

# **Project Angel Heart**

Independent Auditor's Report and Financial Statements

September 30, 2016

**Project Angel Heart**  
**September 30, 2016**

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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, 2016, 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, 2016, 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 15, 2017

**Project Angel Heart**  
**Statement of Financial Position**  
**September 30, 2016**

**Assets**

Cash and cash equivalents	\$	334,068
Investments		948,149
Grants and other receivables		79,270
Pledges receivable		12,550
Deposits and prepaid expenses		46,007
Property and equipment, net of accumulated depreciation; \$1,343,554		5,589,146
Interest in assets held by others		31,273
		31,273
Total assets	\$	7,040,463

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$	40,608
Deferred revenue		275,293
Accrued liabilities		94,549
Mortgage note payable		396,000
		396,000
Total liabilities		806,450

**Net Assets**

Unrestricted		6,221,463
Temporarily restricted		12,550
		12,550
Total net assets		6,234,013
Total liabilities and net assets	\$	7,040,463

**Project Angel Heart**  
**Statement of Activities**  
**Year Ended September 30, 2016**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues, Gains (Losses) and Other Support</b>			
Contributions from individuals	\$ 1,394,439	\$ -	\$ 1,394,439
Contributions from corporations and organizations	425,098	-	425,098
Grants from foundations	970,436	-	970,436
Government grants	270,334	-	270,334
Donated services, food and assets	714,084	-	714,084
Loss on write-off of pledges	-	(4,861)	(4,861)
Special events (net of costs of \$80,486)	203,541	-	203,541
Leasing and other income	56,451	-	56,451
Interest income	30,166	-	30,166
Net asset released from restriction	10,924	(10,924)	-
	<u>4,075,473</u>	<u>(15,785)</u>	<u>4,059,688</u>
Total revenues, gains (losses) and other support			
<b>Expenses</b>			
Program services			
Home-delivered meals	3,143,907	-	3,143,907
Supporting services			
Management and general	125,071	-	125,071
Financial development	312,202	-	312,202
	<u>3,581,180</u>	<u>-</u>	<u>3,581,180</u>
Total expenses before noncash items			
<b>Change in Net Assets Before Noncash Items</b>	494,293	(15,785)	478,508
Depreciation	(278,016)	-	(278,016)
Net realized and unrealized gain	58,200	-	58,200
	<u>274,477</u>	<u>(15,785)</u>	<u>258,692</u>
<b>Change in Net Assets</b>			
<b>Net Assets, Beginning of Period</b>	<u>5,946,986</u>	<u>28,335</u>	<u>5,975,321</u>
<b>Net Assets, End of Period</b>	<u>\$ 6,221,463</u>	<u>\$ 12,550</u>	<u>\$ 6,234,013</u>

**Project Angel Heart**  
**Statement of Cash Flows**  
**Year Ended September 30, 2016**

<b>Operating Activities</b>	
Change in net assets	\$ 258,692
Items not requiring cash	
Depreciation expense	278,016
Unrealized gain	(55,651)
Change in value of interest in assets held by others	(1,746)
Changes in	
Grants, pledges and other receivables	55,712
Deposits and prepaids	32,517
Accounts payable	(23,568)
Deferred revenue	(48,611)
	<u>495,361</u>
Net cash provided by operating activities	<u>495,361</u>
<b>Investing Activities</b>	
Purchase of property and equipment	(120,741)
Proceeds from disposition of investments, net	(20,297)
	<u>(141,038)</u>
Net cash used in investing activities	<u>(141,038)</u>
<b>Financing Activities</b>	
Principal payments on long-term debt	(263,500)
	<u>(263,500)</u>
Net cash used in financing activities	<u>(263,500)</u>
<b>Increase in Cash</b>	90,823
<b>Cash, Beginning of Period</b>	<u>243,245</u>
<b>Cash, End of Period</b>	<u><u>\$ 334,068</u></u>
<b>Supplemental Cash Flow Information</b>	
Interest paid	<u><u>\$ 26,473</u></u>

**Project Angel Heart**  
**Statement of Functional Expenses**  
**Year Ended September 30, 2016**

	<u>Program Services</u>	<u>Support Services</u>		<u>Total</u>
	<u>Home Delivered Meals Program</u>	<u>Management and General</u>	<u>Financial Development</u>	
Personnel expenses and volunteer labor	\$ 1,847,995	\$ 98,721	\$ 235,651	\$ 2,182,367
Cost of meals	757,194	-	-	757,194
Occupancy costs	175,219	16,457	9,518	201,194
Printing, postage and publicity/development	45,180	797	1,902	47,879
Program supplies and equipment	33,354	-	-	33,354
Development and publicity expenses	14,205	-	43,194	57,399
Professional and outside services	140,946	5,134	12,374	158,454
Meetings, conferences and travel	63,163	1,190	2,840	67,193
Office supplies and expenses	40,970	2,189	5,224	48,383
Telecommunications and other	13,951	317	814	15,082
Insurance expenses	11,730	266	685	12,681
	<u>3,143,907</u>	<u>125,071</u>	<u>312,202</u>	<u>3,581,180</u>
Total before noncash expenses				
Depreciation	<u>257,165</u>	<u>5,838</u>	<u>15,013</u>	<u>278,016</u>
Total expenses	<u>\$ 3,401,072</u>	<u>\$ 130,909</u>	<u>\$ 327,215</u>	<u>\$ 3,859,196</u>



# **Project Angel Heart**

## **Notes to Financial Statements**

### **September 30, 2016**

#### **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, 2016, the Organization prepared and delivered 325,994 meals to 2,851 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, 2016, cash equivalents consisted primarily of money market accounts with brokers.

