

PROJECT OPEN HAND

JUNE 30, 2010

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, 2010, 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, 2009 financial statements, and, in our report dated October 9, 2009, 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, 2010, 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.

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October 8, 2010

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Project Open Hand

Statement of Financial Position

<i>June 30, 2010 (with comparative totals for 2009)</i>	2010	2009
Assets		
Cash and cash equivalents	\$ 915,326	\$ 572,766
Accounts and contracts receivable	500,218	322,286
Contributions receivable	225,000	497,904
Prepaid expenses and other assets	145,950	122,831
Investments	2,419,614	2,241,499
Property and equipment, net	4,639,059	4,901,669
	\$ 8,845,167	\$ 8,658,955
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 491,242	\$ 304,041
Accrued liabilities	522,577	589,804
Total liabilities	1,013,819	893,845
Net Assets:		
Unrestricted:		
Board-designated	2,489,750	2,520,741
Undesignated	5,052,476	4,680,426
Total unrestricted net assets	7,542,226	7,201,167
Temporarily restricted	289,122	563,943
Total net assets	7,831,348	7,765,110
	\$ 8,845,167	\$ 8,658,955

Project Open Hand

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2010 (with comparative totals for 2009)

	2010			2009 Totals
	Unrestricted	Temporarily Restricted	Total	
Support and Revenues from Operations:				
Individual donations	\$ 3,405,979		\$ 3,405,979	\$ 3,425,015
Government grants	3,102,307		3,102,307	3,087,723
Program service fees	711,484		711,484	840,820
Foundations	523,853	\$ 190,000	713,853	1,140,398
Business and corporate donations	91,854		91,854	96,367
Fundraising events	764,987	50,000	814,987	1,027,648
In-kind donations	18,784		18,784	3,542
Bequests	558,573		558,573	581,396
Net assets released from restrictions	514,821	(514,821)		
Total support and revenue	9,692,642	(274,821)	9,417,821	10,202,909
Operating Expenses:				
Program services:				
San Francisco:				
HIV Meal Delivery	2,594,520		2,594,520	2,707,503
HIV Grocery Services	882,944		882,944	835,557
HCI Meal Delivery	228,795		228,795	229,606
HCI Grocery Services	78,699		78,699	63,532
Senior Meals	2,482,353		2,482,353	2,587,437
East Bay:				
HIV Meal Delivery	333,593		333,593	404,712
HIV Grocery Services	183,080		183,080	208,554
HCI Meal Delivery	99,556		99,556	108,733
HCI Grocery Services	5,828		5,828	8,566
Senior Meals	869,724		869,724	918,855
Total program services	7,759,092		7,759,092	8,073,055
Supporting services:				
Management and general	510,743		510,743	550,933
Development	1,647,110		1,647,110	1,794,409
Total supporting services	2,157,853		2,157,853	2,345,342
Total operating expenses	9,916,945		9,916,945	10,418,397
Change in Net Assets from Operations	(224,303)	(274,821)	(499,124)	(215,488)
Other Changes in Net Assets:				
Interest and dividends	72,390		72,390	107,514
Realized and unrealized gain (loss) on investments	134,681		134,681	(355,844)
Rental income	340,254		340,254	331,443
Miscellaneous	18,037		18,037	22,781
Total other revenue	565,362		565,362	105,894
Changes in Net Assets	341,059	(274,821)	66,238	(109,594)
Net Assets, beginning of year	7,201,167	563,943	7,765,110	7,874,704
Net Assets, end of year	\$ 7,542,226	\$ 289,122	\$ 7,831,348	\$ 7,765,110

Project Open Hand

Statement of Functional Expenses

Year Ended June 30, 2010 (with comparative totals for 2009)

