Audited Financial Statements

PARTNERSHIP FOR A HEALTHIER AMERICA, INC.

June 30, 2018

Contents

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Independent Auditor's Report

To the Board of Directors
Partnership for a Healthier America, Inc.

We have audited the accompanying financial statements of Partnership for a Healthier America, Inc. (PHA), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 PHA'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 PHA'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Partnership for a Healthier America, Inc. as of June 30, 2018 and 2017, 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.

Tate & Tryon

Washington, DC
September 5, 2018

Statements of Financial Position

June 30,		2018		2017
Assets				
Cash	**$**	**3,903,621**	$	4,491,921
Investments		**2,624,979**		3,095,113
Receivables, net		**2,008,796**		3,862,930
Prepaid expenses and other assets		**277,595**		231,641
Property and equipment, net		**245,253**		373,012
Total assets	**$**	**9,060,244**	$	12,054,617
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	**$**	**722,018**	$	749,795
Deferred revenue		**164,186**		155,316
Deferred rent and lease incentives		**53,821**		207,798
Total liabilities		**940,025**		1,112,909
Net assets				
Unrestricted		**5,524,658**		5,550,053
Temporarily restricted		**2,595,561**		5,391,655
Total net assets		**8,120,219**		10,941,708
Total liabilities and net assets	**$**	**9,060,244**	$	12,054,617

Partnership for a Healthier America, Inc.

Statements of Activities

Year Ended June 30,	2018	2017
Unrestricted activities		
Revenue and support		
Summit	**$ 716,103**	$ 747,159
Evaluation fees	**556,976**	254,609
Contributions	**259,710**	331,975
Other income	**99,875**	38,965
In-kind contributions	**11,600**	945,772
	1,644,264	2,318,480
Special event	**399,674**	617,453
Costs of direct benefits to donors	**(169,756)**	(183,023)
Special event, net	**229,918**	434,430
Net assets released from restrictions	**4,593,294**	8,855,427
Total revenue and support	**6,467,476**	11,608,337
Expense		
Program services		
Catalyzing action	**2,491,395**	7,894,071
Commitments	**1,985,163**	1,788,282
Convening	**724,057**	838,728
Total program services	**5,200,615**	10,521,081
Supporting services		
General and administrative	**1,014,082**	1,178,284
Fundraising	**263,143**	392,658
Total supporting services	**1,277,225**	1,570,942
Total expense	**6,477,840**	12,092,023
Change in unrestricted net assets from operations	**(10,364)**	(483,686)
Investment income	**58,235**	57,873
Loss on disposal of property and equipment	**(73,266)**	-
Change in unrestricted net assets	**(25,395)**	(425,813)
Temporarily restricted activities		
Contributions	**1,797,200**	5,170,741
Net assets released from restrictions	**(4,593,294)**	(8,855,427)
Change in temporarily restricted net assets	**(2,796,094)**	(3,684,686)
Change in net assets	**(2,821,489)**	(4,110,499)
Net assets, beginning of year	**10,941,708**	15,052,207
Net assets, end of year	**$ 8,120,219**	$ 10,941,708

Statements of Cash Flows

Year Ended June 30,		2018		2017
Cash flows from operating activities				
Change in net assets	**$**	**(2,821,489)**	$	(4,110,499)
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Net gain on investments		**(671)**		(31,820)
Bad debt		**-**		73,326
Depreciation and amortization		**210,020**		183,685
Loss on disposal of property and equipment		**73,266**		-
Deferred rent and lease incentives		**(153,977)**		(143,003)
Changes in assets and liabilities:				
Receivables		**1,854,134**		2,833,848
Prepaid expenses and other assets		**(45,954)**		(107,299)
Accounts payable and accrued expenses		**(27,777)**		56,539
Deferred revenue		**8,870**		(6,967)
Total adjustments		**1,917,911**		2,858,309
Net cash used in operating activities		**(903,578)**		(1,252,190)
Cash flows from investing activities				
Proceeds from sales and maturities of investments		**710,350**		19,360
Purchases of investments		**(239,545)**		(2,287,188)
Purchases of property and equipment		**(155,527)**		(117,924)
Net cash provided by (used in) investing activities		**315,278**		(2,385,752)
Decrease in cash		**(588,300)**		(3,637,942)
Cash, beginning of year		**4,491,921**		8,129,863
Cash, end of year	**$**	**3,903,621**	$	4,491,921

A. Organization and Summary of Significant Accounting Policies

Organization: Partnership for a Healthier America, Inc. (PHA) was incorporated on January 13, 2010 in the state of Delaware as a nonprofit corporation. PHA is devoted to working with the private sector to end childhood obesity by making the healthy choice the easy choice. PHA brings together public, private, and nonprofit leaders to broker meaningful commitments and develop strategies to end childhood obesity. Most importantly, PHA ensures that commitments made are commitments kept by working with unbiased, third parties to monitor and publicly report on the progress of our partners.

