

BUILD FUTURES
(A California not-for-profit corporation)
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2015

BUILD FUTURES
(A California not-for-profit corporation)

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HILL, MORGAN AND ASSOCIATES, LLP

Certified Public Accountants

19602 Fariman Drive Carson, CA 90746 Phone (310) 749-1014 Fax (310) 639-0498
9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners
Jeffrey Hill, CPA
Raymond Morgan, CPA

To the Board of Directors
Build Futures
Huntington Beach, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of **Build Futures** which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flow for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the organization's 2014 financial statements and in our report dated March 15, 2015 an unmodified opinion was expressed on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 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 opinion. statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Build Futures** as of December 31, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2016 on our consideration of **Build Futures**' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering **Build Futures**' internal control over financial reporting and compliance.

Hill, Morgan and Associates, LLP

Carson, California
March 13, 2016

BUILD FUTURES
STATEMENT OF FINANCIAL POSITION
As of December 31, 2015
(With comparative totals as of December 31, 2014)

ASSETS	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 73,669	\$ 59,327
Accounts receivable	5,143	-
Due from officer	-	165
Security deposit	<u>500</u>	<u>500</u>
Total current assets	<u>79,313</u>	<u>59,992</u>
Property and equipment:		
Furniture and equipment (Note 3)	1,565	1,565
Less: accumulated depreciation (Note 3)	<u>(936)</u>	<u>(780)</u>
Net property and equipment	<u>629</u>	<u>785</u>
TOTAL ASSETS	<u>\$ 79,941</u>	<u>\$ 60,777</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ <u>2,258</u>	\$ <u>-</u>
Total current liabilities	<u>2,258</u>	<u>-</u>
Total liabilities	<u>2,258</u>	<u>-</u>
Net Assets:		
Unrestricted net assets	<u>77,683</u>	<u>60,777</u>
Total net assets	<u>77,683</u>	<u>60,777</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 79,941</u>	<u>\$ 60,777</u>

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

BUILD FUTURES
STATEMENT OF ACTIVITIES
For the year ended December 31, 2015
(With comparative totals for the year ended December 31, 2014)

	2015	2014
SUPPORT AND REVENUES:		
Contributions	\$ 88,430	\$ 57,965
Donated goods and services	205,273	187,697
Other income	2,587	-
Total support and revenues	296,289	245,662
EXPENSES:		
Program services	276,949	241,313
Management and general	2,434	2,400
Total expenses	279,383	243,713
Increase in net assets	16,906	1,949
Net assets, beginning of the year	60,777	58,828
Net assets, end of the year	\$ 77,683	\$ 60,777

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

BUILD FUTURES
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2015
(With comparative totals for the year ended December 31, 2014)

	<u>Programs</u>	<u>Management and general</u>	<u>2015 Total expenses</u>	<u>2014 Total expenses</u>
EXPENSES:				
Accounting	\$	\$ 375	\$ 375	\$ 952
Program services	7,339		7,339	-
Books, subscriptions, education	646		646	278
Business registration fees	80		80	60
Computer expenses	1,221		1,221	96
Laundry	187		187	-
Clothing	442		442	969
Documentation	171		171	395
Depreciation		156	156	156
Donated goods and services	205,273		205,273	187,697
Food	1,429		1,429	1,113
Gas	259		259	329
Hygeine	72		72	683
Office expenses		1,903	1,903	-
Rent	5,255		5,255	5,560
Housing	38,897		38,897	29,078
Insurance	476		476	2,179
Internet	502		502	185
Medical	256		256	100
Membership dues	520		520	25
OCTA bus pass	2,849		2,849	4,930
Other expense	3,196		3,196	798
Phones	5,592		5,592	6,278
Printing and copying	711		711	210
Postage and mailing service	317		317	-
Supplies	790		790	1,051
Conference, Convention, Meeting	469		469	546
Total expenses	\$ <u>276,949</u>	\$ <u>2,434</u>	\$ <u>279,383</u>	\$ <u>431,411</u>

