

HealthCorps, Inc.

Financial Report
June 30, 2014

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Independent Auditor's Report

To the Board of Directors
HealthCorps, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of HealthCorps, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2014, 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.

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 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 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 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 the Organization 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 15, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

New York, New York
December 18, 2014

HealthCorps, Inc.

Statement of Financial Position

June 30, 2014

(with summarized comparative information as of June 30, 2013)

Assets	2014	2013
Cash and Cash Equivalents	\$ 1,020,201	\$ 1,279,395
Grants, Contracts and Contributions Receivable, net	3,474,115	2,828,794
Prepaid Expenses	4,432	45,360
Property and Equipment, Net	218,883	76,303
Security Deposits and Other Assets	103,100	30,421
Total assets	\$ 4,820,731	\$ 4,260,273
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 281,336	\$ 250,499
Deferred rent obligation	86,601	10,824
Capital lease obligations	61,833	36,916
Total liabilities	429,770	298,239
Commitments and Contingencies		
Net Assets		
Unrestricted	2,379,433	2,744,005
Temporarily restricted	2,011,528	1,218,029
Total net assets	4,390,961	3,962,034
Total liabilities and net assets	\$ 4,820,731	\$ 4,260,273

See Notes to Financial Statements.

HealthCorps, Inc.

Statement of Activities

Year Ended June 30, 2014

(with summarized comparative information for the year ended June 30, 2013)

	2014			2013
	Unrestricted	Temporarily Restricted	Total	Summarized Comparative Information
Support and Revenue				
Grants and contracts	\$ 1,624,636	\$ 3,233,299	\$ 4,857,935	\$ 3,037,743
Contributions	1,582,575	617,500	2,200,075	3,625,703
Special events	1,096,384	-	1,096,384	1,123,634
Rental income and other income	100,638	-	100,638	1,567
Net assets released from restrictions used for programs	3,057,300	(3,057,300)	-	-
Total support and revenue	7,461,533	793,499	8,255,032	7,788,647
Operating Expenses				
Program services	5,978,554	-	5,978,554	5,182,463
General and administrative	793,890	-	793,890	719,967
Fund-raising	1,053,661	-	1,053,661	754,686
Total operating expenses	7,826,105	-	7,826,105	6,657,116
Change in net assets	(364,572)	793,499	428,927	1,131,531
Net assets				
Beginning	2,744,005	1,218,029	3,962,034	2,830,503
Ending	\$ 2,379,433	\$ 2,011,528	\$ 4,390,961	\$ 3,962,034

See Notes to Financial Statements.

HealthCorps, Inc.

Statement of Functional Expenses

Year Ended June 30, 2014

(with summarized comparative information for the year ended June 30, 2013)

	2014			2013	
	Program Services	General and Administrative	Fund-raising	Total	Summarized Comparative Information
Salaries and Related Fringe Benefits	\$3,904,501	\$ 243,270	\$ 164,130	\$4,311,901	\$ 3,966,030
Curriculum and Educational					
Materials	871,223	-	-	871,223	634,850
Outside Service Contracts	289,364	109,708	141,160	540,232	563,845
Travel and Meetings	284,755	106,364	71,762	462,881	388,752
Payroll Administrative Fee	143,259	18,307	12,352	173,918	185,627
Professional Fees	122,013	45,576	30,749	198,338	99,277
Marketing and Promotion	29,827	44,741	77,957	152,525	55,071
Rent, Parking and Utilities	136,759	51,083	34,465	222,307	149,761
Office Expense	33,672	133,881	8,486	176,039	129,205
Telecommunications	43,394	16,208	10,936	70,538	58,106
Technical Support	50,938	19,027	12,837	82,802	55,632
Bad Debt Recovery	-	(29,500)	-	(29,500)	(4,445)
Insurance	15,206	5,681	3,832	24,719	15,925
Postage	9,116	7,527	2,297	18,940	24,057
Depreciation and Amortization	44,527	16,632	11,221	72,380	52,076
Interest Expense	-	5,385	-	5,385	5,207
Grant Expense	-	-	-	-	(82,452)
Subtotal	5,978,554	793,890	582,184	7,354,628	6,296,524
Direct Cost of Special Events	-	-	471,477	471,477	360,592
Total expenses	\$5,978,554	\$ 793,890	\$1,053,661	\$7,826,105	\$ 6,657,116

See Notes to Financial Statements.

