

The Avalon Network, Inc.

Financial Report

December 31, 2023



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Avalon Network, Inc.
Atlanta, Georgia

Opinion

We have audited the accompanying financial statements of The Avalon Network, Inc. d/b/a Avalon Action Alliance (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities and changes in net assets and cash flows for the year 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 The Avalon Network, Inc. as of December 31, 2023, and the changes in its net assets and its cash flows for the year 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our ethical responsibilities in accordance with the relevant ethical requirements related to our audit. 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 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.

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 Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of 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 judgement 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 Organization'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 the Organization'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.

MS Jiller LLC

Duluth, Georgia
November 18, 2024

The Avalon Network, Inc.
Statement of Financial Position
December 31, 2023

Assets

Cash and cash equivalents	\$ 6,821,640
Prepaid expenses	13,442
Prepaid grant	200,000
Other receivable	22,709
Intangible asset	<u>42,500</u>
Total Assets	<u>\$ 7,100,291</u>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 45,363
Grants payable	<u>590,657</u>
Total liabilities	636,020
Net Assets Without Donor Restrictions	<u>6,464,271</u>
Total Liabilities and Net Assets	<u>\$ 7,100,291</u>

See accompanying notes to the financial statements.

The Avalon Network, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2023

Support and Revenue	
Contributions	\$ 24,787,039
Contributions - donated services and goods	1,627,787
Interest income	<u>50,344</u>
Total support and revenue	26,465,170
Expenses	
Program services	16,708,295
Management and general	3,006,167
Fundraising	<u>286,437</u>
Total expenses	<u>20,000,899</u>
Change in Net Assets Without Donor Restrictions	6,464,271
Net Assets Without Donor Restrictions, January 1, 2023	<u>-</u>
Net Assets Without Donor Restrictions, December 31, 2023	<u>\$ 6,464,271</u>

See accompanying notes to the financial statements.

The Avalon Network, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2023

Cash Flows From Operating Activities	
Change in net assets without donor restrictions	\$ 6,464,271
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:	
Changes in assets and liabilities:	
Prepaid expenses	(13,442)
Prepaid grant	(200,000)
Other receivable	(22,709)
Accounts payable and accrued expenses	45,363
Grants payable	590,657
<i>Net Cash Provided By Operating Activities</i>	6,864,140
Cash Flows From Investing Activities	
Purchase of intangible asset	(42,500)
<i>Net Cash Required By Investment Activities</i>	(42,500)
Net Change in Cash and Cash Equivalents	6,821,640
Cash and Cash Equivalents, Beginning	-
Cash and Cash Equivalents, Ending	\$ 6,821,640

See accompanying notes to the financial statements.

The Avalon Network, Inc.
Notes to Financial Statements
December 31, 2023

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Avalon Network, Inc. d/b/a Avalon Action Alliance (the “Organization”) began operations on January 1, 2023 to connect our nation’s veterans and first responders to life-changing care at Avalon Alliance Partners, with a focus on post-traumatic stress, traumatic brain injuries, and substance abuse. Support and revenue are received primarily through contributions from foundations and corporate pledges.

Basis of Presentation: The Organization follows the provisions of generally accepted accounting principles in the United States of America (“GAAP”) for not-for-profit organizations which require reporting total assets, liabilities and net assets in a statement of financial position; reporting changes in net assets in a statement of activities; and reporting the sources and uses of cash and cash equivalents in a statements of cash flows. Net assets and revenues, gains, expenses and losses are classified as “net assets without donor restrictions” or “net assets with donor restrictions” as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. All net assets of the Organization were considered net assets without donor restrictions as of December 31, 2023.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time; or are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. There were no net assets with donor restrictions as of December 31, 2023.

Recent Accounting Standards: On January 1, 2023, the Organization adopted FASB’s Accounting Standards Codification Topic 326, *Allowance for Credit Losses* (“ASC 326”), using the modified retrospective approach. ASC 326 requires certain financial assets to be measured at amortized cost net of an allowance for estimated credit losses, such that the net receivable represents the present value of expected cash collections. The adoption of ASC 326 did not have a significant impact on net assets or cash flows for the current period.

Cash and Cash Equivalents: Cash and cash equivalents include cash and highly liquid investments that are readily convertible into cash and have a maturity of ninety days or less when purchased.

On occasion, the Organization maintains cash balances on deposit with financial institutions in excess of federally insured limits. Management continually monitors the soundness of these financial institutions and believes the exposure to loss to be minimal.

Contributions and Pledges Receivable: Contributions and pledges receivable are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

The Avalon Network, Inc.
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Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Pledges receivable that are unconditional and are expected to be received in future years are recorded at the present value of their estimated future cash flows. The discount on these amounts is computed using risk-free rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributions in the accompanying statement of activities.

Grants Payable: Grants payable represents all unconditional grants that have been authorized prior to year-end but remain unpaid as of the statement of financial position date. Grants that are expected to be paid in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using risk-free interest rates applicable to the years in which the grants are approved by the Board of Directors. Amortization of the discounts is included in program services in the accompanying statement of activities. Conditional grants are expensed and considered payable in the period in which the conditions are substantially satisfied.

Website Development Costs: During the development phase of the website, costs incurred were capitalized and are recorded as intangible asset on the accompanying statement of financial position. Costs incurred after the development phase of the website are expensed as incurred unless the costs relate to specific upgrades or enhancements. Amortization is calculated using the straight-line method over three years. The website development costs were implemented in 2024, so there was no amortization expense for the year ended December 31, 2023.

Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenue, and expenses during the reporting period. Actual results could differ from those estimates.

Advertising: Advertising and marketing costs are expensed as incurred and were \$188,437 for the year ended December 31, 2023.

Income Taxes: The Organization is a qualifying, nonprofit organization as defined in Section 501(c)(3) of the Internal Revenue Code; therefore, it is exempt from federal and state income taxes. Interest and penalties related to income taxes are expensed as incurred. There were no interest and penalties charged to expense for the years ended December 31, 2023.

GAAP provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the Organization's financial statements. Management has evaluated the implications of these standards and has not identified any uncertain tax positions for the

The Avalon Network, Inc.
Notes to Financial Statements
December 31, 2023

Organization; therefore, no tax expense or accruals are included in the accompanying financial statements.

NOTE 2 – CONDITIONAL CONTRIBUTION RECEIVABLE

In 2023, the Organization received a conditional contribution agreement from a foundation for the purpose of funding the Organization’s operations and Avalon Alliance Partners. The agreement promises a total contribution of \$50,000,000 to be paid over five years from 2023 to 2027, which is dependent on the Organization meeting certain conditions. As of December 31, 2023, the conditional contribution receivable balance was \$40,000,000.

NOTE 3 – GRANTS

The majority of grants awarded by the Organization are conditional promises to give that are dependent on the recipient organization’s ability to meet the conditions established at the time of the grant approval and on the Organization’s availability of funds. As of December 31, 2023, conditional grant commitments totaled \$55,181,070. Grants approved and payable, for which all conditions have been met, was \$590,657 as of December 31, 2023 and was paid in 2024.

Reconciliation of grants awarded to grant payments for the year ended December 31, 2023 is as follows:

Grant payments	\$ 16,317,638
Change in prepaid grants	(200,000)
Change in grants payable	<u>590,657</u>
Grants awarded	<u>\$ 16,708,295</u>

NOTE 4 – CONCENTRATIONS

There were two donors which accounted for approximately 76% of contributions revenue for the year ended December 31, 2023. Loss of funding from these donors may have a material effect on the Organization’s operations.

NOTE 5 – DONATED SERVICES AND GOODS

Donations of professional services are recognized when received if such services: (a) enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. Donated services and goods are recorded as both revenue and expense at the fair value of these services on the date of the donation or over the service period. Donated office space was valued at \$60,200 and donated services for marketing, accounting, and management consulting were valued at \$1,567,587 for the year ended December 31, 2023 and included in contributions revenue and in management and general expenses on the accompanying statement of activities.

The Avalon Network, Inc.
Notes to Financial Statements
December 31, 2023

NOTE 6 – RELATED PARTY

In 2023, the Organization was established by funding from Boulder Crest Foundation (“BCF”), which is a 501(c)(3) nonprofit. Total contributions received from BCF were \$7,431,039, and grant payments made to BCF’s affiliates were \$2,842,640 for the year ended December 31, 2023.

The Organization received donated marketing services from a Company that employs one of the Organization’s board members. In 2023, the donated marketing services received were valued at approximately \$37,600, which are included in contributions revenue and in management and general expenses on the accompanying statement of activities (Note 5).

NOTE 7 – SCHEDULE OF FUNCTIONAL EXPENSES

Certain categories of operating expenses are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs are directly applied to the related program or supporting service category when identifiable and possible. General operating costs across all-natural categories are allocated on the basis of estimates of time and effort.

Expenses are summarized on a functional basis below for the year ended December 31, 2023:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Partner grants	\$ 16,708,295	\$ -	\$ -	\$ 16,708,295
Compensation and employee benefits	-	911,290	98,000	1,009,290
Professional fees	-	1,696,798	-	1,696,798
Conferences, travel, and meetings	-	210,954	-	210,954
Marketing	-	-	188,437	188,437
Other operating expenses	-	187,125	-	187,125
Total expenses	<u>\$ 16,708,295</u>	<u>\$ 3,006,167</u>	<u>\$ 286,437</u>	<u>\$ 20,000,899</u>

NOTE 8 – AVAILABILITY AND LIQUIDITY OF FINANCIAL ASSETS

The Organization is substantially supported by contributions to be used for the Organization’s alliance partners and operations. For purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Organization considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures.

The Avalon Network, Inc.
Notes to Financial Statements
December 31, 2023

The Organization's financial assets as of December 31, 2023 which are available within the next twelve months to satisfy general expenditures and liabilities are as follows:

Financial assets at year end:	
Cash and cash equivalents	\$ 6,821,640
Other receivable	<u>22,709</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 6,844,349</u>

NOTE 9 – EMPLOYEE BENEFIT PLAN

The Organization sponsors a 401(k) retirement plan for eligible employees. Employees may contribute a percentage of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Organization makes a matching contribution to the plan of 4% of employees' contributions. Plan expense totaled approximately \$23,875 for the year ended December 31, 2023.

NOTE 10 – SUBSEQUENT EVENTS

The Organization has evaluated events occurring after December 31, 2023 through November 18, 2024, which is the date on which the financial statements were available to be issued. No significant events occurred subsequent to the statement of financial position date but prior to issuance that would have a material impact on the financial statements or disclosures.