

PROJECT ANGEL HEART
FINANCIAL STATEMENTS

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DECEMBER 31, 2010

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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, 2010 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 2009 financial statements, and in our opinion dated March 5, 2010, 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, 2010 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 18, 2011

PROJECT ANGEL HEART
Statement of Financial Position
December 31, 2010
(With Comparative Totals for 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 858,018	\$1,308,749	\$2,166,767	\$1,387,509
Marketable securities	1,277,065	--	1,277,065	1,118,604
Grants and pledges receivables	51,402	499,833	551,235	703,914
Deposits and prepaid expenses	<u>9,212</u>	<u>--</u>	<u>9,212</u>	<u>7,847</u>
	2,195,697	1,808,582	4,004,279	3,217,874
 Bond loan issuance fees, net	 --	 11,900	 11,900	 13,600
 Fixed long-lived assets, at cost				
Construction in progress - campaign	--	1,715,389	1,715,389	1,662,811
Leasehold improvements	302,742	--	302,742	302,742
Equipment & furnishings	317,868	--	317,868	314,581
Program delivery vehicles	<u>60,823</u>	<u>--</u>	<u>60,823</u>	<u>60,823</u>
	681,433	1,715,389	2,396,822	2,340,957
Less: accumulated depreciation	<u>(656,669)</u>	<u>--</u>	<u>(656,669)</u>	<u>(603,494)</u>
	<u>24,764</u>	<u>1,715,389</u>	<u>1,740,153</u>	<u>1,737,463</u>
	<u>\$2,220,461</u>	<u>\$3,535,871</u>	<u>\$5,756,332</u>	<u>\$4,968,937</u>
 LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable & other accruals	\$ 120,744	\$ --	\$120,744	\$ 67,814
Mortgage note payable, current	--	52,410	52,410	49,870
Accrued payroll liabilities	<u>31,069</u>	<u>--</u>	<u>31,069</u>	<u>23,997</u>
	151,813	52,410	204,223	141,681
 Mortgage note payable, long term	 --	 1,313,567	 1,313,567	 1,365,833
 Net assets				
Unrestricted	1,968,648	--	1,968,648	1,611,069
Designated	100,000	--	100,000	240,806
Temporarily restricted	<u>--</u>	<u>2,169,894</u>	<u>2,169,894</u>	<u>1,609,548</u>
	<u>2,068,648</u>	<u>2,169,894</u>	<u>4,238,542</u>	<u>3,461,423</u>
	<u>\$2,220,461</u>	<u>\$3,535,871</u>	<u>\$5,756,332</u>	<u>\$4,968,937</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Activity and Changes in Net Assets
For the Year Ended December 31, 2010
(With Comparative Totals for 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
SUPPORT AND REVENUE				
Contributions from individuals	\$ 632,449	\$ 313,009	\$ 945,458	\$ 702,694
Contributions from corporations and organizations	328,504	16,950	345,454	737,784
Grants from foundations	494,219	382,350	876,569	394,979
Government grants	264,312	--	264,312	511,618
Donated services, food and supplies	711,706	21,670	733,376	705,999
Special events (net of costs of \$45,871)	102,680	--	102,680	116,062
Leasing income	86,400	--	86,400	85,400
Realized investment income	<u>45,235</u>	<u>5,740</u>	<u>50,975</u>	<u>42,218</u>
 Total public support and revenue	 2,665,505	 739,719	 3,405,224	 3,296,754
 Net assets released from restrictions due either to the passage of time or the satisfaction of purpose restrictions	 <u>179,373</u>	 <u>(179,373)</u>	 <u>--</u>	 <u>--</u>
Total public support and revenue and reclassifications	2,844,878	560,346	3,405,224	3,296,754
FUNCTIONAL EXPENSES				
Program services				
Home-delivered meals	2,226,378	--	2,226,378	2,158,825
Supporting services				
Management and general	23,596	--	23,596	24,541
Financial development	160,937	--	160,937	173,335
Program expansion campaign	<u>313,578</u>	<u>--</u>	<u>313,578</u>	<u>195,767</u>
Total expenses	<u>2,724,489</u>	<u>--</u>	<u>2,724,489</u>	<u>2,552,468</u>
 Change in net assets - operating	 120,389	 560,346	 680,735	 744,286
Unrealized gains (losses)	<u>96,384</u>	<u>--</u>	<u>96,384</u>	<u>145,945</u>
Change in net assets - inclusive	216,773	560,346	777,119	890,231
 Net assets, beginning of year	 <u>1,851,875</u>	 <u>1,609,548</u>	 <u>3,461,423</u>	 <u>2,571,192</u>
 Net assets, end of year	 <u>\$2,068,648</u>	 <u>\$2,169,894</u>	 <u>\$4,238,542</u>	 <u>\$3,461,423</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Functional Expenses
For the Year Ended December 31, 2010
(With Comparative Totals for 2009)

