

BUILDING CHANGES AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report
YEARS ENDED DECEMBER 31, 2010 AND 2009

OMB A-133 SUPPLEMENTAL FINANCIAL REPORTS
YEAR ENDED DECEMBER 31, 2010

BUILDING CHANGES AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

June 24, 2011

Board of Directors
Building Changes and Affiliate
Seattle, Washington

We have audited the accompanying consolidated statements of financial position of Building Changes and Affiliate as of December 31, 2010 and 2009, and the related consolidated statements of unrestricted activity, changes in net assets and partners' equity, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America: *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Building Changes and Affiliate as of December 31, 2010 and 2009, and the changes in their net assets, partners' equity, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 24, 2011 on our consideration of Building Changes and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Shirley Bridge Bungalows and Christopher Housing Financial Data Templates are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

BUILDING CHANGES AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

	2010				2009			
	Building Changes	Lyon Building Limited Partnership	Eliminations	Consolidated Total	Building Changes	Lyon Building Limited Partnership	Eliminations	Consolidated Total
ASSETS								
Current Assets								
Cash and cash equivalents	\$ 3,764,433	\$ 161,124		\$ 3,925,557	\$ 3,020,313	\$ 69,582		\$ 3,089,895
Cash and cash equivalents - restricted reserves	100,762	649,469		750,231	105,761	665,768		771,529
Investments	16,964	-		16,964	12,525	-		12,525
Investments - Washington Families Fund	5,351,866	-		5,351,866	4,815,321	-		4,815,321
Accounts and grants receivable	2,032,267	8,798		2,041,065	1,278,518	7,393		1,285,911
Promises to give - current	3,341,655	-		3,341,655	3,215,834	-		3,215,834
Prepaid expenses and deposits	83,532	6,299		89,831	66,714	6,962		73,676
Total Current Assets	14,691,479	825,690		15,517,169	12,514,986	749,705		13,264,691
Investment in Partnership	(38,624)	-	\$ 38,624	-	(37,379)	-	\$ 37,379	-
Accounts and Grants Receivable - long term	2,575,843	-		2,575,843	2,520,039	-	-	2,520,039
Promises to Give - long term	97,730	-		97,730	2,838,007	-		2,838,007
Notes Receivable	1,880,893	-	(1,880,893)	-	1,869,900	-	(1,869,900)	-
Advanced Rent - net of current portion	402,391	-		402,391	435,268	-		435,268
Land, Building, and Equipment - net	1,560,033	5,616,273		7,176,306	1,661,550	5,776,719		7,438,269
	<u>\$ 21,169,745</u>	<u>\$ 6,441,963</u>	<u>\$ (1,842,269)</u>	<u>\$ 25,769,439</u>	<u>\$ 21,802,371</u>	<u>\$ 6,526,424</u>	<u>\$ (1,832,521)</u>	<u>\$ 26,496,274</u>
LIABILITIES, NET ASSETS, & PARTNERS' EQUITY								
Current Liabilities								
Accounts payable and accrued expense	\$ 296,805	\$ 12,300		\$ 309,105	\$ 185,843	\$ 2,256		\$ 188,099
Grants payable - current portion	2,855,420	-		2,855,420	1,874,055	-		1,874,055
Notes payable - current portion	34,600	-		34,600	34,600	-		34,600
Total Current Liabilities	3,186,825	12,300		3,199,125	2,094,498	2,256		2,096,754
Tenant Security Deposits	1,996	9,285		11,281	2,572	9,435		12,007
Grants Payable - less current portion above	3,455,835	-		3,455,835	3,870,327	-		3,870,327
Accrued Deferred Interest	-	362,690	\$ (109,414)	253,276	-	332,552	\$ (98,421)	234,131
Notes Payable - less current portion above	1,652,284	4,451,820	(1,771,479)	4,332,625	1,686,884	4,451,820	(1,771,479)	4,367,225
Total Liabilities	8,296,940	4,836,095	(1,880,893)	11,252,142	7,654,281	4,796,063	(1,869,900)	10,580,444
Net Assets								
Unrestricted	2,326,847			2,326,847	2,115,135			2,115,135
Temporarily restricted	10,545,958			10,545,958	12,032,955			12,032,955
Total Net Assets	12,872,805			12,872,805	14,148,090			14,148,090
Partners' Equity	-	1,605,868	38,624	1,644,492	-	1,730,361	37,379	1,767,740
Total Net Assets and Partners' Equity	12,872,805	1,605,868	38,624	14,517,297	14,148,090	1,730,361	37,379	15,915,830
	<u>\$ 21,169,745</u>	<u>\$ 6,441,963</u>	<u>\$ (1,842,269)</u>	<u>\$ 25,769,439</u>	<u>\$ 21,802,371</u>	<u>\$ 6,526,424</u>	<u>\$ (1,832,521)</u>	<u>\$ 26,496,274</u>

See notes to financial statements.

BUILDING CHANGES AND AFFILIATE

CONSOLIDATED STATEMENTS OF UNRESTRICTED ACTIVITY

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				2009			
	Building Changes	Lyon Building Limited Partnership	Eliminations	Consolidated Total	Building Changes	Lyon Building Limited Partnership	Eliminations	Consolidated Total
Public Support and Revenue								
Public support								
Individual contributions	\$ 279,313			\$ 279,313	\$ 140,145			\$ 140,145
Foundation/corporation contributions	323,691			323,691	367,210			367,210
Government grants and contracts	3,625,954	\$ 15,500		3,641,454	1,347,511	\$ 32,281		1,379,792
In-kind interest and other	157,744			157,744	164,806			164,806
Net assets released from restriction	2,562,188			2,562,188	1,731,684			1,731,684
Total Public Support	6,948,890	15,500		6,964,390	3,751,356	32,281		3,783,637
Revenue								
Technical assistance and management fees	-			-	179,234			179,234
Rental revenue and subsidies	23,888	443,578		467,466	24,471	413,917		438,388
Interest and other income	72,518	2,484	\$ (9,748)	65,254	(23,398)	3,904	\$ (9,010)	(28,504)
Total Revenue	96,406	446,062	(9,748)	532,720	180,307	417,821	(9,010)	589,118
Total Public Support and Revenue	7,045,296	461,562	(9,748)	7,497,110	3,931,663	450,102	(9,010)	4,372,755
Expenses								
Program services	5,700,369	548,265	(10,993)	6,237,641	2,504,346	532,833	(10,179)	3,027,000
Management and general	745,034	37,790		782,824	738,367	34,157		772,524
Organizational development	83,024	-		83,024	287,845	-		287,845
Fundraising	305,157	-		305,157	374,843	-		374,843
Total Expenses	6,833,584	586,055	(10,993)	7,408,646	3,905,401	566,990	(10,179)	4,462,212
Total Change in Unrestricted Net Assets and Partners' Equity	\$ 211,712	\$ (124,493)	\$ 1,245	\$ 88,464	\$ 26,262	\$ (116,888)	\$ 1,169	\$ (89,457)

