

HEALTHY BUILDING NETWORK

WASHINGTON, DC

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

KENDALL, PREBOLA AND JONES

Certified Public Accountants

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Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Directors
Healthy Building Network
1710 Connecticut Ave, NW, 4th Floor
Washington, DC 20009

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Healthy Building Network (a nonprofit organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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

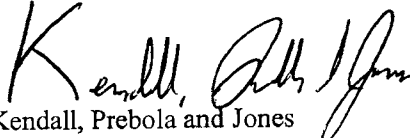
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 Healthy Building Network as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Kendall, Prebola and Jones
Certified Public Accountants

Bedford Pennsylvania
February 13, 2018

HEALTHY BUILDING NETWORK
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 594,472	\$ 698,771
Accounts Receivable	129,643	78,516
Promises Receivable	491,305	140,625
Prepaid Expenses	<u>23,305</u>	<u>21,728</u>
Total Current Assets	<u>\$ 1,238,725</u>	<u>\$ 939,640</u>
<u>Fixed Assets:</u>		
Office Equipment and Furniture	\$ 27,601	\$ 21,218
Less: Accumulated Depreciation	<u>(16,307)</u>	<u>(11,490)</u>
Total Fixed Assets	<u>\$ 11,294</u>	<u>\$ 9,728</u>
<u>Other Assets:</u>		
Security Deposits	<u>\$ 2,900</u>	<u>\$ 5,300</u>
TOTAL ASSETS	<u>\$ 1,252,919</u>	<u>\$ 954,668</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 15,986	\$ 15,843
Accrued Vacation and Salaries	60,830	52,506
Deferred Revenue	187,819	149,972
Deferred Rent Abatement	<u>2,002</u>	<u>1,089</u>
Total Liabilities	<u>\$ 266,637</u>	<u>\$ 219,410</u>
<u>Net Assets:</u>		
Unrestricted	\$ 367,949	\$ 633,668
Temporarily Restricted	<u>618,333</u>	<u>101,590</u>
Total Net Assets	<u>\$ 986,282</u>	<u>\$ 735,258</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,252,919</u>	<u>\$ 954,668</u>

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Year Ended December 31, 2016</u>			<u>Year Ended December 31, 2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenues, Gains and Other Support:</u>						
Grants and Contributions	\$ 240,356	\$ 660,000	\$ 900,356	\$ 575,920	\$ 100,000	\$ 675,920
Contract Revenue	1,016,606	-	1,016,606	898,773	-	898,773
Program Fees	31,563	-	31,563	46,260	-	46,260
Interest	868	-	868	566	-	566
Donated Services	76,177	-	76,177	42,334	-	42,334
Loss on Disposal of Fixed Assets	(996)	-	(996)	-	-	-
Net Assets Released from Restriction - Satisfaction of Program Restrictions	<u>143,257</u>	<u>(143,257)</u>	<u>-</u>	<u>359,165</u>	<u>(359,165)</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>\$ 1,507,831</u>	<u>\$ 516,743</u>	<u>\$ 2,024,574</u>	<u>\$ 1,923,018</u>	<u>\$ (259,165)</u>	<u>\$ 1,663,853</u>
<u>Expenses:</u>						
Program Services	\$ 1,618,744	\$ -	\$ 1,618,744	\$ 1,416,364	\$ -	\$ 1,416,364
Fundraising	66,296	-	66,296	44,780	-	44,780
Administration	<u>88,510</u>	<u>-</u>	<u>88,510</u>	<u>31,048</u>	<u>-</u>	<u>31,048</u>
Total Expenses	<u>\$ 1,773,550</u>	<u>\$ -</u>	<u>\$ 1,773,550</u>	<u>\$ 1,492,192</u>	<u>\$ -</u>	<u>\$ 1,492,192</u>
Change in Net Assets	\$ (265,719)	\$ 516,743	\$ 251,024	\$ 430,826	\$ (259,165)	\$ 171,661
Net Assets at Beginning of Period	<u>633,668</u>	<u>101,590</u>	<u>735,258</u>	<u>202,842</u>	<u>360,755</u>	<u>563,597</u>
Net Assets at End of Period	<u>\$ 367,949</u>	<u>\$ 618,333</u>	<u>\$ 986,282</u>	<u>\$ 633,668</u>	<u>\$ 101,590</u>	<u>\$ 735,258</u>

