

MEND – MEET EACH NEED WITH DIGNITY

INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2005

MEND – MEET EACH NEED WITH DIGNITY

YEAR ENDED JUNE 30, 2005 and 2004

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
MEND - Meet Each Need With Dignity
13460 Van Nuys Boulevard
Pacoima, California 91331

We have audited the accompanying statements of financial position of MEND - Meet Each Need With Dignity as of June 30, 2005 and 2004, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 MEND as of June 30, 2005 and 2004, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ANDERSON, SATULOFF,
MACHADO & MENDELSON
Certified Public Accountants
An Accountancy Corporation

October 15, 2005
Woodland Hills, California

MEND - MEET EACH NEED WITH DIGNITY
(A California Non-Profit Corporation)

STATEMENTS OF FINANCIAL POSITION
June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2005</u>	<u>Totals 2004</u>
Assets				
Cash and cash equivalents	\$ 9,065	\$ 149,014	\$ 158,079	\$ 247,807
Cash and cash equivalents - Capital Campaign	-	433,705	433,705	-
Pledges receivable	-	12,500	12,500	-
Pledges receivable - Capital Campaign	-	2,279,250	2,279,250	20,000
Prepaid expenses	10,187	-	10,187	12,485
Inventory	639,376	-	639,376	549,304
Due from VEDC loan	-	8,983	8,983	-
Net Property and Equipment	2,532,433	-	2,532,433	2,570,385
Construction in Progress	449,017	-	449,017	-
Total Assets	<u>3,640,078</u>	<u>2,883,452</u>	<u>6,523,530</u>	<u>3,399,981</u>
Liabilities and Net Assets				
Liabilities				
Accrued liabilities	52,127	-	52,127	123,418
Note Payable - Capital Campaign	491,017	8,983	500,000	-
Total Liabilities	<u>543,144</u>	<u>8,983</u>	<u>552,127</u>	<u>123,418</u>
Net Assets				
Unrestricted	3,096,934	-	3,096,934	3,089,489
Temporarily restricted	-	2,874,469	2,874,469	187,074.00
Total net assets	<u>3,096,934</u>	<u>2,874,469</u>	<u>5,971,403</u>	<u>3,276,563</u>
Total Liabilities and Net Assets	<u>\$ 3,640,078</u>	<u>\$ 2,883,452</u>	<u>\$ 6,523,530</u>	<u>\$ 3,399,981</u>

See accompanying auditors' report
The accompanying notes are an integral part of the financial statements.

MEND ■ MEET EACH NEED WITH DIGNITY

(A California Non-Profit Corporation)

STATEMENTS OF ACTIVITIES

June 30.2005

	Unrestricted	Temporarily Restricted	Totals 2005	Totals 2004
Support and Revenue				
In-kind contributions	\$ 5,514,316	\$ -	\$ 5,514,316	\$ 5,052,172
Contributions foundations	142,250	68,350	210,600	298,814
Contributions - individuals	211,097	10,500	221,597	180,063
Contributions businesses	81,742	186,594	268,336	149,667
Fundraising	24,910		24,910	81,541
Other income	159,412	-	159,412	3,456
Net assets released from restrictions	312,154	(312,154)	-	
Total Support and Revenue	<u>6,445,881</u>	<u>(46,710)</u>	<u>6,399,171</u>	<u>5,765,713</u>
Expenses				
Program services	6,149,954		6,149,954	5,697,007
General and administrative	170,677		170,677	145,073
Fundraising	57,764		57,764	51,996
Capital Campaign	60,041		60,041	24,615
Total Expenses	<u>6,438,436</u>		<u>6,438,436</u>	<u>5,918,691</u>
Increase (decrease) in Net Assets before capital campaign	7,445	(46,710)	(39,265)	(152,978)
Capital Campaign Revenues		2,734,105	2,734,105	956,955
Net Assets, beginning of year	3,089,489	187,074	3,276,563	2,472,586
Net Assets, end of year	<u>\$ 3,096,934</u>	<u>\$ 2,874,469</u>	<u>\$ 5,971,403</u>	<u>\$ 3,276,563</u>

See accompanying auditors' report
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MEND - MEET EACH NEED WITH DIGNITY
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STATEMENTS OF FUNCTIONAL EXPENSES
June 30, 2005

