

Campaign for Tobacco-Free Kids

Financial Report
March 31, 2024

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Independent Auditor's Report

Board of Directors
Campaign for Tobacco-Free Kids

Opinion

We have audited the financial statements of Campaign for Tobacco-Free Kids (the Campaign), which comprise the statements of financial position as of March 31, 2024 and 2023, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Campaign as of March 31, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Campaign and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the aggregate, that raise substantial doubt about the Campaign's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities 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 GAAS 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks 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 the Campaign'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Campaign'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.

RSM US LLP

Washington, D.C.
October 10, 2024

Campaign for Tobacco-Free Kids

Statements of Financial Position March 31, 2024 and 2023

	2024	2023
Assets		
Cash and cash equivalents	\$ 26,666,846	\$ 29,906,683
Investments	18,234,270	17,707,767
Due from the Action Fund	946,682	1,035,092
Grants and contributions receivables, net	6,214,890	22,591,385
Accounts and contract receivables	287,395	37,101
Prepaid expenses and other assets	2,371,713	2,665,199
Right-of-use operating lease assets, net	10,907,840	11,969,364
Right-of-use finance lease assets, net	53,839	62,432
Property and equipment, net	2,990,787	3,378,542
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Total assets	\$ 68,674,262	\$ 89,353,565
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Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,538,749	\$ 1,137,612
Accrued liabilities	674,633	718,161
Refundable advances	13,709,168	18,852,431
Operating lease liabilities, net	14,078,523	15,641,755
Finance lease liabilities, net	55,173	63,071
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Total liabilities	30,056,246	36,413,030
	<hr/> <hr/>	<hr/> <hr/>
Commitment (Note 8)		
Net assets:		
Without donor restrictions	10,691,211	9,735,700
With donor restrictions	27,926,805	43,204,835
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Total net assets	38,618,016	52,940,535
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Total liabilities and net assets	\$ 68,674,262	\$ 89,353,565
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See notes to financial statements.

Campaign for Tobacco-Free Kids

Statement of Activities Year Ended March 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Grants income	\$ 18,654,181	\$ 11,274,647	\$ 29,928,828
Contributions	1,539,957	62,712	1,602,669
Contracts	1,483,844	-	1,483,844
Events	483,716	-	483,716
Investment income, net	1,039,808	-	1,039,808
Contribution of nonfinancial assets	144,404	-	144,404
Other revenue	138,500	-	138,500
Net assets released from restrictions	26,615,389	(26,615,389)	-
Total support and revenue	50,099,799	(15,278,030)	34,821,769
Expenses:			
Program services:			
Public information and communications	4,529,277	-	4,529,277
Research advocacy and technical assistance	5,321,089	-	5,321,089
Youth services	2,380,860	-	2,380,860
International programs	32,321,193	-	32,321,193
Supporting services:			
General and administrative	3,283,857	-	3,283,857
Fundraising	1,308,012	-	1,308,012
Total expenses	49,144,288	-	49,144,288
Change in net assets	955,511	(15,278,030)	(14,322,519)
Net assets:			
Beginning	9,735,700	43,204,835	52,940,535
Ending	\$ 10,691,211	\$ 27,926,805	\$ 38,618,016

See notes to financial statements.

Campaign for Tobacco-Free Kids

Statement of Activities Year Ended March 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Grants income	\$ 35,081,752	\$ 36,142,732	\$ 71,224,484
Contributions	2,441,652	92,755	2,534,407
Contracts	62,144	-	62,144
Events	580,951	-	580,951
Investment income, net	518,039	-	518,039
Other revenue	131,394	-	131,394
Net assets released from restrictions	13,657,559	(13,657,559)	-
Total support and revenue	52,473,491	22,577,928	75,051,419
Expenses:			
Program services:			
Public information and communications	5,664,756	-	5,664,756
Research advocacy and technical assistance	5,002,773	-	5,002,773
Youth services	2,252,824	-	2,252,824
International programs	33,864,927	-	33,864,927
Supporting services:			
General and administrative	1,991,876	-	1,991,876
Fundraising	1,378,630	-	1,378,630
Total expenses	50,155,786	-	50,155,786
Change in net assets	2,317,705	22,577,928	24,895,633
Net assets:			
Beginning	7,417,995	20,626,907	28,044,902
Ending	\$ 9,735,700	\$ 43,204,835	\$ 52,940,535

See notes to financial statements.

