

**PROJECT ANGEL HEART**

**FINANCIAL STATEMENTS**

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DECEMBER 31, 2008

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors  
Project Angel Heart  
Denver, Colorado

We have audited the accompanying statement of financial position of Project Angel Heart (a nonprofit corporation) as of December 31, 2008 and the related statements of activity, 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. The prior year summarized comparative information has been derived from the Organization's 2007 financial statements, and in our opinion dated February 29, 2008, we expressed an unqualified opinion on those statements.

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 Angel Heart as of December 31, 2008 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Davis & Co., CPAs, P.C.*

Davis & Co., CPAs, P.C.  
Certified Public Accountants

Highlands Ranch, Colorado  
February 24, 2009

**PROJECT ANGEL HEART**  
Statement of Financial Position  
December 31, 2008  
(With Comparative Totals for 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2008</u>	<u>Total 2007</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 567,616	\$ 683,305	\$1,250,921	\$1,017,378
Marketable securities	877,455	--	877,455	1,002,673
Grants and pledges receivables	13,989	569,741	583,730	200,614
Deposits and prepaid expenses	<u>8,117</u>	<u>--</u>	<u>8,117</u>	<u>7,645</u>
	1,467,177	1,253,046	2,720,223	2,228,310
Bond loan issuance fees, net	--	15,300	15,300	17,000
Deferred rental expense, long-term	12,500	--	12,500	22,500
Fixed long-lived assets, at cost				
Building & land held for future use	--	1,170,000	1,170,000	1,170,000
Leasehold improvements	302,742	--	302,742	302,742
Equipment & furnishings	332,530	--	332,530	312,998
Program delivery vehicles	<u>60,823</u>	<u>--</u>	<u>60,823</u>	<u>60,823</u>
	696,095	1,170,000	1,866,095	1,846,563
Less: accumulated depreciation	<u>(542,545)</u>	<u>--</u>	<u>(542,545)</u>	<u>(479,627)</u>
	<u>153,550</u>	<u>1,170,000</u>	<u>1,323,550</u>	<u>1,366,936</u>
	<u>\$1,633,227</u>	<u>\$2,438,346</u>	<u>\$4,071,573</u>	<u>\$3,634,746</u>
 <b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable & accrued liabilities	\$ 23,180	\$ --	\$ 23,180	\$ 12,687
Mortgage note payable, current	--	47,452	47,452	45,152
Accrued payroll liabilities	<u>14,129</u>	<u>--</u>	<u>14,129</u>	<u>8,988</u>
	37,309	47,452	84,761	66,827
Mortgage note payable, long term	--	1,415,620	1,415,620	1,462,848
Net assets				
Unrestricted	1,355,112	--	1,355,112	1,654,731
Designated	240,806	--	240,806	242,388
Temporarily restricted	<u>--</u>	<u>975,274</u>	<u>975,274</u>	<u>207,952</u>
	<u>1,595,918</u>	<u>975,274</u>	<u>2,571,192</u>	<u>2,105,071</u>
	<u>\$1,633,227</u>	<u>\$2,438,346</u>	<u>\$4,071,573</u>	<u>\$3,634,746</u>

The accompanying notes are a part of this statement.

