



FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

Action for Healthy Kids, Inc.
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Action for Healthy Kids, Inc.

Financial Statements and
Supplemental Information

Years Ended December 31, 2011 and 2010

Contents

Report of Independent Auditors.....	1
Financial Statements	
Balance Sheets	2
Statements of Activities	3
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6
Supplemental Information	
Report of Independent Auditors on Supplementary Information	12
Statements of Functional Expenses	13

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, 2011 and 2010, 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, 2011 and 2010, 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.

Ernst & Young LLP

June 5, 2012

Action for Healthy Kids, Inc.

Balance Sheets

	December 31	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,570,188	\$ 2,163,624
Accounts and contributions receivable	496,089	505,394
Prepaid expenses and other assets	12,505	18,118
Total current assets	<u>3,078,782</u>	2,687,136
Noncurrent contributions receivable	119,425	–
Prepaid expenses and other assets	5,928	10,424
Property and equipment, net	47,519	2,892
Total assets	<u><u>\$ 3,251,654</u></u>	<u><u>\$ 2,700,452</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 318,193	\$ 845,809
Net assets (deficit):		
Unrestricted:		
Designated	627,391	668,554
Undesignated	(121,945)	(127,450)
Total unrestricted	<u>505,446</u>	541,104
Temporarily restricted	2,428,015	1,313,539
Total net assets	<u>2,933,461</u>	1,854,643
Total liabilities and net assets	<u><u>\$ 3,251,654</u></u>	<u><u>\$ 2,700,452</u></u>

See accompanying notes to financial statements.

Action for Healthy Kids, Inc.

Statement of Activities

Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
Support and other revenues			
Contributions	\$ 1,832,993	\$ 2,428,015	\$ 4,261,008
Government grants	70,793	-	70,793
In-kind contributions	75,935	-	75,935
Conferences and other	56,682	-	56,682
Interest income	412	-	412
Released from restrictions	1,313,539	(1,313,539)	-
Total support and revenues	<u>3,350,354</u>	<u>1,114,476</u>	<u>4,464,830</u>
Expenses			
Program expenses:			
National activities	2,348,072	-	2,348,072
State team activities	625,704	-	625,704
Total program expenses	<u>2,973,776</u>	<u>-</u>	<u>2,973,776</u>
Supporting services:			
Management and general	237,724	-	237,724
Fund-raising and marketing	174,512	-	174,512
Total supporting services	<u>412,236</u>	<u>-</u>	<u>412,236</u>
Total expenses	<u>3,386,012</u>	<u>-</u>	<u>3,386,012</u>
Change in net assets	(35,658)	1,114,476	1,078,818
Net assets at beginning of year	541,104	1,313,539	1,854,643
Net assets at end of year	<u>\$ 505,446</u>	<u>\$ 2,428,015</u>	<u>\$ 2,933,461</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	77,563	–	77,563
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
Fund-raising 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.

Statements of Cash Flows

	Year Ended December 31	
	2011	2010
Operating activities		
Change in net assets	\$ 1,078,818	\$ (867,595)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,748	4,011
Change in assets and liabilities:		
Accounts and contributions receivable	(110,120)	322,692
Prepaid expenses and other assets	10,109	(24,046)
Accounts payable and accrued liabilities	(527,616)	617,820
Net cash provided by operating activities	459,939	52,882
Investing activities		
Purchases of property and equipment	(53,375)	(2,653)
Net increase in cash and cash equivalents	406,564	50,229
Cash and cash equivalents at beginning of year	2,163,624	2,113,395
Cash and cash equivalents at end of year	\$ 2,570,188	\$ 2,163,624

See accompanying notes to financial statements.

Action for Healthy Kids, Inc.

Notes to Financial Statements

December 31, 2011

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 childrens' 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 \$2,570,188 and \$2,163,624 of investments in government securities and cash as of December 31, 2011 and 2010, respectively, in 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 is 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 33,000 and 20,000 state team volunteers in 2011 and 2010, 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 not had any unrelated business income.

