Audited Financial Statements

PARTNERSHIP FOR A HEALTHIER AMERICA, INC.

June 30, 2014

Contents

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Partnership for a Healthier America, Inc. (PHA), which comprise the statement of financial position as of June 30, 2014, the related statements of activities 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.

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, 2014, 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.

Tate & Tryon

Washington, DC
October 1, 2014

Partnership for a Healthier America, Inc.

Statement of Financial Position

June 30, 2014

Assets		
Cash	**$**	**3,431,718**
Investments		**265,948**
Receivables, net		**5,444,174**
Prepaid expenses and other assets		**84,976**
Property and equipment		**571,559**
Total assets	**$**	**9,798,375**
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	**$**	**493,724**
Deferred revenue		**96,567**
Deferred rent and lease incentives		**577,673**
Total liabilities		**1,167,964**
Commitments and contingencies		**-**
Net assets		
Unrestricted		**3,062,801**
Temporarily restricted		**5,567,610**
Total net assets		**8,630,411**
Total liabilities and net assets	**$**	**9,798,375**

See notes to the financial statements.

Partnership for a Healthier America, Inc.

Statement of Activities

Year Ended June 30, 2014

Unrestricted activities		
Revenue and support		
Summit	$	**1,601,908**
Contributions		**1,563,388**
In-kind contributions		**407,661**
Commitment and evaluation fees		**169,666**
Other income		**33,279**
		3,775,902
Net assets released from restrictions		**1,381,562**
Total revenue and support		**5,157,464**
Expense		
Program services		
Catalyzing action		**2,348,067**
Commitments		**1,350,432**
Convening		**1,339,539**
Total program services		**5,038,038**
Supporting services		
General and administrative		**1,071,257**
Fundraising		**333,062**
Total supporting services		**1,404,319**
Total expense		**6,442,357**
Change in unrestricted net assets from operations		**(1,284,893)**
Investment income		**18,968**
Change in unrestricted net assets		**(1,265,925)**
Temporarily restricted activities		
Contributions		**6,330,706**
Net assets released from restrictions		**(1,381,562)**
Change in temporarily restricted net assets		**4,949,144**
Change in net assets		**3,683,219**
Net assets, July 1, 2013		**4,947,192**
Net assets, June 30, 2014	**$**	**8,630,411**

See notes to the financial statements.

Partnership for a Healthier America, Inc.

Statement of Cash Flows

Year Ended June 30, 2014

Cash flows from operating activities		
Change in net assets	$	3,683,219
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net gain on investments		(14,214)
Bad debt		18,000
Depreciation and amortization		108,479
Loss on disposal of property and equipment		19,425
Changes in assets and liabilities:		
Receivables		(4,836,824)
Prepaid expenses and other assets		108,325
Accounts payable and accrued expenses		197,231
Deferred revenue		88,067
Deferred rent and lease incentives		162,002
Total adjustments		(4,149,509)
Net cash used in operating activities		(466,290)
Cash flows from investing activities		
Purchases of investments		(251,734)
Purchases of property and equipment		(214,715)
Net cash used in investing activities		(466,449)
Decrease in cash		(932,739)
Cash, July 1, 2013		4,364,457
Cash, June 30, 2014	$	3,431,718

Supplemental disclosure of investing activities:		
Property and equipment purchased with lease incentive		
Paid on behalf of PHA	$	411,806
Paid by PHA and reimbursed	$	167,532

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 ending 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.

In order to better align the annual financial reporting cycle to PHA's operating cycle, 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.

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 primarily consists of commitment and evaluation fees, which were received in advance of the period in which they will be earned.

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

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Program services: Program services descriptions are as follows:

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

Convening: PHA brings together leaders from the private sector, government, and non-profit organizations to help end childhood obesity through a variety of convening opportunities, including PHA's marquis event Building a Healthier Future Summit. Indirect costs, such as personnel costs and occupancy, related to the planning of these events are expensed as incurred.

Commitments: PHA negotiates commitments from industry partners to ensure they promote healthy options to Americans. For example, PHA asks industry partners to provide healthier options at restaurants. As part of the commitment agreements, PHA coordinates monitoring activities over the life of the agreement to ensure that each of its industry partners is fulfilling the commitment to promote healthy options and activities.

Supporting services: Supporting services descriptions are as follows:

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

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

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

Measure of operations: The accompanying statement of activities presents the unrestricted change in net assets from operations, which does not include investment income.

Subsequent events: Subsequent events have been evaluated through October 1, 2014, which is the date the financial statements were available to be issued.

B. CASH

PHA maintains a demand deposit account with a reputable financial institution, which incorporates a bank deposit program that invests funds in money market accounts from 35 different regional banks in order to maximize the insurance protection available from the Federal Deposit Insurance Corporation (FDIC). In this manner, PHA has virtually eliminated its exposure to credit risk. From time to time, certain balances held within the account may become slightly higher than the amount that would be fully guaranteed or insured by the U.S. Government. However, management believes the risk of loss, if any, to be minimal.