Campaign for Tobacco-Free Kids

Statement of Functional Expenses Year Ended March 31, 2024

	Program Services				Supporting Services				
	Public Information and Communications	Research Advocacy and Technical Assistance	Youth Services	International Programs	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Expenses:									
Salaries and benefits	\$ 675,880	\$ 2,481,580	\$ 530,922	\$ 9,380,949	\$ 13,069,331	\$ 2,127,117	\$ 647,865	\$ 2,774,982	\$ 15,844,313
Contracted services	3,699,836	2,210,485	1,011,679	18,103,267	25,025,267	549,389	260,180	809,569	25,834,836
Travel and training	9,013	141,394	720,469	3,497,465	4,368,341	127,273	276,578	403,851	4,772,192
Occupancy	38,872	131,195	29,155	616,046	815,268	146,497	24,295	170,792	986,060
Depreciation and amortization	29,487	96,695	22,783	65,897	214,862	50,795	19,863	70,658	285,520
Office expenses and postage	8,077	37,020	17,994	215,989	279,080	28,198	9,236	37,434	316,514
Computer services	66,490	37,855	12,538	224,082	340,965	82,359	23,494	105,853	446,818
Professional services and fees	-	153,750	-	12,616	166,366	126,429	-	126,429	292,795
Other expenses	1,622	31,115	35,320	204,882	272,939	45,800	46,501	92,301	365,240
Total expenses	\$ 4,529,277	\$ 5,321,089	\$ 2,380,860	\$ 32,321,193	\$ 44,552,419	\$ 3,283,857	\$ 1,308,012	\$ 4,591,869	\$ 49,144,288

See notes to financial statements.

Campaign for Tobacco-Free Kids

Statement of Functional Expenses Year Ended March 31, 2023

	Program Services					Supporting Services			
	Public Information and Communications	Research Advocacy and Technical Assistance	Youth Services	International Programs	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Expenses:									
Salaries and benefits	\$ 639,790	\$ 2,193,763	\$ 441,456	\$ 9,751,334	\$ 13,026,343	\$ 1,212,736	\$ 746,406	\$ 1,959,142	\$ 14,985,485
Contracted services	4,881,980	2,305,052	1,133,334	19,885,818	28,206,184	328,820	155,160	483,980	28,690,164
Travel and training	10,249	130,250	594,347	2,750,899	3,485,745	35,367	369,003	404,370	3,890,115
Occupancy	39,682	132,028	32,966	777,751	982,427	140,262	23,124	163,386	1,145,813
Depreciation and amortization	28,739	95,613	22,986	73,205	220,543	54,620	19,339	73,959	294,502
Office expenses and postage	7,519	34,000	10,432	211,397	263,348	21,885	22,459	44,344	307,692
Computer services	55,311	33,762	10,404	207,873	307,350	55,375	26,455	81,830	389,180
Professional services and fees	-	49,637	-	36,388	86,025	90,120	-	90,120	176,145
Other expenses	1,486	28,668	6,899	170,262	207,315	52,691	16,684	69,375	276,690
Total expenses	\$ 5,664,756	\$ 5,002,773	\$ 2,252,824	\$ 33,864,927	\$ 46,785,280	\$ 1,991,876	\$ 1,378,630	\$ 3,370,506	\$ 50,155,786

See notes to financial statements.