	Supporting Services				
Home-Delivered Meals Program	Management and General	Financial Development	Program Expansion Campaign	Total 2010 Expenses	Total 2009 Expenses
Personnel expenses & volunteer labor	\$18,601	\$ 94,938	\$134,205*	\$1,476,182	\$1,386,316
Cost of meals	--	--	--	547,673	557,614
Occupancy costs	1,675	8,544	104,636	225,415	225,883
Printing, postage & publicity/development	838	34,800	4,869	95,858	91,906
Program supplies & equipment	--	--	3,356	41,865	33,053
Professional & outside services	907	14,612	35,607	161,148	86,244
Meetings, conferences & travel	176	898	594	45,042	42,552
Office supplies & expenses	468	2,391	2,465	36,264	41,022
Telecommunications & other	111	566	--	8,001	7,669
Insurance expenses	<u>83</u>	<u>426</u>	<u>3,790</u>	<u>9,810</u>	<u>8,984</u>
Total before non-cash expenses	22,859	157,175	289,522	2,647,258	2,481,243
Bad debts	--	--	24,056	24,056	10,276
Depreciation	<u>48,676</u>	<u>737</u>	<u>--</u>	<u>53,175</u>	<u>60,949</u>
Total expenses	<u>\$2,226,378</u>	<u>\$160,937</u>	<u>\$313,578</u>	<u>\$2,724,489</u>	<u>\$2,552,468</u>

* - Represents allocated staff time and in-kind, 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, 2010
(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets - inclusive	\$ 777,119	\$ 890,231
Adjustments to reconcile to net cash provided by operating activities:		
Unrealized (gains)	(96,384)	(145,945)
Depreciation	53,175	60,949
Changes in operating assets and liabilities:		
(Increase) decrease in grants & pledges receivable	152,679	(120,184)
(Increase) in marketable securities	(62,077)	(95,204)
(Increase) decrease in deposits & prepaids	(1,365)	270
Increase in accounts payable & other	52,930	44,634
Increase in accrued payroll liabilities	<u>7,072</u>	<u>9,868</u>
Net cash flow from inclusive activities	883,149	644,619
CASH FLOW FROM FINANCING ACTIVITIES:		
(Repayment) of long-term debt principal	(49,726)	(47,369)
CASH FLOW FROM INVESTING ACTIVITIES:		
Amortization of lease buy-out	--	12,500
Bond loan issuance fees, net	1,700	1,700
Purchases of fixed assets	<u>(55,865)</u>	<u>(474,862)</u>
	(54,165)	(460,662)
CHANGE IN CASH AND CASH EQUIVALENTS	779,258	136,588
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,387,509</u>	<u>1,250,921</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$2,166,767</u>	<u>\$1,387,509</u>
Supplemental disclosure of cash flow information:		
Interest expense – cash basis	<u>\$69,688</u>	<u>\$72,785</u>
Interest income – cash basis	<u>\$50,975</u>	<u>\$36,897</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2010

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 2010, the Organization prepared and delivered 415,681 meals to 1,886 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 would be a future 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 started renovating in January 2011 and intends to occupy sometime during the first quarter of 2012.

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 approximately \$1,227,541, the balances in these accounts were fully guaranteed by a combination of the statutory coverages provided by either the FDIC or the SIPC.

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, 2010

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 three to ten years.

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 \$333,370 (net) which is allocated between individual and corporate contributions herein, as is the "Pie in the Sky" fundraiser, which is conceptually similar.

f. Donated materials and services

In-kind donations of non-cash assets, expendable supplies and 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 \$184,094 were recorded during 2010 as a component of "cost of meals." \$31,752 of delivery mileage is recorded as a component of "meetings, conferences & travel." \$21,670 of items are included in the basis of "Construction in progress."

