

ACTION FOR HEALTHY KIDS, INC.

FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2022

TOGETHER WITH AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management
of Action for Healthy Kids, Inc.

Opinion

We have audited the accompanying financial statements of Action for Healthy Kids, Inc (AFHK) (an Illinois nonprofit organization) which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, cash flows and functional expenses for the six months then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AFHK as of June 30, 2022, and its changes in net assets and its cash flows for the six months then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AFHK and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in aggregate, that raise substantial doubt about AFHK's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 AFHK's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about AFHK's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Dugan + Lopatka

DUGAN & LOPATKA

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

A S S E T S

CURRENT ASSETS:

Cash and cash equivalents	\$ 994,586
Investments	1,493,000
Accounts and contributions receivable	439,100
Prepaid expenses	<u>84,541</u>
Total current assets	3,011,227
PROPERTY AND EQUIPMENT, net	15,577
OTHER ASSETS:	
Security deposits	<u>5,928</u>
Total assets	<u><u>\$ 3,032,732</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	<u>\$ 187,504</u>
NET ASSETS:	
Without donor restrictions - Designated	425,000
- Undesignated	<u>343,890</u>
Total net assets without donor restrictions	768,890
With donor restrictions	<u>2,076,338</u>
Total net assets	<u>2,845,228</u>
Total liabilities and net assets	<u><u>\$ 3,032,732</u></u>

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF ACTIVITIES
FOR THE SIX MONTHS ENDED JUNE 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE:			
Contributions	\$ 92,352	\$ 831,500	\$ 923,852
Conferences and other	1,200	-	1,200
Forgiveness of debt	401,152	-	401,152
Interest income	4,549	-	4,549
	<hr/>	<hr/>	<hr/>
Total support and revenue	499,253	831,500	1,330,753
Net assets released from restrictions - Satisfaction of program restrictions	1,124,713	(1,124,713)	-
	<hr/>	<hr/>	<hr/>
Net support and revenue	1,623,966	(293,213)	1,330,753
EXPENSES:			
Program services	1,229,983	-	1,229,983
Management and general	208,015	-	208,015
Fundraising and marketing	179,213	-	179,213
	<hr/>	<hr/>	<hr/>
Total expenses	1,617,211	-	1,617,211
CHANGE IN NET ASSETS	6,755	(293,213)	(286,458)
NET ASSETS, Beginning of year	762,135	2,369,551	3,131,686
	<hr/>	<hr/>	<hr/>
NET ASSETS, End of year	<u>\$ 768,890</u>	<u>\$ 2,076,338</u>	<u>\$ 2,845,228</u>

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2022

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH (USED IN) OPERATING ACTIVITIES:	
Change in net assets	\$ (286,458)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:	
Depreciation	8,183
Forgiveness of debt	(401,152)
Changes in assets and liabilities -	
(Increase) in accounts and contributions receivable	(32,565)
Decrease in other receivables	108,234
(Increase) in prepaid expenses	(65,449)
(Decrease) in accounts payable and accrued liabilities	<u>(122,506)</u>
Net cash (used in) operating activities	<u>(791,713)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(497,000)
Proceeds from sale of investments	248,000
Purchase of property and equipment	<u>(2,738)</u>
Net cash (used in) investing activities	<u>(251,738)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,043,451)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>2,038,037</u>
CASH AND CASH EQUIVALENTS, End of year	<u><u>\$ 994,586</u></u>

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTHS ENDED JUNE 30, 2022

	Program Services	Management and General	Fundraising and Marketing	Total
Accounting and legal fees	\$ -	\$ 10,528	\$ -	\$ 10,528
Board meetings and expense	-	21,264	-	21,264
Consulting fees	86,639	4,188	21,076	111,903
Insurance	277	15	15	307
Office expenses	25,063	1,311	8,544	34,918
Personnel	550,639	158,720	146,039	855,398
Postage and delivery	5,907	328	328	6,563
Grants and program implementation	497,967	-	-	497,967
Occupancy	50,431	2,802	2,802	56,035
Travel and conference costs	5,695	8,450	-	14,145
Depreciation	7,365	409	409	8,183
Total functional expenses	<u>\$ 1,229,983</u>	<u>\$ 208,015</u>	<u>\$ 179,213</u>	<u>\$ 1,617,211</u>

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Action for Healthy Kids, Inc. (AFHK) is a charitable organization incorporated in Washington, D.C. in September 2002. AFHK is a nationwide grassroots network that mobilizes school professionals, parents, and communities to activate school-based programs that are in support of children's physical, social and emotional health, and well-being. Through training, funding, wellness programs and a shared determination to see all children become healthy, successful adults, AFHK provides the comprehensive support and resources needed to build healthy schools in every community.

