Building Changes

Financial Statements
Years Ended December 31, 2021 and 2020

The report accompanying these financial statements was issued by

BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Building Changes

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Years Ended December 31, 2021 and 2020

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Contents

Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

Independent Auditor's Report

To the Board of Directors
Building Changes
Seattle, Washington

Opinion

We have audited the financial statements of Building Changes (the Organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2023 on our consideration of the Organization' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

BDO USA, LLP

May 18, 2023

Financial Statements

Building Changes

Statements of Financial Position

December 31,		**2021**		2020
Assets				
Current Assets				
Cash and cash equivalents	**$**	**3,933,378**	$	3,396,034
Restricted cash - fiscal sponsorships		**422,571**		268,936
Investments		**8,526,998**		5,197,067
Current portion of grants and contributions receivable		**1,551,428**		1,882,615
Prepaid expenses and deposits		**41,998**		149,570
Total Current Assets		**14,476,373**		10,894,222
Grants and contributions receivable, less current portion, net		**664,816**		577,739
Total Assets	**$**	**15,141,189**	$	11,471,961
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	**$**	**423,806**	$	376,857
Fiscal agency funds		**422,121**		268,936
Current portion of grants payable		**612,918**		1,387,722
Total Current Liabilities		**1,458,845**		2,033,515
Grants payable, less current portion		**-**		577,739
Total Liabilities		**1,458,845**		2,611,254
Net Assets				
Without donor restrictions				
Undesignated		**1,312,030**		1,005,276
Board-designated		**1,575,334**		1,312,256
		2,887,364		2,317,532
With donor restrictions		**10,794,980**		6,543,175
Total Net Assets		**13,682,344**		8,860,707
Total Liabilities and Net Assets	**$**	**15,141,189**	$	11,471,961

See accompanying notes to financial statements.

Building Changes

Statements of Activities

Year Ended December 31,	2021			2020		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Foundation and corporation contributions	**$ 1,658,347**	**$ 7,390,840**	**9,049,187**	$ 232,126	$ 1,917,000	$ 2,149,126
COVID-19 relief contributions	**-**	**-**	**-**	-	3,270,586	3,270,586
Government grants and contracts	**417,779**	**-**	**417,779**	628,874	-	628,874
Technical assistance	**177,536**	**-**	**177,536**	300,328	-	300,328
Individual contributions	**189,544**	**989,200**	**1,178,744**	296,558	310,000	606,558
Net assets released from restrictions	**4,128,235**	**(4,128,235)**	**-**	6,931,486	(6,931,486)	-
Total Support and Revenue	**6,571,441**	**4,251,805**	**10,823,246**	8,389,372	(1,433,900)	6,955,472
Expenses						
Program services	**4,486,323**	**-**	**4,486,323**	7,082,648	-	7,082,648
Management and general	**899,557**	**-**	**899,557**	629,991	-	629,991
Fundraising	**341,269**	**-**	**341,269**	297,178	-	297,178
Total Expenses	**5,727,149**	**-**	**5,727,149**	8,009,817	-	8,009,817
Change in Net Assets before Investment Income	**844,292**	**4,251,805**	**5,096,097**	379,555	(1,433,900)	(1,054,345)
Investment Income	**(274,460)**	**-**	**(274,460)**	72,781	188,852	261,633
Change in Net Assets	**569,832**	**4,251,805**	**4,821,637**	452,336	(1,245,048)	(792,712)
Net Assets, beginning of year	**2,317,532**	**6,543,175**	**8,860,707**	1,865,196	7,788,223	9,653,419
Net Assets, end of year	**$ 2,887,364**	**$ 10,794,980**	**$ 13,682,344**	$ 2,317,532	$ 6,543,175	$ 8,860,707

See accompanying notes to financial statements.

