

Project Angel Heart

Independent Auditor's Report and Financial Statements

September 30, 2017

Project Angel Heart
September 30, 2017

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Independent Auditor's Report

Board of Directors
Project Angel Heart
Denver, Colorado

We have audited the accompanying financial statements of Project Angel Heart (the Organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activity, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Project Angel Heart

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 September 30, 2017, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Denver, Colorado
March 19, 2018

Project Angel Heart
Statement of Financial Position
September 30, 2017

Assets

Cash and cash equivalents	\$	255,716
Investments		645,681
Grants and other receivables		180,305
Pledges receivable		9,550
Deposits and prepaid expenses		19,173
Property and equipment, net of accumulated depreciation; \$1,551,468		5,434,058
Interest in assets held by others		32,820
		<u>32,820</u>
Total assets	\$	<u>6,577,303</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$	46,283
Deferred revenue		355,039
Accrued liabilities		120,590
		<u>120,590</u>
Total liabilities		<u>521,912</u>

Net Assets

Unrestricted		6,026,841
Temporarily restricted		28,550
		<u>28,550</u>
Total net assets		<u>6,055,391</u>
Total liabilities and net assets	\$	<u>6,577,303</u>

Project Angel Heart
Statement of Activities
Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Contributions from individuals	\$ 1,367,096	\$ 20,000	\$ 1,387,096
Contributions from corporations and organizations	431,138	-	431,138
Grants from foundations	913,891	-	913,891
Government grants	261,363	-	261,363
Donated services, food and assets	753,698	-	753,698
Special events (net of costs of \$77,360)	183,518	-	183,518
Leasing and other income	64,680	-	64,680
Interest income	18,858	-	18,858
Net asset released from restriction	4,000	(4,000)	-
	<u>3,998,242</u>	<u>16,000</u>	<u>4,014,242</u>
Total revenues, gains and other support			
Expenses			
Program services			
Home-delivered meals	3,445,335	-	3,445,335
Supporting services			
Management and general	132,865	-	132,865
Financial development	374,934	-	374,934
	<u>3,953,134</u>	<u>-</u>	<u>3,953,134</u>
Total expenses before noncash items			
Change in Net Assets Before Noncash Items	45,108	16,000	61,108
Depreciation	(278,477)	-	(278,477)
Net realized and unrealized gain	38,747	-	38,747
	<u>(194,622)</u>	<u>16,000</u>	<u>(178,622)</u>
Change in Net Assets			
Net Assets, Beginning of Year	<u>6,221,463</u>	<u>12,550</u>	<u>6,234,013</u>
Net Assets, End of Year	<u>\$ 6,026,841</u>	<u>\$ 28,550</u>	<u>\$ 6,055,391</u>

Project Angel Heart
Statement of Cash Flows
Year Ended September 30, 2017

Operating Activities	
Change in net assets	\$ (178,622)
Items not requiring cash	
Depreciation expense	278,477
Net realized and unrealized gain	(38,747)
Loss on disposal of property and equipment	5,902
Change in value of interest in assets held by others	(625)
Changes in	
Grants, pledges and other receivables	(98,035)
Deposits and prepaids	26,834
Accounts payable	31,716
Deferred revenue	<u>79,746</u>
Net cash provided by operating activities	<u>106,646</u>
Investing Activities	
Purchase of property and equipment	(129,291)
Purchase of investments	(9,707)
Proceeds from disposition of investments, net	<u>350,000</u>
Net cash provided by investing activities	<u>211,002</u>
Financing Activities	
Principal payments on long-term debt	<u>(396,000)</u>
Net cash used in financing activities	<u>(396,000)</u>
Decrease in Cash and Cash Equivalents	(78,352)
Cash and Cash Equivalents, Beginning of Year	<u>334,068</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 255,716</u></u>
Supplemental Cash Flow Information	
Interest paid	<u><u>\$ 4,372</u></u>

Project Angel Heart
Statement of Functional Expenses
Year Ended September 30, 2017

