

Audited Financial Statements

**PARTNERSHIP FOR A
HEALTHIER AMERICA, INC.**

June 30, 2013

Partnership for a Healthier America, Inc.

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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 statement of financial position as of June 30, 2013 and the related statements of activities and cash flows for the six-month period 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, 2013, and the changes in its net assets and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in the United States of America.

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Partnership for a Healthier America, Inc.

Statement of Financial Position

June 30, 2013

Assets

Cash - Note B	\$	4,364,457
Receivables - Note C		625,350
Prepaid expenses and other assets		193,301
Property and equipment - Note D		127,575

Total assets	\$	5,310,683
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Liabilities and net assets

Liabilities

Accounts payable and accrued expenses	\$	351,126
Deferred revenue		8,500
Deferred rent - Note H		3,865

Total liabilities		363,491
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Commitments and contingencies - Notes H & I		-
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Net assets - Note E

Unrestricted

Undesignated		2,379,205
Designated		1,949,521

Total unrestricted net assets		4,328,726
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Temporarily restricted		618,466
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Total net assets		4,947,192
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Total liabilities and net assets	\$	5,310,683
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Partnership for a Healthier America, Inc.

Statement of Activities

Six-Month Period Ended June 30, 2013

Unrestricted activities	
Revenue and support	
Summit	\$ 1,104,532
Sponsorship	500,000
Other income	462,857
Commitment and evaluation fees	55,817
Contributions	19,606
In-kind contributions - Note F	3,570
Interest income	521
	<hr/>
	2,146,903
Net assets released from restrictions - Note E	2,522,879
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Total revenue and support	4,669,782
Expense	
Program services	
Summit	997,030
Communications	340,709
Food and nutrition	267,292
Physical activity	244,098
Verification	223,558
Play Streets	166,519
Healthcare	119,918
Other programs	31,011
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Total program services	2,390,135
Supporting services	
General and administrative	216,549
Fund raising	134,369
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Total supporting services	350,918
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Total expense	2,741,053
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Change in unrestricted net assets	1,928,729
Temporarily restricted activities	
Contributions	1,000,000
Net assets released from restrictions - Note E	(2,522,879)
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Change in temporarily restricted net assets	(1,522,879)
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Change in net assets	405,850
Net assets, January 1, 2013	4,541,342
	<hr/>
Net assets, June 30, 2013	\$ 4,947,192

See notes to the financial statements.

Partnership for a Healthier America, Inc.

Statement of Cash Flows

Six-Month Period Ended June 30, 2013

Cash flows from operating activities	
Change in net assets	\$ 405,850
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	10,480
Changes in assets and liabilities:	
Receivables	1,225,893
Prepaid expenses and other assets	(40,202)
Accounts payable and accrued expenses	(42,565)
Deferred revenue	(294,979)
Deferred rent	(11,596)
<hr/>	
Total adjustments	847,031
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Net cash provided by operating activities	1,252,881
Cash flows from investing activities	
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Purchases of property and equipment	(39,671)
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Net increase in cash	1,213,210
Cash, January 1, 2013	3,151,247
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Cash, June 30, 2013	\$ 4,364,457

Partnership for a Healthier America, Inc.

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 ensure the health of our nation's youth by solving the childhood obesity crisis. 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 our partners are making to show everyone the progress we can make when we all work together.

At the June 2013 meeting, PHA's Board of Directors approved a resolution to change PHA's fiscal year from December 31, to June 30, effective with the six-month period ended June 30, 2013 in order to better align the annual financial reporting cycle to PHA's operating cycle.

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 believes that it has appropriate support for income tax positions taken. Therefore, management has not identified any uncertain income tax positions. Generally, income tax returns related to the current and three prior filing periods remain open for examination by taxing authorities.

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 consists of exhibit fees for the 2014 Summit which will be recognized in revenue during the year ending June 30, 2014.

Commitment and evaluation fees: A major goal within PHA's strategic plan includes negotiating commitments from industry partners to promote healthy options. For example, PHA obtains commitments to reduce the number of calories in meals at a restaurant, or to promote healthy activities. As part of these agreements, PHA coordinates monitoring activities at various points over the life of the agreement to ensure the industry partner is fulfilling its commitment to promote healthy options. Depending on the terms of each agreement, the industry partners pay a commitment and / or an evaluation fee to PHA, which is intended to cover the costs of the monitoring activities.

Other income: Other income consists of a cy pres award which originated from funds set aside by a defendant under court order in relation to a class action lawsuit that required the parties to distribute certain funds to a variety of nonprofit organizations. In accordance with the terms of the legal settlement, some of the residual funds were distributed to PHA, which was considered an appropriate nonprofit organization recipient.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions: Contributions are recognized when unconditionally promised to or received by PHA. 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 the purpose restriction is satisfied.

Program services: Program services descriptions are as follows:

Summit: The 2013 Summit brought together leaders from the private sector, government, and non-profit organizations to help end childhood obesity. Indirect costs, such as personnel costs and occupancy, which relate to planning the next event are considered sunk costs and are expensed in the period incurred.

Communications: The communications program highlights the needs and advantages for the private sector to make healthier options available for American families. The program also includes the creation of a website and related public relations and marketing materials.

