

**PURPOSE ACTION, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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FOR THE YEAR ENDED DECEMBER 31, 2012**

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Purpose Action, Inc.

We have audited the accompanying financial statements of Purpose Action, Inc. (the "Organization") which comprise the statements of financial position as of December 31, 2012, and 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 audits 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 Purpose Action, Inc. as of December 31, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.


Lederer, Levine & Associates, LLC

May 3, 2013

PURPOSE ACTION, INC
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012

ASSETS

Cash and cash equivalents (Notes B and H)	\$ 193,722
Contributions receivable (Notes B and C)	900,000
Accounts receivable	12,209
Prepaid expenses	7,193
Loan receivable (Note E)	300,000
Other assets (Notes D and E)	<u>97,974</u>

TOTAL ASSETS	\$ <u>1,511,098</u>
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LIABILITIES

Accounts and accrued expenses payable	\$ <u>93,086</u>
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TOTAL LIABILITIES	<u>93,086</u>
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COMMITMENTS AND CONTINGENCIES (NOTE G)

NET ASSETS

Unrestricted	75,155
Temporarily restricted (Note J)	<u>1,342,857</u>

TOTAL NET ASSETS	<u>1,418,012</u>
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TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,511,098</u>
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The accompanying notes are an integral part of these financial statements.

PURPOSE ACTION, INC
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:			
Contributions (Note I)	\$ 274,165	\$ 1,500,000	\$ 1,774,165
In-kind contributions (Note F)	12,062		12,062
Interest income	380		380
Other income	7,938		7,938
Net assets released from restrictions	<u>157,143</u>	<u>(157,143)</u>	
TOTAL SUPPORT AND REVENUE	<u>451,688</u>	<u>1,342,857</u>	<u>1,794,545</u>
EXPENSES:			
Program services	346,719		346,719
Management and general	22,537		22,537
Fundraising and development	<u>7,277</u>		<u>7,277</u>
TOTAL EXPENSES	<u>376,533</u>		<u>376,533</u>
CHANGE IN NET ASSETS	75,155	1,342,857	1,418,012
Net Assets - Beginning of Year (Note A)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
NET ASSETS - END OF YEAR	<u>\$ 75,155</u>	<u>\$ 1,342,857</u>	<u>\$ 1,418,012</u>

The accompanying notes are an integral part of these financial statements.

PURPOSE ACTION, INC
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries	\$ 24,444	\$	\$	\$ 24,444
Payroll taxes and employee benefits	<u>5,593</u>	<u></u>	<u></u>	<u>5,593</u>
Total salaries and related costs	30,037			30,037
Consultants and contracted services	41,500			41,500
Website and technology (Note E)	100,932	383		101,315
Campaigner fees and expenses (Note E)	88,204	9,269	4,695	102,168
Grant expense	10,000			10,000
Advertising expense	23,000			23,000
Video and communications	29,400			29,400
Professional fees (Note F)	10,236	11,677		21,913
Rent and related occupancy costs (Note E)	3,300			3,300
Office supplies and expenses	2,169	278	2,582	5,029
Travel and other costs	1,016			1,016
Insurance expense	<u></u>	<u>930</u>	<u></u>	<u>930</u>
Total expenses before depreciation and amortization	339,794	22,537	7,277	369,608
Depreciation and amortization	<u>6,925</u>	<u></u>	<u></u>	<u>6,925</u>
TOTAL EXPENSES	<u>\$ 346,719</u>	<u>\$ 22,537</u>	<u>\$ 7,277</u>	<u>\$ 376,533</u>

The accompanying notes are an integral part of these financial statements.

PURPOSE ACTION, INC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets \$ 1,418,012

Adjustments to reconcile change in net assets to
net cash provided by operating activities:

Amortization 6,925

Changes in operating assets and liabilities:

(Increase) decrease in assets:

Contributions receivable (900,000)

Accounts receivable (12,209)

Loan receivable (300,000)

Prepaid expenses (7,193)

Other assets (104,899)

Increase (decrease) in liabilities:

Accounts and accrued expenses payable 93,086

Net Cash Provided by Operating Activities 193,722

NET INCREASE IN CASH AND CASH EQUIVALENTS 193,722

Cash and cash equivalents - beginning of year -0-

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 193,722

Supplementary Disclosure of Cash Flow Information:

Cash paid during the year for interest \$ -0-

The accompanying notes are an integral part of these financial statements.