HealthCorps, Inc.

Statement of Cash Flows

Year Ended June 30, 2014

(with summarized comparative information for the year ended June 30, 2013)

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ 428,927	\$ 1,131,531
Adjustments to reconcile change in net assets to net cash provided by (used by) operating activities:		
Depreciation and amortization	72,380	52,076
Write-off of grant payable	-	(82,452)
Bad debt recovery	(29,500)	(4,445)
Increase in deferred rent obligation	75,777	2,064
Change in operating assets and liabilities:		
Increase in grants, contracts and contributions receivable	(615,821)	(810,716)
Decrease in prepaid expenses	40,928	29,234
Increase in security deposits and other assets	(72,679)	(3,694)
(Decrease) increase in accounts payable and accrued expenses	(22,493)	136,698
Net cash provided by (used in) operating activities	(122,481)	450,296
Cash Flows From Investing Activities		
Purchase of property and equipment	(112,541)	(32,796)
Net cash (used in) investing activities	(112,541)	(32,796)
Cash Flows From Financing Activities		
Principal payments on line of credit	(468,000)	(469,000)
Proceeds from line of credit	468,000	469,000
Principal payments on capital lease obligations	(24,172)	(18,330)
Net cash (used in) financing activities	(24,172)	(18,330)
Net change in cash and cash equivalents	(259,194)	399,170
Cash and Cash Equivalents		
Beginning	1,279,395	880,225
Ending	\$ 1,020,201	\$ 1,279,395
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 5,385	\$ 5,207
Supplemental Disclosures of Noncash Investing and Financing Activities		
Equipment purchased under capital leases obligations	\$ 49,089	\$ -
Property and equipment included in accounts payable and accrued expense	\$ 53,330	\$ -

See Notes to Financial Statements.

Notes to Financial Statements

Note 1. Organization

HealthCorps, Inc. (the Organization) is a corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization was co-founded by Dr. Mehmet Oz and his wife, Lisa Oz. Dr. Oz is a world-renowned cardiac surgeon and two-time Daytime Emmy Award-winning host of the three-time Daytime Emmy Award-winning "The Dr. Oz Show". The Organization was organized to combat the childhood obesity crisis. The Organization is building a nationwide movement to shape a new generation. The Organization's "Coordinators" carry out unique in-school and community programming targeting high-need populations. Using peer-mentoring to deliver a progressive curriculum in nutrition, fitness and mental strength, the Coordinators give teens purpose, help develop human character and inspire an interest in health and culinary arts careers. The Organization also serves as a unique research laboratory – exploring the complex, underlying causes of the obesity crisis and discovering and communicating solutions.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting.

Net asset classifications: Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that must be permanently maintained by the Organization. Generally, the donors permit the Organization to use or expend all or part of the income earned on those assets to support current operations or program purposes and, accordingly, income would be recorded as temporarily restricted until the purpose is satisfied. The Organization did not have any permanently restricted net assets as of June 30, 2014 and 2013.

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 judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, and revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents on the statement of financial position include highly liquid investments with initial maturities of three months or less.

Support and revenue: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions.

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give are carried at net present value less an estimate made for doubtful promises based on a review of all outstanding promises on a periodic basis. Management determines the allowance for doubtful accounts by using the historical experience applied to an aging of promises. Promises are written off when deemed uncollectible.

The Organization receives grants from governmental agencies and other sources for various purposes. Grant awards earned but not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by the approved grants. The Organization defers grant revenues received under approved awards to the extent they exceed expenses incurred for the purposes specified under the grant purposes. These funds are reported as refundable advances. There were no refundable advances as of June 30, 2014 and 2013.

Grants, contracts and contributions receivable: Grants, contracts and contributions receivable are comprised primarily of amounts due to the Organization from grantor agencies. Receivable balances due in more than one year, are reported at their outstanding balances discounted to their net present value based on a risk adjusted rate that the Organization could secure when the support and revenue is initially received.