Action for Healthy Kids, Inc.

Notes to Financial Statements (continued)

3. Fixed Assets

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

	<u>2011</u>	<u>2010</u>
Computer equipment	\$ 21,883	\$ 21,883
Furniture and equipment	38,949	11,283
Leasehold improvements	25,709	–
Total acquisition cost	<u>86,541</u>	33,166
Less accumulated depreciation	<u>39,022</u>	30,274
	<u>\$ 47,519</u>	<u>\$ 2,892</u>

4. Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Get in the Action for Improved School Nutrition	\$ 1,500,000	\$ –
School breakfast program	11,490	300,000
School grant program	–	827,903
Texas Parents CATCH on to Wellness programs	33,748	67,496
Launching the Learning Connection	100,000	–
Ultimate Wellness Challenge	358,275	–
Adopt-a-School program	–	45,000
Game On program	–	63,140
Layering and Resource Clearinghouse project	32,390	–
Ohio Fuel Up to Play 60 programs	25,000	–
Colorado Parent Network Expansion	295,534	–
2011 Georgia Summit	–	10,000
National Volunteer Network project	71,578	–
	<u>\$ 2,428,015</u>	<u>\$ 1,313,539</u>

Action for Healthy Kids, Inc.

Notes to Financial Statements (continued)

5. Accounts and Contributions Receivable

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

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 496,089	\$ 505,394
One to three years	119,425	—
	<u>\$ 615,514</u>	<u>\$ 505,394</u>

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>2011</u>	<u>2010</u>
Office expenses:		
Office supplies	\$ —	\$ 47,296
Printing and copying	12,875	64,302
Telephone	4,590	20,220
Postage and delivery	2,360	12,335
Meeting costs	25,850	102,447
Travel	30,260	199,821
	<u>\$ 75,935</u>	<u>\$ 446,421</u>

7. Office Leases

AFHK leases its offices in Chicago, Illinois, under the terms of a noncancelable lease agreement expiring on February 29, 2016, which requires AFHK to make minimum lease payments and pay a pro rata share of certain operating costs. Rent expense under operating leases was \$75,490 and \$69,737 for 2011 and 2010, respectively.

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, 2011.

2012	\$ 72,914
2013	75,114
2014	77,360
2015	79,679
2016	13,345
	<u>\$ 318,412</u>

8. Subsequent Event

AFHK evaluated events occurring between January 1, 2012 and June 5, 2012, 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.

Supplemental Information

Report of Independent Auditors on Supplementary Information

The Board of Directors
Action for Healthy Kids, Inc.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

June 5, 2012

Action for Healthy Kids, Inc.

Statement of Functional Expenses

Year Ended December 31, 2011

	Programs			Supporting Services			Total
	National Activities	State Team Activities	Total Programs	Management and General	Fund-raising and Marketing	Total Supporting Services	
Accounting and legal fees	\$ 4,427	\$ –	\$ 4,427	\$ 61,327	\$ 20,442	\$ 81,769	\$ 86,196
Board meetings and expenses	–	–	–	13,238	4,413	17,651	17,651
Consulting fees	113,704	10,834	124,538	31,881	71,678	103,559	228,097
Insurance	4,935	2,056	6,991	823	411	1,234	8,225
Office expenses	60,384	40,649	101,033	5,452	3,937	9,389	110,422
Personnel	607,444	261,218	868,662	98,026	50,810	148,836	1,017,498
Postage and delivery	38,857	3,091	41,948	8,329	210	8,539	50,487
Project expenses	1,375,439	173,659	1,549,098	–	–	–	1,549,098
Rent	46,740	19,475	66,215	7,790	3,895	11,685	77,900
Travel and conference costs	96,142	114,722	210,864	4,297	16,529	20,826	231,690
Depreciation	–	–	–	6,561	2,187	8,748	8,748
Total functional expenses	\$ 2,348,072	\$ 625,704	\$ 2,973,776	\$ 237,724	\$ 174,512	\$ 412,236	\$ 3,386,012

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	Fund-raising 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

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