Building Changes

Statement of Functional Expenses

Year Ended December 31, 2021	Housing Crisis	Education/ Student Homelessness	Knowledge Sharing & Policy	Partner's Group	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 716,409	$ 261,186	$ 224,845	$ 114,374	$ 1,316,814	$ 609,444	$ 226,716	$ 2,152,974
Payroll taxes and benefits	123,572	52,395	46,825	16,970	239,762	92,568	43,106	375,436
Total Payroll Expenses	839,981	313,581	271,670	131,344	1,556,576	702,012	269,822	2,528,410
Grants to others	584,045	988,669	128,000	35,875	1,736,589	35,184	-	1,771,773
Professional fees	229,277	66,750	142,830	446,521	885,378	50,582	32,768	968,728
Occupancy	35,746	25,847	24,197	485	86,275	19,248	15,948	121,471
Supplies	13,773	7,213	13,282	13,616	47,884	23,906	6,245	78,035
Partner stipend	34,432	2,582	2,070	22,235	61,319	-	25	61,344
Staff recruitment/development	25,466	716	4,014	517	30,713	12,089	1,457	44,259
Equipment rental and maintenance	10,461	3,634	2,996	2,422	19,513	14,910	2,403	36,826
Bank charges	4,282	862	116	10	5,270	20,464	6,671	32,405
Telecommunications	3,225	2,466	2,882	10,997	19,570	4,909	1,655	26,134
Conferences/meetings/networking	4,025	6,263	1,726	213	12,227	3,870	346	16,443
Insurance	794	574	537	-	1,905	10,306	354	12,565
Taxes, dues and licenses	1,730	193	4,885	4	6,812	873	577	8,262
Postage and delivery	18	13	12	-	43	51	1,670	1,764
Printing and publications	-	68	15	-	83	74	1,326	1,483
Travel	-	383	-	218	601	40	-	641
Miscellaneous	-	-	-	15,565	15,565	1,039	2	16,606
Total Expenses	$ 1,787,255	$ 1,419,814	$ 599,232	$ 680,022	$ 4,486,323	$ 899,557	$ 341,269	$ 5,727,149

See accompanying notes to financial statements.

Building Changes

Statement of Functional Expenses

Year Ended December 31, 2020	Housing Crisis	Education/ Student Homelessness	Knowledge Sharing & Policy	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 820,190	$ 433,787	$ 288,122	$ 1,542,099	$ 396,363	$ 194,335	$ 2,132,797
Payroll taxes and benefits	127,970	76,737	50,640	255,347	60,335	33,115	348,797
Total Payroll Expenses	948,160	510,524	338,762	1,797,446	456,698	227,450	2,481,594
Grants to others	911,506	3,183,928	-	4,095,434	-	-	4,095,434
Professional fees	631,557	123,195	145,150	899,902	104,886	37,016	1,041,804
Occupancy	45,060	18,082	15,403	78,545	22,879	11,934	113,358
Supplies	6,675	929	834	8,438	3,953	612	13,003
Partner stipend	22,340	52,685	300	75,325	-	-	75,325
Staff recruitment/development	30,484	4,247	4,099	38,830	5,645	1,732	46,207
Equipment rental and maintenanc	8,164	1,876	1,358	11,398	13,635	1,294	26,327
Bank charges	19,837	39	-	19,876	4,305	6,003	30,184
Telecommunications	7,407	2,557	3,091	13,055	4,431	1,870	19,356
Conferences/meetings/networkin	2,222	2,618	2,584	7,424	1,703	515	9,642
Insurance	3,034	1,192	1,066	5,292	1,404	815	7,511
Taxes, dues and licenses	1,054	240	4,650	5,944	5,162	96	11,202
Postage and delivery	132	-	-	132	97	541	770
Printing and publications	363	110	107	580	240	1,028	1,848
Travel	5,512	1,271	1,711	8,494	516	17	9,027
Depreciation and amortization	9,733	3,709	3,091	16,533	4,420	2,409	23,362
Miscellaneous	-	-	-	-	17	3,846	3,863
Total Expenses	$ 2,653,240	$ 3,907,202	$ 522,206	$ 7,082,648	$ 629,991	$ 297,178	$ 8,009,817

See accompanying notes to financial statements.