	Program Services	Support Services		Total
	Home Delivered Meals Program	Management and General	Financial Development	
Personnel and volunteer labor expense	\$ 2,127,483	\$ 105,817	\$ 291,856	\$ 2,525,156
Cost of meals	775,247	-	-	775,247
Program supplies and equipment	42,235	-	-	42,235
Occupancy	161,392	16,149	8,856	186,397
Telecommunications and other	16,273	369	950	17,592
Postage and printing	60,519	971	2,679	64,169
Development/publicity/marketing expenses	18,844	-	44,275	63,119
Professional and outside services	113,384	5,516	15,214	134,114
Office supplies and expense	41,426	2,060	5,683	49,169
Meetings, conference and travel	76,362	1,708	4,711	82,781
Insurance expenses	12,170	275	710	13,155
	<u>3,445,335</u>	<u>132,865</u>	<u>374,934</u>	<u>3,953,134</u>
Total before noncash expenses				
Depreciation	257,591	5,848	15,038	278,477
	<u>257,591</u>	<u>5,848</u>	<u>15,038</u>	<u>278,477</u>
Total expenses	<u>\$ 3,702,926</u>	<u>\$ 138,713</u>	<u>\$ 389,972</u>	<u>\$ 4,231,611</u>

Project Angel Heart

Notes to Financial Statements

September 30, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Project Angel Heart (the Organization) was incorporated under the laws of the State of Colorado on November 18, 1991. The Organization is a not-for-profit corporation whose purpose is to provide nutritious, home-delivered meals, at no cost, to residents of metro Denver and Colorado Springs, Colorado living with life-threatening illnesses. For the year ended September 30, 2017, the Organization prepared and delivered 338,632 meals to 2,946 clients. Meals are delivered frozen weekly, excepting 1–3% of clients needing hot, daily meals within a limited geographic area.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. As of September 30, 2017, cash equivalents consisted primarily of money market accounts with brokers.

At September 30, 2017, the Organization's cash accounts exceed federally insured limits by approximately \$52,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Receivables

Pledges, grants and other receivables are stated as unpaid balances. Receivables are considered delinquent if payments are not received in accordance with the grant contract or gift terms. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the grantor or donor.

Project Angel Heart
Notes to Financial Statements
September 30, 2017

Property and Equipment

Expenditures for furniture and equipment in excess of \$1,000 are capitalized at cost. Expenditures for maintenance, repairs, and other renewals of items are charged to expense. Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building/renovation	30 years
Kitchen equipment	5–10 years
Furniture and fixtures	10 years
Office/computer equipment	3–5 years
Motor vehicles	5-10 years

Interest in Assets Held by Others

The Organization has transferred assets to Community First Foundation and retained a beneficial interest in those assets.

Deferred Revenue

Revenue from special event ticket sales, grants and certain sponsorships is deferred and recognized over the periods to which the revenue relates.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by Project Angel Heart has been limited by donors to a specific time period or purpose.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations, expirations of restrictions resulting in reclassification of temporarily restricted net assets to unrestricted net assets are reported when the assets are placed in service.

Project Angel Heart

Notes to Financial Statements

September 30, 2017

Included in contributions from individuals and corporations/organizations are contributions and proceeds from both the Pie in the Sky and Dining Out for Life fundraising events.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. The value of donated time of volunteer cooks, kitchen staff and distribution volunteers and others in the aggregate amount of \$610,984 met these requirements and is recorded under “personnel expenses” herein.

In-kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of noncash assets, supplies, and materials from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase contribution revenue by a like amount. Food, packaging and other program materials in the amount of \$100,690 were recorded during the year ended September 30, 2017 as a component of “cost of meals.” Delivery mileage of \$42,023 is recorded as a component of “meetings, conferences, and travel.”

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income, net of associated expense, over federally stipulated amounts.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program and supporting services categories based on the salary allocation method and other reasonable methods.

Project Angel Heart
Notes to Financial Statements
September 30, 2017

Note 2: Investments and Investment Return

Investments at September 30 consisted of the following:

Money market funds	\$ 15,910
Mutual funds	
Domestic fixed income funds	152,860
International fixed income funds	31,118
Domestic equity funds	205,612
International equity funds	69,383
Complementary strategies funds	115,906
Real assets funds	54,892
	<u>645,681</u>
	<u>\$ 645,681</u>

Total investment return is composed of the following:

Interest and dividend income	\$ 18,858
Net realized and unrealized gains on investments reported at fair value	<u>38,747</u>
	<u>\$ 57,605</u>

The agency maintains a comprehensive, risk-based investing strategy and policy adopted in 2016. The strategy is based upon the Organization's ability to maintain a level of liquidity and financial flexibility within its portfolio for operating expenses. As the portfolio grows, investment decisions are based on the Organization's ability to generate appropriate returns to meet longer-term operating and capital needs.