BUILDING CHANGES AND AFFILIATE

CONSOLIDATED STATEMENTS OF CHANGES IN
NET ASSETS AND PARTNERS' EQUITY

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				2009			
	Building Changes	Lyon Building Limited Partnership	Eliminations	Consolidated Total	Building Changes	Lyon Building Limited Partnership	Eliminations	Consolidated Total
Unrestricted Net Assets								
Unrestricted public support	\$ 4,386,702	\$ 15,500		\$ 4,402,202	\$ 2,019,672	\$ 32,281		\$ 2,051,953
Revenue	96,406	446,062	\$ (9,748)	532,720	180,307	417,821	\$ (9,010)	589,118
Net assets released from restriction	<u>2,562,188</u>	<u>-</u>	<u>-</u>	<u>2,562,188</u>	<u>1,731,684</u>	<u>-</u>	<u>-</u>	<u>1,731,684</u>
Total Unrestricted Public Support and Revenue	7,045,296	461,562	(9,748)	7,497,110	3,931,663	450,102	(9,010)	4,372,755
Expenses	<u>6,833,584</u>	<u>586,055</u>	<u>(10,993)</u>	<u>7,408,646</u>	<u>3,905,401</u>	<u>566,990</u>	<u>(10,179)</u>	<u>4,462,212</u>
Change in Unrestricted Net Assets	<u>211,712</u>	<u>(124,493)</u>	<u>1,245</u>	<u>88,464</u>	<u>26,262</u>	<u>(116,888)</u>	<u>1,169</u>	<u>(89,457)</u>
Temporarily Restricted Net Assets								
Contributions	949,051			949,051	7,142,480			7,142,480
Interest income	126,140			126,140	-			-
Washington Families Fund transfer	-			-	2,755,363			2,755,363
Net assets released from purpose restriction	(2,416,405)			(2,416,405)	(1,562,861)			(1,562,861)
Net assets released from time restriction	<u>(145,783)</u>			<u>(145,783)</u>	<u>(168,823)</u>			<u>(168,823)</u>
Change in Temporarily Restricted Net Assets	<u>(1,486,997)</u>	<u>-</u>	<u>-</u>	<u>(1,486,997)</u>	<u>8,166,159</u>	<u>-</u>	<u>-</u>	<u>8,166,159</u>
Change in Net Assets and Partners' Equity	(1,275,285)	(124,493)	1,245	(1,398,533)	8,192,421	(116,888)	1,169	8,076,702
Net Assets and Partners' Equity - beginning of year	<u>14,148,090</u>	<u>1,730,361</u>	<u>37,379</u>	<u>15,915,830</u>	<u>5,955,669</u>	<u>1,847,249</u>	<u>36,210</u>	<u>7,839,128</u>
Net Assets and Partners' Equity - end of year	<u>\$12,872,805</u>	<u>\$ 1,605,868</u>	<u>\$ 38,624</u>	<u>\$14,517,297</u>	<u>\$14,148,090</u>	<u>\$ 1,730,361</u>	<u>\$ 37,379</u>	<u>\$15,915,830</u>

BUILDING CHANGES AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2010

	PROGRAM SERVICES									Total All Services
	Consulting & Technical Assistance	Grantmaking & Evaluation	Housing & Client Services	Lyon Building Limited Partnership	Advocacy & Policy	Total Program Services	Management & General	Organizational Development	Fundraising	
Salaries and wages	\$ 454,058	\$ 302,146	\$ 46,455	\$ 70,100	\$ 185,301	\$ 1,058,060	\$ 408,746	\$ 12,604	\$ 137,866	\$ 1,617,276
Payroll taxes and benefits	93,839	65,453	11,950	22,271	34,095	227,608	87,008	4,459	26,631	345,706
Total Payroll Expenses	547,897	367,599	58,405	92,371	219,396	1,285,668	495,754	17,063	164,497	1,962,982
Grants to others	25,000	2,992,960	-	-	-	3,017,960	-	-	-	3,017,960
Professional fees	223,545	112,979	25,942	40,740	68,520	471,726	130,660	60,993	55,984	719,363
Occupancy	46,988	49,068	63,193	186,454	21,858	367,561	46,878	-	16,364	430,803
Client assistance	-	-	388,692	-	-	388,692	-	-	-	388,692
Conferences and meetings	34,355	2,787	48	-	3,424	40,614	4,558	2,600	39,980	87,752
Travel	60,011	6,913	434	2,290	9,743	79,391	396	2,123	330	82,240
Miscellaneous	790	35,062	3,302	1,437	397	40,988	10,783	27	426	52,224
Insurance	3,395	3,504	3,974	29,947	1,548	42,368	3,521	-	1,184	47,073
Dues and licenses	2,775	8,645	26,333	1,170	5,953	44,876	1,305	-	851	47,032
Supplies	4,271	3,977	173	17,473	355	26,249	17,536	56	2,714	46,555
Printing and publications	8,582	8,521	1,499	118	1,866	20,586	7,002	157	8,168	35,913
Interest and loan fees	-	-	-	30,138	-	30,138	-	-	-	30,138
Telephone	11,475	5,009	396	2,181	2,871	21,932	5,442	5	1,562	28,941
Postage and delivery	3,758	1,545	1,266	-	798	7,367	2,305	-	7,448	17,120
Equipment rental and maintenance	235	254	3,720	9,612	113	13,934	1,259	-	110	15,303
Allocation of LBLP management and general	-	-	-	(37,790)	-	(37,790)	37,790	-	-	-
Total Expenses before Depreciation and In-kind Expense	973,077	3,598,823	577,377	376,141	336,842	5,862,260	765,189	83,024	299,618	7,010,091
Depreciation	15,963	16,944	50,799	172,124	7,400	263,230	17,635	-	5,539	286,404
In-kind expense	-	-	123,144	-	-	123,144	-	-	-	123,144
Total Expenses	989,040	3,615,767	751,320	548,265	344,242	6,248,634	782,824	83,024	305,157	7,419,639
Eliminations	-	-	-	(10,993)	-	(10,993)	-	-	-	(10,993)
Total Consolidated Expenses	\$ 989,040	\$ 3,615,767	\$ 751,320	\$ 537,272	\$ 344,242	\$ 6,237,641	\$ 782,824	\$ 83,024	\$ 305,157	\$ 7,408,646

BUILDING CHANGES AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2009

	PROGRAM SERVICES									Total All Services
	Consulting & Technical Assistance	Grantmaking & Evaluation	Housing & Client Services	Lyon Building Limited Partnership	Advocacy & Policy	Total Program Services	Management & General	Organizational Development	Fundraising	
Salaries and wages	\$ 468,360	\$ 242,417	\$ 43,826	\$ 85,835	\$ 97,499	\$ 937,937	\$ 439,942	\$ 84,528	\$ 147,765	\$ 1,610,172
Payroll taxes and benefits	97,176	48,092	10,371	29,079	15,436	200,154	47,576	15,048	27,495	290,273
Total Payroll Expenses	565,536	290,509	54,197	114,914	112,935	1,138,091	487,518	99,576	175,260	1,900,445
Grants to others	-	-	-	-	-	-	-	-	-	-
Professional fees	264,442	167,001	38,699	37,757	21,967	529,866	121,102	182,947	99,573	933,488
Occupancy	45,439	64,674	48,276	151,146	4,327	313,862	53,635	-	15,226	382,723
Client assistance	-	-	354,658	-	-	354,658	-	-	-	354,658
Conferences and meetings	45,715	1,621	271	-	1,912	49,519	4,242	3,777	34,173	91,711
Travel	65,559	9,120	494	2,016	3,986	81,175	564	1,030	3,580	86,349
Miscellaneous	373	356	372	4,159	2,728	7,988	12,422	17	872	21,299
Insurance	3,515	4,731	4,092	23,933	325	36,596	3,932	-	1,125	41,653
Dues and licenses	2,952	360	28,383	1,392	6,132	39,219	1,582	-	4,458	45,259
Supplies	6,000	6,668	227	18,090	216	31,201	16,067	82	3,838	51,188
Printing and publications	17,116	6,009	2,593	52	1,086	26,856	5,855	362	16,101	49,174
Interest and loan fees	-	-	-	29,134	-	29,134	-	-	-	29,134
Telephone	7,309	5,720	335	5,525	552	19,441	6,320	54	1,285	27,100
Postage and delivery	4,199	2,144	2,064	-	514	8,921	3,112	-	8,290	20,323
Equipment rental and maintenance	336	509	4,555	9,850	24	15,274	1,059	-	86	16,419
Allocation of LBLP management and general	-	-	-	(34,157)	-	(34,157)	34,157	-	-	-
Total Expenses before Depreciation and In-kind Expense	1,028,491	559,422	539,216	363,811	156,704	2,647,644	751,567	287,845	363,867	4,050,923
Depreciation	17,580	25,343	50,572	169,022	1,885	264,402	20,809	-	6,051	291,262
In-kind expense	-	-	125,133	-	-	125,133	148	-	4,925	130,206
Total Expenses	1,046,071	584,765	714,921	532,833	158,589	3,037,179	772,524	287,845	374,843	4,472,391
Eliminations	-	-	-	(10,179)	-	(10,179)	-	-	-	(10,179)
Total Consolidated Expenses	\$ 1,046,071	\$ 584,765	\$ 714,921	\$ 522,654	\$ 158,589	\$ 3,027,000	\$ 772,524	\$ 287,845	\$ 374,843	\$ 4,462,212