	Food Distribution	Clothing and Sewing	Learning Center	Medical, Dental and Vision	Other Programs	Total Programs	General and Administrative	Fundraising	Capital Expansion	Totals
	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
Salaries	\$ 108,157	\$ 53,341	\$ 62,273	\$ 61,602	\$ 18,532	\$ 303,905	\$ 140,805	\$ 33,145	\$ -	\$ 477,855
Employee benefits	20,258	6,719	3,155	4,610	3,186	37,928	5,001	1,036	-	43,965
Payroll taxes	8,402	5,187	5,448	4,998	1,620	25,655	11,401	3,175	-	40,231
Total salaries and benefits	136,817	65,247	70,876	71,210	23,338	367,498	157,207	37,356	-	562,056
Donated goods and services	4,213,039	477,221	-	724,366	-	5,414,626	-	-	-	5,414,626
Depreciation	21,116	11,218	9,898	12,538	9,238	64,008	1,981	-	-	65,989
Medicine and laboratory expense	-	-	-	79,662	-	79,662	-	-	-	79,662
Repairs and maintenance	5,247	2,787	2,459	3,115	2,295	15,903	493	-	-	16,396
Utilities and trash	10,489	5,572	4,917	6,228	4,910	32,116	662	-	-	32,778
Insurance	6,035	3,206	2,829	7,583	2,640	22,293	566	-	-	22,859
Supplies	1,645	161	776	9,016	11,275	22,873	5,809	-	-	28,682
Fundraising expenses	-	-	-	-	-	-	-	16,987	-	16,987
General program expenses	1,203	639	564	714	10,228	13,348	112	-	-	13,460
Postage and freight	4,090	2,173	1,917	2,428	1,789	12,397	384	-	-	12,781
Professional fees	3,040	1,615	1,425	1,805	1,330	9,215	285	-	-	9,500
Food	11,401	-	-	-	-	11,401	-	-	-	11,401
Clothing	-	7,927	-	-	-	7,927	-	-	-	7,927
Auto expense	10,929	4,994	-	-	-	15,923	-	-	-	15,923
Education and training	-	-	2,223	85	1,959	4,267	-	-	-	4,267
Telephone	1,834	974	860	1,089	802	5,559	172	-	-	5,731
Printing	690	246	-	-	1,506	2,442	-	-	-	2,442
Volunteer development	718	381	337	426	382	2,244	-	-	-	2,244
Special events	-	-	-	-	-	-	-	3,421	-	3,421
Office expenses	269	143	126	160	118	816	24	-	-	840
Computer expenses	-	-	3,302	-	-	3,302	1,352	-	-	4,654
Miscellaneous expense	1,809	961	848	1,074	791	5,483	169	-	-	5,652
Property tax	-	-	-	-	-	-	1,461	-	-	1,461
Capital campaign expense	-	-	-	-	-	-	-	-	36,960	36,960
Fire damage expense	-	36,661	-	-	-	36,661	-	-	-	36,661
Trailer expense	-	-	-	-	-	-	-	-	3,250	3,250
San Fernando property expense	-	-	-	-	-	-	-	-	19,831	19,831
Total Expenses	\$ 4,430,371	\$ 622,126	\$ 103,357	\$ 921,499	\$ 72,601	\$ 6,149,954	\$ 170,677	\$ 57,764	\$ 60,041	\$ 6,438,435
Total 2004 Functional Expenses	\$ 4,038,382	\$ 519,661	\$ 100,428	\$ 945,859	\$ 92,677	\$ 5,697,007	\$ 145,073	\$ 51,996	\$ 24,615	\$ 5,918,682

The accompanying notes are an integral part of these financial statements

MEND - MEET EACH NEED WITH DIGNITY
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STATEMENTS OF CASH FLOWS
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase or (decrease) in net assets	\$ 2,669,840	\$ 803,977
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operations:		
Depreciation and amortization	65,989	75,836
Gain (loss) on sale of land		(281)
(Increase) decrease in assets and liabilities:		
Pledges receivable - capital campaign	(2,259,250)	22,000
Pledges receivable	12,500	
Prepaid expenses	2,298	4,506
Funds receivable	(8,983)	-
Inventory	(90,072)	2,854
Accrued liabilities	(71,291)	52,675
NET CASH PROVIDED (USED) BY	<u>321,031</u>	<u>961,567</u>
OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposition of land and building, net	-	119,719
Net acquisitions of land, buildings and equipment	<u>(477,054)</u>	<u>(1,100,188)</u>
NET CASH PROVIDED (USED) BY	<u>(477,054)</u>	<u>(980,469)</u>
INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable for capital campaign	<u>500,000</u>	<u>-</u>
NET CASH PROVIDED (USED) BY	<u>500,000</u>	<u>-</u>
FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	343,977	(18,902)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>247,807</u>	<u>266,709</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 591,784</u>	<u>\$ 247,807</u>

See accompanying auditors' report
The accompanying notes are an integral part of the financial statements.