PURPOSE ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note A - Organization and Nature of Activities

Purpose Action, Inc. (the "Organization" "Action") a not-for-profit organization, was incorporated in the State of New York on May 24, 2011. The Organization commenced operations in 2012. The Organization is exempt from income taxes under Section 501 (c)(4) of the Internal Revenue Code.

The Organization is formed for the purposes of uniting and coordinating the efforts of individuals in order to raise public awareness, promote activism and develop and advocate for legislation, regulations, and government programs with respect to social and environmental issues in core program areas, including: combating prejudice and discrimination against members of the gay, lesbian, bisexual and transgender community; promoting sustainable technologies to combat environmental degradation caused by human impact; working to end childhood obesity and other food-related public health problems; and working for social and environmental justice on other issues that may from time to time arise.

Note B - Summary of Significant Accounting Policies

Basis of Accounting

The Organization prepares its financial statements using the accrual basis of accounting. The Organization follows accounting principles generally accepted in the United States of America ("US GAAP") which include certain specialized requirements set forth in publications of the Financial Accounting Standards Board.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of less than three months to be cash equivalents.

Pledges Receivable

Pledges, which consist of unconditional promises to give, are recognized as revenue in the year received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, unless management deems the promises to be immaterial to the financial statements.

Restricted Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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 assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives. The Organization capitalizes property and equipment with a useful life of two years or more and a cost of \$1,000 or more.

Functional Expenses

The breakdown of functional expenses into program services, management and general and fundraising and development is provided by management using their best estimates as to the appropriate allocation.

PURPOSE ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)

Note B – Summary of Significant Accounting Policies (continued)

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is May 3, 2013.

Donated In-Kind Services and Costs

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of services are recognized if the services (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations.

Accounting for Uncertainty in Income Taxes

The Organization's accounting policy is to record liabilities for uncertain tax positions when a liability is probable and estimable. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax.

Note C – Contributions Receivable

Contributions receivable consist of the following as of December 31, 2012:

Unconditional promises to be collected in:

Within one year	\$ 600,000
From one to three years	<u>300,000</u>
	<u>\$ 900,000</u>

Pledges in excess of one year have not been discounted to net present value as management deems it to be immaterial to the financial statements.

Note D – Other Assets

Other assets include the Organization's trademark website, domain name, and e-mail list (see Note E), net of accumulated amortization. The balance at December 31, 2012 was as follows:

Cost	\$ 104,899
Accumulated amortization	<u>6,925</u>
	<u>\$ 97,974</u>

PURPOSE ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)

Note E – Related Parties

1. The Organization is related to a non-profit entity, Purpose Foundation. ("Foundation"), a 501(c)(3) corporation. The Organizations are related in that there is a commonality of board members. During 2012, the following agreements, sales, transfers and loans were agreed to between the related parties.

a) Assignment and License Agreement

In November 30, 2012, an agreement transferred ownership of the Foundation's "All Out" Program trademark, website, domain name and email list to Action. The Foundation was granted a license to use the above assets to run educational and cultural campaigns through the All Out Program. Action paid the Foundation \$97,000 as compensation for the above transfers based on independent third party valuations of each asset. These items are included in other assets in the accompanying statement of financial position. Going forward, costs of operating the website will be shared based on monthly usage by each party. Costs of upgrades to the website will be split equally by the related parties.

b) Employee Sharing Agreement

The related parties entered into an Employee Sharing Agreement which allows Action to use the Foundation's employees to work for Action on an as needed basis. The intent is for Action to utilize the Foundation's employees to run Action's lobbying campaigns for the All Out Program. Rates have been established in the Agreement and are based on actual cost of the employees plus a 5% administration cost of services.

c) Loan Receivable

On September 1, 2012, pursuant to a loan agreement, the Organization loaned the Foundation \$300,000. The loan matures on September 1, 2014 and bears no interest. Prepayment options are available without any penalty. At December 31, 2012, the balance of the loan was \$300,000.