BUILDING CHANGES AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Cash received from:		
Government grants and contracts	\$ 2,839,580	\$ 1,443,806
Contributions	4,162,952	3,775,032
Rental and lease payments	466,111	440,884
Technical assistance and conference fees	-	271,546
Interest and other	136,299	34,654
Cash paid for:		
Personnel	(1,941,000)	(1,982,623)
Services and supplies	(1,883,265)	(2,233,623)
Grants to others	<u>(2,451,087)</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>1,329,590</u>	<u>1,749,676</u>
Cash Flows from Investing Activities		
Purchases of securities	(3,504,006)	-
Proceeds from sales of securities	3,013,221	-
Deposits to restricted reserves	(3,661)	(40,657)
Withdrawals from restricted reserves	24,959	21,918
Purchase and construction of property and equipment	<u>(24,441)</u>	<u>(47,788)</u>
Net Cash Used by Investing Activities	<u>(493,928)</u>	<u>(66,527)</u>
Change in Cash and Cash Equivalents	835,662	1,683,149
Cash and Cash Equivalents - beginning of year	<u>3,089,895</u>	<u>1,406,746</u>
Cash and Cash Equivalents - end of year	<u>\$ 3,925,557</u>	<u>\$ 3,089,895</u>

BUILDING CHANGES AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of Change in Net Assets and Partners' Equity to Net Cash Flows from Operating Activities:		
Change in net assets and partners' equity	\$ (1,398,533)	\$ 8,076,702
Adjustments to reconcile change in net assets and partners' equity to net cash provided by operating activities		
Depreciation	286,404	291,262
Interest accrued on long-term debt	19,145	18,955
Washington Families Fund transfer (Note D)	-	(2,696,881)
Forgiven debt	(34,600)	(34,600)
Donated investments	(3,559)	-
Reinvested earnings	(17,264)	-
Gain on investments	(29,376)	(766)
(Increase) decrease in:		
Accounts and grants receivable	(810,958)	163,818
Promises to give (pledges)	2,614,456	(3,874,803)
Prepaid expenses and deposits	(16,155)	9,157
Advanced rent	32,877	(10,595)
Increase (decrease) in:		
Accounts payable and accrued expense	121,006	(193,019)
Grants payable	566,873	-
Tenant security deposits	<u>(726)</u>	<u>446</u>
Net Cash Provided by Operating Activities	<u>\$ 1,329,590</u>	<u>\$ 1,749,676</u>

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

On July 27, 2007, the Board of Directors approved a change of name for the agency from AIDS Housing of Washington to Building Changes. Articles of Incorporation, amended to reflect the name change, were filed with the Secretary of State of the State of Washington and became effective on October 17, 2007. Amended Articles of Incorporation were filed with the IRS and the agency was notified on December 12, 2007, that the IRS records were updated to reflect the name change to Building Changes with no change in the employer identification number.

Building Changes Vision: End homelessness together

Values: Integrity, Collaboration, Results

Mission statement: Building Changes believes that everyone deserves the opportunity for a home, a healthy life, and a good job. We unite public and private partners to create innovative solutions through expert advice, grantmaking, and advocating for lasting change.

The work of Building Changes includes:

Grantmaking and Evaluation - Washington Families Fund

- Building Changes (BC) leads the Washington Families Fund (WFF), a public-private partnership that, beginning in 2005, has funded services to support housing stability and increase the economic independence of homeless families across Washington State. Established in 2004, with \$2 million each in commitments from the State of Washington and the Bill & Melinda Gates Foundation, the Fund has grown to \$28 million and has 24 investors. Between 2005 and 2010, we awarded nearly \$16 million to 48 nonprofit organizations providing 662 units of service-enriched housing to homeless families statewide. Our 2010 awards totaled nearly \$2 million. The remaining funds are committed to provide technical assistance, training, evaluation and grant management for the Fund.
- In 2008, BC expanded the scope of the Washington Families Fund to focus on testing evidence-based practices and new strategies in King, Pierce, and Snohomish counties with the goal of better aligning mainstream resources and developing a more effective systematic approach to preventing and ending homelessness.
- In 2009, BC entered into a new Memorandum of Understanding (MOU) with the State of Washington, King, Pierce, and Snohomish counties, the cities of Seattle, Tacoma, and Everett, six housing authorities and 23 philanthropic partners committed to reducing family homelessness in the State within the next 10 years.

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The MOU assures that public resources are used effectively in serving families that are experiencing homelessness or are at risk of homelessness.

- Since 2009, BC has added two new grant products to our WFF portfolio. Our four WFF grant products are:
 - Moderate-Level Service grants that commit dollars over a 10-year period to organizations providing services to homeless families residing in transitional or permanent supportive housing.
 - High-Level Services grants that commit dollars over a 5-year period to organizations providing services to homeless families with three or more barriers to housing.
 - System Innovation grants that focus on promoting systems change that more effectively moves families toward self-reliance and economic stability.
 - In partnership with the Workforce Development Council of Seattle - King County and WorkForce Central in Pierce county, WFF grants support pilot projects that help families navigate a path toward economic stability by connecting them to employment services, training and education.

Consulting and Technical Assistance

- For nearly 20 years, BC has been a leader in providing results-based consulting and technical assistance, both statewide and nationally, to nonprofit and government agencies. Our consulting and technical assistance work is an important component in our income diversification strategy and is fee-for-service and grant funded.
- In 2009, we received a \$1 million Strengthening Communities Fund grant from the U.S. Department of Health and Human Services (part of the American Recovery and Reinvestment Act) to address broad economic recovery issues in communities across Washington State. With those funds and support from the Paul G. Allen Family Foundation and The Boeing Company, we've created the Building Changes Economic Opportunities Initiative. This grantmaking and training program is assisting 25 agencies throughout Washington to boost core education and employment services that give people the tools to get back on their feet.
- We also provide training and technical assistance offerings to all of the housing partners which are fundamental to ending homelessness and span the following areas:
 - Long-term housing solutions that assist clients with the tools they need to increase and sustain housing stability and access to care in their communities.

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Income support through trainings that focus on assisting clients in accessing the public benefits they are entitled to.
- Education and employment partnerships and training that connect housing with employment systems and social service providers to support clients to effectively utilize educational opportunities and employment training.

Advocacy and Policy

- Advocacy and policy is BC's newest strategic focus. Key components of our advocacy and policy strategy include:
 - Working with our public, private, and non-profit sector partners to identify and promote state level policy changes that will help end homelessness, including aligning existing homelessness funding streams so that current resources can be used more effectively, as well as tapping into new funding resources.
 - Using data to influence policy decisions at both the county and state levels, including publishing and promoting our Washington Families Fund outcomes.
 - Partnering with advocacy organizations to pass legislation at the state and federal levels.