Building Changes

Statements of Cash Flows

Year Ended December 31,		**2021**		2020
Cash Flows for Operating Activities				
Cash received from				
Foundation and contributions	$	**3,735,554**	$	8,111,199
Government grants and contracts		**2,154,266**		2,343,326
Technical assistance		**177,536**		300,328
Investment income		**126,823**		159,881
Fiscal agency projects		**153,185**		268,936
Cash paid for				
Grants to others		**(3,124,316)**		(8,070,530)
Personnel		**(2,388,396)**		(2,455,054)
Services and supplies		**(1,412,459)**		(1,468,561)
Net Cash Flows for Operating Activities		**(577,807)**		(810,475)
Cash Flows from (for) Investing Activities				
Purchases of investments		**(4,633,803)**		(404,710)
Proceeds from sales of investments		**5,902,589**		2,556,221
Net Cash Flows from (for) Investing Activities		**1,268,786**		2,151,511
Cash Flows from (for) Financing Activities				
Proceeds from Paycheck Protection Program Loan		**-**		382,900
Repayment of Paycheck Protection Program Loan		**-**		(382,900)
Net Cash Flows from (for) Financing Activities		**-**		-
Change in Cash, Cash Equivalents, and Restricted Cash		**690,979**		1,341,036
Cash, Cash Equivalents, and Restricted Cash, beginning of year		**3,664,970**		2,323,934
Cash, Cash Equivalents, and Restricted Cash, end of year	$	**4,355,949**	$	3,664,970
Noncash operating activities				
Contributions through investment securities	$	**5,000,000**	$	-

Cash, cash equivalents, and restricted cash is presented in the statements of financial position as follows as of December 31,		**2021**		2020
Cash and cash equivalents	$	**3,933,378**	$	3,396,034
Restricted cash - fiscal sponsorships		**422,571**		268,936
	$	**4,355,949**	$	3,664,970

See accompanying notes to financial statements.

1. Nature of Activities and Organization

Building Changes is a nonprofit organization conducting activities in Washington State. Building Changes believes communities thrive when people have safe and stable housing and can equitably access and use services. Building Changes advance equitable responses to homelessness in Washington State, with a focus on children, youth, and families and the systems that serve them. Building Changes seeks to hold themselves accountable for addressing racism and discrimination. Building Changes is committed to building an internal culture that challenges racism within the organization.

Building Changes works at the intersections of housing, education, and health to ensure our systems better serve people experiencing homelessness, and that policies, practices, and processes are equitable to Black, Indigenous, and people of color who are disproportionately impacted by housing crises. Building Changes uses an interdisciplinary approach to influence systems, centering racial equity and aligning work with the needs of people with lived experience of homelessness.

In 2021, Building Changes continued to pivot and adapt during the pandemic, with much of the organization's staff working remotely for most of the year. At the same time, Building Changes made important strides as an organization — releasing a new five-year strategic plan, launching a new website, holding a successful virtual fundraising event, and hiring and onboarding several new staff — while also making significant progress in housing crisis, education, and health work.

In 2021, Building Changes made progress by:

- Closing out the Washington State Student and Youth Homelessness COVID-19 Response Fund and conducting a grantee survey
- Closing out the Gates Foundation-funded Family Homelessness Initiative in King, Pierce, and Snohomish Counties
- Launching an Equitable Systems Design project across regions including, Thurston, Skagit, Island, Clark, and Yakima Counties to support communities to provide services that are collaboratively designed, culturally appropriate, and grounded in the experiences of families of color experiencing homelessness, so that those who receive these services are safely and stably housed.
- Renewing the Washington Youth and Families Fund with state legislative support to focus on Black, Indigenous, and people of color (BIPOC) communities and their needs, based on learnings from our Equitable Homeless System Design Project, other projects, and with input from external partners and people with lived experience.
- Publishing an evaluation of a three-year pilot project in Pierce County that integrated Diversion into South Sound 211's existing phone-based service that people call to acquire health and human services information, service referrals, or other housing and behavioral health assistance.
- Launching statewide tailored technical assistance and training partnerships with 5 school districts: Bethel, Highline, Renton, Tukwila, and Sumner-Bonney Lake.
- Advocating to preserve public funding for the state's Homeless Student Stability Program (HSSP) at $4.557M to improve educational outcomes for students experiencing homelessness and provide housing support services.

- Publishing public materials including the Menu of Strategies, McKinney-Vento Rights and Services School Flyer, Youth Ascend Washington online portal, and student homelessness data and trends.
- Publishing an evaluation of a three-year pilot project in Pierce County that expanded the use of Diversion within the health sector by pairing it with Maternal Support Services (MSS).

