

PROJECT OPEN HAND

JUNE 30, 2009



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Project Open Hand

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

THE BOARD OF DIRECTORS
PROJECT OPEN HAND
San Francisco, California

We have audited the accompanying statement of financial position of **PROJECT OPEN HAND (POH)** as of June 30, 2009, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of POH'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 POH's June 30, 2008 financial statements, and, in our report dated September 29, 2008, we expressed an unqualified opinion.

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 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 Open Hand as of June 30, 2009, and the results of its activities and 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.

Hood & Strong LLP

October 9, 2009

Consultants and

Business Advisors

100 First Street

14th Floor

San Francisco

CA 94105

415.781.0793

fax 415.421.2976

San Francisco

San Jose

Redwood Shores



Project Open Hand

Statement of Financial Position

<i>June 30,</i>	2009	2008
Assets		
Cash and cash equivalents	\$ 572,766	\$ 282,297
Accounts and contracts receivable	322,286	310,897
Contributions receivable	497,904	412,383
Inventory	19,590	58,788
Prepaid expenses and other assets	103,241	82,707
Investments	2,241,499	2,724,985
Property and equipment, net	4,901,669	4,978,340
	\$ 8,658,955	\$ 8,850,397
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 304,041	\$ 357,238
Accrued liabilities	589,804	618,455
Total liabilities	893,845	975,693
Net Assets:		
Unrestricted:		
Board-designated	2,520,741	2,626,500
Undesignated	4,680,426	4,811,699
Total unrestricted net assets	7,201,167	7,438,199
Temporarily restricted	563,943	436,505
Total net assets	7,765,110	7,874,704
	\$ 8,658,955	\$ 8,850,397

Project Open Hand

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2009 (with comparative totals for 2008)

	2009			2008 Totals
	Unrestricted	Temporarily Restricted	Total	
Support and Revenues from Operations:				
Individual donations	\$ 3,383,098	\$ 41,917	\$ 3,425,015	\$ 3,554,796
Government grants	3,087,723		3,087,723	2,845,633
Program service fees	840,820		840,820	845,717
Foundations	890,398	250,000	1,140,398	1,168,327
Business and corporate donations	96,367		96,367	106,111
Fundraising events	907,648	120,000	1,027,648	923,111
In-kind donations	3,542		3,542	201,814
Bequests	478,492	102,904	581,396	346,266
Net assets released from restrictions	387,383	(387,383)		
Total support and revenue	10,075,471	127,438	10,202,909	9,991,775
Operating Expenses:				
Program services:				
San Francisco:				
HIV Meal Delivery	2,707,503		2,707,503	2,776,254
HIV Grocery Services	835,557		835,557	824,352
HCI Meal Delivery	229,606		229,606	231,579
HCI Grocery Services	63,532		63,532	36,378
Senior Meals	2,587,437		2,587,437	2,640,479
East Bay:				
HIV Meal Delivery	404,712		404,712	454,318
HIV Grocery Services	208,554		208,554	191,947
HCI Meal Delivery	108,733		108,733	92,824
HCI Grocery Services	8,566		8,566	4,597
Senior Meals	918,855		918,855	1,147,159
Total program services	8,073,055		8,073,055	8,399,887
Supporting services:				
Management and general	550,933		550,933	533,571
Development	1,794,409		1,794,409	1,765,519
Total supporting services	2,345,342		2,345,342	2,299,090
Total operating expenses	10,418,397		10,418,397	10,698,977
Change in Net Assets from Operations	(342,926)	127,438	(215,488)	(707,202)
Other Changes in Net Assets:				
Interest and dividends	107,514		107,514	151,597
Realized and unrealized loss on investments	(355,844)		(355,844)	(271,793)
Rental income	331,443		331,443	322,827
Miscellaneous	22,781		22,781	33,086
Total other revenue	105,894		105,894	235,717
Changes in Net Assets	(237,032)	127,438	(109,594)	(471,485)
Net Assets, beginning of year	7,438,199	436,505	7,874,704	8,346,189
Net Assets, end of year	\$ 7,201,167	\$ 563,943	\$ 7,765,110	\$ 7,874,704

