HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

CHANGELAB SOLUTIONS

SINGLE AUDIT REPORTS

JUNE 30, 2020

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C O N T E N T S

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards in Accordance with the Uniform Guidance

To the Board of Directors
ChangeLab Solutions

Report on Compliance for Each Major Federal Program

We have audited ChangeLab Solutions' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of ChangeLab Solutions' major federal programs for the year ended June 30, 2020. ChangeLab Solutions' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of ChangeLab Solutions' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ChangeLab Solutions' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of ChangeLab Solutions' compliance.

Opinion on Each Major Federal Program

In our opinion, ChangeLab Solutions complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of ChangeLab Solutions is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ChangeLab Solutions' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ChangeLab Solutions' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of ChangeLab Solutions as of and for the year ended June 30, 2020, and have issued our report thereon dated January 19, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Harrington Group

Oakland, California
January 19, 2021

CHANGELAB SOLUTIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2020

Federal Grantor Agency/Pass-Through Grantor/Program Title	Contract Number	Federal CFDA Number	Contract Term	Program Award	Program Expenditures	Pass-through to Sub-recipients
Federal Awards						
U.S. Department of Health and Human Services ("DHHS"):						
Directly from, Center for Disease Control and Prevention,						
Office for State, Tribal, Local, and Territorial Support:						
Strengthening Public Health Systems and Services Through National Partnerships to Improve and Protect the Nation's Health	18NU38OT000307	93.421	08/01/18 - 07/31/23	$ 3,035,000	$ 1,342,389	$ -
Total DHHS				3,035,000	**1,342,389**	**-**
Total Federal Awards				**$ 3,035,000**	**$ 1,342,389**	**$ -**

See independent auditors' report and notes to Schedule of Expenditures of Federal Awards.

CHANGELAB SOLUTIONS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("the Schedule") includes the federal award activity of ChangeLab Solutions, under programs of the federal government for the year ended June 30, 2020. The Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of ChangeLab Solutions, it is not intended to and does not present the financial position, changes in net assets, or cash flows of ChangeLab Solutions.

2. Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 2 CFR 200, Subpart E (Cost Principles), wherein certain types of expenditures are not allowable or are limited as to reimbursement. ChangeLab Solutions did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

3. Pass-through to Sub-recipients

ChangeLab Solutions did not provide any federal awards to sub-recipients.

4. Other Information

ChangeLab Solutions did not receive federal insurance, loans, or non-cash assistance during the year ended June 30, 2020.

CHANGELAB SOLUTIONS
Schedule of Findings and Questioned Costs
For the year ended June 30, 2020

Section I – Summary of Auditors' Results

<u>Financial Statements:</u>	
Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No
<u>Federal Awards:</u>	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 200.516 Audit Findings of the Uniform Guidance?	No
Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes
<u>Identification of Major Programs:</u>	
U.S. Department of Health and Human Services:	
Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health	93.421

Section II – Financial Statements Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

No matters reported.

Section IV – Summary Schedule of Prior Year Findings

No matters reported.

HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

CHANGELAB SOLUTIONS

FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION

JUNE 30, 2020

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C O N T E N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ChangeLab Solutions

Report on the Financial Statements

We have audited the accompanying financial statements of ChangeLab Solutions (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2020, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ChangeLab Solutions as of June 30, 2020, 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.

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Other Matter

Report on Summarized Comparative Information

We have previously audited ChangeLab Solutions' 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2020, on our consideration of ChangeLab Solutions' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ChangeLab Solutions' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ChangeLab Solutions' internal control over financial reporting and compliance.

Harrington Group

Oakland, California
November 23, 2020

CHANGELAB SOLUTIONS

STATEMENT OF FINANCIAL POSITION
June 30, 2020
With comparative totals at June 30, 2019

	2020	2019
ASSETS		
Cash and cash equivalents	$ 4,837,865	$ 2,661,212
Government and other contracts receivable (Note 2)	526,136	1,242,522
Pledges receivable (Note 4)	2,157,000	3,282,547
Prepaid expenses and deposits	292,255	298,472
Property and equipment (Note 5)	156,914	208,047
Right of use asset (Note 6)	1,119,313	1,715,637
TOTAL ASSETS	$ 9,089,483	$ 9,408,437
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 169,459	$ 290,103
Accrued liabilities (Note 7)	457,117	402,649
Operating lease liability (Note 6)	1,138,823	1,720,514
Capital lease obligation (Note 8)	2,050	5,026
Paycheck protection program loan (Note 10)	952,658	-
TOTAL LIABILITIES	2,720,107	2,418,292
NET ASSETS		
Without donor restrictions	1,050,369	1,149,600
With donor restrictions (Note 12)	5,319,007	5,840,545
TOTAL NET ASSETS	6,369,376	6,990,145
TOTAL LIABILITIES AND NET ASSETS	$ 9,089,483	$ 9,408,437

The accompanying notes are an integral part of these financial statements.