Note 3: Pledges Receivable

Pledges receivable at September 30 consisted of the following:

Due within one year	<u>\$ 9,550</u>
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Project Angel Heart
Notes to Financial Statements
September 30, 2017

Note 4: Property and Equipment

Property and equipment at September 30 consists of:

Land and building	\$ 6,091,969
Kitchen equipment	537,276
Furniture, fixtures, and office equipment	254,118
Vehicles	<u>102,163</u>
	6,985,526
Less accumulated depreciation and amortization	<u>(1,551,468)</u>
Total property and equipment, net	<u><u>\$ 5,434,058</u></u>

Note 5: Operating Leases

A non-cancelable operating lease for office space expires in 2020. Total rent expense for the year ended September 30, 2017 was \$15,798.

Future minimum lease payments at September 30, 2017, for fiscal year ended September 30, are as follows:

2018	\$ 15,925
2019	16,157
2020	<u>9,506</u>
Total	<u><u>\$ 41,588</u></u>

The Organization subleases a portion of the building's office and freezer space to two tenants whose original lease terms ran into 2017. Rental income for the period ended September 30, 2017 was \$57,946. The future income for the remaining period of the leases is approximately \$49,500 for fiscal year 2018.

Note 6: Net Assets

Temporarily Restricted Net Assets

The \$28,550 balance of temporarily restricted net assets at September 30, 2017, represents \$9,550 of outstanding pledges restricted for time and \$19,000 restricted for the Adopt-A-Meal program, respectively.

Project Angel Heart

Notes to Financial Statements

September 30, 2017

Net Assets Released from Restriction

The Organization's policy is to reclassify temporarily restricted net assets on long-lived assets as the assets are placed into service. As time restrictions expire on the outstanding contributions receivable and qualifying expenses are used for the restricted purpose, those amounts will be reclassified to unrestricted net assets, as the net assets are then available.

Note 7: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money markets and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Project Angel Heart
Notes to Financial Statements
September 30, 2017

Interest in Assets Held by Others

Fair value is estimated based on the financial information provided by the Community First Foundation, which is based on the contributions and withdrawals to the funds and the related investment income or loss on the Organization's share of the underlying holdings of the fund. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 15,910	\$ 15,910	\$ -	\$ -
Mutual funds				
Domestic fixed income funds	152,860	152,860	-	-
International fixed income funds	31,118	31,118	-	-
Domestic equity funds	205,612	205,612	-	-
International equity funds	69,383	69,383	-	-
Complementary strategies funds	115,906	115,906	-	-
Real assets funds	54,892	54,892	-	-
	<u>\$ 645,681</u>	<u>\$ 645,681</u>	<u>\$ -</u>	<u>\$ -</u>
Interest in assets held by others	<u>\$ 32,820</u>	<u>\$ -</u>	<u>\$ 32,820</u>	<u>\$ -</u>

Note 8: Allocation of Joint Costs

Project Angel Heart conducted activities that included requests for contributions, as well as program and management and general components. Those activities included distribution of informational materials that included fundraising appeals. The costs of conducting those activities included a total of \$66,392 in 2017 of joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows:

Program expenses	\$ 40,991
Fundraising expenses	<u>25,401</u>
	<u>\$ 66,392</u>

Project Angel Heart
Notes to Financial Statements
September 30, 2017

Note 9: Defined Contribution Plan

The Organization has a defined contribution pension plan covering employees who work over 1,000 hours per year. Employees of the Organization are eligible to participate in a 403(b) tax-sheltered annuity plan under which each employee may contribute salary subject to limits. After one year of employment, the Organization is required to make matching contributions up to 3% of each participating employee's annual salary. Additionally, based on an incremental number of years of service, the Organization increases its matching requirement accordingly. Matching contributions and related expenses were \$41,335 for the year ended September 30, 2017.

Note 10: Related-party Transactions

During the year ended September 30, 2017, the Organization used the service of one company that is affiliated with a member of the Organization's board. Payments amounted to approximately \$40,000 for the year ended September 30, 2017.

Note 11: Subsequent Events

Subsequent events have been evaluated through March 19, 2018, which is the date the financial statements were available to be issued.