Audited Financial Statements

PARTNERSHIP FOR A
HEALTHIER AMERICA, INC.

June 30, 2019

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, 2019 and 2018, and the related statements of activities, cash flows and for the years then ended, the statement of functional expenses for the year ended June 30, 2019, 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, 2019 and 2018, 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.

Adoption of New Accounting Standard

As described in Note A to the financial statements, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As required by the FASB, PHA adopted the provisions of ASU 2016-14 during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources and functional expense. There was no change in PHA's previously reported change in net assets as a result of the adoption of the standard. Our opinion is not modified with respect to this matter.

Tate & Tryon

Washington, DC
September 23, 2019

Statements of Financial Position

June 30,		**2019**		**2018**
Assets				
Cash	**$**	**3,890,583**	$	3,903,621
Investments		**2,200,759**		2,624,979
Receivables, net		**1,067,613**		2,008,796
Prepaid expenses and other assets		**115,945**		277,595
Property and equipment, net		**164,715**		245,253
Total assets	**$**	**7,439,615**	$	9,060,244

Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	**$**	**487,918**	$	722,018
Deferred revenue		**51,199**		164,186
Deferred rent and lease incentives		**37,212**		53,821
Total liabilities		**576,329**		940,025
Net assets				
Without donor restrictions		**5,631,071**		5,524,658
With donor restrictions		**1,232,215**		2,595,561
Total net assets		**6,863,286**		8,120,219
Total liabilities and net assets	**$**	**7,439,615**	$	9,060,244

See notes to the financial statements.

Statements of Activities

Year Ended June 30,		2019		2018
Activities without donor restrictions				
Revenue and support				
Summit	**$**	**644,050**	$	716,103
Evaluation fees		**475,865**		556,976
Strategic partnerships		**395,190**		-
Contributions		**285,799**		259,710
Special event		**220,325**		399,674
Other income		**43,742**		99,875
In-kind contributions		**10,000**		11,600
		2,074,971		2,043,938
Net assets released from donor restrictions		**3,062,019**		4,593,294
Total revenue and support		**5,136,990**		6,637,232
Expense				
Program services				
Commitments		**2,169,638**		1,985,163
Catalyzing action		**976,898**		2,491,395
Convening		**776,080**		893,813
Total program services		**3,922,616**		5,370,371
Supporting services				
General and administrative		**989,923**		1,014,082
Fundraising		**145,284**		263,143
Total supporting services		**1,135,207**		1,277,225
Total expense		**5,057,823**		6,647,596
Change in net assets without donor restrictions from operations		**79,167**		(10,364)
Investment income		**27,246**		58,235
Loss on disposal of property and equipment		**-**		(73,266)
Change in net assets without donor restrictions		**106,413**		(25,395)
Activities with donor restrictions				
Contributions		**1,698,673**		1,797,200
Net assets released from donor restrictions		**(3,062,019)**		(4,593,294)
Change in net assets with donor restrictions		**(1,363,346)**		(2,796,094)
Change in net assets		**(1,256,933)**		(2,821,489)
Net assets, beginning of year		**8,120,219**		10,941,708
Net assets, end of year	**$**	**6,863,286**	$	8,120,219

Partnership for a Healthier America, Inc.

Statement of Functional Expenses

Year Ended June 30, 2019 with 2018 Totals

	Program Services				Supporting Services				
	Commitments	Catalyzing Action	Convening	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total	2018 Total Expenses
Salary and Related benefits	$ 1,040,882	$ 491,883	$ 91,358	$ 1,624,123	$ 719,325	$ 96,304	$ 815,629	$ 2,439,752	$ 2,870,911
Industry-paid evaluations	676,417	-	-	676,417	4,194	-	4,194	680,611	543,703
Event expenses	20,768	7,078	608,125	635,971	-	1,006	1,006	636,977	747,526
Occupancy expenses	133,685	63,199	11,734	208,618	116,352	12,402	128,754	337,372	334,108
Communications	14,256	302,342	12,120	328,718	10	1,240	1,250	329,968	1,149,430
Administrative expenses	65,039	35,991	6,636	107,666	53,338	18,766	72,104	179,770	277,997
Professional fees	41,564	33,642	34,644	109,850	30,549	3,295	33,844	143,694	445,639
Travel expenses	58,901	16,590	6,068	81,559	22,658	6,864	29,522	111,081	107,500
Information & Technology	64,758	11,684	2,169	78,611	17,172	2,293	19,465	98,076	81,068
Other personnel related expenses	22,841	12,053	2,217	37,111	23,180	2,694	25,874	62,985	69,470
Subgrants	26,000	-	-	26,000	-	-	-	26,000	2,000
Office expenses	4,527	2,436	1,009	7,972	3,145	420	3,565	11,537	18,244
	$ 2,169,638	**$ 976,898**	**$ 776,080**	**$ 3,922,616**	**$ 989,923**	**$ 145,284**	**$ 1,135,207**	**$ 5,057,823**	**$ 6,647,596**

