

ACTION FOR HEALTHY KIDS, INC.
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2016 AND 2015
TOGETHER WITH AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Action for Healthy Kids, Inc. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities, cash flows and functional expenses for the years 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 audits. We conducted our audits 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.

To the Board of Directors and Management
of Action for Healthy Kids, Inc.
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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. as of December 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Dugan + Lopatka
DUGAN & LOPATKA

Wheaton, Illinois
May 9, 2017

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,219,970	\$ 2,382,466
Certificates of deposit	600,000	300,000
Accounts and contributions receivable	1,103,657	389,190
Prepaid expenses	11,845	23,702
Total current assets	3,935,472	3,095,358
PROPERTY AND EQUIPMENT, net	25,793	20,037
OTHER ASSETS:		
Noncurrent contributions receivable	493,489	-
Security deposits	5,928	5,928
Total other assets	499,417	5,928
Total assets	\$ 4,460,682	\$ 3,121,323
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 752,891	\$ 767,257
Note payable, current maturities	8,694	-
Total current liabilities	761,585	767,257
NOTE PAYABLE, net of current maturities	66,306	-
Total liabilities	827,891	767,257
NET ASSETS:		
Unrestricted - Designated	1,008,189	1,122,873
- Undesignated	(21,064)	19,580
Total unrestricted net assets	987,125	1,142,453
Temporarily restricted	2,645,666	1,211,613
Total net assets	3,632,791	2,354,066
Total liabilities and net assets	\$ 4,460,682	\$ 3,121,323

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016		2015		
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted	Total
SUPPORT AND REVENUE:					
Public support and revenue -					
Contributions	\$ 659,890	\$ 5,973,981	\$ 6,633,871	\$ 2,073,750	\$ 2,876,015
Government grants	671,512	-	671,512	-	551,153
In-kind contributions	100,234	-	100,234	-	223,062
Conferences and other	77,173	-	77,173	-	33,144
Total public support and revenue	1,508,809	5,973,981	7,482,790	2,073,750	3,683,374
Net assets released from restrictions -					
Satisfaction of program restrictions	4,539,928	(4,539,928)	-	(4,333,467)	-
Net public support and revenue	6,048,737	1,434,053	7,482,790	(2,259,717)	3,683,374
EXPENSES:					
Program expenses -					
National Activities	3,193,979	-	3,193,979	-	3,130,805
State Team Activities	2,156,177	-	2,156,177	-	1,824,017
Total program expenses	5,350,156	-	5,350,156	-	4,954,822
Supporting services -					
Management and general	303,942	-	303,942	-	344,824
Fundraising and marketing	549,967	-	549,967	-	669,774
Total supporting services	853,909	-	853,909	-	1,014,598
Total expenses	6,204,065	-	6,204,065	-	5,969,420
CHANGE IN NET ASSETS					
NET ASSETS, Beginning of year	(155,328)	1,434,053	1,278,725	(2,259,717)	(2,286,046)
NET ASSETS, End of year	1,142,453	1,211,613	2,354,066	3,471,330	4,640,112
	\$ 987,125	\$ 2,645,666	\$ 3,632,791	\$ 1,211,613	\$ 2,354,066

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Change in net assets	\$ 1,278,725	\$ (2,286,046)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	13,869	14,136
Changes in assets and liabilities -		
(Increase) decrease in accounts and contributions receivable	(1,207,956)	2,007,643
(Increase) decrease in prepaid expenses	11,857	(13,969)
(Decrease) in accounts payable and accrued liabilities	<u>(14,366)</u>	<u>(64,005)</u>
Net cash provided by (used in) operating activities	<u>82,129</u>	<u>(342,241)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of certificates of deposit	(300,000)	(300,000)
Purchase of property and equipment	<u>(19,625)</u>	<u>(11,872)</u>
Net cash (used in) investing activities	<u>(319,625)</u>	<u>(311,872)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on notes payable	<u>75,000</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(162,496)	(654,113)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>2,382,466</u>	<u>3,036,579</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 2,219,970</u>	<u>\$ 2,382,466</u>

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Programs			Supporting Services		Total Supporting Services
	National Activities	State Team Activities	Total Programs	Management and General	Fundraising and Marketing	
Accounting and legal fees	\$ -	\$ -	\$ -	\$ 36,639	\$ 19,477	\$ 56,116
Board meetings and expense	-	-	-	21,565	7,188	28,753
Consulting fees	455,362	90,324	545,686	13,067	180,488	193,555
Insurance	9,272	6,119	15,391	1,298	1,854	3,152
Office expenses	69,994	27,113	97,107	5,173	22,634	27,807
Personnel	706,189	460,558	1,166,747	184,223	184,223	368,446
Postage and delivery	2,831	6,863	9,694	290	1,590	1,880
Project expenses	1,751,973	1,348,217	3,100,190	-	100,937	100,937
Rent	54,075	35,689	89,764	7,570	10,815	18,385
Travel and conference costs	144,283	181,294	325,577	23,715	17,294	41,009
Depreciation	-	-	-	10,402	3,467	13,869
Total functional expenses	\$ 3,193,979	\$ 2,156,177	\$ 5,350,156	\$ 303,942	\$ 549,967	\$ 853,909
						\$ 6,204,065