	Program Services										Supporting Services			2010 Total	2009 Total	
	San Francisco					East Bay					Total Program Services	Development	Management and General			Total Support Services
	HIV		HCI		Senior Meals	HIV		HCI		Senior Meals						
	Meal Delivery	Grocery Services	Meal Delivery	Grocery Services		Meal Delivery	Grocery Services	Meal Delivery	Grocery Services							
Personnel expense	\$ 1,624,820	\$ 347,391	\$ 146,757	\$ 14,028	\$ 1,463,385	\$ 189,179	\$ 77,001	\$ 52,416	\$ 1,283	\$ 470,441	\$ 4,386,701	\$ 554,805	\$ 280,409	\$ 835,214	\$ 5,221,915	\$ 5,515,565
Food and related purchases	593,938	459,632	46,179	61,727	596,979	76,894	82,757	27,177	4,158	197,019	2,146,460	39		39	2,146,499	2,191,482
Public information	16,574	3,744	1,623	151	18,600	2,310	842	674	14	6,785	51,317	172,777		172,777	224,094	290,309
Depreciation	81,280	18,361	7,960	741	91,215	11,329	4,130	3,306	69	33,276	251,667	22,910	64,639	87,549	339,216	341,568
Utilities/pest control/ security	114,761	25,725	11,160	1,039	130,223	12,917	4,709	3,769	78	37,941	342,322	32,169	90,562	122,731	465,053	471,125
Supplies and small equipment	41,875	5,272	3,170	93	47,909	4,697	424	1,632	7	17,773	122,852	2,587	5,163	7,750	130,602	132,431
Rent and storage						14,479	5,279	4,225	88	42,529	66,600			7,750	66,600	78,600
Repairs and maintenance	20,138	4,459	1,933	180	22,225	4,005	1,460	1,169	24	11,765	67,358	5,566	15,698	21,264	88,622	90,208
Insurance	16,398	3,704	1,606	150	18,402	2,285	833	667	14	6,713	50,772	4,622	13,040	17,662	68,434	93,960
Vehicle expenses	19,042	452	1,865	18	21,369	7,236	2,638	2,111	44	21,253	76,028	5	14	19	76,047	95,090
Donor related expenses												672,788		672,788	672,788	682,484
Miscellaneous expenses	9,806	2,248	957	89	11,091	1,383	504	404	8	4,064	30,554	41,834	7,614	49,448	80,002	81,946
Public relations	2,246	155	67	6	2,130	273	100	80	2	802	5,861	3,963	287	4,250	10,111	15,612
Legal and professional	22,592	5,015	2,566	203	23,659	2,567	936	749	16	7,542	65,845	5,256	14,830	20,086	85,931	95,078
Postage and messengers	5,652	1,277	553	52	6,342	788	287	230	5	2,314	17,500	1,592	4,494	6,086	23,586	27,951
Event expense	490	111	48	4	550	68	25	20		201	1,517	108,909		108,909	110,426	107,245
Equipment rental	10,114	2,285	991	92	11,351	1,343	490	392	8	3,945	31,011	8,879	7,662	16,541	47,552	45,952
Volunteer recognition/ recruitment	4,908	1,109	481	45	5,508	31	11	9		91	12,193	1,383	3,903	5,286	17,479	8,990
Printing	3,185	699	314	28	4,429	411	145	119	2	1,165	10,497	476	1,341	1,817	12,314	12,047
Dues and subscriptions	4,970	913	396	37	5,002	563	205	164	3	1,654	13,907	4,480	218	4,698	18,605	20,950
Board expense	392	89	38	4	440	55	20	16		160	1,214	109	312	421	1,635	2,582
Travel and business expense	40	9	4	0	85	277	101	81	2	814	1,413	898	21	919	2,332	4,922
Conference expense	625	141	61	6	702	87	32	25	1	256	1,936	35		35	1,971	5,002
Data management	375	85	37	3	421	374	136	109	2	1,098	2,640	943	298	1,241	3,881	6,003
Taxes, licenses & permits	299	68	29	3	336	42	15	12		123	927	85	238	323	1,250	1,295
Total expense	\$ 2,594,520	\$ 882,944	\$ 228,795	\$ 78,699	\$ 2,482,353	\$ 333,593	\$ 183,080	\$ 99,556	\$ 5,828	\$ 869,724	\$ 7,759,092	\$ 1,647,110	\$ 510,743	\$ 2,157,853	\$ 9,916,945	\$ 10,418,397

The accompanying notes are an integral part of this statement.