Housing Development and Collaboration

- The Lyon Building: opened in 1997, a historic building in downtown Seattle renovated to create 64 units of housing for homeless individuals with HIV/AIDS who also have histories of chemical addiction and mental illness. Operated by Downtown Emergency Service Center.
- Christopher Housing: opened in 1998, eight condominium units in King County for individuals and families with HIV/AIDS who are able to live independently. Operated by King County Housing Authority.
- Lease buy-down apartments: opened in 1998, eight units leased from King County Housing Authority for a period of fifty years to house individuals and families living with HIV/AIDS at affordable rents. Operated by King County Housing Authority.
- Shirley Bridge Bungalows: opened in 2002, a six-unit independent housing project in West Seattle for individuals and families living with HIV/AIDS. Operated by Seattle Housing Authority/Impact Property Management.

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of consolidation

The financial statements consolidate the assets, liabilities, and activities of Building Changes, AIDS Housing Downtown, Christopher Housing, Shirley Bridge Bungalows, nonprofit corporations and the Lyon Building Limited Partnership (LBLP). Building Changes administers control over AIDS Housing Downtown, Christopher Housing, and Shirley Bridge Bungalows through common board membership.

The accounts of these five entities are consolidated and collectively referred to as BC. AIDS Housing Downtown is the sole general partner in the Lyon Building Limited Partnership LBLP. BC and LBLP are collectively referred to in these notes as BC. All significant intercompany transactions have been eliminated in consolidation.

Financial statement presentation

In accordance with financial accounting standards, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are available without restriction for support of BC's operations.

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or in future periods. Temporarily restricted net assets were available as follows at December 31:

	<u>2010</u>	<u>2009</u>
Washington Families Fund expansion	\$ 5,832,828	\$ 7,108,238
Washington Families Fund service grantmaking	3,682,805	4,064,631
Community Employment Pathways Initiative	431,671	395,752
Benefits Portal	144,562	-
Sound Families Legacy Activities	133,125	211,068
For use in subsequent year	121,134	141,917
Web Update	100,000	-
WFF High Level Services Evaluation	35,010	-
AIDS Housing Support	23,680	5,320
Shirley Bridge AIDS Housing Fund	3,022	23,022
Advocacy and policy	15,000	54,609
Video	16,121	28,398
Other program purposes	7,000	-
	<u>\$10,545,958</u>	<u>\$12,032,955</u>

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently restricted net assets represent endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations. BC had no permanently restricted net assets at December 31, 2010 or 2009.

Federal income taxes

The Internal Revenue Service has recognized BC, AIDS Housing Downtown, Christopher Housing, and Shirley Bridge Bungalows as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as entities described in Section 501(c)(3) and not as private foundations.

No provision or benefit for income taxes has been included in these financial statements for the LBLP since taxable income or loss passes through to, and is reportable by, the partners or members individually.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of general checking, savings, and money market accounts. The carrying amount of these assets approximate fair value because of the short-term maturity of the instruments. BC maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. BC has not experienced any losses in these accounts and management does not believe it is exposed to any significant credit risk.

Restricted cash and cash equivalents consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Lyon Building - required reserves	\$ 649,469	\$ 665,768
Christopher Housing - replacement reserve	80,551	88,102
Shirley Bridge Bungalows - replacement reserve and minimum capital advance	<u>20,211</u>	<u>17,659</u>
	<u>\$ 750,231</u>	<u>\$ 771,529</u>

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments consist of shares of common stock recorded at fair value.

Investments - Washington Families Fund

Investments for the Washington Families Fund are recorded at fair value and consist of the following as of December 31:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 1,279,637	\$ 1,079,579
Fixed income securities	<u>4,072,229</u>	<u>3,735,742</u>
	<u>\$ 5,351,866</u>	<u>\$ 4,815,321</u>

Investment income and gains

Investment income and gains that are restricted are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Investment in Lyon Building Limited Partnership

AIDS Housing Downtown is the general partner in the Lyon Building Limited Partnership (LBLP). The investment is presented on the equity basis and represents AIDS Housing Downtown's capital contribution less distributions and its one-percent portion of LBLP's net loss to date.

Accounts and grants receivable

Accounts and grants receivable are stated at net realizable value.

Promises to give

Unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. The fair value of promises to give is estimated by discounting future cash flows using rates for deposits of similar maturities. Management considers all promises to give to be fully collectible. Unconditional promises to give were due as follows as of December 31, 2010:

Due in less than one year	\$ 3,341,655
Due in one to five years	<u>100,000</u>
	3,441,655
Less: Discount at 2.66%	<u>(2,270)</u>
Total Unconditional Promises to Give	<u>\$ 3,439,385</u>

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Conditional promises to give are recognized as support in the period in which the conditions are substantially met. In 2008, BC received a \$750,000 conditional promise to give from the Bill & Melinda Gates Foundation to support capacity-building efforts. Of that, \$200,000 was conditioned on signing and was recognized in 2008. Payments of \$275,000 in each of the next two years (2009 and 2010) were conditioned on raising qualifying matching contributions of \$200,000 and \$275,000, respectively. BC met the matching condition in both years and \$275,000 was recognized each year.

Land, building and equipment

Land, building, and equipment are stated at cost or, if donated, at fair value at date of donation. BC capitalizes all expenditures for property and equipment, other than computer equipment, in excess of \$1,000. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. BC uses the direct expensing method to account for planned major maintenance activities. The cost, estimated useful lives, and accumulated depreciation at December 31 are:

	<u>Estimated Useful Lives</u>	<u>2010</u>	<u>2009</u>
Land - Lyon Building Limited Partnership		\$ 1,214,897	\$ 1,214,897
Installed artwork			
Shirley Bridge Bungalows		26,969	26,969
Other		18,350	18,350
Building			
Lyon Building Limited Partnership	40 years	6,575,454	6,575,454
Shirley Bridge Bungalows	40 years	1,182,673	1,182,673
Christopher Housing	40 years	792,489	792,489
Leasehold improvements - BC	10 years	143,739	145,566
Furniture and equipment			
Lyon Building Limited Partnership	3-7 years	112,418	100,741
Shirley Bridge Bungalows	3 years	34,241	34,241
Christopher Housing	3 years	5,517	5,517
Other	3-5 years	343,783	329,192
		<u>10,450,530</u>	<u>10,426,089</u>
Accumulated depreciation		<u>(3,274,224)</u>	<u>(2,987,820)</u>
		<u>\$ 7,176,306</u>	<u>\$ 7,438,269</u>

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants payable

Grants authorized but unpaid at year end are reported as liabilities. Grants to be paid in more than one year are discounted using rates ranging from 1.93% to 2.66%. Grants authorized but unpaid at December 31, 2010 are payable as follows:

Payable in less than one year	\$ 2,855,420
Payable in one to five years	<u>3,605,803</u>
	6,461,223
Less: Discount on long-term grants	<u>(149,968)</u>
	<u>\$ 6,311,255</u>

Revenue

Revenue is defined as income earned through fee-for-service agreements that are paid for by the recipient of the service provided and rental subsidies paid for by third parties.

Donated goods and services

Goods and services donated to BC have been recorded in the consolidated statements of unrestricted activity as in-kind support and expense except for those goods or services capitalized as long-lived assets, which have been included in the consolidated statements of financial position under land, building, and equipment.

Government grants and contracts

Government grants and contracts are subject to audit, which could result in adjustments to revenue. The adjustments are recorded at the time that such amounts can first be reasonably determined, normally upon notification by the government agency. During the years ended December 31, 2010 and 2009, no such adjustments were made.

