HealthCorps, Inc.

Financial Report
June 30, 2016

Contents

Independent Auditor's Report

To the Board of Directors
HealthCorps, Inc.

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, 2016, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements (collectively, 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 HealthCorps, Inc. as of June 30, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 6, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

New York, New York
October 28, 2016

HealthCorps, Inc.

Statement of Financial Position
June 30, 2016
(with summarized comparative information as of June 30, 2015)

	2016	2015
Assets		
Cash and cash equivalents	$ 164,443	1,010,518
Grants, contracts and contributions receivable, net	1,275,308	2,354,045
Prepaid expenses	17,626	23,896
Property and equipment, net	192,468	191,195
Security deposits and other assets	8,425	8,425
Total assets	$ 1,658,270	$ 3,588,079
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 261,967	$ 314,501
Refundable advances	-	22,276
Line of credit	200,000	400,000
Deferred rent obligation	122,794	96,651
Capital lease obligations	53,755	28,408
Total liabilities	638,516	861,836
Commitments and contingencies		
Net assets:		
Unrestricted	236,332	662,816
Temporarily restricted	783,422	2,063,427
Total net assets	1,019,754	2,726,243
Total liabilities and net assets	$ 1,658,270	$ 3,588,079

See notes to financial statements.

HealthCorps, Inc.

Statement of Activities
Year Ended June 30, 2016
(with summarized comparative information for the year ended June 30, 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	**Total**	Summarized Comparative Information
Support and revenue:				
Grants and contracts	$ 1,869,674	$ 350,000	**$ 2,219,674**	$ 3,552,399
Contributions	1,178,641	170,000	**1,348,641**	1,801,987
Special events	941,454	-	**941,454**	771,925
HealthCorps University	113,500	-	**113,500**	-
Rental income and other income	52,018	-	**52,018**	28,210
Net assets released from restrictions used for programs	1,800,005	(1,800,005)	**-**	-
Total support and revenue	5,955,292	(1,280,005)	**4,675,287**	6,154,521
Operating expenses:				
Program services	4,883,102	-	**4,883,102**	5,978,625
General and administrative	708,854	-	**708,854**	831,794
Fundraising	789,820	-	**789,820**	1,008,820
Total operating expenses	6,381,776	-	**6,381,776**	7,819,239
Change in net assets	(426,484)	(1,280,005)	**(1,706,489)**	(1,664,718)
Net assets:				
Beginning	662,816	2,063,427	**2,726,243**	4,390,961
Ending	$ 236,332	$ 783,422	**$ 1,019,754**	$ 2,726,243

See notes to financial statements.

HealthCorps, Inc.

Statement of Functional Expenses
Year Ended June 30, 2016
(with summarized comparative information for the year ended June 30, 2015)

	2016				2015
	Program Services	General and Administrative	Fund-raising	**Total**	Summarized Comparative Information
Salaries and related fringe benefits	$ 3,525,889	$ 287,822	$ 224,790	**$ 4,038,501**	$ 4,606,819
Curriculum and educational materials	522,733	-	-	**522,733**	763,088
Outside service contracts	205,272	77,826	100,137	**383,235**	517,835
Travel and meetings	69,331	15,714	7,794	**92,839**	261,781
Payroll administrative fee	48,902	7,529	5,880	**62,311**	104,283
Professional fees	120,303	27,266	13,523	**161,092**	194,349
Marketing and promotion	4,751	6,977	11,628	**23,356**	36,851
Rent, parking and utilities	192,443	43,616	21,632	**257,691**	256,754
Office expense	19,171	121,234	2,155	**142,560**	151,851
Telecommunications	48,471	10,986	5,449	**64,906**	52,807
Technical support	32,261	7,312	3,626	**43,199**	58,738
Bad debt expense	-	60,000	-	**60,000**	126,752
Insurance	23,865	5,409	2,683	**31,957**	40,666
Postage	11,316	8,547	1,272	**21,135**	16,210
Depreciation and amortization	58,394	13,235	6,564	**78,193**	68,000
Interest expense	-	15,381	-	**15,381**	10,385
Subtotal	4,883,102	708,854	407,133	**5,999,089**	7,267,169
Direct cost of special events	-	-	382,687	**382,687**	552,070
Total expenses	$ 4,883,102	$ 708,854	$ 789,820	**$ 6,381,776**	$ 7,819,239

See notes to financial statements.

HealthCorps, Inc.