The accompanying notes are an integral part of these financial statements

BUILD FUTURES
STATEMENT OF CASH FLOWS
For the year ended December 31, 2015
(With comparative totals for the year ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Increase in net assets	\$ 16,906	\$ 1,949
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	156	156
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(5,143)	-
Due from officer	165	(165)
Security deposit	-	595
Increase (decrease) in liabilities:		
Accounts payable	<u>2,258</u>	<u>(231)</u>
Net cash provided by operating activities	<u>14,341</u>	<u>2,304</u>
Net increase in cash	<u>14,341</u>	<u>2,304</u>
Cash - beginning of the year	<u>59,327</u>	<u>57,023</u>
Cash - end of the year	<u><u>\$ 73,669</u></u>	<u><u>\$ 59,327</u></u>

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

BUILD FUTURES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES

ORGANIZATION

Build Futures Overview

Build Futures is dedicated to taking homeless youth ages 18 – 24 off the streets of Orange County and providing safe, stable housing, one on one support, and the resources and services necessary to move them from barely surviving on the streets to a life of self-sufficiency.

Our key objectives are to first house these homeless youth, and then facilitate their ability to get off the streets permanently. This is achieved through our “Steps to Success” program, which is ultimately aimed at establishing long-term employment. In addition to securing housing, Steps to Success involves extensive one-on-one guidance during the first few months to ensure basic needs are met, and addresses any medical, dental, mental, substance abuse, and legal issues. Build Futures provides bus passes, cell phones, and assistance getting food stamps and medical insurance. In addition, the youth require training to become job ready, time to learn basic life skills, and guidance in creating and following a daily schedule. We help them obtain necessary “right to work” documentation as well as employment and educational assistance. The process involves close mentoring, and allows the youth an opportunity to grow in communicating appropriately and effectively with adults. With these steps, many of our youth go from living on the streets to paying their own rent in just a few months.

Outcomes for 2015

The primary goal of our program is to never turn away a homeless youth who needs help, so long as they are physically, mentally and legally able to work. We met that goal in 2015 while serving a record 233 homeless youth and housing 110, an increase of 40% from the previous year. We focus on housing for our clients first, because national evidence-based studies, as well as our own experience, indicate that rapid rehousing (placing homeless persons in stable housing – not a shelter, but a place they can continue to live so long as the rent is paid) is the most effective way to help them overcome the barriers that perpetuate homelessness. As the majority of the clients we housed were young, between the ages 18 to 21, it is understandable that having this basic need met was critical to their stability and success.

In 2015, almost two thirds of our clients had legal or substance abuse issues. Drug use is a national problem, and the use of meth and heroin is increasing dramatically, particularly with the 18 to 24 year old age group. This year 33% of the youth we housed were addicted to meth or heroin and an additional 30% were using marijuana. The increased number of addicts is a big problem because detox housing programs that are free or take Medical, do not exist for youth addicts that need a more structured detox from heroin or meth.

These notes are an integral part of the preceding financial statements.

BUILD FUTURES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES (continued)

ORGANIZATION (continued)

We were only able to find one detox program with a couple of beds for someone on heroin or meth with either MediCal insurance or no insurance.

Build Futures has had some success with addicts but we feel if there was immediate housing for detox for even four days or a week before entering our program we would be able to have much more success with the growing number of kids who are addicted to heroin or meth. The good news is that with the help of our program, more than 45% of these addicts obtained jobs in 2015.

However, there are other challenges as well. More than 50% of our youth have some type of mental health issue, and 12%, we discovered had severe mental health issues after coming into our program. This is a problem because mental health services in Orange County are very difficult to obtain. There are no housing options for those whose mental health issues are not considered severe. Fortunately, many of these mental health issues are a result of being on the street, and after a few weeks of the stable housing and safety we provide, they often improve.