Concentrations of revenue

Building Changes receives a significant portion of its total consolidated public support and revenue from a few funders. The following is a list of funders who provided more than 10% of total consolidated public support and revenue in 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Bill & Melinda Gates Foundation	7%	54%
Washington State Department of Commerce	25%	2%
U.S. Department of Housing and Urban Development	14%	5%
U.S. Department of Health and Human Services	11%	0%

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, pledges from the Bill and Melinda Gates Foundation represented 83% and 96% of total promises to give as of December 31, 2010 and 2009, respectively.

Restricted and unrestricted support and revenue

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the year 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 restrictions expire (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 as net assets released from restrictions.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired assets are placed in service.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of unrestricted activity and of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

NOTE B - NOTES PAYABLE

Notes payable consist of the following at December 31, 2010 2009

Building Changes

Non-interest bearing note payable to the Federal Home Loan Bank secured by a deed of trust on The Lyon Building land and building and maturing on November 27, 2046. \$ 320,000 \$ 320,000

Non-interest bearing note payable to the U.S. Department of Housing and Urban Development secured by a deed of trust on the building owned by Shirley Bridge Bungalows with a cost of \$1,182,673. The note expires and the debt shall be forgiven on March 5, 2042, provided that no default has occurred. BC fully intends to comply with the terms of the note. 499,800 499,800

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE B - NOTES PAYABLE (Continued)	<u>2010</u>	<u>2009</u>
Non-interest bearing note payable to City of Seattle Human Services Department secured by a deed of trust on the building owned by Shirley Bridge Bungalows. The note expires on December 31, 2012. The debt will be forgiven pro-rata over the term of the note, provided that no default has occurred. BC fully intends to comply with the terms of the note.	69,200	103,800
Non-interest bearing note payable to the U.S. Department of Housing and Urban Development secured by a deed of trust on buildings owned by Christopher Housing. The note expires and the debt shall be forgiven on August 13, 2038, provided that no default has occurred. BC fully intends to comply with the terms of the note.	636,200	636,200
Non-interest bearing note payable to King County Housing and Community Development Program secured by a deed of trust on buildings owned by Christopher Housing. The note expires and the debt shall be forgiven on April 8, 2037, provided no default has occurred. BC fully intends to comply with the terms of the note.	<u>161,684</u>	<u>161,684</u>
Subtotal	<u>1,686,884</u>	<u>1,721,484</u>

Lyon Building Limited Partnership

Note payable to the City of Seattle, secured by a deed of trust in first position on The Lyon Building. Interest accrues at 1% per annum for 20 years. Beginning in the 21st year, 5% of the accrued interest is to be forgiven for the next 20 years. The balance of the note is due October 1, 2036 but can be extended for up to seven five-year periods.

The total amount due plus accrued interest may become immediately due if, without the lender's approval, the building is sold, refinanced, or transferred in any way or if it is used at any time for other than extremely low-income housing. At December 31, 2010 and 2009, interest of \$253,276 and \$234,132, respectively, had accrued on this note.

	1,680,341	1,680,341
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BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE B - NOTES PAYABLE (Continued)	<u>2010</u>	<u>2009</u>
Non-interest bearing note payable to the State of Washington Office of Community Development secured by a deed of trust in second position on The Lyon Building. The note is payable in annual installments of \$13,812 to be made solely out of positive cash flow from the operation of the building during the preceding one-year period, after payment of all operating expenses and other debt service. Annual payments began November 1, 1999. Any unpaid balance shall be due in full on November 1, 2048.		
The total due plus the lender's shared appreciation may become immediately due if the building is sold, refinanced, or its use changes to something other than low-income or extremely low-income housing and the funds generated are not reinvested immediately in low-income or extremely low-income housing.	<u>1,000,000</u>	<u>1,000,000</u>
Subtotal	<u>2,680,341</u>	<u>2,680,341</u>
Total Notes Payable	4,367,225	4,401,825
Less Current Portion	<u>(34,600)</u>	<u>(34,600)</u>
	<u>\$ 4,332,625</u>	<u>\$ 4,367,225</u>

Principal reductions of notes payable for the years ending December 31 are:

	<u>Payments</u>	<u>Forgiveness</u>	<u>Total</u>
2011	-	34,600	34,600
2012	-	34,600	34,600
2013	-	-	-
2014	-	-	-
2015	-	-	-
Thereafter	<u>3,000,341</u>	<u>1,297,684</u>	<u>4,298,025</u>
	<u>\$ 3,000,341</u>	<u>\$ 1,366,884</u>	<u>\$ 4,367,225</u>

Interest expense on all notes payable by BC has been recorded at market rates. To the extent that various notes require interest at less than market rates, an offsetting amount has been recorded as in-kind interest and interest expense. In-kind interest totaled \$123,144 and \$125,132 for the years ended December 31, 2010 and 2009, respectively.

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE C - INTERCOMPANY OBLIGATIONS

At December 31, 2010, LBLP was obligated to BC under certain promissory notes. The sources of the note proceeds are as follows:

Non-interest bearing promissory notes		
City of Seattle loan to BC	\$	957,389
HUD Supportive Housing Program grant to BC		400,000
Federal Home Loan Bank loan to BC		320,000
Operational shortfalls and building improvements		55,096
Interest-bearing promissory note (8% per annum)		
Deferred developer fee		<u>38,994</u>
	Subtotal	<u>1,771,479</u>
Accrued interest		<u>109,414</u>
		<u>\$ 1,880,893</u>

NOTE D - WASHINGTON FAMILIES FUND

In 2009 BC entered into a new Memorandum of Understanding with its Washington Families Fund partner agencies giving control of WFF to the Building Changes Board of Directors. Following the 2009 grantmaking cycle, the WFF Steering Committee disbanded. Remaining funds held in the Washington Families Fund agency account were recorded as temporarily restricted assets of Building Changes.

Building Changes disbursed \$2,048,432 and \$1,547,900 in WFF grant payments for the years ended December 31, 2010 and 2009, respectively. BC recognized fees of \$170,199 and \$373,556 for the years ended December 31, 2010 and 2009, respectively. These fees were compensation for services provided to WFF by BC including program development, administration, technical assistance, evaluation, policy research, and public education. BC held cash, cash equivalents and investments for WFF totaling \$5,351,866 and \$4,815,321 as of December 31, 2010 and 2009, respectively. (See Note A).

NOTE E - RETIREMENT PLAN

BC participates in a defined contribution tax sheltered annuity plan (the plan) covering substantially all permanent employees employed for at least one year. BC contributes a minimum of 3% of the participant's compensation to the plan annually. Total pension expense for the year ended December 31, 2010 was \$32,939 and (\$10,796) for the year ended December 31, 2009, due to the reversal in 2009 of the 2008 accrual for a 4% discretionary contribution. BC also sponsors a tax-deferred annuity plan to which employees may make voluntary contributions.

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE F - COMMITMENTS

BC leased its administrative office space under a ten-year, non-cancelable operating lease which was due to expire in 2011. During 2010, BC exercised an option to renew the lease for five years, expiring in 2015. Rent expenses under this operating lease were \$126,140 and \$133,777, respectively, for the years ended December 31, 2010 and 2009 and are included in occupancy. Future minimum lease payments under these leases for the years ending December 31 are as follows:

2011	\$ 105,509
2012	108,664
2013	111,907
2014	115,280
2015	<u>78,392</u>
	<u>\$ 519,752</u>

In 1998, BC entered into an agreement with King County Housing Authority (KCHA) to lease, for a period of fifty years, eight units owned and managed by KCHA. The units will be used to provide housing for persons living with HIV/AIDS and their families. Pursuant to the agreement, BC paid \$547,966 advance rent to assure the affordability of the units for the period of the lease. Advanced rent is being amortized in equal amounts over the life of the lease; \$10,959 was amortized in 2010 and 2009. At December 31, 2010 advanced rent was \$413,350, of which \$10,959 is current and is included in prepaid expenses.

