

PROJECT ANGEL HEART

FINANCIAL STATEMENTS

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DECEMBER 31, 2003

CONTENTS

	<u>Page</u>
Report of Independent Certified Public Accountants	1
Statement of Financial Position	2
Statement of Activity	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-9

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, 2003 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.

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, 2003 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.
Certified Public Accountants

Highlands Ranch, Colorado
March 12, 2004

PROJECT ANGEL HEART
Statement of Financial Position
December 31, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 847,127	\$ 58,824	\$ 905,951
Grants receivable	59,001		59,001
Pledges and other receivables	8,697	11,107	19,804
Deposits and prepaid expenses	<u>3,477</u>	<u>10,000</u>	<u>13,477</u>
	918,302	79,931	998,233
 Deferred rental expense, long-term		62,500	62,500
 Fixed long-lived assets, at cost			
Leasehold improvements	226,405		226,405
Kitchen equipment	179,565		179,565
Office equipment	39,082		39,082
Furnishings and other	<u>40,720</u>		<u>40,720</u>
	485,772		485,772
Less: accumulated depreciation	<u>(185,359)</u>		<u>(185,359)</u>
	<u>300,413</u>		<u>300,413</u>
	<u>\$1,218,715</u>	<u>\$142,431</u>	<u>\$1,361,146</u>
 LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	\$ 20,297	\$	\$ 20,297
Accrued compensated absences	<u>24,130</u>		<u>24,130</u>
	44,427		44,427
 Net assets	<u>1,174,288</u>	<u>142,431</u>	<u>1,316,719</u>
	<u>\$1,218,715</u>	<u>\$142,431</u>	<u>\$1,361,146</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Activity
For the Year Ended December 31, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions from individuals	\$ 397,940	\$	\$ 397,940
Contributions from corporations and organizations	199,789		199,789
Grants from foundations	281,389		281,389
Government grants	170,695		170,695
Donated services, food and supplies	470,415		470,415
Special events (net of costs of \$21,102)	109,002		109,002
Interest and other income	<u>9,925</u>		<u>9,925</u>
 Total public support and revenue	 1,639,155		 1,639,155
Net assets released from restrictions due either to the passage of time or the satisfaction of purpose restrictions	<u>37,833</u>	<u>(37,833)</u>	<u>--</u>
Total public support and revenue and reclassifications	1,676,988	(37,833)	1,639,155
FUNCTIONAL EXPENSES			
Program services			
Home-delivered meals	1,393,971		1,393,971
Supporting services			
Management and general	48,816		48,816
Financial development	<u>159,190</u>		
<u>159,190</u>			
Total expenses	<u>1,601,977</u>		
<u>1,601,977</u>			
Change in net assets	75,011	(37,833)	37,178
Net assets, beginning of year	<u>1,099,277</u>	<u>180,264</u>	<u>1,279,541</u>
Net assets, end of year	<u>\$1,174,288</u>	<u>\$142,431</u>	<u>\$1,316,719</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Functional Expenses
For the Year Ended December 31, 2003

	Home-Delivered Meals Program	Supporting <u>Services</u> Management and <u>General</u>	Financial <u>Development</u>	Total <u>Expenses</u>
Personnel expenses	\$873,370	\$30,577	\$83,971	\$987,918
Cost of meals	270,116	--	--	270,116
Occupancy costs	80,928	4,509	12,355	97,792
Printing and postage	34,408	2,187	40,831	77,426
Office supplies & expenses	22,800	1,290	3,535	27,625
Program supplies & maintenance	23,682	--	--	23,682
Professional & outside services	10,844	690	1,889	13,423
Meetings, conferences & travel	11,359	671	1,021	13,051
Telecommunications expenses	5,305	337	924	6,566
Miscellaneous expenses	<u>1,910</u>	<u>5,165</u>	<u>5,376</u>	<u>12,451</u>
Expenses before depreciation	1,334,722	45,426	149,902	1,530,050
Depreciation	<u>59,249</u>	<u>3,390</u>	<u>9,288</u>	<u>71,927</u>
Total expenses	<u>\$1,393,971</u>	<u>\$48,816</u>	<u>\$159,190</u>	<u>\$1,601,977</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Cash Flows
For the Year Ended December 31, 2003

CASH FLOW FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 37,178
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation	71,927
Changes in operating assets and liabilities:	
Increase in grants receivable	(10,461)
Decrease in pledges & other receivables	23,975
Increase in deposits & prepaid expenses	(637)
Decrease in accounts payable	(7,335)
Increase in accrued compensated absences	<u>2,674</u>
Net cash provided by operating activities	117,321
CASH FLOW FROM INVESTING ACTIVITIES:	
Amortization of lease buy-out	10,000
Purchases of fixed assets	<u>(14,746)</u>
	(4,746)
INCREASE IN CASH AND CASH EQUIVALENTS	112,575
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>793,376</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$905,951</u>
Supplemental disclosure of cash flow information:	
Interest received	<u>\$3,925</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2003