Project Open Hand

Statement of Functional Expenses

Year Ended June 30, 2009 (with comparative totals for 2008)

	Program Services										Supporting Services			2009 Total	2008 Total		
	San Francisco					East Bay					Total Program Services	Management and Development				Total Support Services	
	HIV		HCI		Senior Meals	HIV		HCI		Senior Meals		Management and General	Development				Total Support Services
	Meal Delivery	Grocery Services	Meal Delivery	Grocery Services		Meal Delivery	Grocery Services	Meal Delivery	Grocery Services								
Personnel expense	\$ 1,647,302	\$ 342,361	\$ 147,105	\$ 11,576	\$ 1,520,168	\$ 232,975	\$ 90,322	\$ 62,173	\$ 1,875	\$ 522,442	\$ 4,578,299			\$ 315,994	\$ 621,272	\$ 937,266	
Food and related purchases	668,778	418,083	46,551	49,223	612,078	82,030	89,448	22,502	6,095	194,901	2,189,689		1,793	1,793	2,191,482	2,246,146	
Public information	19,341	4,256	1,856	144	22,637	3,222	1,083	865	22	7,102	60,528		229,781	229,781	290,309	314,343	
Depreciation	80,207	17,650	7,695	597	93,872	13,363	4,492	3,587	93	29,451	251,007	64,571	25,990	90,561	341,568	322,014	
Utilities/pest control/ security	114,354	24,854	10,742	832	134,678	15,574	5,236	4,181	109	34,325	344,885	90,010	36,230	126,240	471,125	472,951	
Supplies and small equipment	48,900	3,711	3,428	335	43,907	5,735	447	1,515	9	16,438	124,425	4,904	3,102	8,006	132,431	136,906	
Rent and storage					12,000	17,455	5,868	4,686	122	38,469	78,600				78,600	75,001	
Repairs and maintenance	19,460	4,282	1,867	145	22,858	5,143	1,729	1,381	36	11,335	68,236	15,666	6,306	21,972	90,208	94,180	
Insurance	22,064	4,855	2,117	164	25,823	3,676	1,236	987	26	8,101	69,049	17,762	7,149	24,911	93,960	114,268	
Vehicle expenses	17,806	305	1,708	10	20,840	14,235	4,891	3,822	99	31,374	95,090				95,090	120,100	
Donor related expenses																	
Miscellaneous expenses	11,099	2,480	993	76	11,973	1,655	556	444	12	3,647	32,935	7,870	41,141	49,011	81,946	88,257	
Public relations	3,394	747	326	25	3,972	511	172	137	4	1,126	10,414	1,337	3,861	5,198	15,612	10,439	
Legal and professional	24,300	5,348	2,331	181	27,185	2,888	971	775	20	6,366	70,365	14,055	10,658	24,713	95,078	107,412	
Postage and messengers	6,563	1,444	630	49	7,682	1,093	368	294	8	2,410	20,541	5,284	2,126	7,410	27,951	25,195	
Event expense	348	77	33	3	407	58	20	16		128	1,090		106,155	106,155	107,245	121,302	
Equipment rental	9,666	2,127	927	72	11,313	1,610	541	432	11	3,549	30,248	7,782	7,922	15,704	45,952	40,521	
Volunteer recognition/ recruitment	2,167	477	208	16	2,536	299	100	80	2	659	6,544	1,744	702	2,446	8,990	16,593	
Printing	3,141	691	301	23	3,791	440	148	118	3	970	9,626	1,725	696	2,421	12,047	10,025	
Dues and subscriptions	5,440	1,138	496	38	6,150	861	290	231	6	1,898	16,548	554	3,848	4,402	20,950	24,366	
Board expense	606	133	58	5	710	101	34	27	1	223	1,898	488	196	684	2,582	1,380	
Travel and business expense	18	4	2		22	988	332	265	7	2,177	3,815	11	1,096	1,107	4,922	5,318	
Conference expense	1,370	302	131	10	1,604	228	77	61	2	503	4,288	330	384	714	5,002	16,511	
Data management	898	170	74	6	903	499	168	134	3	1,100	3,955	621	1,427	2,048	6,003	6,159	
Taxes, licenses & permits	281	62	27	2	328	73	25	20	1	161	980	225	90	315	1,295	1,473	
Total expense	\$ 2,707,503	\$ 835,557	\$ 229,606	\$ 63,532	\$ 2,587,437	\$ 404,712	\$ 208,554	\$ 108,733	\$ 8,566	\$ 918,855	\$ 8,073,055	\$ 550,933	\$ 1,794,409	\$ 2,345,342	\$ 10,418,397	\$ 10,698,977	

