



FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

Action for Healthy Kids, Inc.
Years Ended December 31, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Action for Healthy Kids, Inc.

Financial Statements and
Other Financial Information

Years Ended December 31, 2010 and 2009

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Report of Independent Auditors

The Board of Directors
Action for Healthy Kids, Inc.

We have audited the accompanying balance sheets of Action for Healthy Kids, Inc. (AFHK) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of AFHK's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of AFHK's internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AFHK's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide 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 Action for Healthy Kids, Inc. at December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statements of functional expenses are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Ernst & Young LLP

June 15, 2011

Action for Healthy Kids, Inc.

Balance Sheets

	December 31	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,163,624	\$ 2,113,395
Accounts and contributions receivable	505,394	760,590
Prepaid expenses and other assets	18,118	–
Total current assets	<u>2,687,136</u>	2,873,985
Noncurrent contributions receivable	–	67,496
Prepaid expenses and other assets	10,424	4,496
Property and equipment, net	2,892	4,250
Total assets	<u><u>\$ 2,700,452</u></u>	<u><u>\$ 2,950,227</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 845,809	\$ 227,989
Net assets (deficit):		
Unrestricted:		
Designated	668,554	1,598,058
Undesignated	(127,450)	130,532
Total unrestricted	<u>541,104</u>	1,728,590
Temporarily restricted	1,313,539	993,648
Total net assets	<u>1,854,643</u>	2,722,238
Total liabilities and net assets	<u><u>\$ 2,700,452</u></u>	<u><u>\$ 2,950,227</u></u>

See accompanying notes to financial statements.

Action for Healthy Kids, Inc.

Statement of Activities

Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Total
Support and other revenues			
Contributions	\$ 1,438,098	\$ 2,229,015	\$ 3,667,113
In-kind contributions	446,421	–	446,421
Conferences and other	77,081	–	77,081
Sales	482	–	482
Interest income	2,421	–	2,421
Released from restrictions	1,909,124	(1,909,124)	–
Total support and revenues	<u>3,873,627</u>	<u>319,891</u>	<u>4,193,518</u>
Expenses			
Program expenses:			
National activities	3,039,950	–	3,039,950
State team activities	1,565,998	–	1,565,998
Total program expenses	<u>4,605,948</u>	<u>–</u>	<u>4,605,948</u>
Supporting services:			
Management and general	291,703	–	291,703
Fundraising and marketing	163,462	–	163,462
Total supporting services	<u>455,165</u>	<u>–</u>	<u>455,165</u>
Total expenses	<u>5,061,113</u>	<u>–</u>	<u>5,061,113</u>
Change in net assets	(1,187,486)	319,891	(867,595)
Net assets at beginning of year	1,728,590	993,648	2,722,238
Net assets at end of year	<u>\$ 541,104</u>	<u>\$ 1,313,539</u>	<u>\$ 1,854,643</u>

See accompanying notes to financial statements.

Action for Healthy Kids, Inc.

Statement of Activities

Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Total
Support and other revenues			
Contributions	\$ 2,000,154	\$ 993,648	\$ 2,993,802
In-kind contributions	883,141	–	883,141
Conferences and other	28,695	–	28,695
Sales	944	–	944
Interest income	4,586	–	4,586
Released from restrictions	672,500	(672,500)	–
Total support and revenues	<u>3,590,020</u>	<u>321,148</u>	<u>3,911,168</u>
Expenses			
Program expenses:			
National activities	2,481,492	–	2,481,492
State team activities	957,635	–	957,635
Total program expenses	<u>3,439,127</u>	<u>–</u>	<u>3,439,127</u>
Supporting services:			
Management and general	267,032	–	267,032
Fundraising and marketing	156,951	–	156,951
Total supporting services	<u>423,983</u>	<u>–</u>	<u>423,983</u>
Total expenses	<u>3,863,110</u>	<u>–</u>	<u>3,863,110</u>
Change in net assets	(273,090)	321,148	48,058
Net assets at beginning of year	2,001,680	672,500	2,674,180
Net assets at end of year	<u>\$ 1,728,590</u>	<u>\$ 993,648</u>	<u>\$ 2,722,238</u>

See accompanying notes to financial statements.

Action for Healthy Kids, Inc.

Statements of Cash Flows

	Year Ended December 31	
	2010	2009
Operating activities		
Change in net assets	\$ (867,595)	\$ 48,058
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	4,011	6,602
Change in assets and liabilities:		
Accounts and contributions receivable	322,692	(119,411)
Prepaid expenses and other assets	(24,046)	-
Accounts payable and accrued liabilities	617,820	(129,377)
Net cash provided by (used in) operating activities	<u>52,882</u>	<u>(194,128)</u>
Investing activities		
Purchases of property and equipment	<u>(2,653)</u>	-
Net increase (decrease) in cash and cash equivalents	50,229	(194,128)
Cash and cash equivalents at beginning of year	2,113,395	2,307,523
Cash and cash equivalents at end of year	<u>\$ 2,163,624</u>	<u>\$ 2,113,395</u>

See accompanying notes to financial statements.