- d) The transactions between the related parties during 2012 were as follows:

Action to the Foundation

Campaigner fees and expenses	\$ 57,987
Sale / transfer of assets	<u>97,000</u>
	<u>\$ 154,987</u>

Foundation to Action

Website and technology	<u>\$ 15,954</u>
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The summarized information for the related entity as of and for the year ended December 31, 2012 is as follows:

Purpose Foundation

Assets	<u>\$ 1,030,901</u>
Liabilities	<u>\$ 340,766</u>
Net Assets	<u>\$ 690,135</u>
Revenues	<u>\$ 1,228,620</u>
Expenses	<u>\$ 1,396,997</u>

PURPOSE ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)

Note E – Related Parties (continued)

2. The Organization is related to Purpose Campaigns LLC, a for profit limited liability company. The LLC is owned by a board member of the Organization. The Organization has an employee sharing agreement with the LLC. The Organization contracted for the following services of the LLC during the year ended December 31, 2012:

Rent (see Note F)	\$ 3,300
Campaigner fees and expenses	<u>7,094</u>
	\$ <u>10,394</u>

Note F – Donated In-Kind Services and Costs

The Organization received the following in-kind services and costs for the year ended December 31, 2012:

Rent (see Note E)	\$ 3,300
Legal fees	<u>8,762</u>
Total	\$ <u>12,062</u>

Note G – Commitments and Contingencies

The Organization has no noncancelable obligations. The Organization received in kind rental space from the related party shown in Note E. The Organization currently rents space on a monthly basis with the Foundation at their new headquarters in New York City.

Note H – Concentration of Credit Risk

The Organization maintains several bank accounts at an institution insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. At December 31, 2012, there were no uninsured cash balances.

Note I – Concentrations

For the year ended December 31, 2012, approximately 85% of the Organization's contributions were received from one donor.

Note J – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2012:

Program restrictions	\$ 442,857
Program and time restrictions	<u>900,000</u>
	\$ <u>1,342,857</u>

PURPOSE ACTION
224 CENTRE STREET, 6TH FLOOR
NEW YORK, NY 10013

Lederer, Levine & Associates, LLC
1099 Wall Street West Suite 280
Lyndhurst, NJ 07071

We are providing this letter in connection with your audit of the statement of financial position of Purpose Action (the "Organization") as of December 31, 2012, and the related statements of activities, functional expenses and cash flows for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of Purpose Action and the changes in its net assets and its cash flows in conformity with accounting principals generally accepted in the United States of America. We confirm, to the best of our knowledge and belief, the following representations made to you during your audit or which we now make to you.

1. We are responsible for the fair presentation in the financial statements of financial position, changes in net assets, functional expenses and changes in cash flow in conformity with U.S. generally accepted accounting principles. The financial statements include all properly classified funds under the Organization's control. The financial statements referred to above include all assets and liabilities under the Organization's control. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.
2. We have made available to you all:
 - A. Financial reports and related data; and all audit or relevant monitoring reports, if any, received from funding sources.
 - B. Minutes of the Organization's governing board and its committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the Organization involving -
 - A. Management,
 - B. Employees who have significant roles in internal control, or
 - C. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others.
8. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or fund balances.
9. The following have been properly recorded or disclosed in the financial statements:
 - A. Related party transactions and related accounts receivable or payable including sales, purchases, loans transfers, leasing arrangements, and guarantees.
 - B. Guarantees, whether written or oral, under which the organization is contingently liable.
10. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
11. We are responsible for the Organization's compliance with laws, regulations and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
12. Purpose Action is an exempt organization under Section 501(C)(4) of the Internal Revenue Code. Any activities that would jeopardize the organization's tax-exempt status of which we are aware and all activities subject to tax on unrelated business income or excise or other tax have been disclosed to you. All required filings with tax authorities are up to date.
13. There are no:
 - A. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - B. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Accounting Standards Codification 450 *Contingencies*.
 - C. Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
14. We are not aware of any pending or threatened claims, litigation or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with FASB Accounting Standards Codification 450 *Contingencies*, and we have not consulted a lawyer concerning litigation, claims, or assessments.
15. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor have any assets been pledged, other than those disclosed in the financial statements.

16. We have complied with all restrictions on resources and aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
17. Although the future well-being of every not-for-profit organization is subject, at least in part, to changes (which cannot be foreseen) in outside funding, we believe at this time that Purpose Action will be able to continue as going concerns through the next twelve months, and we anticipate no circumstances which would force us to consider defaulting on our liabilities, liquidating our assets, discontinuing our operations or dissolving as a corporation.

Sincerely,



Chief Executive Officer

5/3/2013

Date



Chief Financial Officer

5/3/2013

Date