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK
COMPARATIVE STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Year Ended December 31, 2016</u>				<u>Year Ended December 31, 2015</u>				
	<u>Supporting Services</u>		<u>Program Services</u>	<u>Total</u>	<u>Supporting Services</u>		<u>Program Services</u>	<u>Total</u>	
	<u>Administration</u>	<u>Fundraising</u>			<u>Administration</u>	<u>Fundraising</u>			
<u>Expenses:</u>									
Salaries	\$ 47,279	\$ 45,972	\$ 976,949	\$ 1,070,200	\$ 20,146	\$ 31,660	\$ 851,809	\$ 903,615	
Fringe Benefits and Payroll Taxes	10,376	9,847	218,893	239,116	4,385	6,851	186,318	197,554	
Consultants and Contracted Services	7,225	-	151,920	159,145	2,500	-	95,228	97,728	
Travel	4,502	5,001	40,352	49,855	-	1,033	53,498	54,531	
Meetings and Conferences	3,075	-	47,766	50,841	933	-	37,799	38,732	
Printing and Copying	-	140	370	510	-	173	3,185	3,358	
Professional Fees	11,663	626	78,795	91,084	831	1,277	61,569	63,677	
Supplies and Expense	317	303	6,972	7,592	164	265	15,290	15,719	
Postage and Shipping	8	84	265	357	6	41	649	696	
Telephone and Internet	1,311	1,264	32,846	35,421	610	977	30,502	32,089	
Website	-	-	2,033	2,033	-	155	13,447	13,602	
Dues, Subscriptions and Publications	129	524	5,977	6,630	34	52	3,724	3,810	
Equipment Rental and Maintenance	21	17	482	520	29	49	1,301	1,379	
Rent	1,927	1,864	40,051	43,842	952	1,538	40,411	42,901	
Insurance	410	394	8,582	9,386	227	349	9,783	10,359	
Depreciation	221	215	4,581	5,017	85	135	3,628	3,848	
Other Expense	-	-	-	-	111	171	5,576	5,858	
Bank Service Charges and Fees	46	45	1,910	2,001	35	54	2,647	2,736	
Total Expenses	\$ 88,510	\$ 66,296	\$ 1,618,744	\$ 1,773,550	\$ 31,048	\$ 44,780	\$ 1,416,364	\$ 1,492,192	

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Change in Net Assets	\$ 251,024	\$ 171,661
Adjustments to Reconcile Change in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation Expense	5,017	3,848
Loss on Disposal of Fixed Assets	996	-
Accounts Receivable - (Increase)/Decrease	(51,127)	11,907
Promises Receivable - (Increase)/Decrease	(350,680)	78,922
Prepaid Expenses - (Increase)/Decrease	(1,577)	(7,110)
Security Deposits - (Increase)/Decrease	2,400	3,780
Accounts Payable - Increase/(Decrease)	143	(59,808)
Accrued Vacation and Salaries - Increase/(Decrease)	8,324	1,238
Deferred Revenue - Increase/(Decrease)	37,847	123,159
Deferred Rent Abatement - Increase/(Decrease)	<u>913</u>	<u>454</u>
Net Cash Flows from Operating Activities	<u>\$ (96,720)</u>	<u>\$ 328,051</u>
<u>Investing Activities</u>		
Acquisition of Office Equipment and Furniture	<u>\$ (7,579)</u>	<u>\$ (8,451)</u>
Net Cash Flows from Investing Activities	<u>\$ (7,579)</u>	<u>\$ (8,451)</u>
Net Increase/(Decrease) in Cash	\$ (104,299)	\$ 319,600
Cash and Cash Equivalents at Beginning of Period	<u>698,771</u>	<u>379,171</u>
Cash and Cash Equivalents at End of Period	<u>\$ 594,472</u>	<u>\$ 698,771</u>

Supplemental Disclosures:

a) No interest or income taxes were paid during years ended December 31, 2016 and 2015.