In terms of legal issues, 10% of our youth have felonies and another 23% have misdemeanors that impacted employment options, such as petty theft and drug possession. About 20% of our clients would be classified as chronically homeless so they require more support and time to adjust to structure.

In 2015, 45% of the youth obtained employment to pay their own rent but this number is much higher for those who stayed with our program longer than two weeks. Almost half of the youth did not have a high school diploma. The job placement rate is quite impressive considering that we have very low barriers to enter into our program. Build Futures welcomes the youth that others turn away; the chronically homeless, addicts and those with legal issues and felonies, forgoing the rules and requirements that are common with many non-profits and programs in this age group. Doing so increases the challenges to securing employment, and adds to the time and difficulty it takes to help the youth adjust to a more structured environment. Thus, clients progress at different rates and often regress. However, our door is always open to those who choose to leave but then want to return and put in the effort to succeed. We find that one or two times may be needed before they are ready to put in the effort necessary to change their life.

Build Futures has achieved significant and impressive outcomes at a very small cost per client with one of the hardest populations to serve. We have achieved these outcomes with open doors, very limited criteria for entry, and immediate housing without wait lists and lengthy intake processes. We are unique in Orange County. No other homeless housing provider in Orange County has the impact per dollar that Build Futures has achieved.

These notes are an integral part of the preceding financial statements.

BUILD FUTURES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES (continued)

ORGANIZATION (continued)

The Need

Build Futures addresses an “invisible problem,” one that many don't know exists. In the last four years, the number of homeless high school students in Orange County has doubled to more than 11,000. Homeless seniors turning 18 grew by 24% in one year to 2,773. Many find themselves suddenly on their own without life skills or a means to support themselves. For homeless youth 18 to 24 without children, supportive housing options are extremely limited except for emancipated foster youth (less than 10% of the homeless youth referred). Thus, the demand for our services is increasing. The population we serve has unique challenges that make them difficult to serve. These may include: no “right to work” documentation, inability to pay for phone or transportation, no prior job experience, limited social or workplace skills, poor nutrition, no high school diploma or gaps in education, no experience with money or banking, legal issues, substance abuse, mental health and medical issues. We are the only organization that will house these homeless youth while they obtain their California ID or Social Security cards except the Salvation Army, who provide this service for men only. Many programs require 30 to 90 days of sobriety prior to serving clients; we do not, but we often utilize sober living houses to help our clients overcome substance abuse problems.

Notable Organizational or Program issues and changes:

Program

In 2015, there was a very significant positive change in the federal workforce youth funding under what is called the Workforce Innovation and Opportunity Act (WIOA) that increased the age that it served from 21 to 24. In addition, it is required that this youth funding increased from serving 30% out of school youth to 75%. This directly impacts the homeless youth we serve since they are all out of school. To refer youth to these programs and for them to participate in them, we are required to provide housing and support. They must also have their social security card and a picture id, either CA ID or driver's license. Only 50% of the youth we house have that documentation since it has been lost or stolen. It can take four or more weeks to get these documents. During this time we are paying rent, so it adds to our costs. The youth would not be able to participate in this program without Build Futures because they need to be stably housed, have their documentation, transportation, a phone and their basic needs met before being referred. Once they are in the program, and they have completed initial courses, WIOA will pay for bus passes and provide a small subsidy for housing (up to \$1,000) while employment is being secured. This offsets some of our housing and bus pass costs for the youth while they are moving toward paying their own rent. This is a big cost savings for our program, and allows us to serve more youth.

These notes are an integral part of the preceding financial statements.

BUILD FUTURES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES (continued)

ORGANIZATION (continued)

Organizational

With the increased number of kids and the scheduling and support required for each one, we have hired a part-time program person for 10 to 15 hours a week. More funding is needed to have at least one full-time person or two part times for this position.