Property and equipment: Property and equipment are recorded at cost or, if donated, at fair value on the date of donation. The Organization's policy for capitalization of property and equipment is limited to purchases of \$1,500 and more with a useful life greater than one year. Property and equipment are depreciated on the straight-line method over the estimated useful lives of the assets, which range from two to seven years.

Expenses: Expenses are reported as decreases in unrestricted net assets. The cost of providing the various program and supporting services of the Organization have been summarized on a functional basis in the accompanying financial statements. Certain costs and expenses have been allocated between program services and supporting services on a reasonable basis as determined by management.

Advertising costs: Advertising costs are charged to operations when incurred. For the years ended June 30, 2014 and 2013, advertising costs were \$152,525 and \$55,071, respectively.

Income taxes: The Organization qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes under Internal Revenue Code Section 501(a). The Organization is also exempt from New York State and New York City income taxes. The Organization is not classified as a private foundation. As a not-for-profit organization, the Organization is subject to unrelated business income tax (UBIT), if applicable. For the years ended June 30, 2014 and 2013, the Organization did not owe any UBIT.

Management has evaluated the Organization's tax positions and has concluded that the Organization had taken no uncertain income tax positions that require adjustments or disclosures to the financial statements. Generally, the Organization is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2011, which is the standard statute of limitations look-back period.

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Comparative information: The financial statements include certain prior-year summarized comparative information in total but not by net asset or by functional expense classifications. 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 the Organization's financial statements as of and for the year ended June 30, 2013, from which the summarized information was derived.

Recently issued accounting pronouncement: In October 2012, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2012-04, *Technical Corrections and Improvements*. The amendments in this update cover a wide range of topics including technical corrections and improvements to the Accounting Standards Codification (ASC) and conforming amendments related to fair value measurements. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2013 for nonpublic entities, except for amendments in this update where there was no transition guidance and which were immediately effective upon issuance. The impact of adopting this ASU on the Organization's financial statements for subsequent periods has not yet been determined.

Note 3. Grants, Contracts and Contributions Receivable, Net

Grants, contracts and contributions receivable at June 30, 2014 and 2013 are due to be collected as follows:

	2014	2013
Less than one year	\$ 3,283,077	\$ 2,785,311
One to five years	220,000	97,222
	3,503,077	2,882,533
Allowance for doubtful accounts	(20,500)	(50,000)
Discount to present value at 4%	(8,462)	(3,739)
	<u>\$ 3,474,115</u>	<u>\$ 2,828,794</u>

At June 30, 2014 and 2013, grants, contracts and contributions receivable totaling \$1,238,627 and \$1,283,846, respectively, were due from one governmental agency.

In addition to the receivables noted above, as of June 30, 2014, certain donors provided conditional contributions to the Organization of approximately \$5,859,000. These conditional contributions have not been recognized in the accompanying financial statements as they do not meet the criteria for recognition of contributions revenue under FASB Accounting Standards Codification (ASC) 958-605 as of June 30, 2014. Revenue on these contributions will be recognized in future periods when the conditions for payment have been substantively met by the Organization.

HealthCorps, Inc.

Notes to Financial Statements

Note 4. Property and Equipment, Net

As of June 30, 2014 and 2013, property and equipment are comprised of the following:

	2014	2013	Estimated Useful Life
Leasehold improvements	\$ 119,115	\$ -	Term of Lease
Furniture and fixtures	46,147	35,070	5 to 7 Years
Equipment	128,866	94,363	2 to 7 Years
Computer software	41,374	68,509	3 Years
	335,502	197,942	
Less accumulated depreciation and amortization	(116,619)	(121,639)	
Total property and equipment	\$ 218,883	\$ 76,303	

For the years ended June 30, 2014 and 2013, depreciation and amortization expense amounted to \$72,380 and \$52,076, respectively.

Note 5. Line of Credit

The Organization has an agreement with a financial institution for a business line of credit that allows borrowings up to \$1,000,000. Interest is payable at a variable interest rate equal to the LIBOR plus 3.045%, which was 3.19% as of June 30, 2014. The line of credit will expire on July 14, 2015. As of June 30, 2014 and 2013, there were no borrowings against the line of credit.