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(1) ORGANIZATION:

The Healthy Building Network (HBN) was incorporated on May 18, 2006, pursuant to the provisions of the District of Columbia Nonprofit Corporation Act. Prior to incorporating, HBN 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.

HBN is the leading national organization advocating for a reduction in the use of toxic chemicals in building materials. HBN's mission is to transform the market for building materials to advance best environmental, human health and social practices and outcomes.

HBN engages in the environmental education of the public, with a focus on promoting the demand for and manufacture of healthier building materials as an integral part of green building strategies. This work consists largely of conducting research into the chemical composition of construction materials, finishes and products - and evaluating their appropriateness from the perspective of potential environmental, health and social impacts, as well as the development of web applications and tools that make this data widely available to and usable by building owners, architects, designers and others who influence the building materials market. HBN also works to establish healthfulness as an imperative of building product evaluation criteria.

BASIC PROGRAMS

Healthy Building Network currently has programs in three areas: HomeFree: Healthy & Affordable Building Materials; Open Data Systems; and Leading Edge Research.

1. HomeFree: Healthy and Affordable Building Materials

HomeFree is a national initiative, supporting affordable housing leaders who are improving human health by using less toxic building materials. HomeFree is comprised of an online resource providing critical information to the affordable housing community, as well as six (6) communities of practice, spotlighting on-the ground demonstration projects across the country. Through HomeFree Healthy Building Network is enabling those who develop, own and operate affordable housing to work at the forefront of healthy building practice by adapting our leading edge research and decision-making technology to the unique needs and opportunities in this market.

2. Open Data Systems

It is currently difficult to identify healthier building materials because building product ingredients are not typically or reliably disclosed. HBN is the green building movement's acknowledged leader in advancing the disclosure of the contents and related health hazards in commonly used building products. Our open data systems include:

- The Pharos Project: A one-of-a-kind database launched in 2006, the Pharos Chemical and Materials Library provides information on more than 46,000 chemicals that have been screened against 72 authoritative hazard lists, as well as wood products screened against (five) 5 endangered species lists. The Pharos Project also includes the only comprehensive library explaining and evaluating building product certifications available online.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(1) ORGANIZATION: (Continued)

BASIC PROGRAMS (Continued)

2. Open Data Systems (Continued)

- Portico: A web based application developed in partnership with Google to simplify the analysis, selection, and specification of building products that meet health and transparency objectives. Unlike other product databases, Portico is designed to integrate with a typical design and construction delivery process. It connects data with project workflow and has three main functions which are performed in the app: project management, product research and product information requests. Users can manage a building project by defining criteria, setting goals and tracking progress. The product library is continually growing, and today has more than 2,500 products. Products are assessed against more than 40,000 chemical hazards sourced from Healthy Building Network's Pharos Project, allowing users to search and compare materials for health and environmental hazard screening and certification information. Lastly, Portico connects manufacturers and their supply chain to their users, providing a direct communications channel to request and provide more detailed information about specific products, streamlining the communications process and saving time and money in the process.
- Data Commons: An online open innovation platform for the most up-to-date, global information regarding chemical health hazards, and how they apply to the products we manufacture, specify and use. This curated, crowd sourcing and collaboration platform will accelerate the development of and healthier alternatives to hazardous substances.

3. Innovative Research

HBN publishes innovative, actionable research that changes the building industry. For example, Kaiser Permanente cited HBN's research as the driver for its decision to prohibit the use of antimicrobial additives in its building product specification, and the Home Depot relied upon HBN's research in reaching its decision to require all of its vinyl flooring manufacturers to discontinue the use of endocrine disrupting chemicals called phthalates.

