

PROJECT ANGEL HEART

FINANCIAL STATEMENTS

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DECEMBER 31, 2004

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, 2004 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, 2004 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 4, 2005

PROJECT ANGEL HEART
Statement of Financial Position
December 31, 2004
(With Comparative Totals for 2003)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2004</u>	<u>Total 2003</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$1,040,713	\$ 65,552	\$1,106,265	\$905,951
Grants receivable	28,547		28,547	59,001
Pledges and other receivables	23,951	50,000	73,951	19,804
Deposits and prepaid expenses	<u> --</u>	<u>10,000</u>	<u>10,000</u>	<u>13,477</u>
	1,093,211	125,552	1,218,763	998,233
 Deferred rental expense, long-term		52,500	52,500	62,500
 Fixed long-lived assets, at cost				
Leasehold improvements	226,405		226,405	226,405
Kitchen equipment	184,835		184,835	179,565
Office equipment	40,813		40,813	39,082
Furnishings and other	<u>44,070</u>	<u> </u>	<u>44,070</u>	<u>40,720</u>
	496,123		496,123	485,772
Less: accumulated depreciation	<u>(255,103)</u>	<u> </u>	<u>(255,103)</u>	<u>(185,359)</u>
	<u>241,020</u>	<u> </u>	<u>241,020</u>	<u>300,413</u>
	<u>\$1,334,231</u>	<u>\$178,052</u>	<u>\$1,512,283</u>	<u>\$1,361,146</u>
 LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 47,511		\$ 47,511	\$ 20,297
Accrued payroll liabilities	<u>29,019</u>	<u> </u>	<u>29,019</u>	<u>24,130</u>
	76,530		76,530	44,427
 Net assets	<u>1,257,701</u>	<u>178,052</u>	<u>1,435,753</u>	<u>1,316,719</u>
	<u>\$1,334,231</u>	<u>\$178,052</u>	<u>\$1,512,283</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, 2004
(With Comparative Totals for 2003)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total 2004</u>	<u>Total 2003</u>
SUPPORT AND REVENUE				
Contributions from individuals	\$ 453,154	\$ 9,677	\$ 462,831	\$ 397,940
Contributions from corporations and organizations	223,718	20,000	243,718	199,789
Grants from foundations	255,877	30,000	285,877	281,389
Government grants	151,317		151,317	170,695
Donated services, food and supplies	449,121		449,121	470,415
Special events (net of costs of \$50,643)	120,748		120,748	109,002
Interest and other income	<u>52,463</u>	<u> </u>	<u>52,463</u>	<u>9,925</u>
 Total public support and revenue	 1,706,398	 59,677	 1,766,075	 1,639,155
 Net assets released from restrictions due either to the passage of time or the satisfaction of purpose restrictions	 <u>24,056</u>	 <u>(24,056)</u>	 <u> </u>	 <u> </u>
Total public support and revenue and reclassifications	1,730,454	35,621	1,766,075	1,639,155
FUNCTIONAL EXPENSES				
Program services				
Home-delivered meals	1,433,044		1,433,044	1,393,971
Supporting services				
Management and general	72,069		72,069	48,816
Financial development	<u>141,928</u>	<u> </u>	<u>141,928</u>	<u>159,190</u>
Total expenses	<u>1,647,041</u>	<u> </u>	<u>1,647,041</u>	<u>1,601,977</u>
 Change in net assets	 83,413	 35,621	 119,034	 37,178
 Net assets, beginning of year	 <u>1,174,288</u>	 <u>142,431</u>	 <u>1,316,719</u>	 <u>1,279,541</u>
 Net assets, end of year	 <u>\$1,257,701</u>	 <u>\$178,052</u>	 <u>\$1,435,753</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, 2004
(With Comparative Totals for 2003)