Note 6. Professional Employer Organization

The Organization had an agreement with a professional employer organization to provide off-site human resources services that terminated on December 31, 2013. Effective January 1, 2014, the Organization entered into a new agreement with another professional employer organization. All employees of the Organization are employed by the professional employer organization. The professional employer organization administers payroll, employee benefits and other related expenses and assists in personnel and related compliance requirements. For the years ended June 30, 2014 and 2013, the fees for services under these agreements were \$173,918 and \$185,627, respectively.

Note 7. Research Grants

Requests for grants are made by various entities, mostly other not-for-profits, such as universities and other research facilities. The Board and the Executive Director carefully review all grant requests and make the grants that best further the goals of the Organization. All grants require final reports and an accounting as all unused funds are to be returned to the Organization. Grants may be for a term of up to four years. The Organization recognizes grant expense and any related payable balance in the year the grant is approved.

During fiscal year 2013, the Organization rescinded the remaining grant payable amount of \$82,452 for noncompliance with the terms of the grant agreement with a grantee, which was originally approved in fiscal year 2007.

Notes to Financial Statements

Note 8. Commitments and Contingencies

Operating lease commitments: The Organization occupies office facilities in New York and California under operating leases that expire in September 2021 and April 2015, respectively. The New York office lease is subject to rent escalations.

For the years ended June 30, 2014 and 2013, rent expense amounted to \$204,039 and \$139,744, respectively.

As of June 30, 2014, future aggregate minimum lease payments under these leases are as follows:

Years Ending June 30,

2015	\$ 217,540
2016	173,621
2017	155,873
2018	161,442
2019	177,182
Thereafter	407,391
	<u>\$ 1,293,049</u>

Deferred rent consists of the excess of the rental expenses on a straight-line basis over the payments required by the lease, and lease incentive received from landlord for a portion of the leasehold improvement cost incurred by the Organization. As of June 30, 2014 and 2013, there was \$86,601 and \$10,824, respectively, of deferred rent obligation included on the statement of financial position.

Capital lease commitment: The Organization entered into a number of non-cancellable capital lease agreements for computer and office equipment. The assets and liabilities under the capital leases are recorded at the lower of present value of the minimum lease payments or the fair value of the assets.

The assets are amortized over the lower of the related lease term or their estimated productive lives. Amortization of assets under capital lease is included in depreciation and amortization expense at June 30, 2014.

The following is a summary of computer and office equipment held under the capital lease at June 30, 2014:

Computer and office equipment	\$ 128,866
Less accumulated amortization	(73,630)
	<u>\$ 55,236</u>

HealthCorps, Inc.**Notes to Financial Statements**

Note 8. Commitments and Contingencies (Continued)

Present value of minimum capital lease payments as of June 30, 2014 is as follows:

Years ending June 30,

2015	\$ 42,257
2016	21,675
	<u>63,932</u>
Less interest portion	(2,099)
	<u><u>\$ 61,833</u></u>

The interest rates on the capital leases range from 4.0% to 8.37% and are imputed based on the lower of the Organization's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return. Interest expense on the capital lease amounted to \$3,851 and \$3,405 for the years ended June 30, 2014 and 2013, respectively.

The Organization is subject to various audits from various funding organizations that support its programs. The grants are subject to adjustments for disallowed costs, if any, based upon the results of the audits.

The Organization operates programs funded by state grants that are renewed annually depending on the availability of funds and the Organization's compliance with requirements of the contracts and grants. Therefore, annual funding under these grants is not guaranteed.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

	2014	2013
Various school and educational programs	\$ 1,914,307	\$ 941,639
Time restriction	97,221	276,390
	<u>\$ 2,011,528</u>	<u>\$ 1,218,029</u>

The release of temporarily restricted net assets consists of the following for the year ended June 30, 2014:

Various school and educational programs	\$ 2,878,132
Time restriction	179,168
	<u><u>\$ 3,057,300</u></u>

Note 10. Concentrations of Credit Risk

The Organization maintains its cash balances in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution. At times, such cash balances may exceed the FDIC limit. As of June 30, 2014 and 2013, the Organization maintained cash balances of \$755,091 and \$1,039,887, respectively, in excess of the FDIC limit at one of the financial institutions. The Organization has not experienced any losses in such accounts in the past.

Note 11. Subsequent Events

The Organization evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through December 18, 2014, the date the financial statements were available for issuance.