

PROJECT ANGEL HEART

FINANCIAL STATEMENTS

* * * * *

DECEMBER 31, 2005

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, 2005 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, 2005 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
January 27, 2006

PROJECT ANGEL HEART
Statement of Financial Position
December 31, 2005
(With Comparative Totals for 2004)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2005</u>	<u>Total 2004</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$1,259,723	\$ 14,680	\$1,274,403	\$1,106,265
Grants and pledges receivables	7,333	36,231	43,564	102,498
Deposits and prepaid expenses	<u> --</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
	<u>1,267,056</u>	<u>60,911</u>	<u>1,327,967</u>	<u>1,218,763</u>
 Deferred rental expense, long-term		42,500	42,500	52,500
 Fixed long-lived assets, at cost				
Leasehold improvements	296,801		296,801	226,405
Kitchen equipment	219,680		219,680	184,835
Office equipment & furnishings	70,523		70,523	68,506
Program vehicles	<u>60,823</u>	<u> </u>	<u>60,823</u>	<u>16,377</u>
	<u>647,827</u>		<u>647,827</u>	<u>496,123</u>
Less: accumulated depreciation	<u>(341,130)</u>	<u> </u>	<u>(341,130)</u>	<u>(255,103)</u>
	<u>306,697</u>		<u>306,697</u>	<u>241,020</u>
	<u>\$1,573,753</u>	<u>\$103,411</u>	<u>\$1,677,164</u>	<u>\$1,512,283</u>
 LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 31,359		\$ 31,359	\$ 47,511
Accrued payroll liabilities	<u>37,519</u>	<u> </u>	<u>37,519</u>	<u>29,019</u>
	68,958		68,958	76,530
 Net assets	<u>1,504,795</u>	<u>103,411</u>	<u>1,608,206</u>	<u>1,435,753</u>
	<u>\$1,573,753</u>	<u>\$103,411</u>	<u>\$1,677,164</u>	<u>\$1,512,283</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Activity
For the Year Ended December 31, 2005
(With Comparative Totals for 2004)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2005</u>	<u>Total 2004</u>
SUPPORT AND REVENUE				
Contributions from individuals	\$ 471,489	\$ 2,650	\$ 474,139	\$ 462,831
Contributions from corporations and organizations	298,785	28,100	326,885	243,718
Grants from foundations	319,398	86,925	406,323	285,877
Government grants	215,464		215,464	151,317
Donated services, food and supplies	491,608		491,608	449,121
Special events (net of costs of \$28,172)	124,071		124,071	120,748
Interest and other income	<u>15,313</u>	<u> </u>	<u>15,313</u>	<u>52,463</u>
 Total public support and revenue	 1,936,128	 117,675	 2,053,803	 1,766,075
 Net assets released from restrictions due either to the passage of time or the satisfaction of purpose restrictions	 <u>192,316</u>	 <u>(192,316)</u>	 <u> --</u>	 <u> --</u>
Total public support and revenue and reclassifications	2,128,444	(74,641)	2,053,803	1,766,075
FUNCTIONAL EXPENSES				
Program services				
Home-delivered meals	1,681,767		1,681,767	1,433,044
Supporting services				
Management and general	47,867		47,867	72,069
Financial development	<u>151,716</u>	<u> </u>	<u>151,716</u>	<u>141,928</u>
Total expenses	<u>1,881,350</u>	<u> </u>	<u>1,881,350</u>	<u>1,647,041</u>
 Change in net assets				

PROJECT ANGEL HEART
Statement of Functional Expenses
For the Year Ended December 31, 2005
(With Comparative Totals for 2004)