Project Open Hand

Statement of Cash Flows

<i>June 30, 2010 (with comparative totals for 2009)</i>	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	\$ 66,238	\$ (109,594)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated stock	(161,657)	(42,295)
Depreciation and amortization	339,216	341,568
Gain on disposal of fixed assets	(2,188)	(4,481)
Realized and unrealized loss on investments	(134,681)	355,844
Changes in assets and liabilities:		
Accounts and contributions receivable	94,972	(96,909)
Prepaid expenses and other assets	(23,119)	18,664
Accounts payable	187,201	(53,197)
Accrued liabilities	(67,227)	(28,651)
Net cash provided by operating activities	298,755	380,949
Cash Flows from Investing Activities:		
Purchases of property and equipment	(76,606)	(264,898)
Purchases of investments	(564,080)	(542,290)
Proceeds from sale of fixed assets	2,188	4,481
Proceeds from sale of investments	682,303	712,227
Net cash provided (used) by investing activities	43,805	(90,480)
Cash Flows from Financing Activities:		
Proceeds from line of credit		628,700
Repayments to line of credit		(628,700)
Net cash from financing activities	-	-
Net Increase in Cash and Cash Equivalents	342,560	290,469
Cash and Cash Equivalents, beginning of year	572,766	282,297
Cash and Cash Equivalents, end of year	\$ 915,326	\$ 572,766
Supplemental Cash Flow Information:		
In-kind donations	\$ 18,784	\$ 3,542

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, 2010 POH served 778,051 meals and provided 79,080 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 \$2,489,750 at June 30, 2010 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.

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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, 2010 POH did not have any permanently restricted net assets.

c. Revenue and Receivables

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 contract and 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. These balances are included within contributions receivable on the statement of financial position.

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

All debt and equity securities with readily determinable market values are carried at estimated fair value based on quoted market prices as of June 30, 2010. Investments received through gifts are recorded at estimated fair value at the date of donation. Both realized and unrealized gains and losses are reflected in the Statement of Activities and changes in net assets as investment income. Dividend and interest income are accrued when earned.

f. Fair Value Measurements

POH carries certain assets and liabilities at fair value. Fair value is defined 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. POH classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

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.

Level 2 - Observable inputs other than quoted prices included within Level 1 such as quoted prices for similar securities or quoted prices in inactive markets.

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

The valuation levels are not necessarily an indication of the risk or liquidity associated with the investments.

In 2009 the Financial Accounting Standards Board (FASB) published an update relating to the fair value of investments in certain entities that calculate net asset value per share. POH implemented the update and it did not have an impact on its financial statements.

g. 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 receipt. The inventory balance of \$9,992 is included within prepaid and other assets on the statement of financial position.

h. 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.

i. 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.

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Notes to Financial Statements

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 \$1,497,000 for the year ended June 30, 2010.

j. 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.

k. Allocation of Joint Costs

In 2010 POH incurred joint costs of \$224,094 for informational materials and activities that include fund-raising appeals. Of these costs, \$172,777 was allocated to fund-raising and development expense and \$51,317 allocated to programs expense.

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, 2009, from which the summarized information is derived.

n. 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).

The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes. POH adopted this new guidance for the year ended June 30, 2010. Management evaluated POH's tax positions and concluded that POH had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

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Notes to Financial Statements

o. Recent Accounting Pronouncements

The FASB issued the Accounting Standards Codification (ASC). The ASC is the single source for all authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009. The ASC reorganizes GAAP pronouncements into accounting topics and displays all topics using a consistent structure. POH adopted the ASC standard effective June 30, 2010.

