

HEALTHY BUILDING NETWORK

WASHINGTON, DC

AUDIT REPORT

FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008

KENDALL, PREBOLA AND JONES

Certified Public Accountants

P.O. BOX 259

BEDFORD, PENNSYLVANIA 15522-0259

(814) 623-1880

FAX (814) 623-7548

INDEX

	<u>Page</u>
Independent Auditor's Report	1
Exhibit A - Statement of Financial Position, December 31, 2008	2
Exhibit B - Statement of Activities, For the Nine Month Period Ended December 31, 2008	3
Exhibit C - Statement of Functional Expenses, For the Nine Month Period Ended December 31, 2008	4
Exhibit D - Statement of Cash Flows, For the Nine Month Period Ended December 31, 2008	5
Notes to Financial Statements	6-13

Kendall, Prebola and Jones
Certified Public Accountants

The Board of Directors
Healthy Building Network
927 15th Street, NW, 4th Floor
Washington, DC 20005

Ladies and Gentlemen:

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial position of the Healthy Building Network (a nonprofit organization) as of December 31, 2008, and the related statements of activities, functional expenses, and cash flows for the nine month period then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Healthy Building Network as of December 31, 2008, and the changes in its net assets and its cash flows for the nine month period then ended in conformity with accounting principles generally accepted in the United States of America.


Certified Public Accountants

Bedford, Pennsylvania
April 24, 2009

HEALTHY BUILDING NETWORK
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 402,080
Accounts Receivable (Note 3)	5,633
Promises Receivable (Note 3)	20,000
Prepaid Expenses	<u>9,490</u>

Total Current Assets \$ 437,203

Fixed Assets: (Note 4)

Office Equipment and Furniture	\$ 7,908
Less: Accumulated Depreciation	<u>(3,242)</u>

Total Fixed Assets \$ 4,666

Other Assets:

Security Deposit	\$ <u>3,973</u>
------------------	-----------------

TOTAL ASSETS \$ 445,842

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 15,985
Accrued Vacation	<u>28,168</u>

Total Liabilities \$ 44,153

Net Assets: (Exhibit B)

Unrestricted	\$ 381,689
Temporarily Restricted (Note 1(e))	<u>20,000</u>

Total Net Assets \$ 401,689

TOTAL LIABILITIES AND NET ASSETS \$ 445,842

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK
STATEMENT OF ACTIVITIES
FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenues, Gains and Other Support:</u>			
Grants and Contributions	\$ 1,166,974	\$ 115,000	\$ 1,281,974
Contract Revenue	28,442	-	28,442
Gain on Sale of Fixed Assets	586	-	586
Interest	7,190	-	7,190
Donated Office Equipment and Furniture	5,772	-	5,772
Net Assets Released from Restriction (Note 1(e)) Satisfaction of Program Restrictions	<u>95,000</u>	<u>(95,000)</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>\$ 1,303,964</u>	<u>\$ 20,000</u>	<u>\$ 1,323,964</u>
<u>Expenses:</u>			
Program Services	\$ 837,822	\$ -	\$ 837,822
Fundraising	65,245	-	65,245
Administration	<u>19,208</u>	<u>-</u>	<u>19,208</u>
Total Expenses	<u>\$ 922,275</u>	<u>\$ -</u>	<u>\$ 922,275</u>
Change in Net Assets	\$ 381,689	\$ 20,000	\$ 401,689
Net Assets at Beginning of Period	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets at End of Period	<u>\$ 381,689</u>	<u>\$ 20,000</u>	<u>\$ 401,689</u>

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008

	<u>Supporting Services</u>			
	<u>Management and General</u>	<u>Fundraising</u>	<u>Program Services</u>	<u>Total</u>
<u>Expenses:</u>				
Salaries	\$ 13,299	\$ 44,577	\$ 518,369	\$ 576,245
Fringe Benefits	3,009	10,312	114,864	128,185
Website	-	-	4,000	4,000
Consultants	-	107	35,282	35,389
Travel	-	461	5,727	6,188
Meetings and Conferences	24	-	33,437	33,461
Printing and Copying	-	4	2,219	2,223
Legal and Accounting Fees	1,351	4,470	53,428	59,249
Office Supplies and Expense	90	301	3,969	4,360
Postage and Shipping	6	154	582	742
Telephone	180	581	7,668	8,429
Internet	141	436	7,910	8,487
Dues, Subscriptions and Publications	-	197	3,810	4,007
Equipment Rental and Maintenance	43	117	1,901	2,061
Utilities	28	80	1,357	1,465
Rent	861	2,790	34,804	38,455
Insurance	129	425	5,078	5,632
Depreciation	37	200	3,005	3,242
Bank Service Charges and Fees	<u>10</u>	<u>33</u>	<u>412</u>	<u>455</u>
 Total Expenses	 <u>\$ 19,208</u>	 <u>\$ 65,245</u>	 <u>\$ 837,822</u>	 <u>\$ 922,275</u>