Statements of Cash Flows

Year Ended June 30,	2019	2018
Cash flows from operating activities		
Change in net assets	**$ (1,256,933)**	$ (2,821,489)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net loss (gain) on investments	**48,156**	(671)
Depreciation and amortization	**121,670**	210,020
Loss on disposal of property and equipment	**-**	73,266
Deferred rent and lease incentives	**(16,609)**	(153,977)
Changes in assets and liabilities:		
Receivables	**941,183**	1,854,134
Prepaid expenses and other assets	**161,650**	(45,954)
Accounts payable and accrued expenses	**(234,100)**	(27,777)
Deferred revenue	**(112,987)**	8,870
Total adjustments	**908,963**	1,917,911
Net cash used in operating activities	**(347,970)**	(903,578)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	**3,753,204**	710,350
Purchases of investments	**(3,377,140)**	(239,545)
Purchases of property and equipment	**(41,132)**	(155,527)
Net cash provided by investing activities	**334,932**	315,278
Decrease in cash	**(13,038)**	(588,300)
Cash, beginning of year	**3,903,621**	4,491,921
Cash, end of year	**$ 3,890,583**	$ 3,903,621

See notes to the financial statements.

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 had no net taxable income as of June 30, 2019 and 2018.

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 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 with or without donor restrictions depending upon the existence and/or nature of any donor restrictions. Within net assets with donor restrictions, amounts are reclassified to net assets without donor restrictions when a time restriction expires or when a purpose restriction is satisfied. Contributions received with donor restrictions that expire in the same period are classified as net assets without donor restrictions.

Special event: PHA hosted gala events during the years ended June 30, 2019 and 2018. 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 $66,111 and $602,722 for the years ended June 30, 2019 and 2018, 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.

Catalyzing Action, which includes Communications and Campaigns, 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, beginning in 2018 and in 2019, 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 include programs that cover food and nutrition, physical activity and associated verification of that work. This category witnessed an increase in expenses by 9% from 2018 to 2019, primarily due to pass-through evaluation costs that were funded by the Kresge grant for Tuft University's evaluation of Childhood Obesity (CO180). Corresponding revenue of approximately $175,000 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.

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.

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A. Organization and Summary of Significant Accounting Policies - Continued

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. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent, insurance, depreciation, digital infrastructure, postage, dues, and other office administrative expenses, which are allocated based on salaries related to each program as a percentage of total salaries.

Measure of operations: The accompanying statements of activities do not include investment income or loss on disposal of property and equipment in the change in net assets without donor restrictions from operations.

New accounting standard: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities* (ASU 2016-14). PHA adopted the provisions of ASU 2016-14 during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources and functional expenses.

Subsequent events: Subsequent events have been evaluated through September 23, 2019, 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.

C. INVESTMENTS - CONTINUED

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.

