united in their commitment to help people in need and make a positive impact on their community.

Collaborations

Every week, Project Angel Food is an agency of collaboration, working with more than ninety social service and medical organizations throughout Los Angeles County. They also, of course, welcome referrals from all groups and individuals. By collaborating and building relationships with many organizations, Project Angel Food “drills” into the various communities of Los Angeles County and addresses the nutritional needs of the many people struggling with HIV/AIDS, cancer and other life-threatening illnesses.

Project Angel Food’s Commitment to the Community

More than two decades of continuous service proves Project Angel Food’s effectiveness in the preparation and delivery of quality food that supports the specific nutritional needs of people affected by HIV/AIDS, cancer and other life-threatening illnesses. Today, Project Angel Food cooks and delivers 11,000 meals a week to people for whom a healthy meal, delivered with a warm smile, is truly lifesaving. For Life, For Love, For as Long as it Takes.

PROJECT ANGEL FOOD

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Net assets, revenues and gains and losses are classified based on the existence or absence of donor-imposed restrictions.

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed restrictions.
- **Temporarily Restricted** – Net assets subject to donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. Donor restricted contributions whose restrictions have been met in the same reporting period are reported as unrestricted support in the statement of activities.
- **Permanently Restricted** – Net assets subject to donor-imposed restrictions that the resources are to be maintained permanently, but permit income (or other economic benefits) derived from the donated assets to be expended. The Organization has no permanently restricted net assets at June 30, 2017.

The Organization holds certain cash equivalents in a separate account to act as a board-designated reserve. The Board of Directors of the Organization direct the use of the funds. At June 30, 2017, the balance in the board-designated reserve account totaled \$56,609 and is included in unrestricted net assets on the statement of financial position.

PROJECT ANGEL FOOD

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments with maturities of three months or less at the time of purchase to be cash equivalents. The Organization maintains its cash and cash equivalents in bank deposit accounts and other highly liquid investment accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. Management estimates an allowance for doubtful account based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. At June 30, 2017, Project Angel Food evaluated the collectability of accounts receivable and determined that no allowance for doubtful accounts was necessary.

Pledges and Contributions Receivable

Discounts for pledges due over one year are recorded as reductions to contribution revenue and pledges receivable when deemed material. The Organization did not discount the pledges over one year due to the immaterial nature of the discount.

At June 30, 2017, Project Angel Food evaluated the collectability of pledges and contributions receivable and determined that no allowance for uncollectible pledges was necessary.

Bequests

Project Angel Food has been named as a beneficiary in a number of bequests. Certain of these gifts have not been recorded in the financial statements because the donors' wills have not yet been declared valid by the probate court and/or the value of the amounts to be received is not yet determinable. Project Angel Food records and reports all gifts when declared valid and the amount is determinable. Bequests are included in contributions in the statement of activities.

PROJECT ANGEL FOOD

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Property and Equipment

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

Property and equipment are capitalized if the cost of an asset is greater than or equal to \$1,500 and the useful life is greater than one year. The estimated useful lives of property and equipment are as follows:

Building	50 years
Kitchen equipment	7 years
Furniture and fixtures	7 years
Office equipment	3 years
Vehicles	5 years
Event equipment	3 years

Long-Lived Assets

Project Angel Food reviews the carrying value of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized during the year ended June 30, 2017.

Debt Issuance Costs

Commissions and fees associated with acquiring debt facilities paid to third parties are netted against the related debt instrument and amortized on a straight-line basis, which approximates the interest method, over the term of the agreements. Debt issuance costs, net of accumulated amortization, totaled \$86,580 at June 30, 2017.

PROJECT ANGEL FOOD

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Unconditional contributions, including pledges, are recognized as revenues and support in the period received and recorded at estimated fair value. Revenues and support are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions.

Event revenues are recognized when the event takes place. Any fees received in advance are recorded as deferred revenues and are included in accrued liabilities in the statement of financial position.

Donated Goods and Services

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. For the year ended June 30, 2017, Project Angel Food recognized services of 865 hours valued at \$29,307.

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 35,000 hours valued at about \$516,000.

Advertising Costs

Project Angel Food expenses the costs of advertising (Community Outreach) as incurred. The total expense was \$51,299 for the year ended June 30, 2017.

PROJECT ANGEL FOOD

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of United States Internal Revenue Code (and similar provisions under California state law) and is not a private foundation. Generally accepted accounting principles prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended June 30, 2017, the Organization had no unrecognized tax benefits, tax penalties, or interest.

The Organization is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal purposes is three years and for California is four years.

Functional Allocation of Expenses

The costs of providing the Organization's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Organization uses salary dollars and the number of employees per department to allocate indirect costs.

Fund Accounting

Project Angel Food maintains two funds: the Operating Fund and the Property and Equipment Fund. The purpose of the Operating Fund is to capture all revenue and expense associated with the normal operations of fulfilling Project Angel Food's mission. The purpose of the Property and Equipment Fund is to account for all revenue and expense related to those assets that management has determined will not be replaced through normal operations, specifically Project Angel Food's building and capitalized kitchen equipment. Instead, those assets will be replaced only through dedicated capital campaigns. These funds are combined as part of the presentation in the statement of activities.