Campaign for Tobacco-Free Kids

Statements of Cash Flows Years Ended March 31, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ (14,322,519)	\$ 24,895,633
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	285,520	294,502
Action Fund portion of depreciation	210,199	209,204
Loss on disposal of property and equipment	673	773
Unrealized and realized gain on investments	(171,677)	(52,948)
Decrease in discount on promises to give	-	(60,060)
Amortization of right-of-use operating lease asset	1,061,524	1,027,185
Amortization of right-of-use finance lease asset	20,471	9,678
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants and contributions receivables, net	16,376,495	(15,073,040)
Accounts and contract receivables	(250,294)	18,178
Prepaid expenses and other assets	293,486	(160,607)
Due from the Action Fund	88,410	554,485
Increase (decrease) in:		
Accounts payable	401,137	620,542
Accrued liabilities	(43,528)	(18,209)
Refundable advances	(5,143,263)	(25,084,721)
Principal payments on operating lease liabilities	(1,563,232)	(1,481,894)
Net cash used in operating activities	(2,756,598)	(14,301,299)
Cash flows from investing activities:		
Proceeds from sales of investments	11,871,405	5,761,400
Purchases of investments	(12,226,231)	(7,830,251)
Purchases of property and equipment	(108,637)	(130,271)
Net cash used in investing activities	(463,463)	(2,199,122)
Cash flows from financing activities:		
Principal payments on financing lease liabilities	(19,776)	(9,039)
Net cash used in financing activities	(19,776)	(9,039)
Net decrease in cash and cash equivalents	(3,239,837)	(16,509,460)
Cash and cash equivalents:		
Beginning	29,906,683	46,416,143
Ending	\$ 26,666,846	\$ 29,906,683
Supplemental disclosures of cash flow information:		
Right-of-use operating assets recorded in accordance with ASC 842	\$ -	\$ 12,996,549
Right-of-use finance assets recorded in accordance with ASC 842	\$ 12,148	\$ 72,110
Cash paid for operating lease	\$ 1,917,432	\$ 1,870,434
Cash paid for financing lease	\$ 21,049	\$ 11,151

See notes to financial statements.

Campaign for Tobacco-Free Kids

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Campaign for Tobacco-Free Kids (the Campaign) is organized for educational and charitable purposes including, but not limited to, developing and carrying out a national strategy for reducing tobacco use among children and youth through public education, communications, technical assistance, coordination and advocacy designed to improve the public policy environment with respect to that area. The Campaign is funded by grants and contributions from foundations, public charities, organizations, corporations and individuals.

A summary of the Campaign's significant accounting policies follows:

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities Topic of the ASC, the Campaign is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions: Net assets without donor restrictions are net assets that are neither invested in perpetuity, nor purpose or time restricted by donor-imposed stipulations.

Net assets with donor restrictions: Net assets with donor restrictions are net assets that are contributions subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature that either expire by passage of time or can be fulfilled and removed by actions of the Campaign pursuant to these stipulations. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Adopted accounting pronouncement: In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of activities as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The adoption resulted in additional disclosures.

Cash and cash equivalents: The Campaign considers all highly liquid instruments, such as checking accounts and money market fund accounts, with an original maturity of three months or less, to be cash equivalents.

Investments: All investments in debt securities and investments in equity securities with readily determinable fair values are reflected at fair value. To adjust the carrying value of the investments, gains and losses are reported in the statements of activities as investment income, net of related fees.

Financial risk: The Campaign maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Campaign has not experienced any losses in such accounts. The Campaign believes it is not exposed to any significant financial risk on cash.

Campaign for Tobacco-Free Kids

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Campaign invests in a professionally managed portfolio that contains money market funds and fixed income government securities. Such investments are exposed to various risks, such as market, interest and credit risk. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Grants and contributions receivables: Grants and contributions receivable are carried at original amount, less an estimate made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. There was no allowance for doubtful accounts at March 31, 2024 and 2023, as all amounts were estimated to be fully collectible. All amounts outstanding as of March 31, 2024 and 2023, are expected to be collected within one year.

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 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. There was no discount recorded during the years ended March 31, 2024 and 2023, as all amounts are due to be collected within one year. Conditional promises to give are not included as support until the conditions are substantially met.

Accounts and contract receivables: The Campaign offsets gross accounts receivable with an allowance for credit losses. The allowance for credit losses is the Campaign's best estimate of the amount of probable credit losses in the Campaign's existing accounts receivable, and is based upon assessing historical experience, current economic conditions and reasonable and supportable forecasts associated with specific accounts. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Provisions for allowances for credit losses are recorded in general and administrative expense. No interest is charged on past due receivables. There was no allowance at March 31, 2024 and 2023. The outstanding balance as of March 31, 2024, March 31, 2023 and April 1, 2022, was \$287,395, \$37,101, and \$8,923, respectively.

