

PROJECT ANGEL HEART

FINANCIAL STATEMENTS

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DECEMBER 31, 2006

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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, 2006 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 2005 financial statements, and in our opinion dated January 27, 2006, 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, 2006 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 26, 2007

PROJECT ANGEL HEART
Statement of Financial Position
December 31, 2006
(With Comparative Totals for 2005)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2006</u>	<u>Total 2005</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 743,470	\$ 53,782	\$ 797,252	\$1,274,403
Marketable securities	818,492	--	818,492	--
Grants and pledges receivables	19,172	--	19,172	43,564
Deposits and prepaid expenses	<u>--</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
	1,581,134	63,782	1,644,916	1,327,967
Deferred rental expense, long-term		32,500	32,500	42,500
Fixed long-lived assets, at cost				
Leasehold improvements	296,801		296,801	296,801
Kitchen equipment	221,207		221,207	219,680
Office equipment & furnishings	74,823		74,823	70,523
Program vehicles	<u>60,823</u>	<u>-----</u>	<u>60,823</u>	<u>60,823</u>
	653,654		653,654	647,827
Less: accumulated depreciation	<u>(415,341)</u>	<u>-----</u>	<u>(415,341)</u>	<u>(341,130)</u>
	<u>238,313</u>		<u>238,313</u>	<u>306,697</u>
	<u>\$1,819,447</u>	<u>\$96,282</u>	<u>\$1,915,729</u>	<u>\$1,677,164</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 16,011		\$ 16,011	\$ 31,359
Accrued payroll liabilities	<u>44,379</u>	<u>-----</u>	<u>44,379</u>	<u>37,519</u>
	60,390		60,390	68,958
Net assets				
Unrestricted	1,592,523	--	1,592,523	1,418,597
Designated	166,534	--	166,534	86,198
Temporarily restricted	<u>--</u>	<u>96,282</u>	<u>96,282</u>	<u>103,411</u>
	<u>1,759,057</u>	<u>96,282</u>	<u>1,855,339</u>	<u>1,608,206</u>
	<u>\$1,819,447</u>	<u>\$96,282</u>	<u>\$1,915,729</u>	<u>\$1,677,164</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Activity
For the Year Ended December 31, 2006
(With Comparative Totals for 2005)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2006</u>	<u>Total 2005</u>
SUPPORT AND REVENUE				
Contributions from individuals	\$ 516,368	\$ 620	\$ 516,988	\$ 474,139
Contributions from corporations and organizations	309,315		309,315	326,885
Grants from foundations	435,724	118,000	553,724	406,323
Government grants	191,756		191,756	215,464
Donated services, food and supplies	524,226		524,226	491,608
Special events (net of costs of \$19,816)	110,554		110,554	124,071
Interest income	<u>76,229</u>	<u> </u>	<u>76,229</u>	<u>15,313</u>
 Total public support and revenue	 2,164,172	 118,620	 2,282,792	 2,053,803
 Net assets released from restrictions due either to the passage of time or the satisfaction of purpose restrictions	 <u>125,749</u>	 <u>(125,749)</u>	 <u> </u>	 <u> </u>
Total public support and revenue and reclassifications	2,289,921	(7,129)	2,282,792	2,053,803
FUNCTIONAL EXPENSES				
Program services				
Home-delivered meals	1,758,875		1,758,875	1,681,767
Supporting services				
Management and general	77,117		77,117	47,867
Financial development	<u>199,667</u>	<u> </u>	<u>199,667</u>	<u>151,716</u>
Total expenses	<u>2,035,659</u>	<u> </u>	<u>2,035,659</u>	<u>1,881,350</u>
 Change in net assets	 254,262	 (7,129)	 247,133	 172,453
 Net assets, beginning of year	 <u>1,504,795</u>	 <u>103,411</u>	 <u>1,608,206</u>	 <u>1,435,753</u>
 Net assets, end of year	 <u>\$1,759,057</u>	 <u>\$96,282</u>	 <u>\$1,855,339</u>	 <u>\$1,608,206</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Functional Expenses
For the Year Ended December 31, 2006
(With Comparative Totals for 2005)