At September 30, 2016, the Organization's cash accounts exceed federally insured limits by \$203,653.

##### ***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, 2016

#### ***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 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, 2016**

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 \$551,698 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 \$121,496 were recorded during the year ended September 30, 2016 as a component of “cost of meals.” Delivery mileage of \$40,889 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, 2016**

**Note 2: Investments and Investment Return**

Investments at September 30 consisted of the following:

Money market funds	\$ 39,562
Mutual funds	
Domestic fixed income funds	231,434
International fixed income funds	47,538
Domestic equity funds	322,407
International equity funds	75,759
Complementary strategies funds	146,495
Real assets funds	84,954
	<u>\$ 948,149</u>

Total investment return is composed of the following:

Interest and dividend income	\$ 30,166
Net realized and unrealized gains on investments reported at fair value	<u>58,200</u>
	<u>\$ 88,366</u>

The Organization's Board of Directors previously established an asset replacement reserve capped at \$100,000 and an Opportunity Fund for certain strategic expenses outside the Organization's general operating expenses which required approval of the Board of Directors. During 2016, the Board of Directors voted to remove internal board designations in favor of a comprehensive, risk-based investing strategy. 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>\$ 12,550</u>
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**Project Angel Heart**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note 4: Property and Equipment**

Property and equipment at September 30 consists of:

Land and building	\$ 6,091,969
Kitchen equipment	520,729
Furniture, fixtures, and office equipment	256,898
Vehicles	<u>63,104</u>
	6,932,700
Less accumulated depreciation and amortization	<u>(1,343,554)</u>
Total property and equipment, net	<u><u>\$ 5,589,146</u></u>

Subsequent to September 30, 2016, the Organization purchased a new refrigerated truck for \$59,121 to continue the weekly delivery of meals to El Paso County, replacing the former truck that was placed out of service.

**Note 5: Lease Income**

The Organization subleases a portion of the building's office and freezer space to two tenants whose original lease terms ran into 2016. Rental income for the period ended September 30, 2016 was \$58,654. The future income for the remaining period of the leases is approximately \$58,000 for fiscal year 2017 and approximately \$27,000 for fiscal year 2018.

**Note 6: Note Payable to Bank**

On April 14, 2011, the Organization refinanced the debt remaining on its 2007 purchase of the building used to expand operations and obtained additional financing needed to complete the renovation project. This was accomplished by a series of two 10-year loans and a five-year equipment loan, aggregating \$3,000,000, through a local bank, backed by Colorado Housing and Finance Authority revenue bonds and secured by a first lien on the underlying property and a security interest in all capital campaign pledges.

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The Organization has made principal payments in advance of due dates, reducing the balance of the outstanding loan and retiring one of the 10-year loans and the five-year loan for equipment. As of September 30, 2016, one of the 10-year loans, which carries an interest rate of 4.40% remains outstanding and has a remaining balance of \$396,000. The remaining loan requires quarterly payments with an original due date of March 31, 2021. The principal payments due over each of the next five fiscal years (and thereafter in total) are as follows:

2017	\$	40,500
2018		40,500
2019		41,500
2020		42,500
2021		231,000
		231,000
Total	\$	396,000

Subsequent to year-end, in December 2016, the Organization paid the remaining balance of \$396,000 in full.

**Note 7: Net Assets**

***Temporarily Restricted Net Assets***

The \$12,550 balance of temporarily restricted net assets at September 30, 2016, represents outstanding pledges receivable.

***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, those amounts will be reclassified to unrestricted net assets, as the net assets are then available for the payment of the mortgage note payable used to fund the immediate construction needs of the new facility.

**Note 8: 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

**Project Angel Heart**  
**Notes to Financial Statements**  
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**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 international and domestic equity 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.

	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	\$ 39,562	\$ 39,562	\$ -	\$ -
Mutual funds				
Domestic fixed income funds	231,434	231,434	-	-
International fixed income funds	47,538	47,538	-	-
Domestic equity funds	322,407	322,407	-	-
International equity funds	75,759	75,759	-	-
Complementary strategies funds	146,495	146,495	-	-
Real assets funds	84,954	84,954	-	-
	<u>\$ 948,149</u>	<u>\$ 948,149</u>	<u>\$ -</u>	<u>\$ -</u>
Interest in assets held by others	<u>\$ 31,273</u>	<u>\$ -</u>	<u>\$ 31,273</u>	<u>\$ -</u>

**Project Angel Heart**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note 9: 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 \$56,979 in 2016 of joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows:

Program expenses	\$ 34,736
Fundraising expenses	<u>22,243</u>
	<u><u>\$ 56,979</u></u>

**Note 10: 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 \$36,977 for the year ended September 30, 2016.

**Note 11: Related-party Transactions**

During the year ended September 30, 2016, the Organization used the services of two companies that are affiliated with members of the Organization's board. Payments to these companies amounted to approximately \$42,000 for the year ended September 30, 2016.

**Note 12: Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.