In March 2002, Shirley Bridge Bungalows signed a land-lease agreement with the Housing Authority of the City of Seattle. The land is the site of an independent living project consisting of six units for persons with disabilities, serving up to 12 persons. The term of the lease is fifty years, with rent to be paid at a rate of \$1 per month. Shirley Bridge Bungalows paid \$600 in advance rent to cover the rent for the entire term.

NOTE G - LINE OF CREDIT

In 2010 BC obtained a \$200,000 secured line of credit bearing interest at prime rate plus 1.75% (5% at December 31, 2010). There was no outstanding balance on this line of credit as of December 31, 2010.

NOTE H - NONCONTROLLING INTEREST

Lyon Building Limited Partnership was formed in 1995 in order to facilitate the use of low-income housing tax credits in the development of the Lyon Building. Building Changes, through its wholly-controlled nonprofit subsidiary AIDS Housing Downtown, is the general (controlling) partner with a 1% interest.

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE H - NONCONTROLLING INTEREST (Continued)

The limited (non-controlling) partner holding the remaining 99% interest, purchased the low-income housing tax credits upon project completion. Changes in the equity accounts for the general partner and limited partner are as follows:

	General Partner	Limited Partner	Total Equity
Balance January 1, 2010	\$ (37,379)	\$ 1,767,740	\$ 1,730,361
Changes in consolidated unrestricted net assets and partnership losses	<u>(1,245)</u>	<u>(123,248)</u>	<u>(124,493)</u>
Balance December 31, 2010	<u>\$ (38,624)</u>	<u>\$ 1,644,492</u>	<u>\$ 1,605,868</u>

NOTE I - FAIR VALUE MEASUREMENTS

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Assets carried at fair value on a recurring basis (at least annually) using level 1 inputs include common stocks, fixed income corporate bonds and US Treasury notes. BC had no items carried at fair value on a recurring basis using level 2 or 3 inputs as of December 31, 2010 and 2009.

Assets carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input. BC also uses fair value concepts to test various long-lived assets for impairment.

BUILDING CHANGES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE J - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2010 through June 24, 2011, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2010, including the estimates inherent in the processing of financial statements.

SUPPLEMENTARY INFORMATION

BUILDING CHANGES

**SHIRLEY BRIDGE BUNGALOWS
FINANCIAL DATA TEMPLATES - BALANCE SHEET**

YEAR ENDED DECEMBER 31, 2010

Assets

1120	Cash-operations		\$ -
1145	Accounts and notes receivable		786
1200	Prepaid expenses		<u>2,615</u>
1100T		Total Current Assets	<u>3,401</u>
1191	Tenant/patient deposits held in trust		<u>283</u>
1320	Replacement reserves		17,649
1330	Other reserves		<u>2,562</u>
1300T		Total Deposits	<u>20,211</u>
1420	Buildings		1,182,673
1450	Furniture for project/tenant use		26,969
1465	Office furniture and equipment		<u>34,241</u>
1400T		Total Fixed Assets	1,243,883
1495	Less accumulated depreciation		<u>278,167</u>
1400N		Net Fixed Assets	<u>965,716</u>
1000T		Total Assets	<u>\$ 989,611</u>

Liabilities and Net Assets

2110	Accounts payable - operations		\$ 224
2113	Mortgage payable - entity		12,735
2170	Mortgage payable - first mortgage (short term)		<u>34,600</u>
2122T		Total Current Liabilities	<u>47,559</u>
2191	Tenant/patient deposits held in trust (contra)		<u>283</u>
2305	Accounts payable - entity (long term)		300,379
2320	Mortgages payable		<u>534,400</u>
2300T		Total Long Term Liabilities	<u>834,779</u>
2000T		Total Liabilities	<u>882,621</u>
3131	Unrestricted net assets		<u>106,990</u>
3130		Total Net Assets	<u>106,990</u>
2033T		Total Liabilities and Equity/Net Assets	<u>\$ 989,611</u>

BUILDING CHANGES

SHIRLEY BRIDGE BUNGALOWS
FINANCIAL DATA TEMPLATES - PROFIT AND LOSS

YEAR ENDED DECEMBER 31, 2010

Revenue

5120	Gross potential tenant rent	\$	12,976
5121	Tenant assistance payments		27,128
5100T		Total Rent Revenue	<u>40,104</u>
5220	Apartments		3,000
5200T		Total Vacancies	<u>3,000</u>
5152N		Net Residential Rent	<u>37,104</u>
5410	Financial revenue- project operations		1
5440	Revenue from investments - replacement reserve		25
5400T		Total Financial Revenue	<u>26</u>
5920	Other Income		922
5900T		Total Other Revenue	<u>922</u>
5000T		Total Income	<u>38,052</u>

Expenses

6310	Office salaries		9,600
6320	Management fee		2,808
6370	Bad debt		1,548
6390	Miscellaneous admin expenses		1,426
6263T		Total Administrative Expenses	<u>15,382</u>
6450	Electricity		286
6451	Water		1,173
6453	Sewer		2,450
6400T		Total Utilities Expenses	<u>3,909</u>
6515	Supplies		97
6520	Contracts		13,826
6525	Solid waste		2,340
6500T		Total Operating and Maintenance Expenses	<u>16,263</u>

BUILDING CHANGES

SHIRLEY BRIDGE BUNGALOWS
FINANCIAL DATA TEMPLATES - PROFIT AND LOSS (Continued)

YEAR ENDED DECEMBER 31, 2010

Expenses (Continued)

6711	Payroll taxes	713
6720	Property and liability insurance	3,653
6722	Workmen's compensation	110
6723	Health insurance and other employee benefits	<u>2,477</u>
6700T	Total Taxes and Insurance Expenses	<u>6,953</u>
6000T	Total Cost of Operations Before Depreciation	42,507
5060T	Profit (Loss) Before Depreciation	<u>(4,455)</u>
6600	Depreciation	<u>29,567</u>
5060N	Operating Profit (Loss)	<u>(34,022)</u>
7105	Entity revenue	68,313
7142	Interest on mortgage payable	<u>33,713</u>
7100T	Net Entity Revenues	<u>34,600</u>
	Total Profit (Loss)	<u>\$ 578</u>

Change in Net Assets from Operations

3247	Change in unrestricted net assets from operations	<u>(34,022)</u>
3250	Change in total net assets from operations	<u>\$ (34,022)</u>

PART II

Deposits to Replacement Reserves

S1000-020T	Total Replacement Reserve Deposits	<u>\$ 2,527</u>
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Equity Data

S1100-060	Previous year unrestricted net assets	\$ 106,412
3247	Change in unrestricted net assets from operations	(34,022)
7100T	Net entity revenues	<u>34,600</u>
3131	Unrestricted net assets	106,990
S1100-050	Previous year total net assets	106,412
3250	Change in total net assets from operations	(34,022)
7100T	Net entity revenues	<u>34,600</u>
3130T	Total Net Assets	<u>\$ 106,990</u>

BUILDING CHANGES

SHIRLEY BRIDGE BUNGALOWS FINANCIAL DATA TEMPLATES - CASH FLOW STATEMENT

YEAR ENDED DECEMBER 31, 2010

Cash Flows from Operating Activities

S1200-010	Rental receipts	\$ 36,803
S1200-020	Interest receipts and other	948
S1200-040T	Total Receipts	<u>37,751</u>
S1200-050	Administrative	(5,113)
S1200-070	Management fee	(2,808)
S1200-090	Utilities	(3,909)
S1200-110	Operating and maintenance	(16,263)
S1200-140	Property insurance	(3,806)
S1200-150	Miscellaneous taxes and insurance	<u>(3,300)</u>
S1200-230T	Total Disbursements	<u>(35,199)</u>
S1200-240N	Net Cash Provided by Operating Activities	<u>2,552</u>