**PROJECT ANGEL HEART**  
Statement of Activity  
For the Year Ended December 31, 2008  
(With Comparative Totals for 2007)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total 2008</u>	<u>Total 2007</u>
<b>SUPPORT AND REVENUE</b>				
Contributions from individuals	\$ 557,078	\$ 382,940	\$ 940,018	\$ 790,900
Contributions from corporations and organizations	327,055	--	327,055	367,056
Grants from foundations	368,843	478,500	847,343	435,221
Government grants	138,075	100,000	238,075	162,566
Donated services, food and supplies	642,656	--	642,656	604,378
Special events (net of costs of \$29,787)	128,184	--	128,184	140,739
Leasing income	46,800	--	46,800	--
Realized investment income	<u>54,278</u>	<u>2,027</u>	<u>56,305</u>	<u>55,449</u>
 Total public support and revenue	 2,262,969	 963,467	 3,226,436	 2,556,309
 Net assets released from restrictions due either to the passage of time or the satisfaction of purpose restrictions	 <u>196,145</u>	 <u>(196,145)</u>	 <u>--</u>	 <u>--</u>
Total public support and revenue and reclassifications	2,459,114	767,322	3,226,436	2,556,309
<b>FUNCTIONAL EXPENSES</b>				
Program services				
Home-delivered meals	2,143,503	--	2,143,503	2,077,173
Supporting services				
Management and general	33,899	--	33,899	40,999
Financial development	162,117	--	162,117	138,133
Program expansion campaign	<u>227,445</u>	<u>--</u>	<u>227,445</u>	<u>86,766</u>
Total expenses	<u>2,566,964</u>	<u>--</u>	<u>2,566,964</u>	<u>2,343,071</u>
 <b>Change in net assets - operating</b>	 (107,850)	 767,322	 659,472	 213,238
Unrealized gains (losses)	<u>(193,351)</u>	<u>--</u>	<u>(193,351)</u>	<u>36,494</u>
<b>Change in net assets - inclusive</b>	<u>(301,201)</u>	<u>767,322</u>	<u>466,121</u>	<u>249,732</u>
 <b>Net assets, beginning of year</b>	 <u>1,897,119</u>	 <u>207,952</u>	 <u>2,105,071</u>	 <u>1,855,339</u>
 <b>Net assets, end of year</b>	 <u>\$1,595,918</u>	 <u>\$975,274</u>	 <u>\$2,571,192</u>	 <u>\$2,105,071</u>

The accompanying notes are a part of this statement.

**PROJECT ANGEL HEART**  
Statement of Functional Expenses  
For the Year Ended December 31, 2008  
(With Comparative Totals for 2007)

		<u>Supporting Services</u>				
	Home-Delivered Meals Program	Management and General	Financial Development	Program Expansion Campaign	Total 2008 Expenses	Total 2007 Expenses
Personnel expenses & volunteer labor	\$1,221,821	\$26,557	\$ 99,463	\$ 40,000	\$1,387,841	\$1,341,525
Cost of meals	546,302	--	--	--	546,302	483,209
Occupancy costs	116,682	2,536	9,499	83,431	212,148	149,492
Printing, postage & publicity	43,657	949	38,710	55,551	138,867	90,151
Program supplies & equipment	15,892	--	--	16,576	32,468	17,390
Professional & outside services	76,164	1,655	6,200	24,470	108,489	108,173
Meetings, conferences & travel	31,626	216	809	902	33,553	29,929
Office supplies & expenses	18,108	394	1,474	1,121	21,097	38,834
Telecommunications & other	7,438	162	605	--	8,205	11,667
Insurance expenses	<u>8,778</u>	<u>190</u>	<u>714</u>	<u>5,394</u>	<u>15,076</u>	<u>8,416</u>
Total before non-cash expenses	2,086,468	32,659	157,474	227,445	2,504,046	2,278,785
Bad debts	--	--	--	--	--	--
Depreciation	<u>57,035</u>	<u>1,240</u>	<u>4,643</u>	<u>--</u>	<u>62,918</u>	<u>64,286</u>
Total expenses	<u>\$2,143,503</u>	<u>\$33,899</u>	<u>\$162,117</u>	<u>\$227,445</u>	<u>\$2,566,964</u>	<u>\$2,343,071</u>

The accompanying notes are a part of this statement.

**PROJECT ANGEL HEART**  
Statement of Cash Flows  
For the Year Ended December 31, 2008  
(With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Change in net assets - inclusive	\$466,121	\$249,732
Adjustments to reconcile to net cash provided by operating activities:		
Unrealized (gains) losses	193,351	(36,494)
Depreciation	62,918	64,286
Changes in operating assets and liabilities:		
(Increase) in grants & pledges receivable	(383,116)	(181,442)
(Increase) decrease in marketable securities	(58,133)	(147,687)
Decrease (increase) in deposits & prepaid expenses	(10,472)	2,355
(Decrease) increase in accounts payable	10,493	(3,324)
(Decrease) increase in accrued payroll liabilities	<u>5,141</u>	<u>(35,391)</u>
Net cash flow from inclusive activities	286,303	(87,965)
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Proceeds from Issuance (repayment) of long-term debt	(44,928)	1,508,000
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Amortization of lease buy-out	10,000	10,000
Bond loan issuance fees, net	1,700	(17,000)
Purchases of fixed assets	<u>(19,532)</u>	<u>(1,192,909)</u>
	(7,832)	(1,199,909)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	233,543	220,126
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>1,017,378</u>	<u>797,252</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$1,250,921</u>	<u>\$1,017,378</u>
Supplemental disclosure of cash flow information:		
Interest expense – cash basis	<u>\$72,785</u>	<u>\$ --</u>
Interest income – cash basis	<u>\$36,897</u>	<u>\$29,064</u>

The accompanying notes are a part of this statement.

