

PROJECT ANGEL HEART

FINANCIAL STATEMENTS

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DECEMBER 31, 2009

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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, 2009 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 2008 financial statements, and in our opinion dated February 29, 2009, 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, 2009 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
March 5, 2010

PROJECT ANGEL HEART
Statement of Financial Position
December 31, 2009
(With Comparative Totals for 2008)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2009</u>	<u>Total 2008</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 709,486	\$ 678,023	\$1,387,509	\$1,250,921
Marketable securities	1,118,604	--	1,118,604	887,455
Grants and pledges receivables	35,188	668,726	703,914	583,730
Deposits and prepaid expenses	<u>7,847</u>	<u>--</u>	<u>7,847</u>	<u>8,117</u>
	1,871,125	1,346,749	3,217,874	2,720,223
Bond loan issuance fees, net	--	13,600	13,600	15,300
Deferred rental expense, long-term	--	--	--	12,500
Fixed long-lived assets, at cost				
Construction in progress - campaign	--	1,662,811	1,662,811	1,187,949
Leasehold improvements	302,742	--	302,742	302,742
Equipment & furnishings	314,581	--	314,581	314,581
Program delivery vehicles	<u>60,823</u>	<u>--</u>	<u>60,823</u>	<u>60,823</u>
	678,146	1,662,811	2,340,957	1,866,095
Less: accumulated depreciation	<u>(603,494)</u>	<u>--</u>	<u>(603,494)</u>	<u>(542,545)</u>
	<u>74,652</u>	<u>1,662,811</u>	<u>1,737,463</u>	<u>1,323,550</u>
	<u>\$1,945,777</u>	<u>\$3,023,160</u>	<u>\$4,968,937</u>	<u>\$4,071,573</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable & other liabilities	\$ 67,814	\$ --	\$ 67,814	\$ 23,180
Mortgage note payable, current	--	49,870	49,870	47,452
Accrued payroll liabilities	<u>23,997</u>	<u>--</u>	<u>23,997</u>	<u>14,129</u>
	91,811	49,870	141,681	84,761
Mortgage note payable, long term	--	1,365,833	1,365,833	1,415,620
Net assets				
Unrestricted	1,595,576	--	1,595,576	1,355,112
Designated	258,390	--	258,390	240,806
Temporarily restricted	<u>--</u>	<u>1,607,457</u>	<u>1,607,457</u>	<u>975,274</u>
	<u>1,853,966</u>	<u>1,607,457</u>	<u>3,461,423</u>	<u>2,571,192</u>
	<u>\$1,945,777</u>	<u>\$3,023,160</u>	<u>\$4,968,937</u>	<u>\$4,071,573</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Activity
For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2009</u>	<u>Total 2008</u>
SUPPORT AND REVENUE				
Contributions from individuals	\$ 596,488	\$ 106,206	\$ 702,694	\$ 940,018
Contributions from corporations and organizations	312,784	425,000	737,784	327,055
Grants from foundations	383,979	11,000	394,979	847,343
Government grants	261,618	250,000	511,618	238,075
Donated services, food and supplies	705,999	--	705,999	642,656
Special events (net of costs of \$34,251)	116,062	--	116,062	128,184
Leasing income	85,400	--	85,400	46,800
Realized investment income	<u>39,331</u>	<u>2,887</u>	<u>42,218</u>	<u>56,305</u>
 Total public support and revenue	 2,501,661	 795,093	 3,296,754	 3,226,436
 Net assets released from restrictions due either to the passage of time or the satisfaction of purpose restrictions	 <u>162,910</u>	 <u>(162,910)</u>	 <u>--</u>	 <u>--</u>
Total public support and revenue and reclassifications	2,664,571	632,183	3,296,754	3,226,436
FUNCTIONAL EXPENSES				
Program services				
Home-delivered meals	2,158,825	--	2,158,825	2,143,503
Supporting services				
Management and general	24,541	--	24,541	33,899
Financial development	173,335	--	173,335	162,117
Program expansion campaign	<u>195,767</u>	<u>--</u>	<u>195,767</u>	<u>227,445</u>
Total expenses	<u>2,552,468</u>	<u>--</u>	<u>2,552,468</u>	<u>2,586,964</u>
 Change in net assets - operating	 112,103	 632,183	 744,286	 659,472
Unrealized gains (losses)	<u>145,945</u>	<u>--</u>	<u>145,945</u>	<u>(193,351)</u>
Change in net assets - inclusive	258,048	632,183	890,231	466,121
 Net assets, beginning of year	 <u>1,595,918</u>	 <u>975,274</u>	 <u>2,571,192</u>	 <u>2,105,071</u>
 Net assets, end of year	 <u>\$1,853,966</u>	 <u>\$1,607,457</u>	 <u>\$3,461,423</u>	 <u>\$2,571,192</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Functional Expenses
For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