Food and nutrition: PHA works to reverse the childhood obesity epidemic by assuring integration of nutrition principles and healthy food options into PHA commitments.

Physical activity: PHA has focused on garnering commitments from private sector organizations to solve the physical inactivity epidemic.

Verification: PHA works with unbiased, third party organizations to monitor and assist PHA in publicly reporting on the progress of its partners in an effort to ensure that commitments made are commitments kept.

Play Streets: PHA has teamed up with the Blue Cross and Blue Shield Association to help make communities across America healthier by supporting the creation of Play Streets. Play Streets are roads closed to traffic and open to the community to encourage physical activity in ten cities.

Healthcare: PHA is working with hospitals and hospital food providers to deliver more healthy options throughout their facilities. Additionally, PHA is working with electronic health record (EHR) providers to provide doctors with tools to identify, manage and track childhood obesity, and work with patients and their families on building healthier habits.

Other programs: Other programs include PHA's efforts relating to the creation and development of a Founder's Committee, Blueprint for Action, and methodology for evaluation and performance metrics.

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.

Fund raising: Fund raising 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 statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

B. CONCENTRATION OF CREDIT RISK

PHA maintains a demand deposit account with a reputable financial institution. The demand deposit account includes a bank deposit program which invests funds in money market accounts at different 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. RECEIVABLES

Receivables are presented at the gross, or face, amount due to PHA and management periodically reviews the status of all receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer or donor, PHA's relationship with the customer or donor, and the age of the receivable balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful accounts had been recorded.

Receivables consisted of the following at June 30, 2013:

Grants receivable	\$ 583,000
Other receivables	<u>42,350</u>
	<u>\$ 625,350</u>

Grants receivable: Grants receivable consisted of unconditional promises to give. PHA expects to collect all grants receivable within one year; therefore, no discount to net present value has been recorded.

Other receivables: Other receivables primarily consist of amounts due in relation to the Building a Healthier Future Summit that occurred in March 2013.

Partnership for a Healthier America, Inc.

Notes to the Financial Statements

D. 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: furniture and equipment – 5 to 7 years; computer equipment - 3 years; website – 3 years; and leasehold improvements - lesser of the useful life of the asset or the remaining term of the lease.

Property and equipment consisted of the following at June 30, 2013:

Furniture and equipment	\$	72,597
Leasehold improvements		66,137
Computer equipment		28,327
Website		10,990
		<u>178,051</u>
Less accumulated depreciation and amortization		<u>(50,476)</u>
	\$	<u>127,575</u>

E. NET ASSETS

Unrestricted and undesignated: Net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation.

Unrestricted and designated: Net assets whose use is essentially for a broad purpose covering PHA's mission. However, these funds must be used for expenses agreed-upon between PHA and the donor in a detailed pre-approved budget.

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, 2013:

Time restricted	\$	83,000
Purpose restricted		535,466
		<u>618,466</u>

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 six-month period ended June 30, 2013:

Time restriction	\$	1,655,355
Purpose restriction		867,524
		<u>2,522,879</u>

F. IN-KIND CONTRIBUTIONS

Recorded amounts: Contributions of services are recognized as in-kind contributions in accordance with generally accepted accounting principles. Donated services are recognized at fair value if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise have been purchased by PHA. In-kind contributions relating to donated registration services for the Summit totaled \$3,570 for the six-month period ended June 30, 2013.

Unrecorded amounts: PHA relies on contributions of both time and expertise from its pool of volunteers. In particular, volunteers work on PHA's programs and fund raising activities. PHA's volunteers donate hundreds of hours of service, the total value of which cannot be easily calculated or estimated, yet these volunteers contribute significantly to the work, impact, and success of PHA. 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.

G. 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 \$35,126 for the six-month period ended June 30, 2013.

H. COMMITMENTS AND CONTINGENCIES

Office lease: PHA has an operating lease for office space which expired August 2013. Under the terms of the lease, PHA paid a security deposit of \$15,620 which equals the first monthly base rental fee. The lease stipulates escalating base rental payments. Under generally accepted accounting principles (GAAP), rent expense is recognized on a straight-line basis over the term of the lease. The difference between the straight-line rent expense and the cash payments is reported as deferred rent in the accompanying financial statements. Rent expense totaled \$86,810 for the six-month period ended June 30, 2013.

Future minimum cash basis lease payments for July and August 2013 will approximate \$32,802 during the year ended June 30, 2014.

Employment agreement: PHA has signed 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.

Partnership for a Healthier America, Inc.

Notes to the Financial Statements

I. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 3, 2013, which is the date the financial statements were available to be issued.

New office lease: During June 2013, PHA signed an operating lease for new office space which expires October 2018. PHA moved to the new office space in September 2013. The terms of the lease include an abatement of 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. Using the tenant improvement allowance which was included in the lease, PHA will incur additional costs related to the build out the office space and the purchase of furniture and equipment, which will be capitalized during the year ending June 30, 2014.

Future minimum cash basis lease payments under the office lease are as follows:

Year Ending June 30,	Amount
2014	\$ 272,900
2015	417,800
2016	428,300
2017	439,000
2018	449,900
Thereafter	<u>152,500</u>
	<u>\$ 2,160,400</u>