**PROJECT ANGEL HEART**  
Notes to Financial Statements  
December 31, 2008

Note 1: Summary of Significant Accounting Policies  
Significant accounting policies are as follows:

a. Organization

Project Angel Heart (the "Organization") was incorporated under the laws of the State of Colorado on November 18, 1991. The Organization is a nonprofit corporation whose purpose is to provide home-delivered nutritional meals to residents of metro-Denver and Colorado Springs, Colorado who are living with HIV/AIDS, cancer and other life-threatening illnesses. During 2008, the Organization prepared and delivered 407,279 meals to 1,687 unduplicated clients. Meals are delivered either hot daily or frozen weekly depending on each client's needs and geographical location.

During 2006 the Organization engaged experts to determine both the existing and future unmet client needs within the geographical area it serves. The research results indicated there will be a near term need for substantial additional kitchen and distribution capacity beyond what current facilities can provide. Accordingly, on October 9, 2007 a building was purchased which the Organization intends to renovate and move into at some future point in time. As of December 31, 2008, the preliminary phases of an extensive "Program Expansion Campaign" were underway.

b. Financial statement presentation

These financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, support and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

Unrestricted - Resources not subject to donor-imposed restrictions.

Temporarily restricted - Resources subject to donor-imposed restrictions that will be satisfied either by future actions of the Organization or the passage of time.

c. Cash and cash equivalents

The Organization maintains its various cash equivalent accounts in two commercial banks located in Denver, Colorado. With the exception of \$217,969, the balances in these accounts were fully guaranteed by a combination of the statutory coverages provided by the Federal Deposit Insurance Corporation and Securities Investors Protection Corporation.

d. Furniture and equipment

Expenditures for furniture and equipment in excess of \$1,000 are capitalized at cost. Expenditures for maintenance, repairs and other renewals of items are charged to expense. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or

(Continued)

**PROJECT ANGEL HEART**  
Notes to Financial Statements  
December 31, 2008

Note 1: Summary of Significant Accounting Policies (Continued)

d. Furniture and equipment (continued)

loss is included in the results of operations. The provision for depreciation is calculated using the straight-line method based upon estimated useful lives of five years for furniture, equipment and vehicles and ten years for leasehold improvements.

e. Revenue recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted either for future periods or for specific purposes by the donor are reported as temporarily restricted support that increases that net asset class. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a donor-imposed restriction is satisfied in the same accounting period that the revenue is received, the Organization reports the revenue as "unrestricted." Government grants qualify as "exchange transactions", which means revenues are recognized in the same period that the underlying services are performed and billed out to the respective grantors. The Organization's signature fundraiser, "Dining Out for Life," raised \$333,085 (net) which is allocated between individual and corporate contributions herein.

f. Donated materials and services

In-kind donations of non-cash assets and expendable supplies/materials are recorded at their fair value in the period received if they would have otherwise been purchased. Food, nutritional supplements, packaging and other program materials in the amount of \$162,013 were recorded during 2008 and are included as a component of "cost of meals." \$21,691 of donated delivery mileage is included as a component of "meetings, conferences & travel."

In-kind contributions of donated services that require specialized skills, are provided by individuals possessing those skills and typically would have been purchased if not provided by donation, are recorded at their fair value in the period received. The donated time of volunteer cooks, kitchen staff and drivers, and board committee members; in the aggregate amount of \$458,952, met these requirements and is recorded under "personnel expense," herein.

g. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(Continued)

**PROJECT ANGEL HEART**  
Notes to Financial Statements  
December 31, 2008

Note 1: Summary of Significant Accounting Policies (Continued)

h. Marketable securities

Marketable securities (with a cost basis of \$1,045,299) consist of publicly traded mutual funds which are recorded at published market values at December 31, 2008. \$519,445 of the \$877,455 account balance at December 31, 2008 was guaranteed by the statutory coverage provided by the SIPC.

i. Accrued paid time off

In accordance with the Financial Accounting Standards Board Statement No. 43, *Accounting for Compensated Absences*, the Organization accrues paid time off when earned.

j. Tax status

The Internal Revenue Service recognizes the tax-exempt status of the Organization under Section 501 (c)(3) of the Internal Revenue Code and the Organization has no items of unrelated business income; therefore, a provision for income taxes is not necessary.

k. Functional expenses

Expenses directly identified with a functional area are charged to such area. If an expense affects more than one area, it is allocated by the time expended or another reasonable basis.