CHANGELAB SOLUTIONS

STATEMENT OF ACTIVITIES
For the year ended June 30, 2020
With comparative totals for the year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	**2020**	2019
REVENUE AND SUPPORT				
Contributions	$ 51,191	$ 3,589,844	**$ 3,641,035**	$ 7,147,322
Government grants and contracts		1,797,794	**1,797,794**	4,757,797
Fee for service	31,945	356,719	**388,664**	759,426
Other income	117,212		**117,212**	23,530
In-kind donations (Note 2)	31,306		**31,306**	84,608
Net assets released from restrictions (Note 12)	6,265,895	(6,265,895)	**-**	-
TOTAL REVENUE AND SUPPORT	6,497,549	(521,538)	**5,976,011**	12,772,683
EXPENSES				
Program services	4,595,188		**4,595,188**	7,548,722
General and administrative	1,854,425		**1,854,425**	1,906,425
Fundraising and development	147,167		**147,167**	153,516
TOTAL EXPENSES	6,596,780		**6,596,780**	9,608,663
CHANGE IN NET ASSETS	(99,231)	(521,538)	**(620,769)**	3,164,020
NET ASSETS, BEGINNING OF YEAR	1,149,600	5,840,545	**6,990,145**	3,826,125
NET ASSETS, END OF YEAR	$ 1,050,369	$ 5,319,007	**$ 6,369,376**	$ 6,990,145

The accompanying notes are an integral part of these financial statements.

CHANGELAB SOLUTIONS

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2020
With comparative totals for the year ended June 30, 2019

	Program Services							Total Program Services	
	Good Governance	**Food and Beverages**	**Healthy Neighborhoods**	**Child Care and Schools**	**Tobacco Prevention**	**Health Care**	**Emerging Areas**	**2020**	2019
Salaries	$ 623,444	$ 313,025	$ 486,100	$ 338,852	$ 376,295	$ 152,561	$ 329,861	**$ 2,620,138**	$ 3,310,738
Payroll taxes and employee benefits	142,231	71,413	110,898	77,305	85,848	34,805	75,254	**597,754**	813,391
Total personnel costs	765,675	384,438	596,998	416,157	462,143	187,366	405,115	**3,217,892**	4,124,129
Occupancy	102,683	51,556	80,062	55,810	61,977	25,127	54,329	**431,544**	343,017
Subcontracts	170,144	102,188	149,012	16,085	89,642	7,242	141,338	**675,651**	2,544,062
Professional services								**-**	99,306
Online services	17,000	8,535	13,255	9,240	10,261	4,160	8,995	**71,446**	82,985
Travel	17,790	8,932	13,871	9,669	10,738	4,353	9,413	**74,766**	97,735
Conferences and meetings	15,513	7,789	12,095	8,431	9,363	3,796	8,208	**65,195**	118,283
Depreciation								**-**	-
Telephone and internet	8,007	4,020	6,243	4,352	4,833	1,959	4,237	**33,651**	34,937
Webinars and website	1,505	756	1,174	818	909	368	797	**6,327**	13,342
Insurance								**-**	-
Computer and other supplies	2,057	1,033	1,604	1,118	1,242	503	1,088	**8,645**	17,451
Memberships and subscriptions	1,028	516	802	559	621	252	544	**4,322**	332
Printing and postage	691	347	539	376	417	169	366	**2,905**	5,424
Office supplies	330	165	256	178	198	80	174	**1,381**	2,463
Equipment and furniture	339	170	265	184	205	83	179	**1,425**	5,627
Interest and finance charges								**-**	-
Bank fees								**-**	-
Office food								**-**	-
Tech support								**-**	4,956
Miscellaneous expenses	38							**38**	54,673
TOTAL 2020 FUNCTIONAL EXPENSES	**$ 1,102,800**	**$ 570,445**	**$ 876,176**	**$ 522,977**	**$ 652,549**	**$ 235,458**	**$ 634,783**	**$ 4,595,188**	
TOTAL 2019 FUNCTIONAL EXPENSES	$ 1,834,301	$ 720,612	$ 1,247,507	$ 777,412	$ 1,211,398	$ 635,375	$ 1,122,117		$ 7,548,722

The accompanying notes are an integral part of these financial statements.

