

PROJECT ANGEL HEART

FINANCIAL STATEMENTS

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DECEMBER 31, 2007

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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, 2007 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 2006 financial statements, and in our opinion dated January 26, 2007, 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, 2007 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
February 29, 2008

PROJECT ANGEL HEART
Statement of Financial Position
December 31, 2007
(With Comparative Totals for 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2007</u>	<u>Total 2006</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 990,334	\$ 27,044	\$1,017,378	\$ 797,252
Marketable securities	1,012,673		1,012,673	818,492
Grants and pledges receivables	19,706	180,908	200,614	19,172
Deposits and prepaid expenses	<u>7,645</u>	<u>--</u>	<u>7,645</u>	<u>10,000</u>
	2,030,358	207,952	2,238,310	1,644,916
Bond loan issuance fees, net	17,000		17,000	--
Deferred rental expense, long-term	22,500		22,500	32,500
Fixed long-lived assets, at cost				
Building held for future use	1,170,000		1,170,000	--
Leasehold improvements	302,742		302,742	296,801
Equipment & furnishings	312,998		312,998	296,030
Program vehicles	<u>60,823</u>		<u>60,823</u>	<u>60,823</u>
	1,846,563		1,846,563	653,654
Less: accumulated depreciation	<u>(479,627)</u>		<u>(479,627)</u>	<u>(415,341)</u>
	<u>1,366,936</u>		<u>1,366,936</u>	<u>238,313</u>
	<u>\$3,436,794</u>	<u>\$207,952</u>	<u>\$3,644,746</u>	<u>\$1,915,729</u>
 LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 12,687		\$ 12,687	\$ 16,011
Mortgage note payable, current	45,152	--	45,152	--
Accrued payroll liabilities	<u>8,988</u>		<u>8,988</u>	<u>44,379</u>
	66,827		66,827	60,390
Mortgage note payable, long term	1,462,848	--	1,462,848	--
Net assets				
Unrestricted	1,664,731	--	1,664,731	1,592,523
Designated	242,388	--	242,388	166,534
Temporarily restricted	<u>--</u>	<u>207,952</u>	<u>207,952</u>	<u>96,282</u>
	<u>1,907,119</u>	<u>207,952</u>	<u>2,115,071</u>	<u>1,855,339</u>
	<u>\$3,436,794</u>	<u>\$207,952</u>	<u>\$3,644,746</u>	<u>\$1,915,729</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Statement of Activity
For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2007</u>	<u>Total 2006</u>
SUPPORT AND REVENUE				
Contributions from individuals	\$ 608,672	\$182,228	\$ 790,900	\$ 516,988
Contributions from corporations and organizations	328,556	38,500	367,056	309,315
Grants from foundations	435,221		435,221	553,724
Government grants	162,566		162,566	191,756
Donated services, food and supplies	604,378		604,378	524,226
Special events (net of costs of \$31,659)	140,739		140,739	110,554
Realized Investment income	54,832	617	55,449	62,019
Unrealized gains	<u>36,494</u>	<u> </u>	<u>36,494</u>	<u>14,210</u>
 Total public support and revenue	 2,371,458	 221,345	 2,592,803	 2,282,792
 Net assets released from restrictions due either to the passage of time or the satisfaction of purpose restrictions	 <u>109,675</u>	 <u>(109,675)</u>	 <u> --</u>	 <u> --</u>
Total public support and revenue and reclassifications	2,481,133	111,670	2,592,803	2,282,792
FUNCTIONAL EXPENSES				
Program services				
Home-delivered meals	2,067,173		2,067,173	1,758,875
Supporting services				
Management and general	40,999		40,999	77,117
Financial development	138,133		138,133	199,667
Program expansion campaign	86,766		86,766	--
Total expenses	<u>2,333,071</u>	<u> </u>	<u>2,333,071</u>	<u>2,035,659</u>
 Change in net assets	 148,062	 111,670	 259,732	 247,133
 Net assets, beginning of year	 <u>1,759,057</u>	 <u>96,282</u>	 <u>1,855,339</u>	 <u>1,608,206</u>
 Net assets, end of year	 <u>\$1,907,119</u>	 <u>\$207,952</u>	 <u>\$2,115,071</u>	 <u>\$1,855,339</u>

The accompanying notes are a part of this statement.

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Functional Expenses
 ended December 31, 2007
 (relative Totals for 2006)

Supporting Services

<u>Management and General</u>	<u>Financial Development</u>	<u>Program Expansion Campaign</u>	<u>Total 2007 Expenses</u>	<u>Total 2006 Expenses</u>
2,116	\$ 96,711	\$ --	\$1,341,525	\$1,130,862
--	--	--	483,209	388,737
2,781	8,374	23,327	139,492	111,966
1,798	20,086	384	90,151	68,318
--	--	--	17,390	36,923
1,301	3,917	53,841	108,173	41,403
275	828	--	29,929	66,967
730	2,199	8,335	38,834	58,215
279	841	--	11,667	19,571
180	543	879	8,416	11,406
9,460	133,499	86,766	2,268,785	1,934,368
--	--	--	--	27,080
1,539	4,634	--	64,286	74,211
1,999	\$138,133	\$86,766	\$2,333,071	\$2,035,659

