

**Audited Financial Statements**

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

***December 31, 2012***

# 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 statements of financial position as of December 31, 2012 and 2011 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Partnership for a Healthier America, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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# Partnership for a Healthier America, Inc.

## Statements of Financial Position

<b>December 31,</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Cash - Note B	\$ 3,151,247	\$ 2,146,481
Receivables - Note C	1,851,243	2,283,568
Prepaid expenses and other assets	153,099	45,894
Property and equipment - Note D	43,751	55,335
<b>Total assets</b>	<b>\$ 5,199,340</b>	<b>\$ 4,531,278</b>
<b>Liabilities and net assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 339,058	\$ 239,895
Deferred revenue	303,479	-
Deferred rent - Note H	15,461	34,748
Total liabilities	657,998	274,643
Commitments and contingencies - Note H	-	-
Net assets - Note E		
Unrestricted	2,399,997	1,675,266
Temporarily restricted	2,141,345	2,581,369
Total net assets	4,541,342	4,256,635
<b>Total liabilities and net assets</b>	<b>\$ 5,199,340</b>	<b>\$ 4,531,278</b>

See notes to the financial statements.

Certain 2011 amounts have been reclassified for comparative purposes.

# Partnership for a Healthier America, Inc.

## Statements of Activities

<b>Year Ended December 31,</b>	<b>2012</b>	<b>2011</b>
<b>Unrestricted activities</b>		
Revenue and support		
Commitment and evaluation fees	\$ 755,555	\$ -
In-kind contributions - Note F	13,250	11,084
Interest income	3,495	8,798
Contributions	762	40,863
Summit	-	376,450
	<b>773,062</b>	<b>437,195</b>
Net assets released from restrictions - Note E	<b>3,589,734</b>	<b>3,057,595</b>
Total revenue and support	<b>4,362,796</b>	<b>3,494,790</b>
Expense		
Program services		
Communications	532,642	217,462
Program development	432,972	389,402
Physical activity	406,145	-
Summit	406,032	931,206
Play Streets	284,645	-
Chef's Move!	280,526	1,255,313
Other programs	253,798	297,669
Verification	238,214	-
Food and nutrition	188,079	-
Healthcare	111,226	-
Total program services	<b>3,134,279</b>	<b>3,091,052</b>
Supporting services		
General and administrative	457,298	759,077
Fund raising	46,488	-
Total supporting services	<b>503,786</b>	<b>759,077</b>
Total expense	<b>3,638,065</b>	<b>3,850,129</b>
Change in unrestricted net assets	<b>724,731</b>	<b>(355,339)</b>
<b>Temporarily restricted activities</b>		
Contributions - Note B	3,149,710	448,000
Net assets released from restrictions - Note E	<b>(3,589,734)</b>	<b>(3,057,595)</b>
Change in temporarily restricted net assets	<b>(440,024)</b>	<b>(2,609,595)</b>
<b>Change in net assets</b>	<b>284,707</b>	<b>(2,964,934)</b>
Net assets, beginning of year	<b>4,256,635</b>	<b>7,221,569</b>
<b>Net assets, end of year</b>	<b>\$ 4,541,342</b>	<b>\$ 4,256,635</b>

See notes to the financial statements.

# Partnership for a Healthier America, Inc.

## Statements of Cash Flows

<b>Year Ended December 31,</b>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 284,707	\$ (2,964,934)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	21,604	15,492
Change in discount on grants receivable	(5,000)	(23,000)
Changes in assets and liabilities:		
Receivables	437,325	2,834,922
Prepaid expenses and other assets	(107,205)	(39,075)
Accounts payable and accrued expenses	99,163	157,982
Deferred revenue	303,479	-
Deferred rent	(19,287)	34,748
Total adjustments	730,079	2,981,069
Net cash provided by operating activities	1,014,786	16,135
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(10,020)	(56,554)
<b>Net increase (decrease) in cash</b>	<b>1,004,766</b>	<b>(40,419)</b>
Cash, beginning of year	2,146,481	2,186,900
<b>Cash, end of year</b>	<b>\$ 3,151,247</b>	<b>\$ 2,146,481</b>

*See notes to the financial statements.  
Certain 2011 amounts have been reclassified for comparative purposes.*

# Partnership for a Healthier America, Inc.

## Notes to the Financial Statements

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### 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.

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 years ended December 31, 2010 through 2012 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 registration fees, exhibit fees, and sponsorships for the 2013 Summit which will be recognized in the year in which the event occurs.

Commitment and evaluation fees: A major goal within PHA's strategic plan includes negotiating commitments from industry partners to promote healthy food choices. For example, PHA obtains commitments to reduce the number of calories in meals at a restaurant, or to promote healthy products over unhealthy ones in stores. 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 food choices. Depending on the terms of each agreement, the industry partners pay a commitment and / or an evaluation fee to PHA, which is intended to partially cover the costs of the monitoring activities.

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.

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Program services: Program services descriptions are as follows:

Communications: The communications program establishes PHA as a well-known organization and brand focused on brokering commitments with the private sector. The program also includes the creation of a website and related public relations and marketing materials.

Program development: Program development includes development and implementation of a strategic plan to guide organizational decision-making and long term sustainability.

Physical activity: PHA has focused on garnering commitments from private sector organizations to increase physical activity rates nationally. Recent commitments made by organizations including NIKE, Inc., Reebok and Varsity Brands, as well as previous commitments still being met by YMCA and others, all focus on combatting the national physical inactivity epidemic.