2. Significant Accounting Policies

Financial Statement Presentation

Building Changes reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net Assets with Donor Restrictions

Net assets with donor restrictions consist of unexpended contributions or grants restricted for particular purposes or time periods. Net assets with temporary donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted purpose or as time restrictions expire. Net assets with donor restrictions consist of the following at December 31:

	2021	2020
Day 1 Fund	$ 4,984,875	$ -
Family Homelessness Initiative	1,709,297	2,918,225
Washington Youth and Families Fund	1,193,530	1,036,828
Partners Group	1,053,728	50,000
Schoolhouse Washington	827,067	1,180,749
Equitable Systems	425,334	1,009,629
Contributions restricted for time and other	400,000	96,776
Community Solutions	100,000	-
Other	45,832	-
Maternal Health	37,986	166,162
COVID-19 relief	17,331	84,806
	$ 10,794,980	$ 6,543,175

A portion of the contributions restricted for Family Homelessness Initiative and Schoolhouse Washington also have implied time restrictions and are generally to be released from restrictions upon awarding grants under the programs. Contributions restricted for the WYFF represent contributions received to match Washington State Department of Commerce funding and are generally to be released from restrictions upon awarding WYFF service grants. The release of these matching contributions occurs concurrently with the recognition of revenue under the Washington State Department of Commerce grant.

Net Assets without Donor Restrictions

A portion of net assets without donor restrictions are designated by the board for an Emergency Reserve Fund. The Emergency Reserve Fund is intended to cover any unexpected material funding shortfall related to operational needs and amounted to $1,575,334 and $1,312,256 at December 31, 2021 and 2020, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, and money market accounts, and include funds collected from donors that are restricted for particular purposes. Cash balances held in investment accounts are included with investments in the statements of financial position. Building Changes regularly has amounts deposited with financial institutions in excess of federally insured limits.

Restricted Cash

Restricted cash is not available to meet general expenditures and is restricted by donors to be used to fund grants under the Washington Youth and Families Fund program, Lived Experience Coalition, and Look, Listen, and Learn.

Investments

Investments are reported at fair value (using Level 1 inputs of the fair value hierarchy, which are quoted market prices in active markets for identical assets) in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

Level 1: This level consists of observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: This level consists of observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3: This level consists of unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Grants and Contributions Receivable

Contributions receivable consist of contributions pledged but not yet received from individuals, foundations, and corporations. Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give expected to be collected in future years are presented as long term in the accompanying financial statements and are initially recorded at fair value, which is measured as the present value of the expected future cash flows. The expected cash flows were discounted using a rate of 3% at both December 31, 2021 and 2020. The amortization of the discount is reported as a contribution in the statements of activities. Of the grants and contributions receivable, 62% was due from two foundations as of December 31, 2021. There was no similar concentration as of December 31, 2020. Management determined that no allowance was necessary at December 31, 2021 or 2020.

Grants receivable are due primarily from the Washington State Department of Commerce. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the receivable account. Of total grants and contributions receivable, 27% and 82% were due from Washington State Department of Commerce as of December 31, 2021 and 2020. Management determined that no allowance was necessary at December 31, 2021 or 2020. Grants receivable expected to be collected after one year from the statement of financial position date are presented as long term in the accompanying financial statements and are initially recorded at fair value, which is measured as the present value of the expected future cash flows. The expected cash flows were discounted using a rate of 3% at both December 31, 2021 and 2020. The amortization of the discount is reported as government grants revenue in the statements of activities.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value at date of receipt. Building Changes capitalizes all expenditures for property and equipment with a useful life greater than one year and a cost in excess of its capitalization threshold of $5,000. Depreciation is provided for using the straight-line method over the assets' estimated useful lives. Amortization for leasehold improvements is recorded over the shorter of the useful life or the lease term using the straight-line method. As of December 31, 2021 and 2020, all property and equipment were fully depreciated.