Estimating credit losses based on risk characteristics requires significant judgment by the Campaign. Significant judgments include, but are not limited to, assessing current economic conditions and the extent to which they would be relevant to the existing characteristics of the Campaign's financial assets, the estimated life of financial assets and the level of reliance on historical experience in light of economic conditions. The Campaign reviews and updates, when necessary, its historical risk characteristics that are meaningful to estimating credit losses, any new risk characteristics that arise in the natural course of business and the estimated life of its financial assets.

Property and equipment: Property and equipment is capitalized at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. The useful life of furniture and equipment, computer equipment and computer software is three to seven years. The useful life of leasehold improvements is the term of the lease. The Campaign capitalizes all property and equipment purchased with a cost of \$3,000 or more.

Campaign for Tobacco-Free Kids

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Campaign reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of a long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. There were no impairments of long-lived assets during the years ended March 31, 2024 and 2023.

Leases: The Campaign determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract, and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Campaign also considers whether its service arrangements include the right to control the use of an asset.

The Campaign recognizes most leases on its statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the statements of activities.

The Campaign made an accounting policy election available not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or April 1, 2022, for existing leases upon the adoption of ASC Topic 842, Leases). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives received. To determine the present value of lease payments, the Campaign made an accounting policy election available to nonpublic companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed-rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Campaign has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate and equipment asset classes. The non-lease components typically represent additional services transferred to the Campaign, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Support and revenue: The Campaign performs an evaluation at contract inception focused on whether a performance obligation is satisfied over time or at a point in time. If a performance obligation meets certain specific criteria, the related revenue is recognized over time if the Campaign is able to reasonably measure its progress toward complete satisfaction of the performance obligation using reliable information. If certain criteria is not met, the revenue is recognized at a point in time.

Campaign for Tobacco-Free Kids

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Events income includes contributions and ticket sales received in connection with the Youth Advocates of the Year Awards Gala. Ticket sales received in advance of the gala are reflected as refundable advances in the statements of financial position and revenue is recognized at the time the event occurs.

Under ASC 958, unconditional grants and contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted revenue is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a 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 statements of activities as net assets released from restrictions.

Under ASC 958, conditional grants and contributions revenue is recorded only to the extent that conditions have been satisfied, which is generally when qualifying expenditures are made in accordance with the agreements. If advances of funds are received for these agreements, the amount received is initially recorded as refundable advances in the statements of financial position. As qualifying expenses are incurred, and the conditions of the grant are met, matching revenue is also recorded in the same amount by reducing refundable advances. The Campaign recognizes conditional grants and contributions as net assets without donor restrictions when any associated restrictions have been met on or before the time the conditions have been met.

Refundable advances: Refundable advances represent cash received from grantors for which some or all of the grant conditions were not yet met. Conditions of a grant primarily include completion of project tasks and related expenditures, as well as the right of return for funds transferred, if all conditions are not met. Refundable advances are decreased as conditions are met or if, in rare instances, when refunds are made to donors for which conditions cannot be satisfied. Refundable advances also include payments received in advance for events.

Concentration of revenue: For the years ended March 31, 2024 and 2023, approximately 82% and 95%, respectively, of the Campaign's total support and revenue was provided by two grantors. Amounts outstanding from these grantors represented 64% and 82% of the Campaign's total grants receivable as of March 31, 2024 and 2023, respectively.

Contributions of nonfinancial assets: The Campaign receives contributions of services from businesses and individuals toward the fulfillment of program objectives and general operations. Those services, which are objectively measurable, have been included in both revenue and the related functional expense categories, and are recorded as contributions at the fair value at the date of donation.

Expense allocation: Program and supporting services have been presented on a functional basis in the statements of activities. Certain overhead costs have been allocated among the programs, general and administrative and fundraising. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Campaign. Certain expenses are attributable to more than one program or supporting function. These expenses are allocated consistently based on the percentage of staff time used.