Statement of Cash Flows
Year Ended June 30, 2016
(with summarized comparative information for the year ended June 30, 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ (1,706,489)**	$ (1,664,718)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**78,193**	68,000
Bad debt expense	**60,000**	126,752
Increase in deferred rent obligation	**26,143**	10,050
Change in operating assets and liabilities:		
Decrease in grants, contracts and contributions receivable	**1,018,737**	993,318
Decrease (increase) in prepaid expenses	**6,270**	(19,464)
Decrease in security deposits and other assets	**-**	94,675
(Decrease) increase in accounts payable and accrued expenses	**(48,605)**	65,975
(Decrease) increase in refundable advances	**(22,276)**	22,276
Net cash used in operating activities	**(588,027)**	(303,136)
Cash flows from investing activities:		
Purchase of property and equipment	**(26,851)**	(66,144)
Net cash used in investing activities	**(26,851)**	(66,144)
Cash flows from financing activities:		
Principal payments on line of credit	**(550,000)**	(250,000)
Proceeds from line of credit	**350,000**	650,000
Principal payments on capital lease obligations	**(31,197)**	(40,403)
Net cash (used in) provided by financing activities	**(231,197)**	359,597
Net change in cash and cash equivalents	**(846,075)**	(9,683)
Cash and cash equivalents:		
Beginning	**1,010,518**	1,020,201
Ending	**$ 164,443**	$ 1,010,518
Supplemental disclosure of cash flow information:		
Interest paid	**$ 15,381**	$ 10,385
Supplemental disclosures of noncash investing and financing activities:		
Equipment purchased under capital leases obligations	**$ 56,544**	$ 6,978
Property and equipment included in accounts payable and accrued expense	**$ 16,591**	$ 20,520

See 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, founded in 2003 by cardio-thoracic Dr. Mehmet Oz, gives teens tools to improve physical and mental health so they can lead more productive and happier lives. The Organization focuses on fitness, nutrition and mental resilience education to assist students in exercising more, eating more healthfully and practicing positive thought. The Organization also serves as a unique research laboratory – exploring the complex, underlying causes of the obesity crisis and discovering best practices. The curriculum is aligned to National Health Education Standards. The Organization executes two main programs: Living Labs and HealthCorps University.

Across the nation, the Organization maintains a network of high school programs called Living Labs where a full-time Coordinator is placed inside a high-need high school to mentor students, lead in classroom wellness workshops, promote a variety of school-wide and after school activities and promote health careers. Coordinators are recent college graduates who go on to careers in medicine, public health policy or wellness practices. Coordinators and their students also participate in ongoing evaluation to continually improve the Organization's curriculum and ascertain quantitative and qualitative impact.

HealthCorps University (HCU) is a professional development program that trains participants on how to bring the Organization's curriculum to their organization or school. The Organization scales its programming and discoveries through HCU. As of June 30, 2016, through both Living Labs and HCU, the Organization had impacted approximately 1.8 million American high school students.

Note 2. Operating Deficits

To address prior periods of operating deficits, the Organization has launched an aggressive plan to diversify revenue streams, secure partnership relationships with many of its existing funders, and work collaboratively with the Board of Directors, key stakeholders and staff to identify and pursue new sources of funding to support its programs. The Organization has further taken a comprehensive approach to reduce expenses throughout the Organization, which includes a 25% reduction in workforce and a reorganization of various roles and departments that was completed by July 2015 to ensure the continued increase in programmatic impact through better use of company resources. The Organization's management team remains confident that it will have a strong fundraising year balanced by managed spending to realize their financial and programmatic goals in fiscal year 2017 and beyond.

Note 3. Summary of Significant Accounting Policies

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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.

Note 3. Summary of Significant Accounting Policies (Continued)

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, 2016 and 2015.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

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 revenue 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, 2016. The refundable advances were $22,276 as of June 30, 2015.

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.

Note 3. Summary of Significant Accounting Policies (Continued)

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, 2016 and 2015, advertising costs were $23,257 and $16,795, 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, 2016 and 2015, 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 tax years before 2012, which is the standard statute of limitations look-back period.

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, 2015, from which the summarized information was derived.

Recently issued accounting pronouncements: In August, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management has not evaluated the impact of this ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expenses recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Management has not evaluated the impact of this ASU on the financial statements.

Note 3. Summary of Significant Accounting Policies (Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Note 4. Grants, Contracts and Contributions Receivable, Net

Grants, contracts and contributions receivable at June 30, 2016 and 2015 are due to be collected as follows:

	2016	2015
Less than one year	$ 1,275,308	$ 2,434,545
Allowance for doubtful accounts	-	(80,500)
	$ 1,275,308	$ 2,354,045

At June 30, 2016, grants, contracts and contributions receivable totaling $1,131,026 were due from one government agency and two private donors. At June 30, 2015, grants, contracts and contributions receivable totaling $1,898,094 were due from one governmental agency and one private donor.

In addition to the receivables noted above, as of June 30, 2016 and 2015, certain donors provided conditional contributions to the Organization of $3,555,596 and $4,805,782, respectively. 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 ASC 958-605 as of June 30, 2016 and 2015. Revenue on these contributions will be recognized in future periods when the conditions for payment have been substantively met by the Organization.