Summit: The 2011 Summit brought together leaders from the private sector, government, and non-profit organizations to help end childhood obesity. There was no 2012 Summit but 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. Direct costs related to the 2013 Summit, which occurred in March 2013, have been deferred as prepaid expenses and will be recognized in the year the event occurs.

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 during 2012 and 2013.

Chef's Move!: The Chef's Move! program teaches young people about nutrition and making balanced and healthy choices about the food they eat. The program pairs chefs with interested schools in their communities so together they can create healthy meals that meet the school's dietary guidelines and budgets, while teaching young people about nutrition and making balanced and healthy choices. As part of the program, cooking materials were donated from several partnering organizations and distributed to participating schools. This program is part of First Lady Michelle Obama's *Let's Move!* campaign.

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.

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.

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

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.



# Partnership for a Healthier America, Inc.

## Notes to the Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Supporting services: Supporting services descriptions are as follows:

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

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.

Subsequent events: Subsequent events have been evaluated through May 6, 2013, which is the date the financial statements were available to be issued.

### B. CONCENTRATIONS

Credit risk: PHA maintains a non-interest bearing operating account and an interest bearing money market account with a reputable financial institution. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of these accounts are backed solely by the assets of the underlying institution. Therefore, the failure of the underlying institution could result in financial loss to PHA. However, PHA has not experienced any such losses, and does not believe it is exposed to any significant financial risk on its cash balances.

Contribution revenue: Contribution revenue, one of PHA's largest sources of revenue, includes several large grants. Contribution revenue amounted to approximately 80% and 51% of total revenue during the years ended December 31, 2012 and 2011, respectively. Should one of the funders discontinue or decrease the support promised, PHA could face a significant decrease in net assets. However, management believes the founding funders continue to strongly support PHA.

# Partnership for a Healthier America, Inc.

## Notes to the Financial Statements

### 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 consist of the following at December 31,:

	2012	2011
Grants receivable	\$ 1,738,355	\$ 1,933,042
Other receivables	112,888	75,000
Promises to give	-	280,526
	<u>1,851,243</u>	<u>2,288,568</u>
Less discount to net present value	-	(5,000)
	<u>\$ 1,851,243</u>	<u>\$ 2,283,568</u>

Grants receivable: Grants receivable consist of several multi-year commitments to provide contributions to PHA from some of its founding funders which include The California Endowment, Kaiser Permanente, and The Robert Wood Johnson Foundation. Amounts expected to be collected in less than one year are recorded at net realizable value. Amounts expected to be collected in one to five years are recorded at the present value of their estimated future cash flows. The discount to net present value was calculated using a risk adjusted discount rate of 2%.

Grants receivable consist of the following at December 31,:

	2012	2011
Receivable in less than one year	\$ 1,655,355	\$ 1,683,042
Receivable in one to five years	83,000	250,000
	<u>1,738,355</u>	<u>1,933,042</u>
Less discount to net present value	-	(5,000)
	<u>\$ 1,738,355</u>	<u>\$ 1,928,042</u>

Promises to give: Promises to give were unconditional and consisted entirely of non-cash contributions of goods for the Chef's Move! program. During the years ended December 31, 2012 and 2011, the donated goods were received and, as a result, promises to give were reduced by the amount of goods received.

# Partnership for a Healthier America, Inc.

## Notes to the Financial Statements

### C. RECEIVABLES – CONTINUED

Conditional: Conditional grants receivable totaled \$1,250,000 at December 31, 2011 and consisted of two additional grants from PHA's founding funders which both include a requirement that PHA comply with a reapplication process. In accordance with generally accepted accounting principles, conditional grants receivable and the related contribution revenue are not recorded until the conditions have been met. PHA had no conditional grants receivable at December 31, 2012.

### 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 consists of the following at December 31,:

	2012	2011
Furniture and equipment	\$ 34,065	\$ 31,069
Computer equipment	27,188	20,164
Leasehold improvements	11,504	11,504
Website	10,990	10,990
	<u>83,747</u>	<u>73,727</u>
Less accumulated depreciation and amortization	<u>(39,996)</u>	<u>(18,392)</u>
	<u>\$ 43,751</u>	<u>\$ 55,335</u>

### E. NET ASSETS

Unrestricted: 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 funds.

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 program. Temporarily restricted net assets consist of the following at December 31,:

	2012	2011
Time restricted	\$ 1,738,355	\$ 1,933,042
Purpose restricted	402,990	648,327
	<u>\$ 2,141,345</u>	<u>\$ 2,581,369</u>

# Partnership for a Healthier America, Inc.

## Notes to the Financial Statements

### E. NET ASSETS - CONTINUED

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 consist of the following for the years ended December 31,:

	2012	2011
Time restriction	\$ 3,094,397	\$ 1,777,458
Purpose restriction	<u>495,337</u>	<u>1,280,137</u>
	<u><b>\$ 3,589,734</b></u>	<u><b>\$ 3,057,595</b></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 of services consist of the following for the years ended December 31,:

	2012	2011
Legal	\$ 8,750	\$ -
Consulting	4,000	-
Accounting	<u>500</u>	<u>11,084</u>
	<u><b>\$ 13,250</b></u>	<u><b>\$ 11,084</b></u>

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 \$47,837 and \$30,663 for the years ended December 31, 2012 and 2011, respectively.

**H. COMMITMENTS AND CONTINGENCIES**

Office lease: PHA has an operating lease for office space which expires July 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 \$173,621 and \$122,784 for the years ended December 31, 2012 and 2011, respectively.

Future minimum cash basis lease payments, not including increases in real estate taxes or operating expenses, will total approximately \$114,800 during the year ended December 31, 2013.

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.