Campaign for Tobacco-Free Kids

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income tax status: The Campaign is organized as a District of Columbia nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under IRS Section 501(a) as an organization described in IRS Section 501(c)(3), has been qualified for the charitable contribution deduction under Internal Revenue Code (IRC) Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under IRS Section 509(a)(1). The Campaign is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Campaign is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purpose. For the years ended March 31, 2024 and 2023, the Campaign did not have unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Reclassifications: Certain reclassifications of prior year amounts have been made to conform to current year presentation. The reclassifications had no effect on prior year change in net assets or net assets.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent events: The Campaign has evaluated subsequent events through October 10, 2024, the date on which the financial statements were available to be issued.

Note 2. Liquidity and Availability of Financial Assets

The Campaign regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As part of Campaign's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Campaign has various sources of liquidity at its disposal, including cash and investments.

As of March 31, 2024 and 2023, the following financial assets are available to meet annual operating costs during the next fiscal year:

	2024	2023
Financial assets at year-end:		
Cash and cash equivalents	\$ 26,666,846	\$ 29,906,683
Investments	18,234,270	17,707,767
Grants and contributions receivables, net	6,214,890	22,591,385
Accounts and contract receivables	287,395	37,101
	<u>51,403,401</u>	<u>70,242,936</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(27,926,805)	(43,204,835)
Refundable advances	(13,688,150)	(18,839,143)
	<u>(41,614,955)</u>	<u>(62,043,978)</u>
Financial assets available to meet operating needs within one year	<u>\$ 9,788,446</u>	<u>\$ 8,198,958</u>

Campaign for Tobacco-Free Kids

Notes to Financial Statements

Note 2. Liquidity and Availability of Financial Assets (Continued)

The Campaign's support includes restricted grants and contributions. The Campaign's donor-restricted grants require resources to be used in a particular manner so the Campaign maintains sufficient resources to meet those responsibilities to donors. The majority of the donor-restricted grants for domestic and international programs pay the Campaign for 12 months of the grant in advance for the Campaign to cover expenses as they arise and also to invest in money market funds and short-term investments to use the interest towards donor-restricted program goals. All of the Campaign's donor-restricted grants provide them with a percentage of indirect expenses to cover general operating expenses not included in the grants. The Campaign also receives contributions without donor restrictions to cover general expenses. The Campaign has net assets without donor restrictions that are used as reserves to fund program opportunities that are not currently in the budget and to cover unexpected emergencies.

Note 3. Investments and Fair Value Measurements

The Campaign complies with the Fair Value Measurement Topic of the ASC, which 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Campaign performs a detailed analysis of the assets and liabilities that are subject to the Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by the Campaign at March 31, 2024 and 2023. There were no liabilities subject to the provisions of fair value measurement at March 31, 2024 and 2023.

Investments were recorded at fair values at March 31, 2024 and 2023, based on the following levels of hierarchy:

	2024			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 1,031,407	\$ -	\$ -	\$ 1,031,407
Government bonds	-	17,202,863	-	17,202,863
	<u>\$ 1,031,407</u>	<u>\$ 17,202,863</u>	<u>\$ -</u>	<u>\$ 18,234,270</u>
	2023			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 3,688,912	\$ -	\$ -	\$ 3,688,912
Government bonds	-	14,018,855	-	14,018,855
	<u>\$ 3,688,912</u>	<u>\$ 14,018,855</u>	<u>\$ -</u>	<u>\$ 17,707,767</u>

Campaign for Tobacco-Free Kids

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

Money market fund is classified as Level 1 item as it is actively traded on public exchanges and valued based on quoted market prices. Government bonds are based on observable market data; however, they are not actively traded and the market data is for similar, but not identical, assets. Accordingly, these are considered a Level 2 item.

Investment income, net is composed of the following for the years ended March 31, 2024 and 2023:

	2024	2023
Interest income	\$ 903,884	\$ 503,494
Realized and unrealized gain	171,677	52,948
Investment fees	(35,753)	(38,403)
	<u>\$ 1,039,808</u>	<u>\$ 518,039</u>

