

HEALTHY BUILDING NETWORK

WASHINGTON, DC

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AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2009 AND  
THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008

**KENDALL, PREBOLA AND JONES**

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## INDEX

	<u>Page</u>
Independent Auditor's Report	1
Comparative Statement of Financial Position, December 31, 2009 and 2008	2
Comparative Statement of Activities, For the Year Ended December 31, 2009 and the Nine Month Period Ended 2008	3
Comparative Statement of Functional Expenses, For the Year Ended December 31, 2009 and the Nine Month Period Ended 2008	4
Comparative Statement of Cash Flows, For the Year Ended December 31, 2009 and the Nine Month Period Ended 2008	5
Notes to Financial Statements	6-16

**Kendall, Prebola and Jones**  
**Certified Public Accountants**

The Board of Directors  
Healthy Building Network  
2001 S Street, NW, Suite 570  
Washington, DC 20009


Ladies and Gentlemen:

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of the Healthy Building Network (a nonprofit organization) as of December 31, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the year ended December 31, 2009 and the nine month period ended December 31, 2008. 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 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 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, 2009 and 2008, and the changes in its net assets and its cash flows for the year ended December 31, 2009 and the nine month period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

  
Certified Public Accountants

Bedford, Pennsylvania  
April 22, 2010

HEALTHY BUILDING NETWORK  
COMPARATIVE STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2009 AND 2008

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 378,383	\$ 402,080
Accounts Receivable	24,620	5,633
Promises Receivable	203,075	20,000
Prepaid Expenses	<u>10,968</u>	<u>9,490</u>
 Total Current Assets	 <u>\$ 617,046</u>	 <u>\$ 437,203</u>
<u>Fixed Assets:</u>		
Office Equipment and Furniture	\$ 6,832	\$ 7,908
Less: Accumulated Depreciation	<u>(4,988)</u>	<u>(3,242)</u>
 Total Fixed Assets	 <u>\$ 1,844</u>	 <u>\$ 4,666</u>
<u>Other Assets:</u>		
Security Deposit	<u>\$ 7,752</u>	<u>\$ 3,973</u>
 TOTAL ASSETS	 <u>\$ 626,642</u>	 <u>\$ 445,842</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 24,652	\$ 15,985
Accrued Vacation	24,133	28,168
Deferred Rent Abatement	<u>1,424</u>	<u>-</u>
 Total Liabilities	 <u>\$ 50,209</u>	 <u>\$ 44,153</u>
<u>Net Assets:</u>		
Unrestricted	\$ 276,017	\$ 381,689
Temporarily Restricted	<u>300,416</u>	<u>20,000</u>
 Total Net Assets	 <u>\$ 576,433</u>	 <u>\$ 401,689</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 626,642</u>	 <u>\$ 445,842</u>

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK  
COMPARATIVE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009 AND  
THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008

	<u>Year Ended December 31, 2009</u>			<u>Nine Month Period Ended December 31, 2008</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	\$ 705,076	\$ 353,000	\$ 1,058,076	\$ 1,166,974	\$ 115,000	\$ 1,281,974
Contract Revenue	3,975	-	3,975	28,442	-	28,442
Program Fees	9,900	-	9,900	-	-	-
Gain on Sale of Fixed Assets	-	-	-	586	-	586
Interest	7,100	-	7,100	7,190	-	7,190
Donated Services	67,640	-	67,640	-	-	-
Donated Office Equipment and Furniture	-	-	-	5,772	-	5,772
Net Assets Released from Restriction						
Satisfaction of Program Restrictions	<u>72,584</u>	<u>(72,584)</u>	<u>-</u>	<u>95,000</u>	<u>(95,000)</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>\$ 866,275</u>	<u>\$ 280,416</u>	<u>\$ 1,146,691</u>	<u>\$ 1,303,964</u>	<u>\$ 20,000</u>	<u>\$ 1,323,964</u>
<u>Expenses:</u>						
Program Services	\$ 895,598	\$ -	\$ 895,598	\$ 837,822	\$ -	\$ 837,822
Fundraising	45,226	-	45,226	65,245	-	65,245
Administration	<u>31,123</u>	<u>-</u>	<u>31,123</u>	<u>19,208</u>	<u>-</u>	<u>19,208</u>
Total Expenses	<u>\$ 971,947</u>	<u>\$ -</u>	<u>\$ 971,947</u>	<u>\$ 922,275</u>	<u>\$ -</u>	<u>\$ 922,275</u>
Change in Net Assets	\$ (105,672)	\$ 280,416	\$ 174,744	\$ 381,689	\$ 20,000	\$ 401,689
Net Assets at Beginning of Period	<u>381,689</u>	<u>20,000</u>	<u>401,689</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets at End of Period	<u>\$ 276,017</u>	<u>\$ 300,416</u>	<u>\$ 576,433</u>	<u>\$ 381,689</u>	<u>\$ 20,000</u>	<u>\$ 401,689</u>

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK  
COMPARATIVE STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009 AND  
THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008

	<u>Year Ended December 31, 2009</u>				<u>Nine Month Period Ended December 31, 2008</u>			
	<u>Supporting Services</u>		<u>Program Services</u>	<u>Total</u>	<u>Supporting Services</u>		<u>Program Services</u>	<u>Total</u>
	<u>Management and General</u>	<u>Fundraising</u>			<u>Management and General</u>	<u>Fundraising</u>		
<u>Expenses:</u>								
Salaries	\$ 9,763	\$ 29,955	\$ 502,378	\$ 542,096	\$ 13,299	\$ 44,577	\$ 518,369	\$ 576,245
Fringe Benefits	2,040	6,175	109,959	118,174	3,009	10,312	114,864	128,185
Website	-	-	4,650	4,650	-	-	4,000	4,000
Consultants	-	-	19,349	19,349	-	107	35,282	35,389
Travel	-	367	4,688	5,055	-	461	5,727	6,188
Meetings and Conferences	962	-	35,922	36,884	24	-	33,437	33,461
Printing and Copying	-	-	677	677	-	4	2,219	2,223
Legal and Accounting Fees	16,762	3,367	132,393	152,522	1,351	4,470	53,428	59,249
Office Supplies and Expense	123	349	5,019	5,491	90	301	3,969	4,360
Postage and Shipping	4	26	518	548	6	154	582	742
Telephone	187	571	8,819	9,577	180	581	7,668	8,429
Internet	205	627	9,668	10,500	141	436	7,910	8,487
Dues, Subscriptions and Publications	-	498	4,761	5,259	-	197	3,810	4,007
Equipment Rental and Maintenance	17	46	814	877	43	117	1,901	2,061
Utilities	68	205	3,478	3,751	28	80	1,357	1,465
Rent	749	2,286	38,488	41,523	861	2,790	34,804	38,455
Insurance	147	448	8,369	8,964	129	425	5,078	5,632
Moving Expenses	9	27	627	663	-	-	-	-
Depreciation	49	163	2,610	2,822	37	200	3,005	3,242
Bank Service Charges and Fees	38	116	2,411	2,565	10	33	412	455
<b>Total Expenses</b>	<b>\$ 31,123</b>	<b>\$ 45,226</b>	<b>\$ 895,598</b>	<b>\$ 971,947</b>	<b>\$ 19,208</b>	<b>\$ 65,245</b>	<b>\$ 837,822</b>	<b>\$ 922,275</b>

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK  
COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2009 AND  
THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008

	<u>Year Ended</u> <u>December 31, 2009</u>	<u>Nine Month</u> <u>Period Ended</u> <u>December 31, 2008</u>
Change in Net Assets	\$ 174,744	\$ 401,689
Adjustments to Reconcile Change in Net Assets to Net Cash Flows Provided by/(Used) in Operating Activities:		
Depreciation Expense	2,822	3,242
Gain on Sale of Fixed Assets	-	563
Contributed Office Equipment and Furniture	-	(5,772)
Accounts Receivable - (Increase)	(18,987)	(5,633)
Promises Receivable - (Increase)	(183,075)	(20,000)
Prepaid Expenses - (Increase)	(1,478)	(9,490)
Security Deposit - (Increase)	(3,779)	(3,973)
Accounts Payable - Increase	8,667	15,985
Accrued Vacation - (Decrease)	(4,035)	28,168
Deferred Rent Abatement - Increase	<u>1,424</u>	<u>-</u>
Net Cash Flows Provided by/(Used) in Operating Activities	<u>\$ (23,697)</u>	<u>\$ 404,779</u>
<u>Investing Activities</u>		
Acquisition of Office Equipment and Furniture	<u>\$ -</u>	<u>\$ (2,699)</u>
Net Cash Flows Provided by/(Used) in Investing Activities	<u>\$ -</u>	<u>\$ (2,699)</u>
Net Increase (Decrease) in Cash	\$ (23,697)	\$ 402,080
Cash and Cash Equivalents at Beginning of Period	<u>402,080</u>	<u>-</u>
Cash and Cash Equivalents at End of Period	<u>\$ 378,383</u>	<u>\$ 402,080</u>

Supplemental Disclosures:

- a) No interest or income taxes were paid during the periods ended December 31, 2009 and 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, during the none month period ended December 31, 2008.

(See Accompanying Notes and Auditor's Report)

HEALTHY BUILDING NETWORK  
NOTES TO FINANCIAL STATEMENTS

The Healthy Building Network (HBN) 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 HBN began operating independently from ILSR. At this time, ILSR contributed funds in the amount of \$350,120 to HBN which was the balance of HBN's funds at the separation date. ILSR also contributed fixed assets in the amount of \$5,722 to HBN.

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. This transformation could 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, 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 (formerly 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 Board ASC No. 958-205-05 (formerly SFAS No. 117), *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 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, 2009 and 2008 for the following program:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Program Services - Time Restricted	\$ 150,000	\$ 20,000
Program Services - Purpose Restricted, Pharos Project	<u>150,416</u>	<u>-</u>
Total	<u>\$ 300,416</u>	<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:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Program Services - Time Restricted	<u>\$ 72,584</u>	<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, 2009 and 2008.

(f) Donated Services:

Donated legal services of \$67,640 and \$0 were recognized in the financial statements for the year and nine month period ended December 31, 2009 and 2008, 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) Basic Programs:

**Program Services -**

The Healthy Building Network is a 501(c) (3) charitable organization that engages in the environmental education of the public, with a focus on promoting healthier building materials and green building strategies. This work consists of conducting research on construction materials, finishes and products – and evaluating their appropriateness, from the perspective of potential environmental, health and social impacts.

HEALTHY BUILDING NETWORK  
NOTES TO FINANCIAL STATEMENTS

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

(g) Basic Programs: (Continued)

HBN's primary strategy in support of its mission of transforming the building products market to promote best environmental, health and social justice practices is the Pharos Project. The Pharos Project is an online system that scores building materials against a number of impact categories, including renewable materials content, renewable energy, manufacturing toxics and user toxicity. Products are scored against an extensive database of chemical hazards, compiled from over 20 authoritative governmental and non-governmental lists.

The Pharos Project addresses two fundamental questions for those committed to positive environmental change: how to reliably evaluate and select building materials that match your environmental and social values and how to communicate those values in a way that drives product innovation and broader market transformation. HBN currently offers subscriptions to the Pharos Project system for an individual annual fee of \$75.

HBN staff also periodically research the environmental, health and social impacts of building materials on contract for individual clients, including a number of health care systems.

HBN publishes a free, monthly, online newsletter, *Healthy Building News*, which provides commentary and analysis of trends in the green building community and market. And, finally, HBN shares its research findings and analysis in the Pharos Project blog, *The Signal*.

(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 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.

(j) Fundraising:

Expenses in the amount of \$45,226 and \$65,245 were incurred for the purposes of fundraising during the year ended December 31, 2009 and the nine month period ended December 31, 2008, respectively.

HEALTHY BUILDING NETWORK  
NOTES TO FINANCIAL STATEMENTS

(2) NEW ACCOUNTING PRONOUNCEMENTS AND POLICIES:

(a) ASC 105-10 the Hierarchy of Generally Accepted Accounting Principles

Effective for reporting periods ending after September 15, 2009, the FASB Accounting Standards Codification (Codification) became the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing Financial Accounting Standards Board, American Institute of Certified Public Accountants, Emerging Issues Task Force standards, pronouncements, interpretations and related literature. Pursuant to the Codification, only one level of authoritative GAAP now exists, excluding the guidance issued by the Securities and Exchange Commission (SEC). The Codification did not change GAAP; instead, it introduced a new structure. The Codification reorganized the thousands of U.S. GAAP pronouncements into accounting topics displaying all topics using a consistent structure. Accordingly, the Organization is presenting these financial statements and related disclosures in accordance with the Codification.

(b) Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB ASC No. 820-10 (formerly SFAS No. 157), *Fair Value Measurements*. FASB ASC No. 820-10 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. The provisions of FASB ASC No. 820-10 were deferred until 2009 for non-financial assets and liabilities. There was no material effect on the 2008 and 2009 financial statements from adopting FASB ASC No. 820-10 for both financial and non-financial assets and liabilities.

The carrying amounts of cash, grants receivable, other current assets, accounts payable, accrued expenses, and current portion of notes payable approximate fair value because of the relatively short maturity of those instruments.

(c) Accounting for Uncertain Tax Positions

In June 2006, the FASB issued FASB ASC No. 740-10 [(formerly Interpretation No. 48 (FIN 48)], *Accounting for Uncertainty in Income Taxes*. FASB ASC 740-10 provides detailed guidance for the financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with FASB ASC No. 740-10 (formerly SFAS No. 109), *Accounting for Income Taxes*. FASB ASC No. 740-10 requires an entity to recognize the financial statement impact of a tax position when it is more-likely-than-not that the position will be sustained upon examination. On December 30, 2008, the FASB issued Staff Position FIN 48-3 which allowed the option to defer the effective implementation date of FASB ASC 740-10 to financial statements ending on or after December 31, 2009. The organization elected to defer the application to this date.

The determination of uncertain tax positions for financial statements prior to the implementation of FASB ASC No. 740-10 uses the tax judgments reported on the organization's tax returns which are based on the requirements for tax filings under taxing authorities for the applicable year. These filings may be subject to amendment or change

HEALTHY BUILDING NETWORK  
NOTES TO FINANCIAL STATEMENTS

(2) NEW ACCOUNTING PRONOUNCEMENTS AND POLICIES: (Continued)

(c) Accounting for Uncertain Tax Positions (Continued)

during an examination by the various taxing authorities, which has not been considered in the determination of the organization's tax assets or liabilities included in the financial statements. There was no material effect on the 2009 financial statements.

(3) CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of December 31, 2009 and 2008 totaled \$378,383 and \$402,080, respectively and consisted of the following:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Checking Account - Interest Bearing	\$ 183,908	\$ 153,240
Money Market Accounts	<u>194,475</u>	<u>248,840</u>
Total	<u>\$ 378,383</u>	<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, 2009 and 2008.

At times during the year, HBN 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.

(4) ACCOUNTS AND PROMISES RECEIVABLE:

Accounts Receivable:

Accounts receivable as presented are considered fully collectible by management. Balances at December 31, 2009 and 2008 consisted of the following:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Contracts	\$ 19,027	\$ 4,290
Reimbursable Expenses	5,593	748
Employees	<u>-</u>	<u>595</u>
Total Accounts Receivable	<u>\$ 24,620</u>	<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, 2009 and 2008.

HEALTHY BUILDING NETWORK  
NOTES TO FINANCIAL STATEMENTS

(4) ACCOUNTS AND PROMISES RECEIVABLE: (Continued)

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, 2009 and 2008 consisted of the following:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Time Restricted	\$ <u>203,075</u>	\$ <u>20,000</u>
Total Promises Receivable	\$ <u>203,075</u>	\$ <u>20,000</u>

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

	<u>As of December 31, 2009</u>	<u>As of December 31, 2008</u>
Less Than One Year	\$ 203,075	\$ 20,000
One to Five Years	<u>                  -</u>	<u>                  -</u>
Total	\$ <u>203,075</u>	\$ <u>20,000</u>

(5) 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 year ended December 31, 2009 and the nine month period ended December 31, 2008 were \$2,822 and \$3,242 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.

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.

HEALTHY BUILDING NETWORK  
NOTES TO FINANCIAL STATEMENTS

(5) FIXED ASSETS: (Continued)

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

December 31, 2009:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	
Office Furniture and Equipment	\$ 6,832	\$ 4,988	\$ 1,844	3-7 years
Total Fixed Assets	<u>\$ 6,832</u>	<u>\$ 4,988</u>	<u>\$ 1,844</u>	

December 31, 2008:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book 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>	

(6) RETIREMENT PLAN:

Employees of the Healthy Building Network are covered under an optional contributory retirement plan that covers substantially all employees. HBN 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 organization stopped matching on July 1, 2009. The expense for the year ended December 31, 2009 and the nine month period ended December 31, 2008 were \$17,467 and \$24,073, respectively.

(7) OPERATING LEASES:

The Healthy Building Network leased space in three locations: Washington, DC, Vermont and Maine.

Washington, DC:

The Healthy Building Network entered into a lease agreement for the rental of office space located in Washington DC (the organization's main office) for 64 months commencing on December 8, 2009 and is scheduled to expire on March 31, 2015. This lease contains a three (3) month rent abatement period. This rent abatement is further disclosed in Note 9. The monthly rental payment is \$1,931 for the first twelve (12) months of the lease and increases each year thereafter by 2 ½ percent each year. The future commitment related to this lease is disclosed in Note 8.

Prior to this, the Healthy Building Network leased office space in Washington, D.C. under an operating lease which commenced on April 1, 2008 and ended on December 6, 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) was shared with the Institute for Local Self-Reliance.

HEALTHY BUILDING NETWORK  
NOTES TO FINANCIAL STATEMENTS

(7) OPERATING LEASES: (Continued)

Vermont Lease:

HBN leases this space on a month to month basis. The monthly cost from April 1, 2008 to August 31, 2009 was \$550. The cost increased to \$700 per month on September 1, 2009.

Maine Lease:

HBN leases this space on a month to month basis. The monthly cost in 2008 and 2009 were \$250 and \$275, respectively.

Rental expense for the year ended December 31, 2009 and the nine month period ended December 31, 2008 was \$41,523 and \$38,455, respectively.

(8) COMMITMENTS:

The Healthy Building Network entered into a lease agreement on December 8, 2009 for the rental of office space located at 2001 S Street NW, Washington DC. The lease term commenced on December 8, 2009 and expires on February 28, 2015. Monthly rent payments of \$1,890 begin on March 8, 2010 after a three month abatement period. As a requirement of this lease, a security deposit in the amount of \$3,780 was made. The Healthy Building Network is obligated to pay a proportion 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. Rental expense related to this lease for the year ended December 31, 2009 was \$1,424. Future minimum payments are as follows:

Year Ending December 31

2010	\$ 19,315
2011	23,660
2012	24,252
2013	24,858
2014	25,480
2015	<u>4,264</u>
Total	<u>\$ 121,829</u>

(9) DEFERRED RENT ABATEMENT:

Accounting principles generally accepted in the United States of America require that rent expense, pursuant to a non-cancelable lease that includes a rent abatement period and scheduled rent increases, be recorded on a straight-line basis over the term of the lease. As noted above, the Healthy Building Network entered into a lease agreement for the rental of office space located in Washington DC for 63 months, commencing on December 1, 2009 and expiring on February 28, 2015. As a condition of the lease terms, the first three months of rent have been abated. Accordingly, \$1,424 of future rent payments has been recorded as a current liability to adjust the actual rent paid to conform to the straight-line basis. This balance is the unamortized deferred rent abatement at December 31, 2009.



HEALTHY BUILDING NETWORK  
NOTES TO FINANCIAL STATEMENTS

(9) DEFERRED RENT ABATEMENT: (Continued)

The balance of the deferred rent abatement is scheduled to change over the life of the lease as follows:

Year Ending December 31

2010	\$	4,401
2011		(455)
2012		(1,047)
2013		(1,653)
2014		(2,274)
2015		<u>(396)</u>
 Total	 \$	 <u>1,424</u>

(10) EMPLOYEE BENEFITS:

Fringe Benefits:

The fringe benefits for the year ended December 31, 2009 and nine month period ended December 31, 2008 consisted of the following:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Social Security	\$ 42,213	\$ 42,531
Medical Insurance	53,331	56,265
Retirement	17,467	24,073
Unemployment	1,366	2,482
Workers Compensation	<u>3,797</u>	<u>2,834</u>
 Total	 <u>\$ 118,174</u>	 <u>\$ 128,185</u>

(11) 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 ninety-two percent (92%) of current year revenues were derived from foundation grants and contributions.

(12) RELATED PARTY TRANSACTIONS:

The Healthy Building Network's Treasurer is the Institute for Local Self-Reliance's (ILSR) President. The two organizations also share office space with is separately leased from a third party. ILSR charges HBN for a portion of one staff person's salary who provides services to HBN. In addition, some operating costs, such as telephone, supplies and equipment maintenance were paid by ILSR and reimbursed by HBN. These costs amounted to \$32,796 during the year ended December 31, 2009 and \$33,523 during the nine month period ended December 31, 2008.

HEALTHY BUILDING NETWORK  
NOTES TO FINANCIAL STATEMENTS

(13) SUBSEQUENT EVENTS:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through April 22, 2010, the date the financial statements were available to be issued.

(14) 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 HBN with those of the Institute for Local Self-Reliance. 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 year ended December 31, 2009 and nine month period ended December 31, 2008. Therefore, the accompanying financial statements reflect only the activity and net assets of the Healthy Building Network.