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK
STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008

Change in Net Assets - Exhibit B	\$ 401,689
Adjustments to Reconcile Change in Net Assets to Net Cash Flows Provided by/(Used) in Operating Activities:	
Depreciation Expense	3,242
Gain on Sale of Fixed Assets	563
Contributed Office Equipment and Furniture	(5,772)
Accounts Receivable - (Increase)	(5,633)
Promises Receivable - (Increase)	(20,000)
Prepaid Expenses - (Increase)	(9,490)
Security Deposit - (Increase)	(3,973)
Accounts Payable - Increase	15,985
Accrued Vacation - Increase	<u>28,168</u>
Net Cash Flows Provided by/(Used) in Operating Activities	<u>\$ 404,779</u>
<u>Investing Activities</u>	
Acquisition of Office Equipment and Furniture	<u>\$ (2,699)</u>
Net Cash Flows from Investing Activities	<u>\$ (2,699)</u>
Net Increase (Decrease) in Cash	\$ 402,080
Cash and Cash Equivalents at Beginning of Period	<u> -</u>
Cash and Cash Equivalents at End of Period	<u>\$ 402,080</u>

Supplemental Disclosures:

- a) No interest or income taxes were paid during the nine month period ended December 31, 2008.
- b) There is a non cash investing transaction in the amount of \$5,722 which consisted of office furniture and equipment donated to the organization.

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

The Healthy Building Network was incorporated on May 18, 2006, pursuant to the provisions of the District of Columbia Nonprofit Corporation Act. The Healthy Building Network was a project of the Institute for Local Self-Reliance (ILSR), a 501c(3) non profit organization, from the year 2000 through March 31, 2008. On April 1, 2008 the Network began operating independently from ILSR. At this time, ILSR contributed funds in the amount of \$350,120 to the Network which was the balance of the Network's funds at the separation date. ILSR also contributed fixed assets in the amount of \$5,722 to the Network.

The Healthy Building Network is the leading national organization advocating health-based, green building standards, with a mission to transform the market for building materials to advance best environmental, human health and social practices. By doing so, we can decrease and even reverse the profound negative impacts of the building industry on the environment, human health and society.

Since 2000, as a project of ILSR, the Healthy Building Network compiled a demonstrated record of success, including:

- A successful campaign to end the use of arsenic in pressure-treated wood;
- A primary hand in crafting the Green Guide for Health Care, the first building guidelines to address environmental health of patients, staff and the larger community;
- A critical role as the lead NGO supporting California's establishment of the nation's most stringent restrictions on formaldehyde emissions from particleboard and other composite woods; and
- Publication of Healthy Building News, a newsletter providing an inside look at emerging market and political trends in green building.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of the Healthy Building Network are summarized below:

(a) Accounting Method:

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

(b) Revenue Recognition:

Grants and Contributions -

The organization has adopted Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. As such, grants and contributions are recognized as revenue when they are received or unconditionally pledged.

All grants and contributions are available for unrestricted use unless specifically restricted by the donor. Grants, contributions and promises to give with donor imposed conditions are recognized as unrestricted support when the conditions on which they depend are substantially met. Other grants, contributions and promises to give with donor imposed restrictions are reported as temporarily restricted support. Unconditional promises to give due in the next year are recorded at their net realizable value.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(b) Revenue Recognition: (Continued)

The Healthy Building Network reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Contract Revenue -

Contract revenues are considered to be exchange transactions, and are recognized as the services are completed.

(c) Income Taxes:

The Healthy Building Network is exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. Accordingly, no income taxes have been provided for in the accompanying financial statements. In addition, the organization qualifies for the charitable contribution deduction and has been classified as an organization that is not a private foundation.

(d) Grants:

Grant revenues result primarily from foundation grants. The grants are subject to audit by the funding organizations. Such audits could result in a request for reimbursement by the organization for expenditures disallowed under the terms and conditions of the appropriate grantor.