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. During the year ended June 30, 2019, PHA liquidated its investments in mutual funds and purchased certificates of deposit that are laddered to mature over staggered periods of time. 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,:

	2019	2018
Investments, at fair value		
Mutual funds - fixed income	$ -	$ 893,156
Mutual funds - equities	-	629,294
	-	1,522,450
Investments, at cost		
Cash	-	52,785
Certificates of deposit	2,200,759	1,049,744
	$ 2,200,759	**$ 2,624,979**

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

	2019	2018
Interest and dividends	$ 80,332	$ 68,914
Net (loss) gain on investments	(48,156)	671
Investment fees	(4,930)	(11,350)
	$ 27,246	**$ 58,235**

D. Liquidity and Availability of Financial Assets

PHA structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets available for general expenditure within one year are as follows at June 30,:

	2019	2018
Financial assets:		
Cash	$ 3,890,583	$ 3,903,621
Investments	2,200,759	2,624,979
Receivables	1,067,613	2,008,796
Total financial assets at year-end	7,158,955	8,537,396
Less:		
Net receivables due in one to five years	(194,944)	(291,571)
Net assets with donor restrictions	(1,232,215)	(2,595,561)
Financial assets available to meet cash needs for general expenditures within one year	**$ 5,731,796**	**$ 5,650,264**

E. 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,:

	2019	2018
Promises to give, including grants	$ 989,629	$ 1,908,769
Other receivables	54,982	57,532
Commitment and evaluation fees	28,058	50,924
	1,072,669	2,017,225
Less: discount to present value	(5,056)	(8,429)
	$ 1,067,613	**$ 2,008,796**

E. Receivables - Continued

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, 2019 and 2018 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% for gifts received during the years ended June 30, 2019 and 2018.

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

	2019	2018
Receivable in less than one year	$ 789,629	$ 1,608,769
Receivable in one to five years	200,000	300,000
	989,629	1,908,769
Less: discount to present value	(5,056)	(8,429)
	$ 984,573	**$ 1,900,340**

F. 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,:

	2019	2018
Leasehold improvements	$ 522,581	$ 481,448
Website software and development	391,397	391,397
Furniture and equipment	163,962	163,962
	1,077,940	1,036,807
Less: accumulated depreciation and amortization	(913,225)	(791,554)
	$ 164,715	**$ 245,253**

As a result of PHA transitioning Active Schools to Action for Healthy Kids during the year ended June 30, 2017, 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.

G. NET ASSETS

Without donor restrictions: Net assets without donor restrictions 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.

With donor restrictions: Net assets with donor restrictions include those net assets whose use has been restricted either by an implied time restriction or by donors for a specified purpose.

Net assets with donor restrictions consisted of the following at June 30,:

	2019	2018
Time restricted	$ 1,096,570	$ 1,206,667
Purpose restricted	135,645	1,388,894
	$ 1,232,215	**$ 2,595,561**

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.

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

	2019	2018
Purpose restriction	$ 1,692,508	$ 2,777,298
Time restriction	1,369,511	1,815,996
	$ 3,062,019	**$ 4,593,294**

H. NON-CASH TRANSACTIONS

In-kind contributions: PHA received in-kind contributions from donors such as advertising, event food and beverage 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.

H. Non-Cash Transactions - Continued

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

	2019	2018
Event Food & Beverage	$ 5,000	$ 5,000
Legal	5,000	1,300
Advertising	-	5,300
	$ 10,000	**$ 11,600**

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.

I. 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 $75,188 and $93,552 for the years ended June 30, 2019 and 2018, respectively.

J. Commitments and Contingencies

Office lease: PHA leased office space under an operating lease which expired in November 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 was to be maintained in accordance with the terms of lease agreement and expired January 31, 2019. The letter-of-credit was collateralized by a certificate of deposit in the same amount with the same bank. The certificate of deposit was included in prepaid expenses and other assets in the accompanying statement of financial position for the year ended June 30, 2018.

During June 2018, PHA entered in an operating lease for office space located at 1203 19th Street, Washington, DC, which began 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 also include an abatement of the first two months' rent and an escalation clause which adjusts annual base rentals, which will be amortized on a basis to achieve straight-line rent expense over the life of the lease. Deferred rent totaled $37,212 and $53,821 at June 30, 2019 and 2018, respectively.

J. COMMITMENTS AND CONTINGENCIES - CONTINUED

Rent expense, including amortization of the related deferred rent, totaled $287,722 and $291,388 for the years ended June 30, 2019 and 2018, respectively.

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

Year Ending June 30,	Amount
2020	$ 278,167
2021	289,293
2022	224,424
	$ 791,884

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.