PROJECT ANGEL FOOD

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

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 and disclosures. Accordingly, actual results could differ from those estimates.

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, 2016, from which the summarized information was derived.

Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format.

Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03 *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which amends the guidance within ASC Topic 835, Interest, to require that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt premiums and discounts. In August 2015, the FASB further issued ASU No. 2015-15 *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* (ASU 2015-15), which amends the guidance within ASC Topic 835, Interest, to allow an entity to defer and present debt issuance costs associated with a line of credit arrangement as an asset, regardless of whether there are any outstanding borrowings on the line of credit arrangement. The Organization adopted ASU 2015-03 and ASU 2015-15, retrospectively, on July 1, 2016. As a result, debt issuance costs related to its notes payable are now classified as a reduction to the carrying amount of the related debt on the statement of financial position.

PROJECT ANGEL FOOD

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with the cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

In August 2016, the FASB released ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The update amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes relate to: (a) presentation of classes of net assets, (b) the presentation of underwater endowment funds and related disclosures, (c) recognition of the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) statement of functional expense, (e) disclosure of quantitative and qualitative information regarding liquidity and availability of resources; and a few smaller items. The ASU is effective for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

Subsequent Events

Management has evaluated subsequent events through December 19, 2017, the date on which the financial statements were available to be issued.

PROJECT ANGEL FOOD

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – Pledges and Contributions Receivable

Pledges and contributions receivable at June 30, 2017 are expected to be collected as follows:

Within one year	\$ 202,417
In one to five years	49,000
Thereafter	<u>20,000</u>
Total pledges and contributions receivable	<u>\$ 271,417</u>

NOTE 4 – Property and Equipment

Property and equipment at June 30, 2017 consists of the following:

Land and building	\$ 6,974,659
Kitchen equipment	910,707
Furniture and fixtures	280,747
Office equipment	227,415
Vehicles	230,693
Event equipment	<u>55,967</u>
	8,680,188
Less accumulated depreciation	<u>(2,161,040)</u>
Property and equipment, net	<u>\$ 6,519,148</u>

Depreciation expense for the year ended June 30, 2017 was \$119,198.

At June 30, 2017, property and equipment under capital leases totaled approximately \$136,465, with accumulated depreciation approximating \$19,630.

PROJECT ANGEL FOOD

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 – Accrued Liabilities

Accrued liabilities at June 30, 2017 consists of the following:

Accrued vacation	\$ 112,130
Accrued salaries	35,592
Deferred revenue	67,584
Other accrued liabilities	<u>64,236</u>
 Total accrued liabilities	 <u>\$ 279,542</u>

NOTE 6 – Line of Credit

Project Angel Food has a reducing revolving line of credit in the amount of \$660,000 from a bank at an interest rate of 0.5% over the bank's prime rate. The bank's prime rate was 4.25% as of June 30, 2017. The line of credit is secured by a deed of trust on land and building (Vine Street) and all of Project Angel Food's personal property. This line of credit matures in October 2024. As of June 30, 2017, \$640,000 was borrowed against the line. The line of credit contains various financial and nonfinancial covenants with which the Organization was in compliance at June 30, 2017.

NOTE 7 – Notes Payable

Notes payable consists of the following at June 30, 2017:

Note payable - bank, secured by a deed of trust on land and building, interest at 3.675%, monthly principal and interest payments of \$15,569, with remaining balance due October 2024	\$ 2,829,392
 Notes payable - credit lender, secured by equipment, interest at 4.84% and 4.89%, monthly principal and interest payments of \$2,862 through April 2022	 <u>114,796</u> 2,944,188
 Less unamortized debt issuance costs	 <u>(86,580)</u>
	 <u>\$ 2,857,608</u>

PROJECT ANGEL FOOD

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 – Notes Payable (Continued)

Future minimum payments under these notes consist of the following:

<u>Year Ending June 30,</u>	
2018	\$ 112,178
2019	116,784
2020	119,643
2021	106,730
2022	105,882
Thereafter	<u>2,382,971</u>
	<u>\$ 2,944,188</u>

The note payable to the bank contain various financial and nonfinancial covenants with which the Organization was in compliance at June 30, 2017.

NOTE 8 – Commitments and Contingencies

The Organization’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, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Organization has no provision for the possible disallowance of program costs on its financial statements.

Litigation

In the normal course of business, the Organization may become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a significant impact on the financial statements of the Organization as of June 30, 2017.

PROJECT ANGEL FOOD

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 are restricted for the following:

Dispatch vans	\$ 76,032
Capital campaign pledges	10,776
Time	<u>70,000</u>
	<u>\$ 156,808</u>

NOTE 10 – Allocation of Joint Costs

The Organization conducted direct mail campaigns that included requests for contributions, as well as program components. The costs of conducting these activities included joint costs totaling \$113,881 for the year ended June 30, 2017. The joint costs for these direct mail campaigns were allocated as follows:

Program services	\$ 73,523
Fundraising	<u>40,358</u>
	<u>\$ 113,881</u>

NOTE 11 – Retirement Plan

The Organization 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.