In addition, our influential electronic publications, Healthy Building News and The Signal reach thousands of green building professionals, and are key resources for opinion leaders in the field. Healthy Building News focuses on market trends and policy issues that impact the green building community. The Signal communicates our latest research findings, and is often the first to raise new issues of concern.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of the Organization are summarized below:

(a) Accounting Method:

The accompanying financial statements have been prepared on the accrual basis of accounting, which presents financial position, activities, functional expenses and cash flows in accordance with accounting principles generally accepted in the United States of America.

(b) Revenue Recognition:

Grants and Contributions

The Organization has adopted Statement of Financial Accounting Standards Board ASC No. 958-605-25, *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.

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

Contract and Program Revenue

Contract revenues are considered to be exchange transactions, and are recognized as the services are completed. Program fees consist of subscription revenues to the Pharos online educational database and program fees for training sessions provided in relation to disseminating healthy building materials information. Program revenue is recognized in the year to which the revenue is earned. Deferred program revenues at December 31, 2016 and 2015 were \$187,819 and \$149,972, respectively.

(c) Corporate Taxes:

The Organization 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.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

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

(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 Board ASC No. 958-205-05, *Financial Statements of Not-for-profit Organizations*. Under FASB ASC No. 958-205-05, 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 Organization 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 Organization 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.

Temporarily restricted net assets were available at December 31, 2016 and 2015 for the following programs:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Program Services - Purpose Restricted:		
Pharos Project/Data Commons	\$ 108,333	\$ 50,000
Affordable Housing Project	500,000	-
Website Design	10,000	-
Avoided Hazard Index Project	<u>-</u>	<u>51,590</u>
Total	<u>\$ 618,333</u>	<u>\$ 101,590</u>

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

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

(e) Net Assets: (Continued)

Temporarily Restricted Net Assets (Continued)

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Program Services - Purpose Restricted:		
Pharos Project/Data Commons	\$ 91,667	\$ 124,334
Affordable Housing Project	-	126,421
California Wellness Foundation Project	-	50,000
Organizational Development	-	10,000
Avoided Hazard Index Project	<u>51,590</u>	<u>48,410</u>
Total	<u>\$ 143,257</u>	<u>\$ 359,165</u>

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that requires the net assets be maintained permanently by the Organization. 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 Organization did not have any permanently restricted net assets as of December 31, 2016 and 2015.

(f) Donated Services and Materials:

Donated legal and consulting services and supplies of \$76,177 and \$42,334 were recognized in the financial statements for the years ended December 31, 2016 and 2015, respectively. 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) 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.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

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

(h) 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 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.

(i) Fair Value of Certain Financial Instruments:

Some of the Organization's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such accounts include cash, accounts receivable, promises receivable, prepaid expenses, accounts payable, deferred revenues, and accrued expenses.

(3) ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in the Network's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Healthy Building Network performed an evaluation of uncertain tax positions for the year ended December 31, 2016, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2016, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the organization files tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2016, the Organization had no accruals for interest and/or penalties.

(4) CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of December 31, 2016 and 2015 totaled \$594,472 and \$698,771, respectively, and consisted of the following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Checking Account - Interest Bearing	\$ 178,705	\$ 266,205
Money Market Accounts	<u>415,767</u>	<u>432,566</u>
Total	<u>\$ 594,472</u>	<u>\$ 698,771</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 investments. The Healthy Building Network did not have any Certificates of Deposit as of December 31, 2016 and 2015.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(4) CASH AND CASH EQUIVALENTS: (Continued)

At times during the year, Healthy Building 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. The Organization has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

(5) ACCOUNTS AND PROMISES RECEIVABLE:

Accounts Receivable:

Accounts receivable as presented are considered fully collectible by management. Balances at December 31, 2016 and 2015 consisted of the following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Contracts and Program Fees	\$ 129,643	\$ 78,516
Total	<u>\$ 129,643</u>	<u>\$ 78,516</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, 2016 and 2015. Management believes the risk related to these balances is minimal.