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, Colorado who are living with HIV/AIDS, cancer and other life-threatening illnesses. During 2003, the Organization prepared and delivered 210,442 meal units. Deliveries of food include entrees, side dishes and breakfast components, depending on client need. Meals are delivered either hot daily or frozen weekly. Consistent with industry standards, the Organization counts every 900 – 1,100 calories of food as a meal unit.

Due to the expansion of capacity achieved during 2001(See Note 2), the Organization continued delivering meals to residents home-bound by other illnesses and also continued expanding the geographical area it serves. As of December 31, 2003, approximately 50% of the meals were being delivered to clients with illnesses other than HIV/AIDS.

b. Financial statement presentation

The accompanying 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 by actions of the Organization or the passage of time.

c. Cash and cash equivalents

The Organization maintains its two cash equivalent accounts in separate commercial banks located in Denver, Colorado. Both of these accounts were guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. \$705,951 was not subject to the FDIC guarantee at December 31, 2003.

d. Furniture and equipment

Expenditures for furniture and equipment in excess of \$250 are capitalized at cost. Expenditures for maintenance, repairs and other renewals of items

(Continued)

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2003

Note 1: Summary of Significant Accounting Policies (Continued)

d. Furniture and equipment (continued)

are charged to expense. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or 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 \$264,770 (net) which is split between individual and corporate contributions in the statement of activity.

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 and packaging materials in the amount of \$79,691 were recorded during 2003 and are included as a component of "cost of meals."

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 helpers and drivers, in the aggregate amount of \$390,724 met these requirements and is included as a component of "personnel expense."

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.

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PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2003

Note 1: Summary of Significant Accounting Policies (Continued)

h. Accrued vacation and sick leave payable

In accordance with the Financial Accounting Standards Board Statement No. 43, *Accounting for Compensated Absences*, the Organization accrues vacation and sick leave when earned.

i. Tax status

Since its inception on November 18, 1991, the Internal Revenue Service has recognized 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.

j. 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: Expansion of Capacity/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 leases 9,720 square feet of commercial kitchen and warehouse space from Swalm for a period of ten years with 2 five year renewal options.

The agreement required payments of \$155,000 by the Organization. \$55,000 of this amount was for certain commercial kitchen equipment previously owned by Chapin's. The remaining \$100,000 was for a buy-out of Chapin's long-term lease of the above-mentioned space from Swalm, which is being evenly amortized and included as a component of "occupancy costs" over the ten year term of the Organization's initial lease agreement with Swalm.

The Organization had most of the warehouse space renovated into office space during the first half of 2001. The execution of this agreement and related capital campaign enabled the Organization to significantly increase its meal preparation and delivery capacity while maintaining high quality. In March 2001, the Organization expanded its mission to include people living with other life-threatening illnesses and expanded the geographical area it serves.

The Organization's initial ten year lease with Swalm expires on January 31, 2011 and requires minimum annual payments of \$51,312 from 2004 through 2009 and \$106,900, in total, thereafter. Rental expense during the year of \$53,000 is included as the primary component of "occupancy costs" in the statement of functional expenses, herein.

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PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2003

Note 3: Temporarily Restricted Net Assets

The Organization raised \$770,027 of donor-restricted support prior to 2003 for a capital campaign undertaken for the primary purpose of acquiring the program capacity and related long-term lease discussed in Note 2. Qualified campaign expenditures prior to 2003 were \$589,763, resulting in a balance of \$180,264 carried over into 2003. Activity during 2003 was as follows:

Balance at December 31, 2002	\$180,264
2003 qualified expenditures	(27,337)
20% release of HOPWA grant	<u>(10,496)</u>
Balance at December 31, 2003	<u>\$142,431</u>

Included in 2001 campaign receipts was a HOPWA Grant from the City and County of Denver of \$52,481 for kitchen assets, which can only be kept if the Organization continues to carry out its tax-exempt purpose for a period of five years. Therefore, \$10,496 (20%) of this grant was earned due to the passage of time during 2003, leaving an unearned balance of \$23,617 at December 31, 2003. Included in the capital campaign expenditures for 2003 is \$14,746 of long-lived fixed asset additions, \$2,504 of software and \$10,087 of campaign pledges written-off due to the original donor either dying or moving or ultimate collection being unlikely.