(e) Net Assets:

The organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-profit Organizations*. Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Healthy Building Network and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control. This classification includes net assets subject to donor imposed conditions which have been met in the current year and net assets subject to donor imposed restrictions that have been released from restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Healthy Building Network and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Temporarily restricted net assets were available at December 31, 2008 for the following program:

Program Services - Time Restricted	\$ <u>20,000</u>
------------------------------------	------------------

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors for the following program:

Program Services - Time Restricted	\$ <u>95,000</u>
------------------------------------	------------------

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that requires the net assets be maintained permanently by the Healthy Building Network. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Healthy Building Network did not have any permanently restricted net assets as of December 31, 2008.

(f) Donated Services:

There are no donated services recorded in the financial statements. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized.

(g) Basic Programs:

Program Services -

The organization's two main initiatives are Pharos and Greening Health Care. In addition, the Healthy Building Network continues to publish the Healthy Building News, a semi-monthly newsletter providing an inside look at emerging market and political trends in green building. All of these services are accounted for within the program services line in these financial statements.

Pharos - The Pharos Project is the leading effort in the United States to create an on-line system for identifying, evaluating and comparing building material against a comprehensive framework of environmental, health and social equity criteria. The Pharos Project addresses an immediate and pressing need in the green building movement for a reliable, objective, multi-attribute evaluation system for building materials. Existing tools, including the US Green Building Council's LEED Rating System, are widely acknowledged to be inadequate and confusing for buyers, and expensive and burdensome for manufacturers. The Pharos Project will empower commercial consumers not only to select from among green materials alternatives, but to specify environmental, health and social justice standards that vendors must meet. This in turn will accelerate the introduction of greener and healthier building materials.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

Greening Health Care - Given its fundamental precept, “first do no harm”, the health care profession is leading the building industry in designing and constructing buildings that enhance the health of patients, staff, the community, and the environment. Healthy building materials do not, for instance, contain chemicals linked to illnesses such as cancer, reproductive problems, learning disabilities, hormone interference and respiratory problems. HBN’s work in the health care arena has included developing public education materials, participating in leading environmental health coalitions, conducting presentations for new health care audiences, as well as working one-on-one with health care systems and industry groups. The result has been partnerships with some of the nation’s largest health care systems to execute strategies that are accelerating the transformation of the building materials market.

(h) Functional Expenses:

Salaries and related expenses are allocated to program services and supporting services based on time employees spend on each function. Expenses that are directly allocable to program services or supporting services are charged accordingly.

(i) Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses at the date of the financial statements. Accordingly, actual results could differ from these estimates.

(j) Fundraising:

Expenses in the amount of \$65,245 were incurred for the purposes of fundraising during the nine month period ended December 31, 2008.

(2) CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of December 31, 2008 totaled \$402,080 and consisted of the following:

Checking Account - Interest Bearing	\$ 153,240
Savings Account	5
Money Market Accounts	<u>248,835</u>
Total	<u>\$ 402,080</u>

For purposes of the cash flow statement and financial statement presentation, cash and cash equivalents are short term, highly liquid investments with maturities of three months or less. Certificates of Deposit with original maturities in excess of three months are considered to be cash, provided that the stated terms do not restrict the withdrawal of funds and such withdrawals do not have substantial penalties associated with them. The Healthy Building Network did not have any Certificates of Deposit as of December 31, 2008.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(2) CASH AND CASH EQUIVALENTS: (Continued)

At times during the year, the Network maintained cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Share Insurance Fund (NCUSIF) limits. Management believes the risk related to these excess amounts is minimal.

(3) ACCOUNTS AND PROMISES RECEIVABLE:

Accounts Receivable:

Accounts receivable as presented are considered fully collectible by management. Balances at December 31, 2008 consisted of the following:

Contracts	\$ 4,290
Reimbursable Expenses	748
Employees	<u>595</u>
Total Accounts Receivable	<u>\$ 5,633</u>

The organization's accounts receivable consists of unsecured amounts due from parties whose ability to pay is subject to changes in economic conditions. The organization does not require collateral and was at risk for the balance of the accounts receivable at December 31, 2008.

Contracts and other receivables are recognized as revenue on the accrual basis of accounting at the time that the program activity has occurred. Accounts receivable are stated at the amount the Network expects to collect. Credit is extended for a period of 90 days with no interest accrual at which time payments are considered delinquent. The balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debt expense and a credit to accounts receivable.