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, board committee members and technical services relating to the capital campaign, in the aggregate amount of \$495,861, 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, 2010

Note 1: Summary of Significant Accounting Policies (Continued)

h. Marketable securities and other investments

Marketable securities with a fair value of \$1,277,065 (cost basis of \$1,123,949) consist of publicly traded mutual funds comprised of cash equivalents, equities and fixed income securities. In accordance with SFAS #157, "Fair Value Measurements," these investments are classified by the Organization as Level 1 due to the existence of daily published market quotes for valuation inputs.

i. Accrued paid time off

In accordance with the FASB #43, "Accounting for Compensated Absences", the Organization's employees accrue paid time off when earned. The liability of \$29,259 recorded herein at December 31, 2010 is the primary component of "accrued payroll liabilities."

j. Tax status

The Internal Revenue Service has recognized the tax-exempt status of the Organization under Section 501(c)(3) of the Internal Revenue Code since inception.

Effective January 1, 2010 the Organization adopted FASB Interpretation # 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which interpreted various previous announcements with respect to the accounting for all tax positions taken (or expected to be taken) on any income tax return. The Organization determined that no cumulative effect adjustment was necessary upon adoption of FIN 48, and that no uncertain tax positions have been taken (or are expected to be taken) that could have a material effect on its income tax liabilities. The Organization believes that it has conducted its operations in accordance with, and has properly maintained, its tax-exempt status

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: Lease Commitment

The Organization's ten year lease for its existing space expired on January 31, 2011 and was formally extended for one year through January 31, 2012. After that, it can be carried month-to-month, if needed, until the new facility is occupied. Rental expense during the current year of \$68,442 is recorded under "occupancy costs," herein.

(Continued)

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2010

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 salary subject to limits. The Organization is required to make matching contributions of 3% of each participating employee's annual salary. Matching contributions during 2010 were \$13,023.

Note 4: Designated Net Assets

Since 2005, the Organization's board of directors had designated that 25% of any positive increase in net assets (pre-audited amount, unrestricted, operating and before depreciation) be set aside as a reserve for the eventual replacement of long-lived fixed assets. This reserve amounted to \$240,806 at December 31, 2009. The Organization's board of directors resolved in June of 2010 to cap the reserve at \$100,000. Expenditures are subject to varying board approvals depending on their nature and amount.

Note 5: Notes Payable

In October 2007 the Organization purchased a building for subsequent renovation and occupancy (See Note 1a). The \$1,170,000 purchase price is recorded herein as "Construction in progress – campaign". Since 2007, additional building costs of \$545,389 have been capitalized.

The purchase was financed by a 10-year loan for \$1,508,000 through a local bank, backed by Commerce City, Colorado revenue bonds and secured by a first lien on the underlying property. The interest rate is 4.8% and the loan requires 39 quarterly payments of \$29,929 which commenced in February 2008 and end with a final balloon payment of \$955,544 in November 2017. The principal payments due over each of the next five years are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2011	\$ 52,410
2012	55,080
2013	57,887
2014	60,836
2015	63,749
Thereafter	<u>1,086,015</u>
Total	1,365,977
Less: current portion	<u>(52,410)</u>
Long-term portion	<u>\$1,313,567</u>

Interest paid during 2010 of \$69,688 is included under "occupancy costs", herein.

(Continued)

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2010

Note 6: Temporarily Restricted Net Assets/Net Assets Released from Restrictions
The Organization's \$2,169,894 of temporarily restricted net assets at December 31, 2010 represents donor-restricted support that was available for the following purposes (along with related activity for the year-ended December 31, 2010):

<u>Purpose</u>	Balance December 31, <u>2009</u>	Donor Restricted <u>Gifts</u>	Designated <u>Interest</u>	Expenditures Satisfying <u>Restriction(s)</u>	Balance December 31, <u>2010</u>
Program expansion campaign	<u>\$1,609,548</u>	<u>\$733,979</u>	<u>\$5,740</u>	<u>\$(179,373)</u>	<u>\$2,169,894</u>