The financial statements were available to be issued on March 6, 2023 with subsequent events being evaluated through this date.

The following summarizes the significant accounting policies and practices reflected in the accompanying financial statements:

Accounting Method -

AFHK records its financial transactions and maintains its books and records on the accrual basis of accounting, which recognizes revenues as they are earned and expenses as they are incurred.

Basis of Presentation -

AFHK is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Without donor restrictions - Net assets that are not subject to donor-imposed stipulations and may be expensed for any purpose in performing the primary objectives of AFHK. These net assets may be used at the discretion of management and the board of directors.

With donor restrictions - Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of AFHK and/or the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents -

For purposes of the statement of cash flows, AFHK considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Financial Instruments -

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

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:
(Continued)

Concentrations of Credit Risk -

Financial instruments which potentially subject AFHK to concentrations of credit risk consist principally of cash. AFHK places its cash and deposits with high credit quality financial institutions; however, deposits may exceed the federally insured limits in various banks from time to time.

Investments -

AFHK invests cash in certificates of deposit (CDs). The CDs are guaranteed by the FDIC and are recorded at cost due to low market volatility and tradability of the securities.

Receivables -

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 contributions 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 receivables are considered fully collectible based on past experience and management's judgment; therefore, no allowance for doubtful contribution and accounts receivables are needed. Other receivables consist of Employee Retention Credits.

Property and Equipment -

AFHK follows the practice of capitalizing all expenditures for property and equipment having a useful life in excess of one year. Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation and are depreciated over their estimated useful lives, which range from three to seven years, using the straight-line method. Any purchases over \$1,000 are capitalized.

In-Kind Contributions -

AFHK receives contributed nonfinancial assets that include donated assets, supplies and services. Gifts in-kind revenue is recorded at the respective fair values of the goods or services received at the time of the donation. AFHK did not receive any in-kind contributions during the six month ended June 30, 2022.

In addition, volunteers contribute significant amounts of time to program services, administration, and fundraising activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles that prohibits the recording of donated services unless they create or enhance a nonfinancial asset or are specialized skills that would have been purchased if they were not donated.

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:
(Continued)

Estimates -

AFHK prepares its financial statements according to generally accepted accounting principles which require the use of estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition for Contributions and Grants -

AFHK recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Restricted Resources -

AFHK reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

AFHK reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, AFHK reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Income Taxes -

AFHK has been determined by the Internal Revenue Service to be exempt from income tax under Section 501(c)(3) of the Internal Revenue Code, except for taxes on unrelated business income. Accordingly, no provision for income tax has been established.

AFHK files income tax returns in the U.S. federal jurisdiction and Illinois. With few exceptions, AFHK is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years before 2019. AFHK does not expect a material net change in unrecognized tax benefits in the next twelve months.

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:
(Continued)

Allocation of Expenses -

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, occupancy, depreciation and other, which are allocated on the basis of estimates of time and effort.

Recently Issued Accounting Pronouncement -

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842), which provides guidance for accounting for leases. The new guidance requires organizations to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. This ASU is effective for fiscal periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. AFHK is currently evaluating this guidance to determine the impact it may have on its financial statements.

(2) ACCOUNTS AND CONTRIBUTIONS RECEIVABLE:

On June 30, 2022, the timing of payments of accounts and contributions receivable as determined by the underlying agreements are expected to be as follows:

Receivable in less than one year	\$ 439,100
Receivable in greater than one year and less than five years	<u>-</u>
Total accounts and contributions receivable	439,100
Less unamortized discounts	<u>-</u>
Net accounts and contributions receivable	<u>\$ 439,100</u>

(3) INVESTMENTS:

The following is a summary of investments on June 30, 2022:

Certificates of deposit – at cost	<u>\$ 1,493,000</u>
-----------------------------------	---------------------

(4) PROPERTY AND EQUIPMENT:

Property and equipment consist of the following on June 30, 2022:

Computer equipment	\$ 135,183
Furniture and equipment	67,626
Leasehold improvements	<u>61,187</u>
	263,996
Less - accumulated depreciation	<u>248,419</u>
	<u>\$ 15,577</u>

(5) NET ASSETS:

Board designated net assets are as follows as of June 30, 2022:

Operating reserve	<u>\$ 425,000</u>
-------------------	-------------------

Net assets with donor restrictions are as follows as of June 30, 2022:

Family School Partnership	\$ 445,478
NourishEd Programming	651,933
EnergizEd Programming	8,525
Active Schools	410,642
Healthy Active Living Boston Programming	141,180
Healthy Schools Coalition – El Paso	150,823
Parents for Healthy Kids	76,659
Texas Family School Partnership Programming	2,891
Maryland Family School Partnership Programming	37,229
Vaping Education Programming – El Paso TX	104,920
Florida School Partnership COVID Recovery and Vaccination Confidence Program	<u>46,058</u>
	<u>\$ 2,076,338</u>

(6) PAYROLL PROTECTION PROGRAM LOANS:

In February 2021, AFHK qualified and was approved for a Payroll Protection Program (PPP) loan as part of the Economic Aid Act in the amount of \$401,152. Interest accrues at 1%, with the amount to be repaid in equal installments of principal and interest, beginning at the earlier of the date the Small Business Administration (SBA) remits the loan forgiveness amount, or 10 months after the end of the forgivable covered period, with the final payment due February 2026, and with a portion or all of the balance eligible to be forgiven. In January 2022, AFHK received notice from the SBA that their loan had been fully forgiven and has recorded a gain from the forgiven portion of the loan as of June 30, 2022 in accordance with ASC 470.

(7) COMMITMENTS:

AFHK leases its offices under the terms of a noncancelable lease agreement expiring in August 2023, which requires AFHK to make minimum lease payments and pay a pro rata share of certain operating costs. Rent expense under the office lease was \$54,092 for the six months ended June 30, 2022. Additionally, AFHK leases office equipment under the terms noncancelable lease agreements expiring through September 2026. Lease expense under the equipment leases was \$2,261 for the six months ended June 30, 2022. Future minimum lease payments under the office and equipment leases for the years ending June 30 are as follows:

2023	\$ 118,612
2024	24,205
2025	4,636
2026	4,636
2027	1,159

(8) LIQUIDITY AND AVAILABILITY:

The following represents AFHK's financial assets on June 30, 2022:

Financial assets -	
Cash and cash equivalents	\$ 994,586
Investments	1,493,000
Accounts and contributions receivable	<u>439,100</u>
Total financial assets	2,926,686
Donor imposed restrictions	<u>2,076,338</u>
Net financial assets after donor-imposed restrictions	850,348
Internal designations -	
Board advised funds	<u>425,000</u>
Financial assets available to meet cash needs for general expenditures that are without donor or other restrictions limiting their use within one year	<u>\$ 425,348</u>

AFHK receives significant contributions, some of which are restricted by donors to fund specific programs or projects. Such restricted funds are tracked for use for the identified program or project. Restricted contributions of \$831,500 were received during the six months ended June 30, 2022.

AFHK manages its liquidity and reserves following three guiding principles:

- operating within a prudent range of financial soundness and stability
- maintaining adequate liquid assets to fund near-term operating needs
- maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

(9) RETIREMENT PLAN:

AFHK has a retirement accumulation 403(b) plan for all employees working more than 1,000 hours in the plan year. Employee contributions are voluntary and are made on a pre-tax basis. AFHK made matching contributions totaling \$12,125 for the six months ended June 30, 2022.

(10) REVENUE CONCENTRATION:

AFHK received approximately 41% of its total support and revenue from two donors for the six months ended June 30, 2022.

(11) FISCAL YEAR CHANGE:

AFHK is changing from a fiscal year end of December 31 to June 30. A six-month fiscal transition period from January 1, 2022 through June 30, 2022 precedes the start of the new fiscal-year cycle.

(12) SUBSEQUENT EVENTS:

Effective October 1, 2022, AFHK entered into an affiliation agreement with Rocky Mountain Center for Health Promotion and Education (RMC), a Colorado nonprofit organization. The affiliation intends to advance both organization's missions and charitable and educational purposes by furthering their collective goal of reaching more school champions, families, and youth with better programs and services. As part of the agreement, AFHK and RMC will operate under common governance and consolidate programs. As of October 1, 2022, RMC had total assets of approximately \$1,450,000 and net assets of approximately \$1,414,000.

In February 2023, AFHK was awarded from the United States Department of Agriculture (USDA) a \$47,000,000 grant for the period from February 2023 to December 2025. The funding will be used as part of a cooperative agreement with the USDA's Food and Nutrition Service to develop and implement the Healthy Meals Incentives Initiative, a federal program launched in 2022.