Note 2: Long-term Lease Commitment

On January 10, 2001, the Organization entered into an agreement with Chapin's Supreme Foods, Inc. and Swalm Investment Company whereby it leased 9,720 square feet of commercial kitchen and warehouse space from Swalm for a period of ten years with 2 five year lessee renewal options. The Organization had most of the warehouse space renovated into office space during the first half of 2001

The agreement required a payment of \$100,000 by the Organization for a buy-out of Chapin's long-term lease from Swalm. This payment was recorded as "deferred rental expense" and is being evenly amortized over the ten year term of the Organization's lease with Swalm.

The Organization's initial ten year lease with Swalm expires on January 31, 2011 and requires minimum annual payments of \$60,108 during 2009 and 2010 and \$5,009 in 2011. Rental expense during the year of \$76,130 is included as the primary component of "occupancy costs" in the statement of functional expenses, herein.

(Continued)

**PROJECT ANGEL HEART**  
Notes to Financial Statements  
December 31, 2008

Note 3: Retirement Plan

After one year of employment, employees of The Organization are eligible to participate in a 403(b) tax sheltered annuity plan under which each employee may contribute up to a specified percentage of annual salary. The Organization is required to make matching contributions of 3% of each participating employee's annual salary after one year of employment. The Organization's matching contributions during 2008 amounted to \$13,303.

Note 4: Designated Net Assets

Starting with fiscal 2005 and years thereafter, the Organization's board of directors has designated that 25% of any positive increases in net assets (operating, unrestricted and before depreciation) be set aside as a reserve for the eventual replacement of long-lived fixed assets. This reserve amounted to \$240,806 and \$242,388 at December 31, 2008 and 2007, respectively. Capital expenditures from this reserve are subject to varying board approval requirements depending on their nature and amount.

Note 5: Notes Payable

On October 9, 2007 the Organization borrowed \$1,119,414 under a short-term bridge loan from a local bank to purchase a building in Denver, Colorado which it intends to substantially renovate and move into at a future point in time (See Note 1a). The \$1,170,000 value of the building is recorded in the statement of financial position herein under "Building held for future use".

On November 26, 2007 the bridge loan was refinanced under a 10-year loan for \$1,508,000 through the same local bank, backed by the City of Commerce City, Colorado Revenue Bonds and secured by a first lien on the underlying property. The interest rate is fixed at 4.8% and the underlying loan agreement requires 39 quarterly payments of \$29,929 commencing February 26, 2008 with a final balloon payment of \$955,544 on November 26, 2017. The minimum principal payments due over each of the next five years; and thereafter in total, are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2009	\$ 47,452
2010	49,870
2011	52,410
2012	55,080
2013	57,887
Thereafter	<u>1,200,373</u>
Total	1,463,072
Less: current portion	<u>(47,452)</u>
Long-term portion	<u><u>\$1,415,620</u></u>

Interest paid during 2008 of \$72,785 is included under "occupancy costs", herein.

(Continued)

**PROJECT ANGEL HEART**  
Notes to Financial Statements  
December 31, 2008

Note 6: Temporarily Restricted Net Assets/Net Assets Released from Restrictions  
The Organization's \$975,274 of temporarily restricted net assets at December 31, 2008 represents donor-restricted support that was available for the following purposes (along with related activity for the year-ended December 31, 2008):

<u>Purpose</u>	Balance December 31, <u>2007</u>	Donor Restricted <u>Gifts</u>	Designated <u>Interest</u>	Expenditures Satisfying <u>Restriction(s)</u>	Balance December 31, <u>2008</u>
Program expansion campaign - Building search/purchase	\$166,566	\$961,440	\$2,027	\$(176,613)	\$953,420
2001 Capital Campaign: - On-going capital additions	<u>41,386</u>	<u>—</u>	<u>—</u>	<u>(19,532)</u>	<u>21,854</u>
	<u>\$207,952</u>	<u>\$961,440</u>	<u>\$2,027</u>	<u>\$(196,145)</u>	<u>\$975,274</u>