Partnerships and Collaborations

For housing, we have established more relationships with housing partners so that we now work with over forty houses to place our youth. At times, there are not a lot of vacancies, so to be able to house the homeless youth right away; we need to have a lot of housing options. Since the housing we use is “for profit” small businesses, mostly sober living houses; there are changes in ownership. This makes developing and maintaining relationships with the house owners and managers very important. On occasion, we still have difficulty finding non sober living housing that is immediate and affordable. This is important because shared houses versus sober living houses allow us to house youth who do not have a substance abuse problem. So we often have to make special arrangements with sober living houses to allow these youth to be housed. In all cases, rent is paid by the week for a shared room. This provides several advantages in addition to the lower housing costs. We are able to house someone quickly, most often the same day, for one week at a time. In addition, each house (both sober living and shared housing) has a house manager so clients are monitored for drug or alcohol use, and the youth are able to learn structure, responsibility for chores, and how to get along with others in the house. Sober living homes have curfews and required AA meetings. They provide a positive environment around others working to stay clean and get their life on track or, in the case of shared housing, people working to make their life better. We are continually working on expanding our housing resources.

Build Futures assists all our clients in finding jobs and completing job-training programs, such as those offered through the Workforce Investment and Opportunity Act (WIOA), Goodwill and OneStop. These programs help our youth develop life skills and the determination necessary to succeed, critical skills for a population as troubled and immature as those we serve.

The WIOA program can now provide funds up to \$6,500 for schooling to receive a certification in a high demand skill. We believe that through working with the business community we can leverage this funding and skills training so employers can be provided with a more skilled labor pool that meets their needs. This can be combined with the WIOA funding for “on the job training” and work experience as well.

These notes are an integral part of the preceding financial statements.

BUILD FUTURES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES (continued)

ORGANIZATION (continued)

We have strengthened our partnership with Goodwill to address the difficult employment issue so we can make direct referrals for jobs they have open. Our clients also attend their job readiness training and customer service certification class. We also partner with Assistance League and get free vouchers for clothes for our clients.

Build Futures can extend the services of existing organizations. We do not duplicate the services of others, nor do we simply refer our clients to others for services, but we work with our clients to help them get the services they need. First from existing sources if possible, then we provide services unavailable elsewhere. Our services compliment, enhance, and extend the services of existing organizations.

Fundraising and Awareness partners

Soroptimist of Huntington Beach held a wine tasting fundraiser for Build Futures in March.

In June, St. Bonaventure Church held an event to provide bus passes, gift cards and funds for our clients over one weekend. This will be a yearly event.

Seacliff Country club had a tennis tournament where players brought Subway or Walmart gift cards for Build Futures' clients.

In 2016, we have formed a marketing team who will work on raising awareness and funds. A volunteer has redesigned our website.

In January 2016, we hosted a concert in Huntington Beach that raised awareness and funds for Build Futures.

Infrastructure

Salesforce provides the infrastructure for the organization and has allowed for our increased capacity, and will allow for more reporting of outcomes. Collecting and tracking information in Salesforce is critical to producing more sophisticated outcome reports. We currently have a client, volunteer, and donor management system in Salesforce.

QuickBooks is used for all financial accounting and we have yearly audits. We also have a cash reserve of at least nine months of operating expenses.

These notes are an integral part of the preceding financial statements.

BUILD FUTURES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES (continued)

ORGANIZATION (continued)

We have extensive written procedures stored on Google docs that can be accessed by all volunteers and interns to greatly reduce the time needed for volunteers and interns to be trained and become productive. We have developed a volunteer manual and training curriculum.

We also continue to improve our very extensive resource management system that is available to the public and contains over 1,000 resources in Orange County to serve the homeless and at risk population. This allows us to utilize existing resources and connect our clients to the help, resources, and support they need without duplicating anything that already exists.