	<u>Supporting Services</u>				
	Home-Delivered Meals Program	Management and General	Financial Development	Total 2006 Expenses	Total 2005 Expenses
Personnel expenses	\$1,001,171	\$35,597	\$ 94,094	\$1,130,862	\$1,081,632
Cost of meals	388,737	--	--	388,737	327,391
Occupancy costs	100,750	3,059	8,157	111,966	113,547
Printing and postage	60,803	2,050	5,465	68,318	93,560
Program supplies & equipment	36,923	--	--	36,923	57,185
Professional & outside services	26,967	5,194	9,242	41,403	31,032
Meetings, conferences & travel	30,615	392	35,960	66,967	44,617
Office supplies & expenses	19,094	644	38,477	58,215	20,927
Telecommunications & other	17,611	534	1,426	19,571	15,774
Insurance expenses	<u>10,155</u>	<u>341</u>	<u>910</u>	<u>11,406</u>	<u>9,658</u>
Total before non-cash expenses	1,692,826	47,811	193,731	1,934,368	1,795,323
Bad debts	--	27,080	--	27,080	--
Depreciation	<u>66,049</u>	<u>2,226</u>	<u>5,936</u>	<u>74,211</u>	<u>86,027</u>
Total expenses	<u>\$1,758,875</u>	<u>\$77,117</u>	<u>\$199,667</u>	<u>\$2,035,659</u>	<u>\$1,881,350</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Cash Flows
For the Year Ended December 31, 2006
(With Comparative Totals for 2005)

	<u>2006</u>	<u>2005</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$247,133	\$172,453
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	74,211	86,027
Changes in operating assets and liabilities:		
Decrease in grants & pledges receivable	24,392	58,934
(Increase) in marketable securities	(818,492)	--
(Decrease) in accounts payable	(15,348)	(16,152)
Increase in accrued payroll liabilities	<u>6,860</u>	<u>8,500</u>
Net cash from operating activities	(481,324)	309,842
CASH FLOW FROM INVESTING ACTIVITIES:		
Amortization of lease buy-out	10,000	10,000
Purchases of fixed assets	<u>(5,827)</u>	<u>(151,704)</u>
	4,173	(141,704)
CHANGE IN CASH AND CASH EQUIVALENTS	(477,151)	168,134
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,274,403</u>	<u>1,106,265</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$797,252</u>	<u>\$1,274,403</u>
Supplemental disclosure of cash flow information:		
Interest received	<u>\$76,229</u>	<u>\$15,313</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2006

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 2006, the Organization prepared and delivered 318,627 meals to 1,392 clients. Meals are delivered either hot daily or frozen weekly depending on each client's needs and geographical location.

During 2006 the Organization performed research to determine both the existing and future unmet client needs within the geographical area it serves. Preliminary results indicate there will be a near term need for substantial additional kitchen and distribution capacity. Accordingly, preliminary feasibility research regarding physical capacity expansion and an accompanying capital campaign was initiated in 2006.

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 two commercial banks located in Denver, Colorado. These two accounts were fully guaranteed by a combination of the statutory coverages provided by the Federal Deposit Insurance Corporation (FDIC) and Securities Investors Protection Corporation (SIPC) at December 31, 2006.

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 \$299,034 (net) which is allocated 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 \$117,478 were recorded during 2006 and are included as a component of "cost of meals." \$18,976 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 \$387,772, 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.

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Note 1: Summary of Significant Accounting Policies (Continued)

h. Marketable securities

Marketable securities consist of publicly traded mutual funds which are recorded at published market values which approximated cost at December 31, 2006. \$500,000 of the \$818,492 account balance at December 31, 2006 was guaranteed by the statutory coverage provided by the SIPC.

i. 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.

j. 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.

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: 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 leased 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 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 is being evenly amortized over the ten year term of the Organization's lease with Swalm.

The Organization's initial ten year lease with Swalm expires on January 31, 2011 and requires minimum annual payments of \$57,972 from 2007 through 2010 and \$4,831 in 2011. Rental expense during the year of \$58,561 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, 2006

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 2006 amounted to \$9,163.

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 (before depreciation) be set aside as a reserve for the eventual replacement of long-lived fixed assets. This reserve amounted to \$166,534 and \$86,198 at December 31, 2006 and 2005, respectively. Capital expenditures from this reserve are subject to varying board approval requirements depending on their nature and amount.

Note 5: Temporarily Restricted Net Assets/Net Assets Released from Restrictions

The Organization's \$96,282 of temporarily restricted net assets at December 31, 2006 represents donor-restricted support that was available for the following purposes (along with related activity for the year-ended December 31, 2006):

<u>Purpose</u>	Balance December 31, <u>2005</u>	Donor Restricted <u>Gifts</u>	Designated <u>Interest</u>	Expenditures Satisfying <u>Restriction(s)</u>	Balance December 31, <u>2006</u>
HOPWA grant - Kitchen equipment	\$ 2,625	\$ --	--	\$(2,625)*	\$ --
2007 Capital Campaign - Feasibility planning phase	--	118,620	--	(86,633)	31,987
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>88,286</u>	<u>--</u>	<u>--</u>	<u>(23,991)</u>	<u>64,295</u>
	<u>\$103,411</u>	<u>\$118,620</u>	<u>\$ --</u>	<u>\$(125,749)</u>	<u>\$96,282</u>

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