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 HBN 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, 2016 and 2015 consisted of the following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unrestricted	\$ 16,305	\$ 140,625
Purpose Restricted	<u>475,000</u>	<u>-</u>
Total Promises Receivable	<u>\$ 491,305</u>	<u>\$ 140,625</u>

For the years ended December 31, 2016 and 2015, respectively, all promises receivable were due to be received in one year or less.

HEALTHY BUILDING NETWORK
NOTES TO FINANCIAL STATEMENTS

(6) 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 years ended December 31, 2016 and 2015 was \$5,017 and \$3,848, respectively. 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. Classification of fixed assets and their estimated useful lives are as summarized below:

December 31, 2016:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	
Office Furniture and Equipment	\$ 27,601	\$ 16,307	\$ 11,294	3-7 years
Total Fixed Assets	<u>\$ 27,601</u>	<u>\$ 16,307</u>	<u>\$ 11,294</u>	

December 31, 2015:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	
Office Furniture and Equipment	\$ 21,218	\$ 11,490	\$ 9,728	3-7 years
Total Fixed Assets	<u>\$ 21,218</u>	<u>\$ 11,490</u>	<u>\$ 9,728</u>	

(7) RETIREMENT PLAN:

Employees of the Organization are covered under an optional contributory retirement plan that covers substantially all employees. The Organization does not provide employer matching contributions. There is no unfunded past service liability. Therefore, there was no expense for the years ended December 31, 2016 and 2015.

(8) OPERATING LEASES AND COMMITMENTS:

The Organization leased space in three locations: Washington, DC, Vermont and Maine.

Washington, DC - Connecticut Avenue:

The Organization entered into a lease agreement on December 18, 2014, for the rental of office space located at 1710 Connecticut Avenue NW, Washington DC. The lease term began on April 1, 2015, and is scheduled to expire on March 31, 2020. The monthly rent payments in year 1 were \$2,400 with payments beginning on April 1, 2015. The monthly rent increases each year during the lease to a monthly amount of \$2,853 in the fifth and final year of the lease. As a requirement of this lease, a security deposit in the amount of \$4,800 was made. This lease was entered into jointly with the Institute for Local Self-Reliance.

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(8) OPERATING LEASES AND COMMITMENTS: (Continued)

Washington, DC - Connecticut Avenue: (Continued)

These payment amounts represent the Healthy Building Network's share of the lease. The Organization is obligated to pay a portion of the annual increase in operating cost of the leased property. An estimate of the annual increase in operating cost has not been included in the following table. Accounting principles generally accepted in the United States of America require that rent expense, pursuant to a non-cancelable lease that includes scheduled rent increases, be recorded on a straight-line basis over the term of the lease. Accordingly, \$2,002 of future rent payments have been recorded as a current liability to adjust the actual rent paid to conform to the straight-line basis. The rental expense related to this lease for the year ended December 31, 2016, was \$29,941. As of December 31, 2016, future minimum rental obligations required under this lease, net of rent abatement are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Rent</u> <u>Obligation</u>	<u>Rent</u> <u>Abatement</u>	<u>Net</u> <u>Obligation</u>
2017	\$ 29,520	\$ (198)	\$ 29,322
2018	29,520	535	30,055
2019	29,520	1,287	30,807
2020	<u>7,371</u>	<u>378</u>	<u>7,749</u>
Total	<u>\$ 95,931</u>	<u>\$ 2,002</u>	<u>\$ 97,933</u>

Washington, DC - S Street:

Prior to the above lease, the Organization leased office space located at 2001 S Street, NW, Washington, DC, which expired on March 31, 2015. This lease was entered into jointly with the Institute for Local Self-Reliance who utilized a portion of the space in this office. Rental expense related to this lease for the year ended December 31, 2015 was \$6,961.

Vermont:

The Organization entered into a lease, at a monthly cost of \$830, for the rental of office space located in Vermont. This lease is for a one-year period with an option to extend the lease for an additional one-year period at the end of the lease year, which is April 30, 2017.

Maine:

HBN leases this space on a month to month basis. The monthly cost in 2016 and 2015 was \$275 per month.

Total rental expense for the years ended December 31, 2016 and 2015 was \$43,842 and \$42,901, respectively.

HEALTHY BUILDING NETWORK
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(9) EMPLOYEE BENEFITS:

Fringe Benefits and Payroll Taxes:

The fringe benefits and payroll taxes for the years ended December 31, 2016 and 2015 consisted of the following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Social Security	\$ 81,679	\$ 70,436
Medical Insurance	147,985	120,888
Unemployment	5,662	3,348
Workers Compensation	<u>3,790</u>	<u>2,882</u>
Total	<u>\$ 239,116</u>	<u>\$ 197,554</u>

(10) CONCENTRATIONS:

Based on the nature and purpose of the Organization, significant revenues are received through parties interested in establishing healthier building practices. In addition, approximately fifty-two percent (52%) of current year revenues were derived from contract revenues.

(11) RELATED PARTY TRANSACTIONS:

The Institute for Local Self-Reliance (ILSR) and the Healthy Building Network (HBN) share office space that is separately leased from a third party. HBN pays the third party and ILSR reimburses HBN for their share of the rent.

ILSR charged HBN for a portion of one staff person's salary who provided services to HBN through May 31, 2015. In addition, some operating costs, such as telephone, supplies and equipment maintenance were paid by ILSR and reimbursed by HBN. These costs amounted to \$41,645 during the year ended December 31, 2015. There were no shared salary or operating costs during 2016.

The Executive Director of the Organization is also a Board Member of the Health Product Declaration Collaborative (HPDC). In 2013, the Organization entered into a Technology License and Services agreement with HPDC to advance and maintain the Health Product Declaration (HPD), an impartial tool for accurate reporting of product contents and related health concerns. The contract is for the period November 18, 2013, through November 17, 2016. For the years ended December 31, 2016 and 2015, respectively, the Organization earned \$43,902 and \$15,000 in contract revenues from HPDC. As of December 31, 2016 and 2015, respectively, the Organization had a receivable of \$7,233 and \$3,333 from HPDC. Other organizations with which Board Members are affiliated provided contract revenues in the amount of \$192,795 and \$10,692, respectively, to HBN during the 2016 and 2015 years. In addition, HBN paid HPDC's Executive Director \$8,425 in consulting fees during the year ended December 31, 2016.

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(11) RELATED PARTY TRANSACTIONS: (Continued)

Various Board Members and their affiliated organizations gave contributions to the Healthy Building Network totaling \$14,490 and \$41,250 during the years ended December 31, 2016 and 2015, respectively. A Board Member's firm also provided contributed legal services in the amount of \$76,177 and \$25,715, respectively, during the years ended December 31, 2016 and 2015.

The Organization utilizes a credit card for purchases related to organizational activity. The credit card is issued in the name of the Organization but is personally guaranteed by the Founder and President.

(12) FUNDRAISING:

Expenses in the amount of \$66,296 and \$44,780 were incurred for the purposes of fundraising during the years ended December 31, 2016 and 2015, respectively.

(13) SUBSEQUENT EVENTS:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through February 13, 2018, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

(14) CONTINGENCIES:

The Organization depends on contributions and grants for a significant portion of its revenue. The ability of the Organization's contributors and grantors to continue giving amounts comparable with prior years may be dependent upon future economic conditions and continued deductibility for income tax purposes of contributions and grants to the Organization. While the Organization's board of directors and management believes the Organization has the resources to continue its programs, its ability to do so and the extent to which it continues may be dependent on the above factors.

(15) CONSOLIDATION:

Management has applied the principles of ASC 958-810-15, *Reporting of Related Entities by Not-for-Profit Organizations* in assessing the need to consolidate the financial statements of HBN with those of the Institute for Local Self-Reliance. Under ASC 958-810-15, 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 years ended December 31, 2016 and 2015. Therefore, the accompanying financial statements reflect only the activity and net assets of the Healthy Building Network.