MEND - MEET EACH NEED WITH DIGNITY
(A California Non-Profit Corporation)

NOTES TO THESE AUDITED FINANCIAL STATEMENTS
June 30, 2005

NOTE 1: Organization and Operations

MEND -- Meet Each Need with Dignity is a non-profit California corporation. MEND is the largest and most comprehensive poverty-fighting agency in the San Fernando Valley. MEND receives financial donations from individuals, foundations and businesses, as well as in-kind contributions to provide services that meet the basic human needs of individuals who reside in the Northeast San Fernando Valley. MEND programs include an Emergency Food Bank, Medical and Dental Clinic, Home Visitors Program, Employment Support Services, Education and Training Center, Clothing Center and a Christmas Basket Program.

The *Emergency Food Bank* prepares food baskets several times a week using donated food collected from various organizations. MEND operates food distribution sites in the Northeast San Fernando Valley, and distributes excess food to smaller pantries and non-profits each month.

The *Medical Clinic and Dental Clinic* is staffed by volunteer health professionals and provides free health and dental care. Specialty clinics include vision, diabetes education and treatment, hypertension education and treatment, women's health, healthy aging and chiropractic treatment.

The *Home Visitors Program* meets with families and refers them to appropriate MEND programs and community agencies.

Employment Support Services provides training and assistance with employment issues.

The *Education and Training Center* offers instruction in English as a Second Language, a computer lab, job training, a women's support group and Family Club in addition to other activities.

The *Clothing Center* distributes usable clothing and small household items to families year round, and sewing groups make new clothes for small children.

The *Christmas Basket Program* brings volunteers together to prepare baskets of donated food, blankets, and toys for over 1,000 needy families.

Basis of Presentation

The financial statements of MEND have been prepared on the accrual basis of accounting in accordance with the AICPA's Audit and Accounting Guide, "Not-for-Profit Organizations".

MEND - MEET EACH NEED WITH DIGNITY
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NOTES TO THESE AUDITED FINANCIAL STATEMENTS
June 30, 2005

NOTE 2: Summary of Significant Accounting Policies

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of MEND are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted - These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

Temporarily Restricted - MEND reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions. MEND has \$2,874,469 of temporarily restricted net assets at June 30, 2005, which includes \$2,734,105 for the Capital campaign

Permanently Restricted - These net assets are received by donors who stipulate that resources are to be maintained permanently, but permit MEND to expend all of the income (or other economic benefits) derived from the donated assets. MEND has no permanently restricted net assets at June 30, 2005.

Recognition of Donor Restricted Contributions

Donor-restricted support is reported as an increase in temporarily restricted net assets depending upon the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. All contributions are considered to be for unrestricted purposes unless specifically restricted by the donor. All donor-restricted contributions made in the year ended June 30, 2005 whose restrictions have been met in this period, are included in operating income as unrestricted contributions.

MEND - MEET EACH NEED WITH DIGNITY

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2005

NOTE 2: Summary of Significant Accounting Policies, (Cont'd.)

In-Kind Contributions

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial asset or that require specialized skills, provided by individuals possessing those skills, that would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. Contributions of donated materials and services of \$5,514,316 were recorded for the year ended June 30, 2005.

A number of unpaid volunteers have made significant contributions of their time to MEND. MEND receives donated services from volunteers who serve as drivers, cooks, clothing and food distribution helpers, English as a Second Language and computer lab teachers, and administrative and various other program assistants. However, the value of these services is not reflected in these financial statements because the criteria for recognition have not been satisfied.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents.

Pledges Receivable

Unconditional promises to give cash and other assets to MEND are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Inventory

Inventory is stated at the lower of cost or fair value, determined by the first-in, first-out method. Donated items placed into inventory are stated at fair value.

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS
June 30, 2005

NOTE 2: Summary of Significant Accounting Policies, (Cont'd.)

Property and Equipment

Property and equipment are recorded at cost or at estimated fair value at the date of gift. Donations of fixed assets are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Organization follows the policy of capitalizing expenditures which materially increase asset lives, and charging ordinary maintenance and repairs to operations as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is included in income. Depreciation is calculated using the straight-line method on all assets.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Indirect or shared costs are allocated among program and support services by the method that best measures the relative degree of benefit. MEND uses square footage and time studies to allocate indirect costs.

Concentration of Credit Risk

MEND places its temporary cash investments with high-credit, quality financial institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation's insurance limit. MEND has not incurred losses related to these investments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax

MEND, a California not-for-profit corporation, is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS
June 30, 2005

NOTE 3: Pledges Receivable

Meet Each Need With Dignity has received promises to give from donors to be received in installments over periods exceeding one year.