CHANGELAB SOLUTIONS

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2020
With comparative totals for the year ended June 30, 2019
continued

	Program Services	General and Administrative	Fundraising and Development	Total Expenses 2020	Total Expenses 2019
Salaries	$ 2,620,138	$ 900,790	$ 111,541	**$ 3,632,469**	$ 4,385,379
Payroll taxes and employee benefits	597,754	234,795	10,846	**843,395**	1,141,322
Total personnel costs	3,217,892	1,135,585	122,387	**4,475,864**	5,526,701
Occupancy	431,544	266,256	9,272	**707,072**	463,301
Subcontracts	675,651			**675,651**	2,544,662
Professional services		241,135	4,800	**245,935**	387,697
Online services	71,446	62,750	1,903	**136,099**	136,898
Travel	74,766	18,233		**92,999**	120,705
Conferences and meetings	65,195	7,479		**72,674**	138,170
Depreciation		51,133		**51,133**	18,162
Telephone and internet	33,651	10,515	743	**44,909**	47,051
Webinars and website	6,327	27,253		**33,580**	57,829
Insurance		33,177		**33,177**	32,445
Computer and other supplies	8,645	1,697	82	**10,424**	21,894
Memberships and subscriptions	4,322	2,218		**6,540**	5,202
Printing and postage	2,905	2,193	30	**5,128**	8,246
Office supplies	1,381	900	24	**2,305**	5,901
Equipment and furniture	1,425	725	34	**2,184**	7,793
Interest and finance charges		1,908	26	**1,934**	2,928
Bank fees		190	765	**955**	944
Office food		420		**420**	-
Tech support		23		**23**	13,625
Miscellaneous expenses	38	(9,365)	7,101	**(2,226)**	68,509
TOTAL 2020 FUNCTIONAL EXPENSES	**$ 4,595,188**	**$ 1,854,425**	**$ 147,167**	**$ 6,596,780**	
TOTAL 2019 FUNCTIONAL EXPENSES	$ 7,548,722	$ 1,906,425	$ 153,516		$ 9,608,663

The accompanying notes are an integral part of these financial statements.

CHANGELAB SOLUTIONS

STATEMENT OF CASH FLOWS
For the year ended June 30, 2020
With comparative totals for the year ended June 30, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (620,769)	$ 3,164,020
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	51,133	18,162
Amortization of right of use asset	596,324	147,026
Change in unamortized discount on pledges receivable	(44,084)	(45,000)
Change in allowance for doubtful pledges receivable	(2,515)	-
(Increase) decrease in operating assets:		
Government and other contracts receivable	716,386	565,182
Pledges receivable	1,172,146	(936,433)
Other receivables	-	4,716
Prepaid expenses	6,217	(60,240)
Increase (decrease) in operating liabilities:		
Accounts payable	(120,644)	(735,970)
Accrued liabilities	54,468	(30,017)
Deferred rent	-	(19,597)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,808,662	2,071,849
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(186,905)
NET CASH (USED) BY INVESTING ACTIVITIES	-	(186,905)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from paycheck protection program loan	952,658	-
Principal payments on operating lease liability	(581,691)	(142,149)
Principal payments on capital lease obligation	(2,976)	(2,976)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	367,991	(145,125)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,176,653	1,739,819
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,661,212	921,393
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,837,865	$ 2,661,212
NON-CASH INVESTING AND FINANCING ACTIVITY:		
Use of property under operating lease:	$ -	$ 1,862,663

The accompanying notes are an integral part of these financial statements.

1. Organization

ChangeLab Solutions is a national organization that advances equitable laws and policies to ensure healthy lives for all. We prioritize communities whose residents are at highest risk for poor health. Our multidisciplinary team of lawyers, planners, policy analysts, and other professionals works with state and local governments, advocacy organizations, and anchor institutions to create thriving communities. Our vision is *communities where everyone - no matter who they are or where they live - can lead a healthy life. Our work is grounded in these guiding principles.*

Health Equity: Building healthier communities is what we do, and health equity is the driving force behind our work. We focus on undoing the harms of structural racism and other forms of institutionalized discrimination that burden underserved communities.

Expertise & Evidence: We are seasoned experts who represent multiple disciplines, bringing policy and legal experience and practical know-how to help communities improve health for all. Our work is grounded in evidence-based practices and policies that advance positive change.