PROJECT ANGEL HEART
Statement of Cash Flows
For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$259,732	\$247,133
Adjustments to reconcile to net cash provided by operating activities:		
Unrealized gains	(36,494)	(14,210)
Depreciation	64,286	74,211
Changes in operating assets and liabilities:		
Decrease (increase) in grants & pledges receivable	(181,442)	24,392
(Increase) in marketable securities	(157,687)	(804,282)
Decrease in deposits & prepaid expenses	2,355	--
(Decrease) in accounts payable	(3,324)	(15,348)
Increase (decrease) in accrued payroll liabilities	<u>(35,391)</u>	<u>6,860</u>
Net cash flow from operating activities	(87,965)	(481,324)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from Issuance of long-term debt	1,508,000	--
CASH FLOW FROM INVESTING ACTIVITIES:		
Amortization of lease buy-out	10,000	10,000
Bond loan issuance fees, net	(17,000)	--
Purchases of fixed assets	<u>(1,192,909)</u>	<u>(5,827)</u>
	(1,199,909)	4,173
CHANGE IN CASH AND CASH EQUIVALENTS	220,126	(477,151)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>797,252</u>	<u>1,274,403</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$1,017,378</u>	<u>\$797,252</u>
Supplemental disclosure of cash flow information:		
Interest received	<u>\$29,064</u>	<u>\$43,812</u>

The accompanying notes are a part of this statement.

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2007

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 2007, the Organization prepared and delivered 404,274 meals to 1,624 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 will be a near term 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 intends to renovate and move into at some future point in time. As of December 31, 2007, the preliminary phases of an extensive "Program Expansion Campaign" were underway.

b. Financial statement presentation

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2007

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 \$391,140 (net) which is allocated between individual and corporate contributions herein.

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, packaging and other program materials in the amount of \$121,502 were recorded during 2007 and are included as a component of "cost of meals." \$18,449 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 \$464,427, 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, 2007

Note 1: Summary of Significant Accounting Policies (Continued)

h. Marketable securities

Marketable securities (with a cost basis of \$961,965) consist of publicly traded mutual funds which are recorded at published market values at December 31, 2007. \$500,000 of the \$1,012,673 account balance at December 31, 2007 was guaranteed by the statutory coverage provided by the SIPC.

i. Accrued paid time off

In accordance with the Financial Accounting Standards Board Statement No. 43, *Accounting for Compensated Absences*, the Organization accrues paid time off when earned.

j. Tax status

The Internal Revenue Service recognizes 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: 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 lessee 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 \$60,108 from 2008 through 2010 and \$5,009 in 2011. Rental expense during the year of \$71,243 is included as the primary component of "occupancy costs" in the statement of functional expenses, herein.

(Continued)

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2007

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 2007 amounted to \$10,439.

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 \$242,388 and \$166,534 at December 31, 2007 and 2006, respectively. Capital expenditures from this reserve are subject to varying board approval requirements depending on their nature and amount.

Note 5: Notes Payable

On October 9, 2007 the Organization borrowed \$1,119,414 under a short-term bridge loan from a local bank to purchase a building in Denver, Colorado which it intends to substantially renovate and move into at a future point in time (See Note 1a). The \$1,170,000 value of the building is recorded in the statement of financial position herein under "Building held for future use".

On November 26, 2007 the bridge loan was refinanced under a 10-year loan for \$1,508,000 through the same local bank, backed by the City of Commerce City, Colorado Revenue Bonds and secured by a first lien on the underlying property. The interest rate is fixed at 4.8% and the underlying loan agreement requires 39 quarterly payments of \$29,929 commencing February 26, 2008 with a final balloon payment of \$955,544 on November 26, 2017. The minimum principal payments due over each of the next five years; and thereafter in total, are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2008	\$ 45,152
2009	47,452
2010	49,870
2011	52,410
2012	55,080

PROJECT ANGEL HEART
Notes to Financial Statements
December 31, 2007

Note 6: Temporarily Restricted Net Assets/Net Assets Released from Restrictions
The Organization's \$207,952 of temporarily restricted net assets at December 31, 2007 represents donor-restricted support that was available for the following purposes (along with related activity for the year-ended December 31, 2007):

<u>Purpose</u>	<u>Balance December 31, 2006</u>	<u>Donor Restricted Gifts</u>	<u>Designated Interest</u>	<u>Expenditures Satisfying Restriction(s)</u>	<u>Balance December 31, 2007</u>
Program expansion campaign - Building search	\$31,987	\$220,728	\$617	\$(86,766)	\$166,566
2001 Capital Campaign: - On-going capital additions and maintenance	<u>64,295</u>	<u>--</u>	<u>--</u>	<u>(22,909)</u>	<u>41,386</u>
	<u>\$96,282</u>	<u>\$220,728</u>	<u>\$617</u>	<u>\$(109,675)</u>	<u>\$207,952</u>