Income taxes: PHA is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as other than a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code. PHA earned no unrelated business income during 2018 and 2017.

Basis of accounting: PHA prepares its financial statements on the accrual basis of accounting. Revenue, other than contributions, is recognized when earned, and expense is recognized when the obligation is incurred.

Use of estimates: Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred revenue: Revenue received in advance of the period in which it will be earned is reported as deferred revenue. Deferred revenue primarily consists of evaluation fees, which were received in advance of the period in which they will be earned.

Contributions: Contributions are recognized either when received or when PHA obtained unconditional promises to give from donors. Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor restrictions. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when a time restriction expires or when a purpose restriction is satisfied. Temporarily restricted contributions that expire in the same period are classified as unrestricted net assets.

Special event: PHA hosted gala events during the years ended June 30, 2018 and 2017. In relation to these special events, a portion of the gross proceeds paid represents both a contribution and a payment for the direct benefits received by participants at the events.

Costs of direct benefits to donors: Costs of direct benefits to donors include the costs related to the venue, entertainment, and catering for the special event.

Advertising expense: Advertising expense also includes sponsorship expense, both of which are costs incurred by PHA in relation to marketing healthier options. Advertising costs are expensed in the period when the first advertising activity takes place or in accordance with underlying agreements. Advertising expense has been recognized in program services and totaled $602,722 and $3,539,121 for the years ended June 30, 2018 and 2017, respectively.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Program services: Program services descriptions are as follows:

Catalyzing Action: PHA's programs make healthier choices easier to access and encourage Americans to make those healthier choices. PHA's programs are designed to remind everyone, especially busy parents and families, about healthy options. From social media to traditional advertising, PHA highlights the actions of its partners to provide healthy options and encourage people to choose healthy options.

During the year ended June 30, 2017, PHA and the leadership of Active Schools agreed to transition the program to Action for Healthy Kids after PHA finalized its five year strategic plan. The strategic plan defined a scope of activities for PHA that did not include direct involvement in K-12 programming. Action for Healthy Kids was selected to house Active Schools because of the strong mission and service alignment between the two entities. Like Active Schools, Action for Healthy Kids works directly with K-12 schools across the country to implement wellness policies and build partnerships that drive environmental change.

Catalyzing Action, which includes Communications, Campaigns and Active Schools, witnessed a significant reduction in expenses due to a change in the implementation approach for PHA's signature campaigns, Fruits and Vegetables (FNV) and Drink Up. In previous years, all campaign expenses were incurred by PHA as pass-through expenses. However, in 2018, FNV and Drink Up were treated as assets that were licensed to external partners for their implementation, transferring the expenses of implementation externally, while maintaining and expanding the work.

Commitments: PHA negotiates commitments from industry partners to ensure they increase access to healthy options for Americans. For example, PHA asks industry partners to reformulate food or enhance physical activity programs. As part of their commitment agreements, PHA monitors the efforts of its industry partners.

Commitments includes programs that cover food and nutrition, physical activity and associated verification of that work. This category witnessed an increase in expenses by 11% from prior year primarily due to pass-through evaluation costs that were paid by National Confectioners Association (NCA) for external verification by the Hudson Institute. Corresponding revenue of approximately $384,000 also is reflected thereby having a net zero effect.

Convening: PHA brings together leaders from the private sector, government, and non-profit organizations to help end childhood obesity through convening opportunities, including PHA's marquis event Building a Healthier Future Summit. Indirect costs, such as personnel costs and occupancy, related to the planning of these events are expensed as incurred. Through convening opportunities at the Summit and other events, PHA leverages these opportunities to bring together leaders and partners to showcase the work that PHA does . Activities in this area witnessed a slight decrease in expenses. This was planned in light of prior year performance.

A. Organization and Summary of Significant Accounting Policies - Continued

Supporting services: Supporting services descriptions are as follows:

General and administrative: General and administrative includes activities necessary for the administrative processes and managing the financial responsibilities of PHA.

Fundraising: Fundraising includes activities that encourage and secure financial support for PHA.

Functional allocation of expense: The costs of providing various program and supporting services activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Measure of operations: The accompanying statements of activities presents the unrestricted change in net assets from operations, which does not include investment income or loss on disposal of property and equipment.