Action for Healthy Kids, Inc.

Notes to Financial Statements

December 31, 2010

1. Organization

Action for Healthy Kids, Inc. (AFHK) is a charitable organization incorporated in Washington, D.C., in September 2002. AFHK was created to improve children's nutrition and physical activity in schools by collaborating with diverse stakeholders in advocating, promoting, and implementing national and state initiatives. AFHK consists of the National office and 51 State Teams (one team per state and Washington, D.C.).

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. These principles require management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates. Net assets, revenues, and investment income or loss are classified based on the existence or absence of donor-imposed restrictions, as follows:

- Temporarily restricted net assets are assets with donor restrictions that expire with the passage of time, the occurrence of an event, or the fulfillment of certain conditions. Earnings related to temporarily restricted net assets are recorded as temporarily restricted net assets until amounts are expensed in accordance with a donor's specified purposes. When donor restrictions are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.
- Unrestricted net assets are not subject to donor-imposed stipulations. Board-designated net assets are unrestricted net assets designated by the AFHK Board of Directors (the Board) to be used for several specific purposes. The Board retains control over these net assets and may, at its discretion, subsequently use the net assets for other purposes.

Action for Healthy Kids, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Financial Instruments

The carrying values of cash and cash equivalents, accounts and contributions receivable, prepaid expenses and other assets, and accounts payable and accrued liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments.

Cash and Cash Equivalents

Cash equivalents include all liquid investments with a maturity of three months or less at the date of acquisition.

Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, establishes a three-level valuation hierarchy for disclosure of fair value measurements for financial instruments measured at fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

AFHK has classified \$2,163,624 and \$2,113,395 of investments in government securities and cash as of December 31, 2010 and 2009, respectively, as Level 1.

Action for Healthy Kids, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. All contributions receivable are considered fully collectible based on past experience and management judgment; therefore, no allowance for doubtful contribution accounts is needed.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives, which range from three to seven years.

In-Kind Contributions

Donated services are recognized as in-kind contributions when the services require specialized skills and would otherwise be purchased by AFHK. The value of donated assets, supplies, and services are included as in-kind contribution revenue and a corresponding program expense in the financial statements. Many individuals volunteer time and perform a variety of tasks that assist AFHK. There were approximately 20,000 and 14,000 state team volunteers in 2010 and 2009, respectively. The volunteer time is not recognized as contributions in the financial statements.

Income Taxes

AFHK has received a determination letter from the Internal Revenue Service indicating that it is exempt from federal and state income taxes on related income under Section 501(c)(3) of the Internal Revenue Code, except for taxes on unrelated business income. No provision for income taxes has been made in the accompanying financial statements as AFHK has had no unrelated business income.

Action for Healthy Kids, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Effective January 1, 2009, AFHK adopted a guidance provided by the recognition subsection of ASC 740, *Income Taxes*. This subtopic prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Adoption of this guidance did not have a material effect on AFHK's financial statements.

Reclassifications

Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation.

3. Fixed Assets

The following is a summary of fixed assets at December 31 valued at historical cost:

	<u>2010</u>	<u>2009</u>
Computer equipment	\$ 21,883	\$ 19,230
Furniture and equipment	11,283	11,283
Total acquisition cost	<u>33,166</u>	30,513
Less accumulated depreciation	<u>30,274</u>	26,263
	<u>\$ 2,892</u>	<u>\$ 4,250</u>

Action for Healthy Kids, Inc.

Notes to Financial Statements (continued)

4. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
In School Nutrition and Physical Activities programs	\$ —	\$ 350,000
Breakfast Grant Program	300,000	—
School Grant program	827,903	—
Texas Parents CATCH on to Wellness programs	67,496	235,648
Students Taking Charge	—	225,000
ReCharge program	—	105,000
Adopt a school program	45,000	—
Game On program	63,140	50,000
Montana Physical Activities programs	—	26,000
2011 Georgia Summit	10,000	—
Minnesota Fuel Up to Play 60 programs	—	2,000
	<u>\$ 1,313,539</u>	<u>\$ 993,648</u>

5. Accounts and Contributions Receivable

The timing of payments against accounts and contributions receivable as determined by the agreements that generated the accounts or contribution receivables at December 31 are expected to be as follows:

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 505,394	\$ 760,590
One to three years	—	67,496
	<u>\$ 505,394</u>	<u>\$ 828,086</u>

Action for Healthy Kids, Inc.