The accompanying notes are an integral part of this statement.

Project Open Hand

Statement of Cash Flows

<i>Year Ended June 30,</i>	2009	2008
Cash Flows from Operating Activities:		
Change in net assets	\$ (109,594)	\$ (471,485)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated stock	(42,295)	(73,703)
Donated assets		(199,594)
Depreciation and amortization	341,568	322,014
Gain on disposal of fixed assets	(4,481)	
Realized and unrealized loss on investments	355,844	271,897
Changes in assets and liabilities:		
Accounts and contributions Receivable	(96,909)	104,506
Inventory	39,198	1,083
Prepaid expenses and other assets	(20,534)	(52,411)
Accounts payable	(53,197)	(76,112)
Accrued liabilities	(28,651)	3,331
Net cash provided (used) by operating activities	380,949	(170,474)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(264,898)	(66,187)
Purchases of investments	(542,290)	(636,559)
Proceeds from sale of fixed assets	4,481	
Proceeds from sale of investments	712,227	704,258
Net cash (used) provided by investing activities	(90,480)	1,512
Cash Flows from Financing Activities:		
Proceeds from line of credit	628,700	230,000
Repayments to line of credit	(628,700)	(230,000)
Net cash from financing activities		
Net Increase (Decrease) in Cash and Cash Equivalents	290,469	(168,962)
Cash and Cash Equivalents, beginning of year	282,297	451,259
Cash and Cash Equivalents, end of year	\$ 572,766	\$ 282,297
Supplemental Cash Flow Information:		
In-kind donations	\$ 3,542	\$ 201,814

The accompanying notes are an integral part of this statement. 5

Note 1 - Organization:

Project Open Hand (POH) was established in October 1985 and incorporated November 1986 as a nonprofit public benefit corporation. POH provides home delivered meals, groceries and nutrition education to people living with HIV/AIDS; congregate lunches, home delivered meals and nutrition education to seniors; home delivered meals and groceries to homebound and critically ill people.

POH's services are conducted in San Francisco and Alameda counties and receive partial support from Federal Ryan White Act funds through the San Francisco and Alameda county public health departments. The senior program is funded through San Francisco's Office on the Aging, Alameda's Area Agency on Aging, senior contributions and donor contributions. POH is also funded through grants and donations from individuals, foundations and corporations.

During the year ended June 30, 2009 POH served 755,012 meals and provided 76,404 grocery bags to its clients.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

b. Description of Net Assets

POH reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets

Unrestricted net assets represent the portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations. The Board designated funds of \$2,520,741 at June 30, 2009 was determined based on policy established by the Board to cover 25% of budgeted operating expenses.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent the portion of net assets which contain donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of POH.

Project Open Hand

Notes to Financial Statements

Permanently Restricted Net Assets

Permanently restricted net assets represent the portion of net assets which contain donor-imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of POH. At June 30, 2009 POH did not have any permanently restricted net assets.

c. Recognition of Revenue

Contributions are recorded as revenue at their fair value when the promise to give to POH is made. Contributions restricted by the donor are reported as an increase in unrestricted net assets if the restriction is released in the same reporting period in which the support is received. All other contributions with donor restrictions are reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose 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 restrictions.