In 2010, FASB issued additional disclosure requirements for fair value measurements. Under this guidance, the fair value hierarchy disclosures are to be further desegregated by classes (subsets of the line items in the financial statements) and additional disclosures made about transfers between levels 1 and 2. These disclosures are effective for fiscal year 2011. Additional disclosures about level 3 measurements will be required for fiscal year 2012. The impact of this guidance will be additional disclosures in the financial statements.

Note 3 - Investments and Fair Value Measurements:

Investments:

Investments at June 30, 2010 consist of the following:

	FMV	Cost
Cash & Cash Equivalents	\$ 189,914	\$ 189,914
Government Securities	340,131	305,116
Corporate Obligation	87,294	83,132
Mutual Funds	925,592	987,425
Equities	876,683	836,081
	<u>\$ 2,419,614</u>	<u>\$ 2,401,668</u>

Investment income included in the accompanying Statement of Activities and Changes in Net Assets for the year ended June 30, 2010 is comprised of the following:

Interest and dividends	\$ 72,390
Realized losses	(6,910)
Unrealized gains	141,591
	<u>\$ 207,071</u>

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

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Notes to Financial Statements

Fair Value Measurements:

The table below presents the investments measured at fair value on a recurring basis at June 30, 2010:

	Total	Level 1	Level 2
Cash and Equivalents	\$ 189,914	\$ 189,914	
Government Obligations:			
Treasury notes	276,982	276,982	
Government agency bonds	63,148		\$ 63,148
Corporate Obligation	87,294		87,294
Mutual Funds:			
Fixed income	492,579		492,579
Domestic equity	228,273		228,273
International equity	204,740		204,740
Equities:			
Energy	101,090	101,090	
Materials	36,633	36,633	
Industrials	100,030	100,030	
Consumer discretionary	77,426	77,426	
Consumer staples	103,783	103,783	
Health care	112,350	112,350	
Financials	121,225	121,225	
Information technology	161,013	161,013	
Telecommunication	15,280	15,280	
Utilities	47,854	47,854	
	<hr/>	<hr/>	<hr/>
	\$ 2,419,614	\$ 1,343,580	\$ 1,076,034

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Notes to Financial Statements

Note 4 - Property and Equipment:

Property and equipment consist of the following at June 30, 2010:

Land	\$ 900,000
Building and building improvements	5,720,777
Furniture and equipment	1,227,686
Leasehold improvements	43,689
Automobiles	446,289
Software	187,868
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	8,526,309
Less accumulated depreciation and amortization	(3,887,250)
	<hr/>
	\$ 4,639,059

Note 5 - Commitments:

Operating Leases

Rent expenses under all operating leases amounted to \$107,681 for the year ended June 30, 2010. POH leases office space and equipment under non-cancelable leases expiring through June 2013. Future minimum annual lease payments are approximately as follows:

Year ended	
June 30,	
2011	\$ 104,000
2012	58,000
2013	9,000
	<hr/>
	\$ 171,000

POH leases space in the building it owns in San Francisco to four tenants and expects to generate rental income of approximately \$334,000 each year.

Note 6 - Line of Credit:

POH has a line of credit with an expiration date of November 30, 2010 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, 2010, POH had no outstanding balance with the bank.

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Notes to Financial Statements

Note 7 - 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 8 - 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, 2010, total net assets released from restriction were \$514,821.

Temporarily restricted net assets as of June 30, 2010 are available for the following purposes or periods:

Split interest agreements	\$ 44,122
Special events	50,000
Program and time restrictions	195,000
	<hr/>
	\$ 289,122

Note 9 - 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, 2010 was \$42,616.

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, 2010 was \$30,000.

Note 10 - 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, 2010, the POH had approximately \$669,000 of cash deposits in excess of federally insured limits.

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Notes to Financial Statements

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 57% of the receivables are due from government agencies.

Note 11 - Subsequent Events:

The management of POH has reviewed the results of activities for the period of time from its fiscal year ended June 30, 2010 through October 6, 2010, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements and no subsequent events have occurred which would require disclosure.