Note 5. Property and Equipment, Net

As of June 30, 2016 and 2015, property and equipment are comprised of the following:

	2016	2015	Estimated Useful Life
Leasehold improvements	$ 126,050	$ 126,050	Term of Lease
Furniture and fixtures	41,655	37,503	5 to 7 Years
Equipment	116,748	99,092	2 to 7 Years
Computer software	-	27,471	3 Years
	284,453	290,116	
Less accumulated depreciation and amortization	(91,985)	(98,921)	
Total property and equipment	$ 192,468	$ 191,195	

For the years ended June 30, 2016 and 2015, depreciation and amortization expense amounted to $78,193 and $68,000, respectively.

Note 6. Line of Credit

The Organization had 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 3.28% as of June 30, 2015. The line of credit expired on July 14, 2015. The Organization renewed the line of credit on July 30, 2015. Interest is payable at a variable interest rate equal to the LIBOR plus 3.90% and all amounts outstanding are due in full on February 1, 2016.

The organization renewed the line of credit on March 2, 2016. The maximum amount of borrowing on the line of credit was reduced to $750,000. The interest is payable at a variable interest rate equal to the LIBOR plus 7.00%, which was 7.41% as of June 30, 2016, and all amounts outstanding are due in full on March 2, 2017. As of June 30, 2016 and 2015, the outstanding amount on the line of credit was $200,000 and $400,000, respectively.

In July 2016, the line of credit was fully repaid by the Organization.

Note 7. 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, 2015. All employees of the Organization were employed by the professional employer organization. The professional employer organization administered payroll, employee benefits and other related expenses and assisted in personnel and related compliance requirements. Effective January 1, 2016, the Organization entered into a new agreement with a payroll service provider, whereas all employees of the Organization are employed by the Organization. For the years ended June 30, 2016 and 2015, the fees for services under these agreements were $62,311 and $104,283, respectively.

Note 8. Commitments and Contingencies

Operating lease commitments: The Organization occupies office facilities in New York, California and Texas under operating leases that expire at various dates, with the latest in September 2021. The New York and California office leases are subject to rent escalations and all three leases subjects the Organization to pro rata share of operating expenses.

For the years ended June 30, 2016 and 2015, rent expense amounted to $229,991 and $230,313, respectively.

As part of the Organization’s New York office lease agreement, the Organization obtained an active letter of credit amounting to $38,372 in lieu of a cash security deposit.

The Organization subleased the California offices at fixed rent without any escalation clause during fiscal year 2016. The sublease agreement expires in August 2018. The sublease agreement required a security deposit of $2,000 from the subtenant, which is included in the statement of financial position as part of accounts payable and accrued expenses.

The Organization subleased the Texas offices at fixed rent on month to month basis during fiscal year 2016.

Rental income for the two sublease agreements amounted to $17,000, which is included as rental income and other income in the statement of activities.

Note 8. Commitments and Contingencies (Continued)

As of June 30, 2016, future aggregate minimum lease payments under these leases, net of sublease rental income, are as follows:

	Rent Payments	Sublease income	Net
Years ending June 30:			
2017	$ 233,753	$ (18,000)	$ 215,753
2018	191,755	(18,000)	173,755
2019	182,262	(3,000)	179,262
2020	181,630	-	181,630
2021	186,171	-	186,171
Thereafter	39,627	-	39,627
	$ 1,015,198	$ (39,000)	$ 976,198

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 in the New York office. As of June 30, 2016 and 2015, there was $122,794 and $96,651, respectively, of deferred rent obligation included on the statement of financial position.

Capital lease commitment: The Organization entered into a number of noncancellable 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 in the statement of functional expenses at June 30, 2016.

The following is a summary of computer and office equipment held under the capital lease at June 30, 2016:

Computer and office equipment	$ 74,547
Less accumulated amortization	(24,308)
	$ 50,239

Present value of minimum capital lease payments as of June 30, 2016 is as follows:

Years ending June 30:	
2017	$ 16,085
2018	14,136
2019	14,136
2020	9,423
	53,780
Less interest portion	(25)
	$ 53,755

Note 8. Commitments and Contingencies (Continued)

The interest rates on the capital leases range from 0.0% 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 $580 and $2,081 for the years ended June 30, 2016 and 2015, 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:

	2016	2015
Various school and educational programs	$ 783,422	$ 2,063,427
	$ 783,422	$ 2,063,427

The release of temporarily restricted net assets consists of $1,800,005 for various school and educational programs during the year ended June 30, 2016.

Note 10. Concentrations of Credit Risk

The Organization maintains its cash balances in one financial institution in 2016 and two financial institutions in 2015. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at the financial institutions. At times, during the year, such cash balances may exceed the FDIC limit. As of June 30, 2015, the Organization maintained cash balances of $789,112 in excess of the FDIC limit at one of the financial institutions. As of June 30, 2016, the Organization’s cash balance did not exceed the FDIC limit. 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 October 28, 2016, the date the financial statements were available for issuance.