As of June 30, 2005, MEND had unconditional promises to give as follows:

	Capital Campaign	Other	Total
Due within one year	\$ 1,456,000	\$12,500	\$ 1,468,500
Due in over one year	925,000		925,000
	<u>2,381,000</u>	12,500	<u>2,393,500</u>
Present value discount	(101,750)		(101,750)
Unconditional Promises to Give	<u>\$ 2,279,250</u>	<u>\$ 12,500</u>	<u>\$ 2,291,750</u>

NOTE 4: Inventory

Inventory at June 30, 2005 consists of the following:

Food	\$ 445,010
Medical and dental	179,525
Clothing	14,841
Total	<u>\$ 639,376</u>

NOTE 5: Property and Equipment

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

Land	\$ 1,566,290
Building and improvements	1,421,450
Furnishings and equipment	121,825
Vehicles	85,287
Total	<u>3,194,852</u>
Less: Accumulated Depreciation	(662,419)
Net Property and Equipment	<u>\$ 2,532,433</u>

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS
June 30, 2005

NOTE 6: Accrued Liabilities

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

Accrued payroll	\$ 17,142
Accrued vacation	<u>34,985</u>
Total	<u>\$ 52,127</u>

NOTE 7: Donated Materials and Services

Contributions of donated non-cash assets are recorded at fair value 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 fair value in the period received. Contributions of donated materials and services of \$5,514,316 were recorded for year ended June 30, 2005.

In-kind contributions for the year ended June 30, 2005 consisted of the following:

Food	\$ 4,266,752
Clothing	446,994
Medical, dental and vision materials	356,909
Medical and dental professional services	406,178
Miscellaneous	<u>37,483</u>
Total	<u>\$ 5,514,316</u>

Various other services are performed for MEND by volunteers. The donated services are not reflected in the accompanying financial statements, as no objective basis is available to measure the value of such services.

NOTE 8: Commitments and Contingencies

On September 28, 2004, MEND entered into a loan agreement and promissory note with Valley Economic Development Corporation, dba The Los Angeles Business Development Corporation (VEDC), putting up the 10641 San Fernando Road, Pacoima, California property as collateral for the loan. The loan is for \$500,000, with interest at an initial rate of 7.25%, and a variable

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS
June 30, 2005

NOTE 8: Commitments and Contingencies, (Cont'd.)

interest rate to be calculated each January 1 and July 1 based on 2.5% over the prime rate but not less than 4%. A loan servicing fee of .75% of each payment is also charged. Payments are to be made in monthly installments of \$3,043, commencing on the 16th day of October, 2004 and continuing until October 16, 2005 when the full unpaid balance of principal and interest is due and payable. The contract requires MEND to use the first proceeds raised from its capital campaign associated with the building project to pay down the loan. Currently capital campaign funds in the amount of \$460,855 have been received from donors for the building project at 10641 San Fernando Road.

The proceeds of the VEDC Loan are to be used exclusively for the property clean up, architectural fees, interest reserve and points and fees associated with the loan in a manner necessary to the operation of the business of MEND as specified in the contract as follows:

- (a) Architectural fees of \$422,000;
- (b) Property Clean Up of \$30,223 – MEND agrees to clear and clean the property, including asbestos abatement to the satisfaction of VEDC prior to disbursement of proceeds for architectural fees;
- (c) Interest Reserve of \$36,521 from which VEDC automatically draws its monthly payments, and any fees. At maturity all fees remaining in the account will be applied to the outstanding balance of the loan; and
- (d) Points and Fees: \$11,256.

The loan terms allow VEDC to directly pay the vendors the funds from loan.

MEND has currently made no payments on this loan pending an agreement with VEDC to extend the loan due date contingent on receipt of a large donation expected in February 2006 and February 2007.

NOTE 9: Fire Losses

On October 18, 2004, an electrical fire caused by a defective air conditioner occurred at MEND which resulted in fire damage to the clothing department and its contents and smoke damage to the second floor. MEND received an insurance payment of \$33,663 to cover lost/damaged clothing items and \$22,821 to cover equipment replacement losses. MEND also received donations from individuals and businesses in response to the fire in the amount of \$45,674 and for infant items in the amount of \$2,165. Repairs have been completed.

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS
June 30, 2005

NOTE 10: Retirement Plan

MEND permits employees to participate in an individualized salary reduction retirement plan. MEND makes no contributions to these accounts and employees are at all times 100% vested. As of June 30, 2005, only one employee participated in this retirement plan.