C. INVESTMENTS

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

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

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

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

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

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

Investments recorded at cost include cash held within the investment account. Investments recorded at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

C. Investments - Continued

Investments consisted of the following at June 30, 2014:

Investments, at fair value		
Mutual funds - fixed income	$	127,759
Mutual funds - equities		133,163
		260,922
Investments, at cost		
Cash		5,026
	$	**265,948**

Investment income consisted of the following for the year ended June 30, 2014:

Net gain on investments	$	14,214
Interest and dividends		4,754
	$	**18,968**

Because no investments were sold during the year ended June 30, 2014, net gain on investments does not include any realized gains or losses on investments. Therefore, the net gain on investments only consists of unrealized gains on investments due to change in fair value.

Investment management fees totaling $2,195 were recorded in bank fees expense which is included in general and administrative expense for the year ended June 30, 2014.

D. RECEIVABLES

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

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

Receivables consisted of the following at June 30, 2014:

Promises to give, including grants	$	5,417,232
Commitment and evaluation fees receivable		47,769
Other receivables		3,348
		5,468,349
Less discount to present value		(6,175)
Less allowance for doubtful accounts		(18,000)
	$	**5,444,174**

<u>Promises to give:</u> Promises to give, including grants, consist of unconditional contributions which will be received in a future period. Certain promises to give include multi-year payment schedules. Amounts expected to be collected in less than one year are recorded at net realizable value and amounts expected to be collected in one to five years are recorded at the present value of their estimated future cash flows. The discount to present value was calculated using the same interest rate as two year U.S. Treasury Notes related to the quarter of the year in which the gift was received. Discount rates ranged from 0.34% to 0.39%.

Promises to give consisted of the following at June 30, 2014:

Receivable in less than one year	$	3,785,841
Receivable in one to five years		1,631,391
		5,417,232
Less discount to present value		(6,175)
	$	**5,411,057**

E. Property and Equipment

Acquisitions of property and equipment greater than $1,000 are recorded at cost and depreciated or amortized using the straight-line method over the following useful lives: 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, 2014:

Leasehold improvements	$	481,448
Furniture and equipment		100,457
Website software and development		90,938
Computer equipment		32,951
		705,794
Less accumulated depreciation and amortization		(134,235)
	$	**571,559**

F. Net Assets

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

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

Temporarily restricted net assets consisted of the following at June 30, 2014:

Time restricted	$	4,293,825
Purpose restricted		1,273,785
	$	**5,567,610**

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 year ended June 30, 2014:

Time restriction	$	783,000
Purpose restriction		598,562
	$	**1,381,562**

G. In-Kind Contributions and Non-Monetary Exchange

In-kind contributions: PHA has received in-kind contributions from donors in relation to Public Service Announcements (PSA) and pro bono legal services which were recorded at their estimated fair value.

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

PHA recorded the following in-kind contributions during the year ended June 30, 2014:

Public Service Announcements	$	375,132
Legal		32,529
	$	**407,661**

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

Non-monetary exchange: PHA had an agreement with a sponsor of the March 2014 Building a Healthier Future Summit which provided certain benefits to the sponsor in exchange for PHA's national media placement. PHA determined the estimated fair value of the non-monetary exchange based on the level of benefits that were provided to the sponsor. As a result, PHA recorded sponsorship revenue and advertising expense totaling $200,000 for the year ended June 30, 2014.

H. Retirement Plan

PHA sponsors a defined 401(k) savings plan which is available to all employees meeting certain eligibility requirements as defined by the plan document. Under the plan PHA makes contributions to the plan equal to employee contributions up to a limit of 4% of participant compensation. PHA's contributions totaled $58,947 for the year ended June 30, 2014.

I. Commitments and Contingencies

Office lease: During September 2013, PHA moved to new office space, the related operating lease for which expires October 2018. In accordance with the terms of the lease, PHA obtained a letter-of-credit with a bank in lieu of a security deposit, totaling $66,787. The letter-of-credit must be maintained in accordance with the terms of lease agreement and expires January 31, 2019. The letter-of-credit is collateralized by a certificate of deposit with the same bank, which is included in prepaid expenses and other assets in the accompanying statement of financial position.

The terms of the lease include an abatement of the first two months' rent and an escalation clause which adjusts annual base rentals. The lease also contains a pass through clause relating to real estate taxes and operating expenses, which are not included in base rentals. The office lease contains ease incentives, which have been reported as deferred rent and lease incentives in the accompanying statement of financial position and have been amortized on a basis to achieve straight-line rent expense over the life of the lease. Deferred rent and lease incentives totaled $577,673 at June 30, 2014.

Rent expense related to the current office lease, including amortization of the related lease incentives, totaled $252,466 for the year ended June 30, 2014. Rent expense related to the previous office lease, which expired August 2013, totaled $32,802 for the year ended June 30, 2014.

Future minimum cash basis lease payments, not including increases in real estate taxes and operating expenses, are as follows:

Year Ending June 30,	Amount
2015	$ 417,800
2016	428,300
2017	439,000
2018	449,900
2019	152,500
	$ 1,887,500

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.