Promises Receivable:

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the organization. The organization uses the allowance method to determine uncollectible promises to give. Balances at December 31, 2008 consisted of the following.

Time Restricted	<u>\$ 20,000</u>
Total Promises Receivable	<u>\$ 20,000</u>

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(3) ACCOUNTS AND PROMISES RECEIVABLE: (Continued)

The above promises receivable are due to be received as follows:

	<u>As of</u> <u>December 31, 2008</u>
Less Than One Year	\$ 20,000
One to Five Years	_____ -
Total	<u>\$ 20,000</u>

(4) FIXED ASSETS:

Furniture and office equipment are recorded at cost. Contributed assets are recorded at fair value. If an expenditure in excess of \$1,000 results in an asset having an estimated useful life, which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated over the estimated useful life of the asset. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets. Depreciation expense for the nine month period ended December 31, 2008 was \$3,242. Maintenance and repairs are charged to expenses as incurred. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period.

Office furniture and equipment has been contributed to the Healthy Building Network on its initial operating date of April 1, 2008 from the Institute for Local Self-Reliance. These fixed assets were recorded at an estimated fair value of \$5,722.

Classification of fixed assets and their estimated useful lives are as summarized below:

December 31, 2008:

	<u>Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Book</u> <u>Value</u>	
Office Furniture and Equipment	\$ 7,908	\$ 3,242	\$ 4,666	3-7 years
Total Fixed Assets	<u>\$ 7,908</u>	<u>\$ 3,242</u>	<u>\$ 4,666</u>	

(5) RETIREMENT PLAN:

Employees of the Healthy Building Network are covered under an optional contributory retirement plan that covers substantially all employees. The Network matches up to six percent (6%) of an employee's gross salary to the plan for the purchase of fully vested annuity contracts. Employees are allowed to contribute additional funds to this amount if desired. There is no unfunded past service liability. The expense for the nine month period ended December 31, 2008 was \$24,073.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(6) OPERATING LEASES:

The Healthy Building Network leases office space in Washington, D.C. (the organization's main office) under an operating lease which commenced on April 1, 2008 and ends on December 31, 2009 at a monthly cost of \$3,473 during the nine month period ended December 31, 2008 and \$2,675 per month during the 2009 year. A portion of this office space (the common space) is shared with the Institute for Local Self-Reliance who has its own lease for additional space on the same floor as the Healthy Building Network.

The Healthy Building Network also has a small office in Vermont which is leased under an operating lease that began on April 1, 2008 and continues to August 31, 2009. The monthly cost for this space is \$550 per month.

The Healthy Building Network also leased a small office in Maine which began on April 1, 2008 at a cost of \$250 per month. This lease is an operating lease and is on a month to month basis.

Rental expense for the nine month period ended December 31, 2008 was \$38,455.

(7) EMPLOYEE BENEFITS:

Fringe Benefits:

The fringe benefits for the nine month period ended December 31, 2008 consisted of the following:

Social Security	\$ 42,531
Medical Insurance	56,265
Retirement	24,073
Unemployment	2,482
Workers Compensation	<u>2,834</u>
Total	<u>\$ 128,185</u>

(8) CONCENTRATIONS:

Based on the nature and purpose of the Healthy Building Network, significant revenues are received through parties interested in establishing healthier building practices. In addition, approximately seventy-two percent (72%) of current year revenues were derived from foundation grants and contributions.

(9) RELATED PARTY TRANSACTIONS:

The treasurer of the Network's board is also the President of the Institute for Local Self-Reliance's board. These two organizations share a portion of their office space which is separately leased from a third party. The Institute also charges the Network for a portion of one staff person's salary who provides services to the Network. There are also operating costs, such as telephone, supplies and equipment maintenance paid by the Institute on behalf of the Network that are reimbursed by the Network. These costs amounted to \$33,523 during the nine month period ended December 31, 2008.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(10) CONSOLIDATION:

Management has applied the principles of statement of Position No. 94-3 Reporting of Related Entities by Not-for-Profit Organizations in assessing the need to consolidate the financial statements of the Network with those of the Institute. Under Statement of Position No. 94-3, consolidation should occur if both an economic interest between the organizations and control by a majority of common board members exists. Based on the criteria stipulated in the pronouncement, management has determined that financial statement consolidation is not appropriate for the nine month period ended December 31, 2008. Therefore, the accompanying financial statements reflect only the activity and net assets of the Network.