Cash Flows from Investing Activities

S1200-250	Deposits to reserve for replacement account	\$ (2,552)
S1200-350N	Net Cash Used by Investing Activities	<u>(2,552)</u>
S1200-470	Change in Cash and Cash Equivalents	-
S1200-480	Cash and cash equivalents - beginning of year	<u>-</u>
S1200T	Cash and cash equivalents - end of year	<u><u>\$ -</u></u>

Reconciliation of Net Profit (Loss) to Net Cash Provided (Used) by Operating Activities

3250	Net loss	\$ 578
	Adjustments to reconcile net loss to net cash provided by operating activities	
6600	Depreciation	29,567
S1200-500	Decrease (increase) in accounts receivable - other	(301)
S1200-520	Decrease (increase) in prepaid expenses	(153)
S1200-530	Decrease (increase) in cash restricted for tenant security deposits	311
S1200-540	Increase (decrease) in accounts payable	7,461
S1200-580	Increase (decrease) in tenant security deposits	(311)
S1200-600	Forgiveness of debt	<u>(34,600)</u>
S1200-610N	Net Cash Provided by Operating Activities	<u><u>\$ 2,552</u></u>

BUILDING CHANGES

SHIRLEY BRIDGE BUNGALOWS
FINANCIAL DATA TEMPLATES - SUPPLEMENTAL DATA

YEAR ENDED DECEMBER 31, 2010

Mortgage Payment Details

S3100-060	Principal payments in the next 12 months - year 1	\$ 34,600
S3100-070	Principal payments in the next 12 months - year 2	34,600
S3100-080	Principal payments in the next 12 months - year 3	-
S3100-090	Principal payments in the next 12 months - year 4	-
S3100-100	Principal payments in the next 12 months - year 5	-
S3100-110	Principal payments remaining after year 5	499,800

Schedule of Reserve for Replacement

1320P	Balance at beginning of year	\$ 15,097
1320DT	Total monthly deposits	2,527
1320INT	Interest on replacement reserve accounts	25
1320	Balance at end of year, confirmed by mortgagee	<u>\$ 17,649</u>

Computation of Surplus Cash, Distribution and Residual Receipts

S1300-010	Cash	\$ 283
S1300-040		Total Cash <u>283</u>
S1300-075	Accounts payable - 30 days	12,959
2191	Tenant deposits held in trust	283
S1300-140		Total Current Obligations <u>13,242</u>
S1300-150		Surplus Cash (Deficiency) <u>(12,959)</u>
S1300-210		Deposit Due Residual Receipts <u>\$ -</u>

Schedule of Changes in Fixed Asset Accounts

1420P	Beginning balance for 1420	\$ 1,182,673
1420	Buildings	<u>1,182,673</u>
1450P	Beginning balance for 1450	26,969
1450	Furniture for project/tenant use	<u>26,969</u>
1465P	Beginning balance for 1465	34,241
1465	Office furniture and equipment	<u>34,241</u>
1400PT	Total beginning balance for fixed assets	1,243,883
1400T	Total fixed assets	<u>1,243,883</u>
1495P	Beginning balance for 1495	248,600
6600T	Total provisions	<u>29,567</u>
1495	Ending balance for accumulated depreciation	<u>278,167</u>
1400N	Total Net Book Value	<u>\$ 965,716</u>

BUILDING CHANGES

CHRISTOPHER HOUSING
FINANCIAL DATA TEMPLATES - BALANCE SHEET

YEAR ENDED DECEMBER 31, 2010

Assets

1120	Cash - operations		\$	-
1130	Tenant/member accounts receivable			609
1145	Other receivables - miscellaneous			<u>7,649</u>
1100T		Total Current Assets		<u>8,258</u>
1191	Tenant/patient deposits held in trust			<u>1,713</u>
1320	Replacement reserves			45,711
1340	Residual receipts reserve			<u>34,840</u>
1300T		Total Deposits		80,551
1420	Buildings			792,489
1440	Building equipment (portable)			<u>5,517</u>
1400T		Total Fixed Assets		798,006
1495	Less accumulated depreciation			<u>272,660</u>
1400N		Net Fixed Assets		<u>525,346</u>
1000T		Total Assets	\$	<u><u>615,868</u></u>

Liabilities and Net Assets

2110	Accounts payable - operations		\$	9,227
2122T		Total Current Liabilities		<u>9,227</u>
2191	Tenant/patient deposits held in trust (contra)			<u>1,713</u>
2305	Accounts payable - entity (long term)			111,178
2310	Notes payable			<u>797,884</u>
2300T		Total Long-Term Liabilities		<u>909,062</u>
2000T		Total Liabilities		<u>920,002</u>
3131	Unrestricted net assets			<u>(304,134)</u>
3130		Total Net Assets		<u>(304,134)</u>
2033T		Total Liabilities and Equity/Net Assets	\$	<u><u>615,868</u></u>

BUILDING CHANGES
CHRISTOPHER HOUSING
FINANCIAL DATA TEMPLATES - PROFIT AND LOSS

YEAR ENDED DECEMBER 31, 2010

Revenue

5120	Gross potential tenant rent	\$ 21,318
5121	Tenant assistance payments	<u>22,878</u>
5100T	Total Rent Revenue	<u>44,196</u>
5220	Apartment	<u>7,406</u>
5200T	Total Vacancies	<u>7,406</u>
5152N	Net Residential Rent	<u>36,790</u>
5430	Revenue from investments - residual receipts	17
5440	Revenue from investments - replacement reserve	<u>81</u>
5400T	Total Financial Revenue	<u>98</u>
5920	Tenant charges	<u>324</u>
5900T	Total Other Revenue	<u>324</u>
5000T	Total Income	<u>37,212</u>

Expenses

6250	Other renting expenses	15
6310	Office expenses	16
6320	Management fee	1,920
6340	Legal expense	50
6350	Audit expense	1,396
6351	Bookkeeping fees/accounting services	2,996
6390-010	Condo association fees	<u>26,001</u>
6263T	Total Administrative Expenses	<u>32,394</u>
6450	Electricity	110
6453	Sewer	<u>590</u>
6400T	Total Utilities Expenses	<u>700</u>
6515	Supplies	3,372
6520	Contracts	7,480
6525	Garbage and trash removal	10
6570	Vehicle maintenance equipment operation and repair	<u>92</u>
6500T	Total Operating and Maintenance Expenses	<u>10,954</u>

BUILDING CHANGES

CHRISTOPHER HOUSING
FINANCIAL DATA TEMPLATES - PROFIT AND LOSS (Continued)

YEAR ENDED DECEMBER 31, 2010

Expenses (Continued)

6723	Health insurance and other employee benefits	214
6700T	Total Taxes and Insurance Expenses	<u>214</u>
6000T	Total Cost of Operations before Depreciation	44,262
5060T	Profit (Loss) before Depreciation	<u>(7,050)</u>
6600	Depreciation	<u>19,714</u>
5060N	Operating Profit (Loss)	<u>(26,764)</u>
7105	Entity revenue	63,831
7142	Interest on mortgage payable	<u>63,831</u>
7100T	Net Entity Revenue	<u>-</u>
	Total Profit (Loss)	<u>\$ (26,764)</u>

Change in Net Assets from Operations

3247	Change in unrestricted net assets from operations	<u>(26,764)</u>
3250	Change in total net assets from operations	<u>\$ (26,764)</u>

PART II

Deposits to Replacement Reserves

S1000-020T	Total Replacement Reserve Deposits	<u>\$ 81</u>
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Equity Data