	<u>Supporting Services</u>					<u>Total</u>	<u>Total</u>
	<u>Home-Delivered Meals Program</u>	<u>Management and General</u>	<u>Financial Development</u>	<u>Program Expansion Campaign</u>	<u>2009 Expenses</u>	<u>2008 Expenses</u>	
Personnel expenses & volunteer labor	\$1,209,485	\$19,292	\$107,364	\$ 50,175*	\$1,386,316	\$1,387,841	
Cost of meals	557,614	--	--	--	557,614	546,302	
Occupancy costs	118,230	1,886	10,495	95,272	225,883	212,148	
Printing, postage & publicity	42,676	681	40,549	8,000	91,906	138,867	
Program supplies & equipment	26,657	--	--	6,396	33,053	32,468	
Professional & outside services	59,638	951	5,294	20,361	86,244	108,489	
Meetings, conferences & travel	41,899	94	523	36	42,552	33,553	
Office supplies & expenses	36,223	578	3,216	1,005	41,022	21,097	
Telecommunications & other	6,942	111	616	--	7,669	8,205	
Insurance expenses	<u>4,289</u>	<u>68</u>	<u>381</u>	<u>4,246</u>	<u>8,984</u>	<u>15,076</u>	
Total before non-cash expenses	2,103,653	23,661	168,438	185,491	2,481,243	2,504,046	
Bad debts	--	--	--	10,276	10,276	--	
Depreciation	<u>55,172</u>	<u>880</u>	<u>4,897</u>	<u>--</u>	<u>60,949</u>	<u>62,918</u>	
Total expenses	<u>\$2,158,825</u>	<u>\$24,541</u>	<u>\$173,335</u>	<u>\$195,767</u>	<u>\$2,552,468</u>	<u>\$2,566,964</u>	

* - Represents allocated staff time, not reimbursed by donor restricted funds.

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Cash Flows
For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets - inclusive	\$890,231	\$466,121
Adjustments to reconcile to net cash provided by operating activities:		
Unrealized (gains) losses	(145,945)	193,351
Depreciation	60,949	62,918
Changes in operating assets and liabilities:		
(Increase) in grants & pledges receivable	(120,184)	(383,116)
(Increase) in marketable securities	(95,204)	(58,133)
(Increase) decrease in deposits & prepaids	270	(10,472)
Increase in accounts payable & other	44,634	10,493
Increase in accrued payroll liabilities	<u>9,868</u>	<u>5,141</u>
Net cash flow from inclusive activities	644,619	286,303
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from Issuance (repayment) of long-term debt	(47,369)	(44,928)
CASH FLOW FROM INVESTING ACTIVITIES:		
Amortization of lease buy-out	12,500	10,000
Bond loan issuance fees, net	1,700	1,700
Purchases of fixed assets	<u>(474,862)</u>	<u>(19,532)</u>
	(460,662)	(7,832)
CHANGE IN CASH AND CASH EQUIVALENTS	136,588	233,543
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,250,921</u>	<u>1,017,378</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$1,387,509</u>	<u>\$1,250,921</u>
Supplemental disclosure of cash flow information:		
Interest expense – cash basis	<u>\$72,045</u>	<u>\$72,785</u>
Interest income – cash basis	<u>\$42,218</u>	<u>\$36,897</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2009

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 nutritious, home-delivered meals, at no cost, to residents of metro-Denver and Colorado Springs, Colorado living with life-threatening illnesses. During 2009, the Organization prepared and delivered 410,223 meals to 1,842 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.

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 \$541,566, 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, 2009

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 \$312,474 (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 \$201,107 were recorded during 2009 and are included as a component of "cost of meals." \$36,010 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, office and board committee members; in the aggregate amount of \$468,882, 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, 2009

Note 1: Summary of Significant Accounting Policies (Continued)

h. Marketable securities

Marketable securities (with a cost basis of \$1,061,412) consist of publicly traded mutual funds which are recorded at published market values at December 31, 2009. \$648,741 of the \$1,118,604 account balance at December 31, 2009 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's employees accrue 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 was evenly amortized over the period from lease inception to December 31, 2009.

The Organization's initial ten year lease with Swalm expires on January 31, 2011 and requires minimum annual payments of \$65,489 during 2010 and \$5,453 in 2011. Rental expense during the current year of \$77,689 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, 2009

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 2009 amounted to \$13,715.

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 (pre-audited #, operating, unrestricted and before depreciation) be set aside as a reserve for the eventual replacement of long-lived fixed assets. This reserve amounted to \$258,390 and \$240,806 at December 31, 2009 and 2008, 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 purchase price of the building is recorded in the statement of financial position herein under "Construction in Progress – Campaign". Since then additional construction in progress of \$492,811 has been added.

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:

<u>Year ending December 31:</u>	<u>Amount</u>
2010	\$ 49,870
2011	52,410
2012	55,080
2013	57,887
2014	60,836
Thereafter	<u>1,139,620</u>
Total	1,415,703
Less: current portion	<u>(49,870)</u>
Long-term portion	<u>\$1,365,833</u>

Interest paid during 2009 of \$72,045 is included under "occupancy costs", herein.

(Continued)

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2009

Note 6: Temporarily Restricted Net Assets/Net Assets Released from Restrictions
The Organization's \$1,607,457 of temporarily restricted net assets at December 31, 2009 represents donor-restricted support that was available for the following purposes (along with related activity for the year-ended December 31, 2009):

<u>Purpose</u>	<u>Balance December 31, 2008</u>	<u>Donor Restricted Gifts</u>	<u>Designated Interest</u>	<u>Expenditures Satisfying Restriction(s)</u>	<u>Balance December 31, 2009</u>
Program expansion campaign	\$953,420	\$792,206	\$2,887	\$(141,056)	\$1,607,457
2001 Capital Campaign: - On-going capital additions	<u>21,854</u>	<u>--</u>	<u>--</u>	<u>(21,854)</u>	<u>--</u>
	<u>\$975,274</u>	<u>\$792,206</u>	<u>\$2,887</u>	<u>\$(162,910)</u>	<u>\$1,607,457</u>