	<u>Supporting Services</u>				
	Home-Delivered Meals Program	Management and General	Financial Development	Total 2005 Expenses	Total 2004 Expenses
Personnel expenses	\$ 990,673	\$25,068	\$ 65,891	\$1,081,632	\$ 979,106
Cost of meals	327,391	--	--	327,391	267,423
Occupancy costs	99,125	3,975	10,447	113,547	103,960
Printing and postage	37,383	1,300	54,877	93,560	79,211
Program supplies & equipment	57,185	--	--	57,185	32,961
Professional & outside services	19,325	10,266	1,441	31,032	27,241
Meetings, conferences & travel	35,113	2,624	6,880	44,617	29,339
Office supplies & expenses	18,270	733	1,924	20,927	19,034
Telecommunications & other	13,770	552	1,452	15,774	15,968
Insurance expenses	<u>8,431</u>	<u>338</u>	<u>889</u>	<u>9,658</u>	<u>8,993</u>
Total before non-cash expenses	1,606,666	44,856	143,801	1,795,323	1,563,236
Bad debts	--	--	--	--	14,061
Depreciation	<u>75,101</u>	<u>3,011</u>	<u>7,915</u>	<u>86,027</u>	<u>69,744</u>
Total expenses	<u>\$1,681,767</u>	<u>\$47,867</u>	<u>\$151,716</u>	<u>\$1,881,350</u>	<u>\$1,647,041</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Cash Flows
For the Year Ended December 31, 2005
(With Comparative Totals for 2004)

	<u>2005</u>	<u>2004</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$172,453	\$119,034
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	86,027	69,744
Changes in operating assets and liabilities:		
Decrease (increase) in grants & pledges receivable	58,934	(23,693)
Decrease in deposits & prepaid expenses	--	3,477
(Decrease) increase in accounts payable	(16,152)	27,214
Increase in accrued payroll liabilities	<u>8,500</u>	<u>4,889</u>
Net cash provided by operating activities	309,842	200,665
CASH FLOW FROM INVESTING ACTIVITIES:		
Amortization of lease buy-out	10,000	10,000
Purchases of fixed assets	<u>(151,704)</u>	<u>(10,351)</u>
	(141,704)	(351)
INCREASE IN CASH AND CASH EQUIVALENTS	168,138	200,314
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,106,265</u>	<u>905,951</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$1,274,403</u>	<u>\$1,106,265</u>
 Supplemental disclosure of cash flow information:		
Interest received	<u>\$15,313</u>	<u>\$6,901</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2005

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 2005, the Organization prepared and delivered 237,153 meals to 1,216 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. During April of 2005, the Organization's geographical expansion into the metro Colorado Springs area 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 a commercial bank located in Denver, Colorado. These two accounts were guaranteed by the Federal Deposit Insurance Corporation (FDIC) and Securities Investors Protection Corporation (SIPC) for a combined \$600,000. \$674,403 of The Organization's balance at December 31, 2005 was not guaranteed..

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 are charged to expense. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or

(Continued)

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 \$313,627 (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 \$109,769 were recorded during 2005 and are included as a component of "cost of meals." \$16,423 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 \$365,416, 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)

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 2005 through 2009 and \$106,900, in total, thereafter. Rental expense during the year of \$55,896 is included as the primary component of "occupancy costs."

(Continued)

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2005

Note 3: Retirement Plan

After one year of employment, full-time 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 2005 amounted to \$7,661.

Note 4: Temporarily Restricted Net Assets/Net Assets Released from Restrictions

The Organization's \$100,911 of temporarily restricted net assets at December 31, 2005 represents donor-restricted support that was available for the following purposes (along with related activity for the year-ended December 31, 2005):

<u>Purpose</u>	<u>Balance December 31, 2004</u>	<u>Revenues Restricted by Donor</u>	<u>Designated Interest</u>	<u>Expenditures Satisfying Restriction(s)</u>	<u>Balance December 31, 2005</u>
HOPWA grant - Kitchen equipment	\$ 13,121	\$ --	--	\$(10,496)*	\$ 2,625
2005 expansion into Colorado Springs area	59,677	105,175	--	(164,852)**	--
Corporate sponsorship for 2006 event	--	2,500	--	--	2,500
Comprecare Fndtn – 2006	--	10,000	--	--	10,000
2001 Capital Campaign: - On-going capital additions and maintenance	<u>105,254</u>	<u>--</u>	<u>--</u>	<u>(16,968)</u>	<u>88,286</u>
	<u>\$178,052</u>	<u>\$117,675</u>	<u>\$ --</u>	<u>\$(192,316)</u>	<u>\$103,411</u>

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

** - Includes fixed asset additions of \$151,704.