Notes to Financial Statements (continued)

6. Donated Assets, Supplies, and Services

The value of donated assets, supplies, and services included as in-kind contribution revenue and the corresponding program expenses in the financial statements are as follows:

	<u>2010</u>	<u>2009</u>
ReCharge kits and related services	\$ —	\$ 704,511
Office expenses:		
Office supplies	47,296	34,363
Printing and copying	64,302	69,304
Telephone	20,220	30,963
Postage and delivery	12,335	14,630
Meeting costs	102,447	—
Travel	199,821	29,370
	<u>\$ 446,421</u>	<u>\$ 883,141</u>

7. Office Leases

AFHK leases its offices in Skokie, Illinois, under the terms of a noncancelable lease agreement expiring on February 28, 2011, which requires AFHK to make minimum lease payments and pay a pro rata share of certain operating costs. Rent expense under operating leases was \$69,737 and \$65,943 for 2010 and 2009, respectively.

The following is a schedule of future minimum lease payments under the office lease as of December 31, 2010:

2011	<u><u>\$ 9,310</u></u>
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AFHK entered into a lease in December 2010 for offices in Chicago, Illinois, under the terms of a noncancelable lease agreement beginning on March 1, 2011, and expiring on February 28, 2016, which requires AFHK to make minimum lease payments and pay a pro rata share of certain operating costs.

Action for Healthy Kids, Inc.

Notes to Financial Statements (continued)

7. Office Leases (continued)

The following is a schedule of future minimum lease payments under the office lease as of December 31, 2010.

2011	\$ 35,568
2012	72,914
2013	75,114
2014	77,360
2015	79,679
2016	13,345
	<u>\$ 353,980</u>

8. Subsequent Event

AFHK evaluated events occurring between January 1, 2011 and June 15, 2011, which is the date the financial statements were available to be issued. AFHK does not have any subsequent events that require disclosure or recognition in the financial statements.

Other Financial Information

Action for Healthy Kids, Inc.

Statement of Functional Expenses

Year Ended December 31, 2010

	Programs			Supporting Services			Total
	National Activities	State Team Activities	Total Programs	Management and General	Fundraising and Marketing	Total Supporting Services	
Accounting and legal fees	\$ -	\$ -	\$ -	\$ 92,320	\$ 42,484	\$ 134,804	\$ 134,804
Board meetings and expenses	-	-	-	11,582	3,861	15,443	15,443
Consulting fees	19,766	8,236	28,002	68,669	36,702	105,371	133,373
Insurance	3,772	1,571	5,343	629	314	943	6,286
Office expenses	46,979	163,729	210,708	2,896	2,689	5,585	216,293
Personnel	621,827	259,094	880,921	103,638	51,819	155,457	1,036,378
Postage and delivery	38,184	1,422	39,606	130	466	596	40,202
Project expenses	2,170,949	684,448	2,855,397	-	-	-	2,855,397
Rent	41,842	17,434	59,276	6,974	3,487	10,461	69,737
Travel and conference costs	96,631	430,064	526,695	1,857	20,637	22,494	549,189
Depreciation	-	-	-	3,008	1,003	4,011	4,011
Total functional expenses	\$ 3,039,950	\$ 1,565,998	\$4,605,948	\$ 291,703	\$ 163,462	\$ 455,165	\$ 5,061,113

Action for Healthy Kids, Inc.

Statement of Functional Expenses

Year Ended December 31, 2009

	Programs			Supporting Services			Total
	National Activities	State Team Activities	Total Programs	Management and General	Fundraising and Marketing	Total Supporting Services	
Accounting and legal fees	\$ 26,679	\$ 20,242	\$ 46,921	\$ 19,995	\$ 6,665	\$ 26,660	\$ 73,581
Board meetings and expenses	316	239	555	4,439	1,480	5,919	6,474
Consulting fees	23,817	18,821	42,638	15,428	72,075	87,503	130,141
Insurance	1,932	1,410	3,342	2,343	781	3,124	6,466
Office expenses	20,523	177,853	198,376	16,126	6,134	22,260	220,636
Personnel	583,979	328,623	912,602	161,044	53,681	214,725	1,127,327
Postage and delivery	3,786	19,528	23,314	2,040	763	2,803	26,117
Project expenses	1,749,082	215,360	1,964,442	–	–	–	1,964,442
Rent	29,409	23,019	52,428	10,136	3,379	13,515	65,943
Travel and conference costs	41,969	152,540	194,509	30,530	10,342	40,872	235,381
Depreciation	–	–	–	4,951	1,651	6,602	6,602
Total functional expenses	\$ 2,481,492	\$ 957,635	\$3,439,127	\$ 267,032	\$ 156,951	\$ 423,983	\$ 3,863,110

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