Supporting Services

	Home- Delivered Meals Program	Management and General	Financial Development	Total 2004 Expenses	Total 2003 Expenses
Personnel expenses	\$ 866,055	\$32,918	\$ 80,133	\$ 979,106	\$ 987,918
Cost of meals	267,423	--	--	267,423	270,116
Occupancy costs	88,030	4,662	11,268	103,960	97,792
Printing and postage	43,601	2,599	33,011	79,211	77,426
Office supplies & expenses	17,332	1,037	2,507	20,876	27,625
Program supplies & maintenance	32,961	--	--	32,961	23,682
Professional & outside services	13,795	11,421	2,025	27,241	13,423
Meetings, conferences & travel	27,674	487	1,178	29,339	13,051
Telecommunications & other	13,908	602	1,458	15,968	12,451
Dues and subscriptions	<u>5,925</u>	<u>359</u>	<u>867</u>	<u>7,151</u>	<u>6,566</u>
 Total before non-cash expenses	 1,376,704	 54,085	 132,447	 1,563,236	 1,530,050
Bad debts	--	14,061	--	14,061	--
Depreciation	<u>56,340</u>	<u>3,923</u>	<u>9,481</u>	<u>69,744</u>	<u>71,927</u>
 Total expenses	 <u>\$1,433,044</u>	 <u>\$72,069</u>	 <u>\$141,928</u>	 <u>\$1,647,041</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, 2004
(With Comparative Totals for 2003)

	<u>2004</u>	<u>2003</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$119,034	\$37,178
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	69,744	71,927
Changes in operating assets and liabilities:		
(Increase) decrease in grants receivable	30,454	(10,461)
Decrease (increase) in pledges & other receivables	(54,147)	23,975
(Increase) decrease in deposits & prepaid expenses	3,477	(637)
(Decrease) increase in accounts payable	27,214	(7,335)
Increase in accrued payroll liabilities	<u>4,889</u>	<u>2,674</u>
Net cash provided by operating activities	200,665	117,321
CASH FLOW FROM INVESTING ACTIVITIES:		
Amortization of lease buy-out	10,000	10,000
Purchases of fixed assets	<u>(10,351)</u>	<u>(14,746)</u>
	(351)	(4,746)
INCREASE IN CASH AND CASH EQUIVALENTS	200,314	112,575
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>905,951</u>	<u>793,376</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$1,106,265</u>	<u>\$905,951</u>
 Supplemental disclosure of cash flow information:		
Interest received	<u>\$6,901</u>	<u>\$3,925</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2004

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 2004, the Organization prepared and delivered 181,806 meals to 823 clients. Meals are delivered either hot daily or frozen weekly depending on each client's needs and geographical location.

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. 70% of the meals delivered during 2004 were to clients with illnesses other than HIV/AIDS. Also during 2004, the planning for geographical expansion into Colorado Springs during the first quarter of 2005 was completed.

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. \$913,923 was not subject to the FDIC guarantee at December 31, 2004.

d. Furniture and equipment

Expenditures for furniture and equipment in excess of \$500 are capitalized at cost. Expenditures for maintenance, repairs and other renewals of items

(Continued)

Notes to Financial Statements
December 31, 2004

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 \$267,218 (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 \$93,795 were recorded during 2004 and are included as a component of "cost of meals." \$17,745 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, in the aggregate amount of \$326,997; and \$10,584 of office support, 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.

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 improving meal quality. Since March of 2001, the Organization has consistently expanded the geographical area it serves while adding clients who are homebound by illnesses other than HIV/AIDS.

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."

(Continued)

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2004

Note 3: Temporarily Restricted Net Assets/Net Assets Released from Restrictions
The Organization's \$178,052 of temporarily restricted net assets at December 31, 2004 represents donor-restricted support that was available for the following purposes (along with related activity for the year-ended December 31, 2004):

<u>Purpose</u>	<u>Balance December 31, 2003</u>	<u>Revenues Restricted by Donor</u>	<u>Designated Interest</u>	<u>Expenditures Satisfying Restriction(s)</u>	<u>Balance December 31, 2004</u>
HOPWA grant - Kitchen equipment	\$ 23,617	\$ --	--	\$(10,496)*	\$ 13,121
2005 expansion into Colorado Springs	--	59,677	--	--	59,677
2001 Capital Campaign: - On-going capital additions and maintenance	<u>118,814</u>	<u>---</u>	<u>---</u>	<u>(13,560)</u>	<u>105,254</u>
	<u>\$142,431</u>	<u>\$59,677</u>	<u>\$---</u>	<u>\$(24,056)</u>	<u>\$178,052</u>

* - 20% of grant releases each year provided kitchen continues to be used for exempt purpose.