Subsequent events: Subsequent events have been evaluated through September 5, 2018, which is the date the financial statements were available to be issued.

B. Cash

PHA maintains a demand deposit account with a reputable financial institution, which incorporates a bank deposit program that invests funds in money market accounts from several different regional banks in order to maximize the insurance protection available from the Federal Deposit Insurance Corporation (FDIC). In this manner, PHA has virtually eliminated its exposure to credit risk. From time to time, certain balances held within the account may become slightly higher than the amount that would be fully guaranteed or insured by the U.S. Government. However, management believes the risk of loss, if any, to be minimal.

C. Investments

PHA invests in a professionally managed portfolio of fixed income and equity mutual funds. Such investments are exposed to market and credit risks and may be subject to fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

In accordance with generally accepted accounting principles, PHA uses the following prioritized input levels to measure investments carried at fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2 – Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts.

C. Investments - Continued

Investments recorded at fair value include fixed income and equity mutual funds, which were classified within Level 1. The mutual funds were valued based on quoted prices for identical assets in active markets. Management believes the estimated fair value of investments to be a reasonable approximation of the exit price for the assets.

Investments recorded at cost include cash held within the investment account and certificates of deposit. The certificates of deposit are laddered to mature over staggered periods between August 2018 to May 2019. Investments recorded at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

Investments consisted of the following at June 30,:

	2018	2017
Investments, at fair value		
Mutual funds - fixed income	$ 893,156	$ 754,069
Mutual funds - equities	629,294	543,398
	1,522,450	1,297,467
Investments, at cost		
Cash	52,785	49,007
Certificates of deposit	1,049,744	1,748,639
	$ 2,624,979	**$ 3,095,113**

Investment income consisted of the following for the years ended June 30,:

	2018	2017
Interest and dividends	$ 68,914	$ 32,318
Net gain on investments	671	31,820
Investment fees	(11,350)	(6,265)
	$ 58,235	**$ 57,873**

D. RECEIVABLES

Receivables are carried at a gross amount which equals the original invoice. In the accompanying statements of financial position, receivables are presented net of the discount to present value and the allowance for doubtful accounts, if applicable.

Management periodically reviews the status of all receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the donor or partner, the relationship with the donor or partner, and the age of the receivable balance. As a result of these reviews, balances for which collection is deemed doubtful are charged to bad debt expense, and an allowance is established.

Receivables consisted of the following at June 30,:

	2018	2017
Promises to give, including grants	$ 1,908,769	$ 3,782,999
Other receivables	57,532	62,247
Commitment and evaluation fees	50,924	27,828
	2,017,225	3,873,074
Less discount to present value	(8,429)	(10,144)
	$ 2,008,796	**$ 3,862,930**

Promises to give: Promises to give, including grants, consist of unconditional contributions which will be received in a future period. Certain promises to give include multi-year payment schedules. Amounts expected to be collected in less than one year are recorded at net realizable value and amounts expected to be collected in one to five years are recorded at the present value of their estimated future cash flows, unless the discount is clearly insignificant. The discount to present value for the years ended June 30, 2018 and 2017 was calculated using the same interest rate as two year U.S. Treasury Notes related to the quarter of the year in which the gift was received. PHA used a discount rate of .58% and 0.77% for gifts received during the year ended June 30, 2018 and 2017, respectively.

Promises to give consisted of the following at June 30,:

	2018	2017
Receivable in less than one year	$ 1,608,769	$ 3,137,999
Receivable in one to five years	300,000	645,000
	1,908,769	3,782,999
Less discount to present value	(8,429)	(10,144)
	$ 1,900,340	**$ 3,772,855**

E. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than $1,000 are recorded at cost and depreciated or amortized using the straight-line method over the following useful lives: leasehold improvements - lesser of the useful life of the asset or the remaining term of the lease; website software and development – 3 years; furniture and equipment – 3 to 7 years.

Property and equipment consisted of the following at June 30,:

	2018	2017
Leasehold improvements	$ 481,448	$ 481,448
Website software and development	391,397	333,821
Furniture and equipment	163,962	163,962
	1,036,807	979,231
Less accumulated depreciation and amortization	(791,554)	(606,219)
	$ 245,253	**$ 373,012**

As a result of PHA transitioning Active Schools to Action for Healthy Kids (see Note A), property and equipment related to the Active Schools program was disposed of resulting in a loss on disposal of property and equipment totaling $73, 266 during the year ended June 30, 2018.

F. NET ASSETS

Unrestricted: Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. However, PHA has no board-designated net assets.