Build Futures began in 2009 when the founder, Kathy Tillotson, identified a large gap in services and housing options for homeless youth ages 18 to 24 in Orange County. Coming from a business background, Kathy developed a structured, step-by-step program of intervention tailored to each client combined with a one-on-one supportive relationship based on compassion to move homeless youth from surviving on the streets to self-sufficiency called “Steps to Success”. Stable housing and employment are the keys to the success of our clients. Kathy received Senator Correa’s Women Making a Difference award in 2011. Kathy is a 2013 Honoree for National Philanthropy Day.

We have served more than 600 homeless youth in the last four years; we began housing our clients as our funding increased. We housed 76 homeless youth last year and helped an additional 112 homeless youth. The majority were women and 80% were 18 to 21 years old. We provide emergency or temporary housing to all the homeless youth referred to us who want to work to become self-sufficient, most often the same day. We do not turn anyone away or have a waiting list. There is currently no year round emergency shelter in Orange County. There is a severe need for emergency housing for homeless women. Salvation Army has year round emergency shelter for men but there is no year round emergency shelter for homeless women in Orange County or a family. We recently housed a couple with a one-year-old child who had nowhere else to turn. When the two-winter emergency shelters open, it is still a very scary place for a single woman and does not offer the services and employment support we provide. In the shelter, young women have to sleep on the floor on mats in a large room with homeless men and women who may have mental health or drug addiction problems. There is a great need for our program.

Many of our youth clients have experienced extraordinarily high levels of abuse and victimization before, during, and after episodes of homelessness and live with ongoing

These notes are an integral part of the preceding financial statements.

BUILD FUTURES

NOTES TO THE FINANCIAL STATEMENTS

dangers and threats. The longer a youth is homeless, the higher the risk they will become a chronically homeless adult.

NOTE 1 – NATURE OF ACTIVITIES (continued)

ORGANIZATION (continued)

The unemployment rate for youth 16 to 24 is the highest in history and it is much worse for those who are homeless. Without employment, many homeless youth have no choice but to turn to drugs, survival sex, prostitution and crime. Without the housing and support Build Futures provides, the barriers for homeless youth seeking and obtaining employment are often too difficult to overcome.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL STATEMENT PRESENTATION

The accompanying financial statements are prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, "Not-for-Profit Organizations."

ESTIMATES

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

CASH AND CASH EQUIVALENTS

For the purpose of the Statement of Cash Flows, Build Futures considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

INCOME TAXES

Build Futures is a not-for-profit organization that is exempt from Federal and state income taxes under the Internal Revenue Code Section 501(c) (3) and the California State Revenue and Taxation Code 23701 (d) except on net income derived from unrelated business activities. Build Futures' management believes that it has support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Build Futures' Forms 990, Return of Organization Exempt from Income Tax for the years ending December 31, 2013, 2014 and 2015 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

PROPERTY AND EQUIPMENT

These notes are an integral part of the preceding financial statements.

BUILD FUTURES

NOTES TO THE FINANCIAL STATEMENTS

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY AND EQUIPMENT (continued)

the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life.

Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Build Futures financial statements for the year ended December 31, 2014 from which the summarized information was derived.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at December 31, 2015:

<u>Description</u>	<u>Cost</u>
Furniture and equipment	\$ 1,565
Less: accumulated depreciation	<u>(936)</u>
Net property and equipment	<u>\$ 629</u>

NOTE 4 – SUBSEQUENT EVENTS

Build Futures' Management has evaluated subsequent events for the period from December 31, 2015 through March 13, 2016, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.

These notes are an integral part of the preceding financial statements.

HILL, MORGAN AND ASSOCIATES, LLP

Certified Public Accountants

19602 Fariman Drive Carson, CA 90746 Phone (310) 749-1014 Fax (310) 639-0498
9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners

Jeffrey Hill, CPA

Raymond Morgan, CPA

To the Board of Directors

Build Futures

Huntington Beach, California

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited, in accordance with the auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Build Futures, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Build Futures's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Build Futures's internal control. Accordingly, we do not express an opinion on the effectiveness of Build Futures's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Build Futures's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hill, Morgan and Associates, LLP

Carson, California
March 13, 2016