Collaboration & Partnership: We are an extra set of hands to help communities ensure health for all. We collaborate with our partners to help solve complex public health problems. We meet communities where they are and provide the tools, technical assistance, and evidence-based research to help identify what policies and strategies will bring about the solutions they seek.

Sharing & Building Knowledge: Our goal is to create meaningful change for communities through equitable laws and policies. Because of this, we share what we know works and gets results. And we are continually learning from those we work with to improve our capacity and knowledge, so we can better serve communities in the future.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

With Donor Restrictions. Net assets subject to imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

continued

2. Summary of Significant Accounting Policies, continued

Government and Other Contracts Receivable

Government and other contracts receivable are receivables from governmental agencies and other agencies that contract with ChangeLab Solutions for the provision of services. Management routinely reviews outstanding receivable balances for collectability. There were no bad debts expense for the year ended June 30, 2020 and no allowance for doubtful accounts has been provided.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Concentration of Credit Risks

ChangeLab Solutions places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. ChangeLab Solutions has not incurred losses related to these investments.

The primary government and contracts receivable balance outstanding at June 30, 2020 consists of government contract receivables due from local, county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of ChangeLab Solutions receivables consist of earned fees from contract programs granted by governmental agencies.

The largest pledge receivable balance is due from one donor and is 56% of the total pledge receivable balance. Credit risk with respect to this pledge receivable is limited since the donor is a long term supporter of ChangeLab Solutions.

Approximately 30% of revenues generated by ChangeLab Solutions for the year ended June 30, 2020 were from government grants and contracts whilst 61% of revenues was derived from contributions.

continued

2. Summary of Significant Accounting Policies, continued

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year. Depreciation and amortization are computed over the following period:

Furniture and equipment	3 – 5 years
Computer equipment	3 years
Website	5 years
Leasehold improvements	Lesser of useful or lease term

Deferred Rent

ChangeLab Solutions accounts for operating leases in accordance with generally accepted accounting principles. Accordingly, rent expense under ChangeLab Solutions' operating leases is recognized on a straight-line basis over the original term of each lease. No deferred rent was recorded at June 30, 2020 and 2019.

Revenue and Revenue Recognition

ChangeLab Solutions recognizes contributions when cash, securities or other assets; an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met. As of June 30, 2020, ChangeLab Solutions did not have any contributions categorized as conditional under which the conditions had not be met.

A portion of ChangeLab Solutions' revenue is derived from federal, state, and local contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when ChangeLab Solutions has incurred expenditures in compliance with specific contract or grant provisions.

Donated Materials and Services (In-kind)

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. In-kind donations in the form of pro bono legal services received for the years ended June 30, 2020 and 2019 was $31,306 and $84,608, respectively.

continued

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets
Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets
Level 3 inputs - estimates using the best information available when there is little or no market

ChangeLab Solutions is required to measure pledged contributions and in-kind donations at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relates to each element.

Income Taxes

ChangeLab Solutions is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by ChangeLab Solutions in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. ChangeLab Solutions' returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing ChangeLab Solutions' programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services based on actual employees' time incurred and on usage of resources.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers,* as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expanded disclosures about revenue. ChangeLab Solutions has implemented ASC Topic 606 and has adjusted the presentation in these financial statements accordingly.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The ASU assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The ASU is effective for fiscal years beginning after December 15, 2018. Retrospective application is permitted. ChangeLab Solutions has implemented the provisions of ASU 2018-08 applicable to both contributions received to contributions made in the accompanying financial statements for the year ended June 30, 2020, under a modified prospective basis, as management believes the standard improves the usefulness and the understandability of ChangeLab Solutions financial reporting. Accordingly, there is no effect on net assets in connection with ChangeLab Solutions' implementation of ASU 2018-08.

In February 2016, the FASB issued amendments to the way lessees record lease transactions as set out in ASU 2016-02, *Leases*. Upon implementation, lessees will be required to recognize at commencement the right-of-use asset and a lease liability representing the lessee's obligation to make lease payments arising from the lease, as discounted, for all leases except short-term leases. This Standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and early adoption is permitted. ChangeLab Solutions' financial statements for the year ended June 30, 2020 are presented in accordance with ASU 2016-02.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with ChangeLab Solutions' financial statements for the year ended June 30, 2019, from which the summarized information was derived.