S1100-060	Previous year unrestricted net assets	\$ (277,370)
3247	Change in unrestricted net assets from operations	(26,764)
7100T	Net entity revenues	<u>-</u>
3131	Unrestricted net assets	(304,134)
S1100-050	Previous year total net assets	(277,370)
3250	Change in total net assets from operations	(26,764)
7100T	Net entity revenues	<u>-</u>
3130T	Total Net Assets	<u>\$ (304,134)</u>

BUILDING CHANGES

CHRISTOPHER HOUSING
FINANCIAL DATA TEMPLATES - CASH FLOW STATEMENT

YEAR ENDED DECEMBER 31, 2010

Cash Flows from Operating Activities

S1200-010	Rental receipts	\$ 30,016
S1200-020	Interest receipts	422
S1200-040T	Total Receipts	<u>30,438</u>
S1200-050	Administrative	(24,201)
S1200-070	Management fee	(1,920)
S1200-090	Utilities	(700)
S1200-110	Operating and maintenance	(10,954)
S1200-150	Miscellaneous taxes and insurance	(214)
S1200-230T	Total Disbursements	<u>(37,989)</u>
S1200-240N	Net Cash Used by Operating Activities	<u>(7,551)</u>

Cash Flows from Investing Activities

S1200-250	Net withdrawals from reserve for replacement account	7,585
S1200-260	Deposits to residual receipts account	<u>(17)</u>
S1200-350	Net Cash Provided by Investing Activities	<u>7,568</u>
S1200-470	Change in cash and cash equivalents	17
S1200-480	Cash and cash equivalents - beginning of year	-
S1200T		<u>\$ 17</u>

**Reconciliation of Net Profit (Loss) to Net Cash Provided
(Used) by Operating Activities**

3250	Net loss	\$ (26,764)
	Adjustments to reconcile net loss to net cash used by operating activities	
6600	Depreciation	19,714
S1200-490	Decrease (increase) in tenant receivables	(6,774)
S1200-530	Decrease (increase) in cash restricted for tenant security deposits	265
S1200-540	Increase (decrease) in accounts payable	6,273
S1200-580	Increase (decrease) in tenant security deposits	<u>(265)</u>
S1200-610	Net Cash Used by Operating Activities	<u>\$ (7,551)</u>

BUILDING CHANGES

CHRISTOPHER HOUSING
FINANCIAL DATA TEMPLATES - SUPPLEMENTAL DATA

YEAR ENDED DECEMBER 31, 2010

Mortgage Payment Details

S3100-060	Principal payments in the next 12 months - year 1	-
S3100-070	Principal payments in the next 12 months - year 2	-
S3100-080	Principal payments in the next 12 months - year 3	-
S3100-090	Principal payments in the next 12 months - year 4	-
S3100-100	Principal payments in the next 12 months - year 5	-
S3100-110	Principal payments remaining after year 5	\$ 797,884

Schedule of Reserve for Replacement

1320P	Balance at beginning of year	\$ 53,279
1320WD	Total withdrawal	(7,649)
1320INT	Interest on replacement reserve accounts	81
1320	Balance at end of year, confirmed by mortgagee	<u>\$ 45,711</u>

Schedule of Residual Receipts

1340P	Balance at beginning of year	\$ 34,823
1340INT	Interest on residual receipt accounts	17
1340	Balance at current fiscal year end	<u>\$ 34,840</u>

Computation of Surplus Cash, Distribution and Residual Receipts

S1300-010	Cash	\$ 1,713
1135	Accounts receivable - HUD	8,258
S1300-040		Total Cash <u>9,971</u>
S1300-075	Accounts payable - 30 days	9,227
2191	Tenant deposits held in trust	1,713
S1300-140		Total Current Obligations <u>10,940</u>
S1300-150		Surplus Cash (Deficiency) <u>(969)</u>
S1300-210		Deposit Due Residual Receipts <u>\$ -</u>

BUILDING CHANGES

CHRISTOPHER HOUSING

FINANCIAL DATA TEMPLATES - SUPPLEMENTAL DATA (Continued)

YEAR ENDED DECEMBER 31, 2010

Schedule of Changes in Fixed Assets Accounts

1420P	Beginning balance for 1420	\$ 792,489
1420	Buildings	<u>792,489</u>
1440P	Beginning balance for 1440	5,517
1440	Building equipment (portable)	<u>5,517</u>
1400PT	Total beginning balance for fixed assets	798,006
1400T	Total fixed assets	<u>798,006</u>
1495P	Beginning balance for 1495	252,946
6600	Total provisions	<u>19,714</u>
1495	Ending balance for accumulated depreciation	<u>272,660</u>
1400N	Total Net Book Value	<u><u>\$ 525,346</u></u>

OMB A-133 SUPPLEMENTARY INFORMATION

BUILDING CHANGES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2010

Federal Grantor "Program Title" <i>Pass-through Grantor</i>	<u>CFDA Number</u>	<u>Pass-Through Contract Number</u>	<u>Federal Expenditures</u>
<hr/>			
Department of Housing and Urban Development			
"Housing Opportunities for Persons with AIDS"	14.241*		\$ 353,727
<i>City of Cleveland - Department of Health</i>	14.241*		<u>50,000</u>
			403,727
"Section 811 Supportive Housing for Persons with Disabilities"	14.181		1,186,006
"Supportive Housing Program"	14.235		454,436
"Moving to Work Demonstration Program" <i>Seattle Housing Authority</i>	14.881	4178	30,000
Department of Labor			
"WIA Adult Funding" <i>Workforce Development Council</i>	17.258	X9BCH-487-WAD	75,000
Department of Health and Human Services			
"ARRA – Strengthening Communities Fund"	93.711*		<u>801,927</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,951,096</u></u>

*Denotes a major program.

BUILDING CHANGES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2010

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of BC and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, BC provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
“Supportive Housing Program”	14.235	\$ 388,692
“ARRA – Strengthening Communities Fund”	93.711	\$ 600,000

NOTE C - LOANS OUTSTANDING

BC has the following loan balances outstanding as of December 31, 2010. The loan balances are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
“Section 811 Supportive Housing for Persons with Disabilities” - Christopher Housing	14.181	\$ 636,200
“Section 811 Supportive Housing for Persons with Disabilities” - Shirley Bridge Bungalows	14.181	<u>499,800</u>
		<u>\$ 1,136,000</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

June 24, 2011

Board of Directors
Building Changes and Affiliate
Seattle, Washington

We have audited the consolidated financial statements of Building Changes and Affiliate as of and for the year ended December 31, 2010, and have issued our report thereon dated June 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Building Changes and Affiliate's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Building Changes and Affiliate's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether Building Changes and Affiliate's consolidated 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jacobson Jarvis & Co, PLLC

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

June 24, 2011

Board of Directors
Building Changes and Affiliate
Seattle, Washington

Compliance

We have audited the compliance of Building Changes and Affiliate with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2010. Building Changes and Affiliate's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Building Changes and Affiliate's management. Our responsibility is to express an opinion on Building Changes and Affiliate's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about Building Changes and Affiliate's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Building Changes and Affiliate's compliance with those requirements.

In our opinion, Building Changes and Affiliate complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

The management of Building Changes and Affiliate is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Building Changes and Affiliate's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Building Changes and Affiliate's internal control over compliance.

A *deficiency in internal control* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jacobson Jarvis & Co, PLLC

BUILDING CHANGES AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Building Changes and Affiliate.
2. No material weaknesses relating to the financial statements are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards."
3. No instances of noncompliance material to the financial statements of Building Changes and Affiliate were disclosed during the audit.
4. No material weaknesses relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
5. The auditor's report on compliance for the major federal award program for Building Changes and Affiliate expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Building Changes and Affiliate are reported in Part C of this Schedule.
7. The programs tested as major were "Housing Opportunities for Persons with AIDS" CFDA 14.241, and "ARRA - Strengthening Communities Fund," CFDA 93.711.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Building Changes was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None