Contracts and fee revenue is recognized when POH incurs expenditures related to the required services. Amounts billed or received in advance are recorded as advances until the related services are performed.

POH has determined that all receivables are fully collectible, and no allowance for uncollectible accounts has been recorded. This is based on previous experience and management's analysis of specific promises made.

POH is the beneficiary under various wills and trust agreements. Such amounts are recognized in POH's financial statements as bequests receivable and planned gifts when clear title is established and the proceeds are measurable.

d. Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash, money market funds, and certificates of deposit. POH considers investments with a maturity of three months or less at the time of purchase to be cash equivalents.

e. Investments

Investments in equity securities with readily determined fair values and all debt instruments are reported at fair value based on quoted market prices as of June 30, 2009. Both realized and unrealized gains and losses are reflected in the Statement of Activities as investment income. Dividend and interest income are accrued when earned.

Investments consist primarily of corporate bonds, U. S. government obligations and common stock.

Project Open Hand

Notes to Financial Statements

f. Inventory

Purchased inventory, which consists primarily of food, is stated at cost based on the stated unit price. Donated inventory is reflected as contributions at their fair value on the date of receipts.

g. Property and Equipment

Property and equipment are stated at cost, when purchased, or at the estimated fair market value at the time the donation is received. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 3 to 30 years. Leasehold improvements are amortized over the shorter of the asset life or the lease term. Renewals and betterments are capitalized; maintenance and repairs are charged to expense as incurred.

h. Donated Goods and Services

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

A number of unpaid volunteers have made significant contributions of their time to POH. POH receives donated services from volunteers who serve as drivers, cooks, kitchen helpers, and administrative assistants. POH also receives donated services from vendors for fundraising events. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

The fair value of such volunteer services is estimated based on standardized hourly rates to be approximately \$1,496,000 for the year ended June 30, 2009.

i. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited based on time records and on estimates made by POH's management.

j. Allocation of Joint Costs

In 2009 POH incurred joint costs of \$290,309 for informational materials and activities that include fund-raising appeals. Of these costs, \$229,780 was allocated to fund-raising and development expense and \$60,529 allocated to programs expense.

Project Open Hand

Notes to Financial Statements

k. Income Taxes

POH is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and from California franchise and/or income tax under Revenue and Taxation Code Section 23701(d). Accordingly, no provision for income taxes has been reflected in these financial statements.

l. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

m. Comparative Information

The financial statements include certain comparative information for which the prior year information is summarized in total but not by net asset class. Accordingly, such information should be read in conjunction with POH's financial statements for the year ended June 30, 2008, from which the summarized information is derived.

n. Recent Accounting Pronouncements

Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), was issued in July 2006 and establishes standards for the recognition of income taxes for tax positions taken in income tax returns. In December 2008, a FASB Staff Position deferred the effective date for exempt organizations, permitting adoption for years beginning after December 15, 2008. POH has elected to defer adoption of FIN 48. POH presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred. Management does not expect that the adoption of FIN 48 will have an effect on its financial statements.

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Notes to Financial Statements

Note 3 - Investment:

Investments at June 30, 2009 consist of the following:

	FMV	Cost
Cash & Cash Equivalents	\$ 351,023	\$ 351,023
Government Securities	328,553	305,116
Corporate Obligations	215,656	212,509
Mutual Funds	634,930	796,179
Equities	711,337	699,259
	<hr/>	<hr/>
	\$ 2,241,499	\$ 2,364,086

Investment income included in the accompanying Statement of Activities and Changes in Net Assets for the year ended June 30, 2009 is comprised of the following:

Interest and dividends	\$ 107,514
Realized losses	(103,434)
Unrealized losses	(252,410)
	<hr/>
	\$ (248,330)

These investments secure POH's line of credit (Note 7).