Note 4. Conditional Grants

The Campaign received conditional grants that have not yet been recognized as of the end of the year. Those conditional grants aggregated \$27,127,284 and \$25,137,581 as of March 31, 2024 and 2023, respectively. The Campaign received cash advance payments from the grantor and the specified conditions of the grants were not yet met. As of March 31, 2024 and 2023, \$13,688,150 and \$18,839,143 of cash advance payments were received, respectively, and \$13,439,134 and \$6,298,438 of conditional grants payments were not yet received, respectively. As such, these amounts are not reported in the accompanying statements of activities. Conditional grants are recognized as revenue when the specified conditions of the grant are met, such as documented expenses. Refundable advances are recorded when a grantor makes a cash advance payment on a conditional grant and the Campaign has not yet met the condition. Due to the adoption of ASU 2018-08 as the resource provider, the Campaign has committed \$7,921,964 and \$9,521,641 in conditional grants, at March 31, 2024 and 2023, respectively. These amounts will be expensed as the grantee materially satisfies conditions stipulated.

Note 5. Affiliated Entity

Officers and directors of the Campaign also serve as the officers and directors for the Tobacco-Free Kids Action Fund (the Action Fund), an affiliated tax-exempt entity. The Campaign has a written agreement with the Action Fund that establishes guidelines, policies and procedures for administrative support provided by the Campaign to the Action Fund to assist the Action Fund in carrying out its exempt purpose. At March 31, 2024 and 2023, \$946,682 and \$1,035,092, respectively, were due from the Action Fund.

Management has not consolidated the Action Fund with the Campaign because the Action Fund does not hold or utilize significant resources of the Campaign; therefore, the Campaign does not have an economic interest in the Action Fund.

Campaign for Tobacco-Free Kids

Notes to Financial Statements

Note 6. Property and Equipment

Property and equipment consist of the following at March 31, 2024 and 2023:

	2024	2023
Furniture and equipment	\$ 1,390,789	\$ 1,390,789
Computer equipment	529,431	527,952
Computer software	45,554	45,554
Artwork	56,200	56,200
Leasehold improvements	3,099,841	3,013,404
	<u>5,121,815</u>	<u>5,033,899</u>
Less accumulated depreciation and amortization	<u>(2,131,028)</u>	<u>(1,655,357)</u>
	<u>\$ 2,990,787</u>	<u>\$ 3,378,542</u>

Note 7. Contributed Nonfinancial Assets

The Campaign receives contributions of services from businesses and individuals toward the fulfillment of program objectives and general operations. These services were related to events held during the year, and provided by firms and individuals with technical expertise in the respective industries. These services are valued at the fair value on the date of donation based on normal billing rates of the donor.

The goods and services are not monetized and used in the normal course of business as provided. There were no donor-imposed restrictions for the goods and services received during the year ended March 31, 2024 or 2023.

The Campaign recognized total contributed services of \$144,404 with a corresponding expense recorded during the year ended March 31, 2024. The amount received for legal totaled \$124,404, and for speaker fees totaled \$20,000. The Campaign received \$25,000 of contributions of nonfinancial assets during the year ended March 31, 2023, which was included in other revenue on the statements of activities.

Note 8. Employee Benefits

The Campaign has a tax-deferred annuity plan under Section 403(b) of the IRC. The plan covers all employees who normally work 20 or more hours per week, and agree to defer at least \$200 per plan year. All eligible employees scheduled to work more than 1,000 hours during the year may participate and contribute up to 16% of their compensation. During the years ended March 31, 2024 and 2023, the Campaign made discretionary contributions of 9% of employees' compensation. Total contribution expense for the years ended March 31, 2024 and 2023, was \$2,787,579 and \$2,587,068, respectively. Employer contributions are 100% vested after one full year of service.

Campaign for Tobacco-Free Kids

Notes to Financial Statements

Note 9. Leases

On January 1, 2020, the Campaign modified its lease agreement for the office space for the Washington, D.C. location to expand into new suites and extend the lease term to 2026 and 2032, depending on the suite. At commencement, the monthly lease payments for the existing suites total \$116,513, and monthly lease payments escalate 2.5% annually. The new suites had lease terms beginning on July 1, 2020 and October 1, 2020, with initial payments of \$7,202 and \$23,712, respectively, that also increase 2.5% annually. The lease allows for early termination on June 30, 2029, with at least 18 months' notice. The lease includes a termination penalty calculation if the Campaign were to select the option to terminate. Management believes exercising this option is remote, and plans to stay to term. The lease includes a tenant improvement allowance that covers all suites totaling \$4,012,470, that was received in full as of January 2021. The Campaign has a letter of credit with a bank totaling \$77,178, serving as the security deposit, which expires in December 2024. Under the provisions of ASU 2016-02, the Campaign determined the original office space lease is considered to be an operating-type lease.