3. Liquidity and Availability of Resources

ChangeLab Solutions regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. ChangeLab Solutions has various sources of liquidity at its disposal, including cash and any cash equivalents.

continued

3. Liquidity and Availability of Resources, continued

For purposes of analyzing resources available to meet general expenditures over a 12-month period, ChangeLab Solutions considers all expenditures related to its ongoing activities and the pattern of income from grants, contracts, fundraising, and investments. The majority of ChangeLab Solutions' grant funding is received as an advance or is reimbursed within thirty days of expenditure. As part of its liquidity plan, excess cash is invested in money market accounts. ChangeLab Solutions has a $1,000,000 line of credit available to meet cash flow needs. The Finance and/or Executive Committees of the Board of Directors meets quarterly to review all financial aspects of the organization.

In addition to financial assets available to meet general expenditures over the next 12 months, ChangeLab Solutions anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

As of June 30, 2020 and 2019, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

	2020	2019
Cash and cash equivalents	**$4,837,865**	$2,661,212
Grants and contracts receivable	**526,136**	1,242,522
Pledges and other receivables	**2,157,000**	3,282,547
Total financial assets at fiscal year-end	**$7,521,001**	$7,186,281

Financial assets available to meet expenditures over the next 12 months:

Total financial assets at fiscal year-end	**$ 7,521,001**	$ 7,186,281
Less: donor restricted funds – time and purpose	**(5,319,007)**	(5,840,545)
Assets available to meet expenditures in the next 12 months	**$ 2,201,994**	$ 1,345,736

In addition to the above assets available to meet expenditures in the next 12 months, a significant amount of the donor restricted funds is also available to ChangeLab Solutions to use for such purposes.

4. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at the estimated fair present value at June 30, 2020. Pledges receivable are expected to be collected and therefore no allowance for uncollectible pledges has been recorded. A discount rate of 1.0% has been used to calculate the present value of pledges receivable. Total pledges receivable at June 30, 2020 of $2,157,000 is expected to be collected as follows:

Year ending June 30,	
2021	$ 400,000
2022	1,760,000
	2,160,000
Less: unamortized discount on pledges receivable	(3,000)
	$2,157,000

continued

5. Property and Equipment

Property and equipment at June 30, 2020 and 2019 consist of the following:

	2020	2019
Computer hardware	**$ 66,008**	$ 66,008
Website	**192,382**	192,382
	258,390	258,390
Less: accumulated depreciation	**(101,476)**	(50,343)
	$ 156,914	$208,047

Depreciation expense for the years ended June 30, 2020 and 2019 was $51,134 and $18,162, respectively.

6. Operating Lease

ChangeLab Solutions has an operating lease for its corporate office, which has a remaining term of 3 years and has been recorded in compliance with ASU 2016-02. ChangeLab Solutions used its incremental borrowing rate as the discount rate. The discount rate associated with the operating lease as of June 30, 2020 was 5.25%. The operating lease monthly payments increases every twelve months. Future minimum payments, by year and in the aggregate, under this lease consists of the following:

Year ending June 30,	
2022	$ 658,457
2023	504,817
Total minimum lease payments	1,163,274
Less: portion representing interest	(24,451)
	$1,138,823

The asset relating to this operating lease at June 30, 2020 consists of the following:

Right of use	$1,862,663
Less: accumulated amortization	(743,350)
	$1,119,313

Rent expense related to this operating lease was $163,395 for the year ended June 30, 2020.

7. Accrued Liabilities

Accrued liabilities at June 30, 2020 and 2019 consist of the following:

	2020	2019
Accrued vacation	**$295,671**	$225,956
Accrued payroll	**98,091**	102,998
Other accrued liabilities	**63,355**	73,695
	$457,117	$402,649

8. Capital Lease Obligations

ChangeLab Solutions leased equipment under a capital lease during the year. Future minimum payments, by year and in the aggregate, under this lease consists of the following:

Year ending June 30,	
2021	$2,050
Total minimum payments	$2,050

The cost of equipment under capital lease at June 30, 2020 consists of the following:

Equipment	$14,880
Less: accumulated depreciation	(9,606)
	$ 5,274

9. Line of Credit

ChangeLab Solutions had a revolving line of credit with a bank in the amount of $600,000, interest payable monthly at a fluctuating rate due April 2020. The line of credit was not renewed by ChangeLab Solutions. In July 2020, ChangeLab Solutions secured a new line of credit with another bank in the amount of $1,000,000, interest payable monthly at a fluctuating rate due July, 2021. There were no outstanding balances at June 30, 2020 and 2019.