Note 4 - Fair Value Measurements:

Effective July 1, 2008, POH adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (FAS 157) which provides a framework for measuring fair value under generally accepted accounting principles. FAS 157 applies to all financial instruments that are being measured and reported on a fair value basis. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy with three levels of inputs that may be used to measure fair value. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Project Open Hand

Notes to Financial Statements

Level 2 - Observable inputs other than quoted prices included within Level 1 that for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

The table below presents the investments measured at fair value at June 30, 2009 on a recurring basis.

	Total	Level 1	Level 2
Cash & Equivalents	\$ 351,023	\$ 351,023	
Government Securities	328,553	265,928	\$ 62,625
Corporate Obligations	215,656		215,656
Mutual Funds	634,930		634,930
Equities	711,337	711,337	
	<u>\$ 2,241,499</u>	<u>\$ 1,328,288</u>	<u>\$ 913,211</u>

Note 5 - Property and Equipment:

Property and equipment consist of the following at June 30, 2009:

Land	\$ 900,000
Building and building improvements	5,702,369
Furniture and equipment	1,197,726
Leasehold improvements	43,688
Automobiles	485,729
Software	184,722
	<u>8,514,234</u>
Less accumulated depreciation and amortization	<u>(3,612,565)</u>
	<u>\$ 4,901,669</u>

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Notes to Financial Statements

Note 6 - Commitments:

Operating Leases

Rent expenses under all operating leases amounted to \$113,953 for the year ended June 30, 2009. POH leases office space and equipment under non-cancelable leases expiring through June 2011. Future minimum annual lease payments are as follows:

Year ended June 30,	
2010	\$ 113,000
2011	83,000
2012	53,000
2013	9,000
	<hr/>
	\$ 258,000

POH leases space in the building it owns in San Francisco to four tenants and expects to generate rental income of approximately \$331,000 each year.

Note 7 - Line of Credit:

POH has a line of credit with an expiration date of December 1, 2009 for \$500,000 with Union Bank. The line of credit is secured by POH's investment account and has an interest rate equal to the prime rate. At June 30, 2009, POH had no outstanding balance with the bank.

Note 8 - Contingencies:

Amounts received and expended by POH under federal funded programs are subject to audit by cognizant governmental agencies. POH's management believes that potential adjustments, if any, resulting from such audits will not have a significant effect on the financial statements.

Note 9 - Temporarily Restricted Net Assets:

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors. For the year ended June 30, 2009, total net assets released from restriction were \$387,383.

At June 30, 2009, \$563,943 temporarily restricted net assets were available for funding future POH specified events and programs expenses.

Note 10 - Retirement Plan:

POH adopted a 403(b) Retirement and savings Plan which matches fifty percent of employee contributions up to 3% of each employee's eligible compensation. POH's contribution for the plan year ended June 30, 2009 was \$42,223.

POH Board of Directors adopted a deferred compensation plan 457(f) for the incumbent Executive Director. Subject to provisions of the plan, POH contributes \$30,000 each plan year for a period of four plan years for a total payment of \$120,000. POH contribution for the plan year ended June 30, 2009 was \$30,000.

Note 11 - Concentration of Credit Risk and Support:

POH has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist principally of investments and receivables. Investments are diversified in order to limit market risk.

In addition to investments and receivables, concentrations of credit risk exist for cash and cash equivalents. At June 30, 2009, the POH had approximately \$371,000 of cash deposits in excess of federally insured limits.

All receivables consist primarily of unsecured amounts due from individuals, corporations, foundations and government agencies. The credit risk associated with receivables is substantially mitigated by the large number of entities comprising the receivable balance, and more than 61% of the receivables are due from government agencies.

Note 12 - Subsequent Event:

POH has reviewed the results of operations for the period of time from its fiscal year ended June 30, 2009 through the date of the independent auditors' report and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure.