

BUILD CHANGE
Denver, Colorado

FINANCIAL STATEMENTS
December 31, 2012

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CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Build Change
Denver, Colorado

We have audited the accompanying financial statements of Build Change, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Build Change as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Denver, Colorado
May 29, 2013

BUILD CHANGE
STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS

CURRENT ASSETS

Cash - unrestricted	\$ 824,913
Accounts receivable	354,795
Donations and grants receivable - short-term	475,000
Prepaid expenses	<u>24,162</u>
Total current assets	<u>1,678,870</u>

PROPERTY AND EQUIPMENT

Equipment and furniture	93,389
Less accumulated depreciation	<u>(26,102)</u>
Total property and equipment	<u>67,287</u>

OTHER LONG-TERM ASSETS

Donations and grants receivable - long-term	50,000
Deposits	<u>6,036</u>
Total other long-term assets	<u>56,036</u>
Total long-term assets	<u>123,323</u>

TOTAL ASSETS \$ 1,802,193

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 17,965
Due to related party	17,750
Credit cards payable	13,411
Accrued liabilities	<u>122,496</u>
Total liabilities - all current	<u>171,622</u>

NET ASSETS

Unrestricted	1,055,571
Temporarily restricted	<u>575,000</u>
Total net assets	<u>1,630,571</u>

TOTAL LIABILITIES AND NET ASSETS \$ 1,802,193

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

BUILD CHANGE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Grant income	\$ 2,376,085	\$ 225,000	\$ 2,601,085
Contract income	540,314	-	540,314
Contributions	136,286	-	136,286
Interest income	1,015	-	1,015
Loss on disposal of fixed assets	(2,745)	-	(2,745)
Net assets released from restrictions	<u>450,000</u>	<u>(450,000)</u>	<u>-</u>
Total revenues and support	<u>3,500,955</u>	<u>(225,000)</u>	<u>3,275,955</u>
EXPENSES			
Program services			
Indonesia	400,132	-	400,132
Technical Consulting	32,969	-	32,969
Haiti	<u>2,778,374</u>	<u>-</u>	<u>2,778,374</u>
Total program services	<u>3,211,475</u>	<u>-</u>	<u>3,211,475</u>
MANAGEMENT AND GENERAL			
Fundraising	161,611	-	161,611
General and administrative	<u>295,778</u>	<u>-</u>	<u>295,778</u>
Total management and general	<u>457,389</u>	<u>-</u>	<u>457,389</u>
Total expenses	<u>3,668,864</u>	<u>-</u>	<u>3,668,864</u>
DECREASE IN NET ASSETS	(167,909)	(225,000)	(392,909)
NET ASSETS - BEGINNING OF YEAR	<u>1,223,480</u>	<u>800,000</u>	<u>2,023,480</u>
NET ASSETS - END OF YEAR	<u>\$ 1,055,571</u>	<u>\$ 575,000</u>	<u>\$ 1,630,571</u>

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

BUILD CHANGE
STATEMENT OF FUNCTIONAL EXPENSES
December 31, 2012

	<u>Indonesia</u>	<u>Technical Consulting</u>	<u>Haiti</u>	<u>Total Program Expenses</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 153,890	\$ 26,496	\$ 1,101,662	\$ 1,282,048	\$ 228,424	\$ 110,950	\$ 1,621,422
Employee benefits	30,380	1,287	253,155	284,822	18,960	27,778	331,560
Payroll taxes	58	2,277	200,941	203,276	15,861	9,411	228,548
Professional services	20	-	153,862	153,882	8,130	135,548	297,560
Office supplies and expenses	28,187	-	97,567	125,754	7,451	72,835	206,040
Rent, facilities and equipment	10,096	-	170,693	180,789	-	21,916	202,705
Depreciation	256	-	15,081	15,337	-	1,377	16,714
IT services and computer expenses	1,396	1,283	10,102	12,781	150	3,684	16,615
Travel and meetings	18,800	1,192	22,028	42,020	15,931	24,711	82,662
General business expenses	536	-	5,737	6,273	150	22,142	28,565
Training supplies and equipment	75,212	-	22,616	97,828	-	-	97,828
Training and outreach materials	28,749	50	106,484	135,283	-	-	135,283
Transport and freight	2,121	-	400,113	402,234	1,128	-	403,362
Headquarters administration fees	50,431	384	218,333	269,148	(134,574)	(134,574)	-
TOTAL EXPENSES	<u>\$ 400,132</u>	<u>\$ 32,969</u>	<u>\$ 2,778,374</u>	<u>\$ 3,211,475</u>	<u>\$ 161,611</u>	<u>\$ 295,778</u>	<u>\$ 3,668,864</u>

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

BUILD CHANGE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2012

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	
Decrease in net assets	\$ (392,909)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	16,714
Proceeds from sale of property and equipment	5,000
Loss of disposal of property and equipment	2,745
Accounts, donations and grants receivable	486,571
Prepaid expenses	(20,210)
Deposits	(2,521)
Donated equipment	(8,750)
Accounts payable (including due to related party)	22,398
Accrued liabilities (credit cards payable)	6,967
Accrued liabilities	<u>361</u>
Net cash provided by operating activities	116,366
CASH FLOWS USED BY INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(21,135)</u>
NET INCREASE IN CASH	95,231
CASH, BEGINNING OF YEAR	<u>729,682</u>
CASH, END OF YEAR	<u><u>\$ 824,913</u></u>
NONCASH TRANSACTIONS	
In-kind contributions	<u><u>\$ 85,937</u></u>

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

BUILD CHANGE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Build Change (the Organization) is a non-profit, tax-exempt corporation formed September 2, 2004 in the State of California, as an international social enterprise that designs earthquake-resistant houses in developing countries and trains builders, homeowners, engineers, and governmental officials to build them. Build Change is an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended; and accordingly, a provision for income taxes has not been made. The Internal Revenue Service has determined Build Change is not a private foundation.

Method of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other assets and liabilities.

Financial Statement Presentation

Financial statement presentation follows the requirements under Generally Accepted Accounting Principles for Not-for-Profit Organizations. Under this presentation, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted, and permanently restricted net assets. Unrestricted net assets come primarily from donations, grants, service contracts, and contributions and are used by the Organization for program or supporting services. Temporarily restricted net assets are those net assets which use has been limited by donors to later periods of time, after specified dates or to specified purposes. Permanently restricted net assets must be maintained in perpetuity.

Revenue Recognition

Build Change records unconditional contributions in accordance with the requirements of Generally Accepted Accounting Principles for not-for-profit entities. The Organization reports unconditional gifts of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Grants are recognized as revenue at the time the Organization receives commitment from the Grantor.

For exchange transactions, the Organization recognizes contract revenue as it is earned and expenses as they are incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

BUILD CHANGE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Exchange

At December 31, 2012, all of the Organization's grants receivable are payable to the Organization in U.S. dollars. There were no foreign exchange gains or losses recognized in 2012.

Cash and Cash Equivalents

For purpose of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Donations and Grants Receivable

The Organization receives grants from philanthropically focused organizations for investment in the Organization's mission related projects. Grants receivable consist of funding commitments from those organizations which have not been received. The Organization does not charge interest on delinquent accounts. Long-term portions of accounts receivable are expected to be received by December 31, 2014. Management believes that all receivable amounts are collectible as of year-end. For the year ended December 31, 2012, there were no amounts written off as uncollectible receivables.

Donated Services

Donated services are recognized as contributions in accordance Generally Accepted Accounting Principles for not-for-profit entities, if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. During the year ended December 31, 2012, the value of donated professional engineering and legal services meeting the requirements for recognition in the financial statements was \$77,187. However, a substantial number of volunteers have donated significant amounts of time to the Organization to carry out its mission but are not reflected in the financial statements because they do not meet the criteria for recognition as donated services.

During the year ended December 31, 2012, the Organization received donated equipment with an estimated fair value of \$8,750 on the date of donation.

Property and Equipment

Property and equipment is carried at cost or fair-market value at date of purchase. Property and equipment acquired with an estimated useful life in excess of one year is capitalized and depreciated using the straight-line method over the estimated useful lives of the assets.

Donations of assets are recorded at estimated fair market value. Long-lived assets are recorded without implying a time restriction, therefore increasing unrestricted net assets at the fair market value in the year which the assets are received unless the donor has restricted the donated assets to a specific purpose. Depreciation expense charged to operations for the year ended December 31, 2012 is \$16,714.

BUILD CHANGE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. There were no impairments recognized by the Organization for the year ended December 31, 2012.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Program activities are those that are conducted in accordance with the Organization's nature of operations and certain necessary costs. Management and general activities are those that are not identifiable with a single program or fundraising activity, but that are indispensable to the conduct of those activities and to an organization's existence. Fundraising activities involve inducing potential donors to contribute money, securities, services, materials, facilities, other assets or time. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses by function have been allocated based upon management's estimates of the time each employee spends working in each category or the percentage of office space devoted to each category.

Advertising

The Organization may use advertising to promote among the audience it serves. The production costs of advertising are expensed as incurred. The Organization had no advertising costs during the year ended December 31, 2012.

Fair Value of Financial Instruments

The Organization's financial instruments include cash and cash equivalents, receivables and accounts payable. The fair value of these financial instruments approximates their carrying amounts based on current market indicators such as prevailing interest rates and their nearness to maturity.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the Organization's tax exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

BUILD CHANGE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In accordance with Generally Accepted Accounting Principles, a private entity is required to disclose any material uncertain tax positions that management believes does not meet a “more-likely-than-not” standard of being sustained under an income tax audit and to record a liability for any such taxes including penalty and interest. Management of the Organization has not identified any uncertain tax positions that require the recording of a liability mentioned above or further disclosure. The Organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for the years ended December 31, 2008 and prior.

Subsequent Events

Management evaluated subsequent events through May 29, 2013, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to May 29, 2013, that provided additional evidence about conditions that existed at December 31, 2012 have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2012.

NOTE 2 – SEVERANCE ACCRUAL

Build Change records a severance accrual for employees in Haiti and Indonesia to conform with legal requirements of those countries. Severance pay in Haiti is calculated as one-half of the monthly salary after three months of service, increases to 100% of the employee's monthly salary after one year of service, and increases to two times the employee's monthly salary after three years of service. Severance pay for Indonesia is calculated as current monthly salary times years of service. The total severance accrual for Indonesia and Haiti as of December 31, 2012 is \$62,208 and \$37,475, respectively, and is reported in the accrued liabilities line on the statement of financial position. This represents management's estimate of the severance liability as of December 31, 2012 due to current employees upon cessation of employment. During 2013, the Organization revised its employee structure, changing the status of employees from full time to independent contractors. This change resulted in a payout of approximately \$34,000 of the severance accrual to employees in Haiti in 2013.

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

The Organization receives contributions from various corporations, organizations, and individuals, which are temporarily restricted. At December 31, 2012, temporarily restricted net assets are comprised entirely of contributions related to future periods.

NOTE 4 – OPERATING LEASE

The Organization leases office space under non-cancelable operating leases. The minimum future lease payments for the years ending December 31 are as follows:

2013	\$ 69,845
2014	<u>6,450</u>
Total	<u>\$ 76,295</u>

BUILD CHANGE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 4 – OPERATING LEASE (CONTINUED)

Rental expense related to operating leases was \$83,366 for the year ended December 31, 2012.

NOTE 5 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to credit risk consist primarily of the following:

Cash

At certain times throughout the year, the Organization had certain cash equivalent amounts in excess of the federally insured amounts for interest bearing accounts. The Organization believes it is not exposed to any significant credit risk on domestic cash and investments. Cash and investments held in foreign banks totaling \$36,492 are uninsured and subject to credit risk.

Donations and Grants Receivable

At December 31, 2012, approximately 82% of the Organization's receivables were due from Cordaid, Hilti Foundation and RMS, Inc. For the year ended December 31, 2012, approximately 61% of the Organization's revenue was concentrated with Cordaid and Caterpillar Foundation.

NOTE 6 – RELATED PARTY TRANSACTIONS

A portion of the Organization's activities and transactions is with affiliated organizations who are related to the Organization. Significant related party transactions are described below.

During the year ending December 31, 2012, payments were made to two Board members totaling \$215,050 for general and administrative services. As of December 31, 2012, \$17,750 is included in due to-related party to one of these Board members.

One Board member that serves on Build Change's Board of Directors is also affiliated with Hilti Foundation. Total revenue recognized from the Hilti Foundation for the year ended December 31, 2012 was \$250,000.

NOTE 7 – SUBSEQUENT EVENTS

As discussed in Note 2, the Organization revised its employee structure in Haiti. This change resulted in a payout of approximately \$34,000 of the severance accrual to employees in Haiti in 2013.

This information is an integral part of the accompanying financial statements.