10. Paycheck Protection Program

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), signed into law on March 27, 2020, provided additional avenues of relief to small businesses and nonprofits through programs administered by the Small Business Administration ("SBA"). The CARES Act established a Paycheck Protection Program ("PPP"), whereby certain small businesses and nonprofits were eligible for a loan to fund payroll expenses, rent, and related costs. The loan may be forgiven partially or in total if the funds are used for payroll and other qualified expenses.

continued

10. Paycheck Protection Program, continued

On May 30th, 2020, ChangeLab Solutions received a PPP loan of $952,658 the proceeds of which will be used to support payroll and operations for the remainder of the shutdown and as they move into the resumption of business activities under new COVID-19 guidelines. In order to comply with the terms of the PPP loan, ChangeLab Solutions is required to submit an application for loan forgiveness after 24 weeks the covered period from initial receipt of the funds on May 30, 2020. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities and maintains its payroll levels.

The unforgiven portion of the PPP is payable over two years at an interest rate of 1% with a deferral of payment for the first six months.

11. Commitments and Contingencies

Contracts

ChangeLab Solutions' grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, ChangeLab Solutions has no provisions for the possible disallowance of program costs on its financial statements.

Impact of COVID-19 Virus

Following the State "Safer at Home" order to close all non-essential business activities, ChangeLab Solutions has been conducting business activities under Safer at Home isolation protocols. The overall impact of the COVID-19 virus on ChangeLab Solutions cannot be foreseen at this time and is not reflected in these financial statements.

12. Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2020 and 2019 consist of the following:

	2020	2019
Good governance	**$1,037,529**	$1,389,718
Healthy neighborhoods	**1,529,406**	1,083,566
Tobacco prevention	**626,225**	838,797
Child care and schools	**563,914**	755,335
Emerging areas	**698,950**	735,290
Food and beverages	**609,091**	697,764
Health care	**253,892**	340,074
	$5,319,007	$5,840,544

continued

12. Net Assets With Donor Restrictions, continued

For the years ended June 30, 2020 and 2019, net assets with donor restrictions released from purpose restrictions were $6,265,895.

13. Fair Value Measurements

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2020:

	Level 1	Level 2	Level 3	Total
Pledged contributions – new	$ -	$ -	$3,512,244	**$3,512,244**
In-kind donations		31,306		**31,306**
Fair value at June 30, 2020	$ -	$31,306	$3,512,244	**$3,543,550**

The fair value of in-kind donations has been measured on a non-recurring basis using quoted prices for similar services and assets in inactive markets (Level 2 inputs).

The fair value of pledged contributions - new is measured on a non-recurring basis based on the value provided by the donor at the date of pledge (Level 3 inputs).

14. Employee Benefit Plan

ChangeLab Solutions provides retirement benefits to its employees through a tax-sheltered annuity 403(b) plan (the Plan) and a Roth contribution option. Employees are eligible to participate by making salary deferrals or Roth contributions at any time after hire. Participation is available to all regular full-time and part-time employees who work a minimum of 20 hours per week. ChangeLab Solutions made a contribution of 3% of each participant's salary deferral each month, beginning in the seventh month after hire for the year ended June 30, 2020. For the year ended June 30,2019 ChangeLab Solutions made similar contributions at 5% of each participant's salary deferral each month, beginning in the seventh month after hire. The total cost for the Plan for the years ended June 30, 2020 and 2019 were $102,463 and $194,463, respectively.

15. Related Party Transaction

ChangeLab Solutions signed an agreement with the Founder and former CEO in September 2019 to engage her as a Consultant for the purpose of providing "on Call, as needed" professional services to the new ChangeLab Solutions Chief Executive Officer and ChangeLab Solutions Board of Directors. During the fiscal year ChangeLab paid a total of $87,500 to the Founder and former CEO in her capacity as a Consultant under the terms and conditions of the said agreement.

continued

16. Subsequent Events

In July 2020, ChangeLab Solutions secured a new line of credit with another bank in the amount of $1,000,000, interest payable monthly at a fluctuating rate due July, 2021.

No adjustments related to the above transaction has been made to the financial statements for the year then ended June 30, 2020.

Management has evaluated subsequent events through November 23, 2020, the date which the financial statements were available for issue. Except as described above, no other events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

ADDITIONAL INFORMATION

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
ChangeLab Solutions

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ChangeLab Solutions (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2020, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ChangeLab Solutions internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ChangeLab Solutions internal control. Accordingly, we do not express an opinion on the effectiveness of ChangeLab Solutions internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ChangeLab Solutions financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

Oakland, California
November 23, 2020