Temporarily restricted: Temporarily restricted net assets include those net assets whose use has been restricted either by an implied time restriction or by donors for a specified purpose.

Temporarily restricted net assets consisted of the following at June 30,:

	2018	2017
Purpose restricted	$ 1,388,894	$ 3,390,888
Time restricted	1,206,667	2,000,767
	$ 2,595,561	**$ 5,391,655**

Net assets are released from restrictions either as a result of the expiration of a time restriction or due to the satisfaction of a purpose restriction.

F. Net Assets - Continued

Net assets released from restrictions consisted of the following for the years ended June 30,:

	2018	2017
Purpose restriction	$ 2,777,298	$ 7,127,337
Time restriction	1,815,996	1,728,090
	$ 4,593,294	**$ 8,855,427**

G. Non-Cash Transactions

<u>In-kind contributions:</u> PHA received in-kind contributions from donors such as billboards, advertising, and pro bono legal services. In-kind contributions have been recorded in the statements of activities at estimated fair value.

Donated services are recognized as in-kind contributions and expensed in accordance with generally accepted accounting principles (GAAP). In order to meet the criteria for recognition in the financial statements, contributions of donated services must (a) create or enhance non-financial assets or (b) require specialized skills, be performed by people with those skills, and would otherwise have to be purchased by PHA.

In-kind contributions consisted of the following for the year ended June 30,:

	2018	2017
Advertising	$ 5,300	$ 350,000
Event Food & Beverage	5,000	-
Legal	1,300	18,169
Billboards	-	577,603
	$ 11,600	**$ 945,772**

PHA also relies on contributions of both time and expertise from its pool of volunteers. In particular, PHA has volunteers work on its programs and fundraising activities and contribute significantly to the work, impact, and success of PHA. Even though PHA's volunteers donate hundreds of hours of service, the total value of which cannot be easily calculated or estimated, these volunteer services have not been reflected in the accompanying financial statements because the volunteer services provided do not meet the criteria necessary for recognition.

H. Retirement Plan

PHA sponsors a defined 401(k) savings plan which is available to all employees meeting certain eligibility requirements as defined by the plan document. Under the plan PHA makes contributions to the plan equal to employee contributions up to a limit of 4% of participant compensation. PHA's contributions totaled $93,552 and $100,973 for the years ended June 30, 2018 and 2017, respectively.

I. Commitments and Contingencies

Office lease: PHA has an operating lease for office space which expires October 2018. In accordance with the terms of the lease, PHA obtained a letter-of-credit with a bank in lieu of a security deposit, totaling $66,787. The letter-of-credit must be maintained in accordance with the terms of lease agreement and expires January 31, 2019. The letter-of-credit is collateralized by a certificate of deposit in the same amount with the same bank. The certificate of deposit is included in prepaid expenses and other assets in the accompanying statements of financial position.

The terms of the lease include an abatement of the first two months' rent and an escalation clause which adjusts annual base rentals. The lease also contains a pass-through clause relating to real estate taxes and operating expenses, which are not included in base rentals. The office lease contains lease incentives, which have been reported in as a liability for deferred rent and lease incentives in the accompanying statements of financial position and will be amortized on a basis to achieve straight-line rent expense over the life of the lease. Deferred rent and lease incentives totaled $53,821 and $207,798 at June 30, 2018 and 2017, respectively.

Rent expense, including amortization of the related deferred rent and lease incentives, totaled $291,388 and $295,083 for the years ended June 30, 2018 and 2017, respectively.

During June 2018, PHA entered in an operating lease for office space located at 1203 19th Street, Washington, DC. The term of this lease will begin in December 2018 and will expire in March 2022. In accordance with the terms of the lease, PHA paid a security deposit totaling $45,304. The terms of the lease include an abatement of the first two months' rent and an escalation clause which adjusts annual base rentals.

Future minimum cash basis lease payments for the leases described above are as follows:

Year Ending June 30,	Amount
2019	$ 265,740
2020	278,167
2021	289,293
2022	224,424
	$ 1,057,624

Employment agreement: PHA has an employment agreement with a key employee. Under the terms of the agreement, should PHA terminate the employee without cause, it would be obligated to pay severance, the terms of which are stipulated in the employment agreement.

Special event venue agreements: PHA schedules its Gala and Summit with event venues several years in advance. PHA has signed agreements with venues for the September 2018 Gala, the 2019 Gala, and the April 2019 Summit. At June 30, 2018, the commitments in the event of cancellation of the 2019 Gala and the 2019 Summit totaled approximately $50,500 and $87,000, respectively.