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Programs			Supporting Services			Total
	National Activities	State Team Activities	Total Programs	Management and General	Fundraising and Marketing	Supporting Services	
Accounting and legal fees	\$ 4,167	\$ -	\$ 4,167	\$ 102,681	\$ 34,227	\$ 136,908	\$ 141,075
Board meetings and expense	-	-	-	13,966	4,655	18,621	18,621
Consulting fees	483,143	785,439	1,268,582	12,542	361,929	374,471	1,643,053
Insurance	6,866	4,532	11,398	961	1,373	2,334	13,732
Office expenses	69,364	29,338	98,702	5,856	25,592	31,448	130,150
Personnel	631,958	412,147	1,044,105	164,859	164,859	329,718	1,373,823
Postage and delivery	4,168	2,428	6,596	514	1,934	2,448	9,044
Project expenses	1,742,615	352,660	2,095,275	-	48,249	48,249	2,143,524
Rent	41,584	27,446	69,030	5,822	8,317	14,139	83,169
Travel and conference costs	146,940	210,027	356,967	27,021	15,105	42,126	399,093
Depreciation	-	-	-	10,602	3,534	14,136	14,136
Total functional expenses	\$ 3,130,805	\$ 1,824,017	\$ 4,954,822	\$ 344,824	\$ 669,774	\$ 1,014,598	\$ 5,969,420

The accompanying notes are an integral part of this statement.

ACTION FOR HEALTHY KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES:

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 in support of school-based nutrition and physical activity programs that lead to healthier schools where kids are healthy, active and better prepared to learn. 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 May 9, 2017, 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of AFHK and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by AFHK. Generally, the donors of these assets permit AFHK to use all or part of the income earned on any related investments for general or specific purposes. There are no permanently restricted net assets as of December 31, 2016 and 2015.

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) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES: (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.

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 receivable are considered fully collectible based on past experience and management's judgment; therefore, no allowance for doubtful contribution accounts receivable is needed.

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 -

Donated services are recognized as contributions in accordance with the Accounting Standards Codification for *Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those 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 120,000 and 101,000 state team volunteers in 2016 and 2015, respectively. Although valuable, volunteer time is not recognized in the financial statements.

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.

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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES: (Continued)

Restricted Resources - (Continued)

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 years before 2013. AFHK does not expect a material net change in unrecognized tax benefits in the next twelve months.

Allocation of Expenses -

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

(2) ACCOUNTS AND CONTRIBUTIONS RECEIVABLE:

At December 31, 2016 and 2015, the timing of payments of accounts and contributions receivable as determined by the underlying agreements are expected to be as follows:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 1,103,657	\$ 389,190
Receivable in greater than one year and less than five years	<u>500,000</u>	<u>-</u>
Total accounts and contributions receivable	1,603,657	389,190
Less unamortized discounts	<u>(6,511)</u>	<u>-</u>
Net accounts and contributions receivable	<u>\$ 1,597,146</u>	<u>\$ 389,190</u>

(3) PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 63,573	\$ 55,159
Furniture and equipment	42,163	38,949
Leasehold improvements	<u>38,519</u>	<u>30,523</u>
	144,255	124,631
Less - accumulated depreciation	<u>118,462</u>	<u>104,594</u>
	<u>\$ 25,793</u>	<u>\$ 20,037</u>

(4) NOTE PAYABLE:

	<u>2016</u>	<u>2015</u>
Note payable with available line of credit up to \$175,000 through July, 2017, with interest only payments, then monthly principal and interest payments of \$1,702 (as of December 31, 2016), with interest at 4.25%, due in June, 2021.	\$ 75,000	\$ -
Less - Current portion	<u>8,694</u>	<u>-</u>
Long-term portion	<u>\$ 66,306</u>	<u>\$ -</u>

Aggregate maturities required on long-term debt as of December 31, 2016, are due in future years as follows:

<u>Years ending December 31</u>	
2017	\$ 8,694
2018	17,951
2019	18,729
2020	19,540
2021	<u>10,086</u>
	<u>\$ 75,000</u>

(5) COMMITMENTS:

AFHK leases its offices under the terms of a noncancelable lease agreement expiring in June, 2021, 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 \$94,365 and \$78,230 for 2016 and 2015, respectively. Additionally, AFHK leases office equipment under the terms of a noncancelable lease agreement expiring in September, 2017. Lease expense under the equipment lease was \$4,581 for 2016 and 2015.

(5) COMMITMENTS: (Continued)

Future minimum lease payments under the office and equipment leases as of December 31, 2016 are as follows:

2017	\$ 101,385
2018	102,662
2019	105,573
2020	108,563
2021	58,393
Thereafter	1,880

(6) TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are as follows:

	<u>2016</u>	<u>2015</u>
Universal Breakfast for Healthy Kids	\$ 257,172	\$ 270,485
School Breakfast for Healthy Kids	74,215	80,601
Game On! The Ultimate Wellness Challenge	1,194,662	238,250
Active Kids Campaign	125,958	88,734
Putting Policy into Practice	3,372	66,544
Colorado Parents for Healthy Kids	460,759	134,025
Game On! for Families	-	47,766
Parents for Healthy Kids	433,213	-
Every Kid Healthy Coalition Evaluation Grant	<u>96,315</u>	<u>285,208</u>
	<u>\$ 2,645,666</u>	<u>\$ 1,211,613</u>

(7) 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>2016</u>	<u>2015</u>
Office expenses -		
Printing and copying	\$ 4,782	\$ 9,895
Telephone	1,550	1,870
Postage and delivery	950	665
Meeting costs	57,200	35,800
Travel	34,868	18,932
Office equipment	250	-
Signs	-	900
Accounting services	634	-
Marketing and promotion services	<u>-</u>	<u>155,000</u>
	<u>\$ 100,234</u>	<u>\$ 223,062</u>

(8) RETIREMENT PLAN:

In 2015, AFHK adopted 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 did not make any matching contributions for the years ended December 31, 2016 and 2015.