In September 2022, the Campaign entered into a copier lease with a four-year term, and monthly payments approximating \$1,600. In September 2023, the Campaign entered into an office equipment lease with a 63 month term, and quarterly payments approximating \$650. Under the provisions of ASU 2016-02, the Campaign determined these leases are considered to be finance-type leases.

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term. The Campaign's finance lease generally does not contain any material restrictive covenants or residual value guarantees. The Campaign calculated the present value of each lease over the term of the respective lease, using the risk-free rate on the adoption date of ASC 842 or the inception date, based on the remaining lease term. Total rent expense under the operating lease was \$961,039 and \$1,027,185 for the years ended March 31, 2024 and 2023, respectively.

The ROU lease assets consisted of the following at March 31, 2024 and 2023:

	2024	2023
Operating lease cost (including amortization of right-of-use assets of \$1,061,524—2024; \$1,027,185—2023)	\$ 10,907,840	\$ 11,969,364
Total right-of-use operating lease asset	<u>\$ 10,907,840</u>	<u>\$ 11,969,364</u>
Finance equipment lease cost (including interest on lease liabilities of \$2,260—2024; \$1,334—2023)	\$ 83,254	\$ 83,773
Accumulated depreciation	(29,415)	(21,341)
Total right-of-use finance lease asset, net	<u>\$ 53,839</u>	<u>\$ 62,432</u>

Supplemental statement of financial position information related to leases is as follows as of March 31, 2024 and 2023:

	2024	2023
Weighted-average remaining lease term:		
Operating lease	8.8 years	9.8 years
Finance lease	3.5 years	3.4 years
Weighted-average discount rate:		
Operating lease	2.39%	2.39%
Finance lease	4.09%	3.76%

Campaign for Tobacco-Free Kids

Notes to Financial Statements

Note 9. Leases (Continued)

Future undiscounted cash flows for the next five years and thereafter, and a reconciliation to the lease liabilities recognized on the statements of financial position are as follows, as of March 31, 2024:

	Operating Lease	Finance Lease
Years ending March 31:		
2025	\$ 1,964,999	\$ 21,694
2026	2,014,123	21,694
2027	1,700,416	10,543
2028	1,619,567	2,578
2029	1,660,056	1,289
Thereafter	6,599,112	615
Total minimum payments required	15,558,273	58,413
Less amounts representing interest	(1,479,750)	(3,240)
Present value of the minimum lease payment	<u>\$ 14,078,523</u>	<u>\$ 55,173</u>

Note 10. Net Assets With Donor Restrictions

Net assets during the years ended March 31, 2024 and 2023, were released from restrictions by incurring expenses satisfying the restricted purpose and by the passage of time.

Net assets with donor restrictions at March 31, 2024 and 2023, were restricted for the following programs:

	2024			
	Balance March 31, 2023	Additions	Releases	Balance March 31, 2024
International programs*	\$ 28,270,653	\$ 10,014,091	\$ 17,255,027	\$ 21,029,717
U.S. programs*	14,934,182	1,323,268	9,360,362	6,897,088
	<u>\$ 43,204,835</u>	<u>\$ 11,337,359</u>	<u>\$ 26,615,389</u>	<u>\$ 27,926,805</u>
	2023			
	Balance March 31, 2022	Additions	Releases	Balance March 31, 2023
International programs*	\$ 17,622,491	\$ 20,073,942	\$ 9,425,780	\$ 28,270,653
U.S. programs*	3,004,416	16,161,545	4,231,779	14,934,182
	<u>\$ 20,626,907</u>	<u>\$ 36,235,487</u>	<u>\$ 13,657,559</u>	<u>\$ 43,204,835</u>

* Includes time restrictions in addition to purpose restrictions.

The Campaign's net assets with donor restrictions primarily consist of grant funds provided for specific programs and budget years. Accordingly, these grants incorporate both a purpose and a time restriction. Net assets are released when both the time and purpose restrictions have been met.