Grants Payable

Grants payable consist of unconditional promises to pay grants to others. Grants expected to be paid within one year are recognized as expense, and the related liability is recognized at the amount awarded in the period the award is made. Grants payable in more than one year are also recognized as expense, and the related liability is recognized using the present value of the expected future cash flows. The expected cash flows were discounted using a rate of 3% at both December 31, 2021 and 2020.

Revenue Recognition

Contributions - Unconditional promises to give are recognized as support without donor restrictions or support with donor restrictions depending on the existence and/or nature of any donor restrictions during the period a cash gift or noncash gift is received or pledged.

Government grants - Government grants are generally conditional based on related program expenditures. Revenue related to governmental grants and contracts is recognized when grants payable to others have been awarded.

Technical assistance service fees - Technical assistance service fees represent fees for training and consulting services and are recognized at a point in time when the related service is provided (the sole performance obligation). There are no significant judgments affecting the determination of amount and timing of technical assistance revenue and there are no contract assets or liabilities.

Two foundations accounted for 60% of total support and revenue for 2021. The Washington State Department of Commerce accounted for 80% of total support and revenue for 2020.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited. The expenses that are allocated include salaries, payroll taxes, benefits, occupancy, depreciation and amortization, professional fees, supplies, and insurance, which are allocated on the basis of time and effort. The methodologies used to allocate expenses on a functional basis are consistent during the periods presented.

Use of Estimates

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

Income Taxes

Building Changes is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

New Accounting Pronouncements Not Yet Adopted

In September 2020, the FASB issued Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, issued by the FASB. The pronouncement was issued to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. ASU No. 2020-07 does not change the existing recognition and measurement requirements for contributed nonfinancial assets. The new standard requires that contributed nonfinancial assets are presented separately in the statement of activities. New disclosures are also required to disaggregate contributed nonfinancial assets by category type and other qualitative information about utilization, policies, and valuation techniques. The update is to be applied on a retrospective basis. The effective date is for annual periods beginning after June 15, 2021.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which supersedes the current lease guidance under *Leases* (Topic 840) and makes several changes, such as requiring an entity establishes a right-of use (ROU) model that requires a lessee to record a ROU asset and liability on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The update was originally effective for private companies for annual and interim reporting periods beginning after December 15, 2019. In July 2018, the FASB issued ASU 2018-10 Codification Improvements to Topic 842, Leases, to add clarity to certain areas within ASU 2016-02, to add an additional and optional transition method to adopt the new leases standard by allowing recognition of a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The revised effective date is for annual periods beginning after December 15, 2021. Management is currently evaluating the effect that adoption of this new standard will have on the Building Changes' financial statements.

Building Changes' has assessed other accounting pronouncements issued or effective during the year ended December 31, 2021, and deemed they were not applicable to ACC or are not anticipated to have a material effect on the financial statements.

Reclassifications

Certain amounts from the prior-year financial statements have been reclassified to conform to the current-year presentation. Such reclassifications have no effect on previously reported change in net assets.

Subsequent Events

Building Changes has evaluated subsequent events through the date these financial statements were available to be issued, which was May 18, 2023.

3. Liquidity and Availability of Financial Assets

Building Changes strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

The following table reflects Building Changes' financial assets as of December 31, 2021 and 2020, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available for general expenditure include a board-designated emergency reserve fund that is intended to cover unexpected material funding shortfall related to operational needs. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

	2021	2020
Financial Assets		
Cash and cash equivalents	**$ 3,933,378**	$ 3,396,034
Restricted cash	**422,571**	268,936
Investments	**8,526,998**	5,197,067
Current portion of grants and contributions receivable	**1,551,428**	1,882,615
Grants and contributions receivable, less current portion, net	**664,816**	577,739
Total Financial Assets	**15,099,191**	11,322,391
Less: Amounts not available to meet general expenditures		
Board-designated Emergency Reserve Fund	**(1,575,334)**	(1,312,256)
Restricted cash	**(422,571)**	(268,936)
Grants and contributions receivable, less current portion, net	**(664,816)**	(577,739)
Donor restricted net assets	**(10,094,980)**	(6,543,175)
Financial Assets Available to Meet General Expenditures within One Year	**$ 2,341,490**	$ 2,620,285

4. Investments

The following tables set forth by level, within the fair value hierarchy, Building Changes's investments measured at fair value ad December 31:

December 31, 2021	Level 1	Level 2	Level 3	Total
Equities	$ 2,344,040	$ -	$ -	$ 2,344,040
Fixed-income securities				-
Government mortgage-backed securities	1,383,901	-	-	1,383,901
Corporate bonds	690,935	-	-	690,935
Certificates of deposit	-	1,826,958	-	1,826,958
Treasury notes	-	2,281,164	-	2,281,164
Total Investments, at fair value	$ 4,418,876	$ 4,108,122	$ -	$ 8,526,998

December 31, 2020	Level 1	Level 2	Level 3	Total
Fixed-income securities				
Government mortgage-backed securities	$ 893,352	$ -	$ -	$ 893,352
Corporate bonds	762,300	-	-	762,300
Certificates of deposit	-	1,879,680	-	1,879,680
Treasury notes	-	1,661,735	-	1,661,735
Total Investments, at fair value	$ 1,655,652	$ 3,541,415	$ -	$ 5,197,067

Investment income was composed of the following for the years ended December 31:

	2021	2020
Realized and unrealized gains (losses)	**$ (401,283)**	$ 101,752
Interest income	**126,823**	159,881
	$ (274,460)	$ 261,633

5. Grants and Contributions Receivable

Grants and contributions receivable are due as follows as of December 31:

	2021	2020
Receivable in less than one year	**$ 1,551,428**	$ 1,882,615
Receivable in one to five years	**700,000**	612,923
	2,251,428	2,495,538
Unamortized discount (3%)	**(35,184)**	(35,184)
	$ 2,216,244	$ 2,460,354

These amounts are included in the statements of financial position as follows:

	2021	2020
Grants and contributions receivable - current portion	**$ 1,551,428**	$ 1,882,615
Grants and contributions receivable - long-term portion	**664,816**	577,739
	$ 2,216,244	$ 2,460,354

6. Grants Payable

Grants are payable as follows as of December 31:

		2021		2020
Payable in less than one year	$	**612,918**	$	1,387,722
Payable in one to five years		**-**		612,923
		612,918		2,000,645
Unamortized discount (3%)		**-**		(35,184)
	$	**612,918**	$	1,965,461

These amounts are included in the statements of financial position as follows:

		2021		2020
Grants payable - current portion	$	**612,918**	$	1,387,722
Grants payable - long-term portion		**-**		577,739
	$	**612,918**	$	1,965,461

7. Operating Leases

Building Changes leases office space and certain equipment under operating leases. The office space lease expires in August 2025. Rent expense under these operating leases amounted to $121,471 and $113,358 for the years ended December 31, 2021 and 2020, respectively. Future minimum payments under the leases for the years ending December 31 are as follows:

2022	$	73,917
2023		75,931
2024		78,021
2025		55,185
	$	283,054

8. Retirement Plan

Building Changes participates in a defined contribution tax sheltered 403(b) annuity plan covering substantially all permanent employees upon commencement of employment. Employees are eligible to receive employer contributions after one year of service. Employer contributions are a minimum of 3% of eligible employees' annual compensation. Total expense related to contributions to the plan were $48,365 and $52,930 for the years ended December 31, 2021 and 2020, respectively. Building Changes also sponsors a tax-deferred annuity plan to which employees may make voluntary contributions.

9. Fiscal Agency

During 2021, Building Changes is a fiscal agent for three projects: Lived Experience Coalition (LEC), Look, Listen, and Learn (LLL), and the African American Leadership Forum (AALF). Building Changes does not have variance power over the funds of the fiscally sponsored projects, so no income or expense is recognized from the fiscally sponsored projects. Cash belonging to the fiscally sponsored projects is presented as restricted cash. The cash balance is offset by a related liability.

Building Changes charges each fiscally sponsored project an administrative fee based on a percentage of their activity. The administrative fees totaled $117,148 and $70,476 for the years ended December 31, 2021 and 2020, respectively. The administrative fee is presented as part of technical assistance on the statements of activities.

Required Report in Accordance with *Government Auditing Standards*

Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

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*

To the Board of Directors
Building Changes
Seattle, Washington

We have audited, in accordance with the 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, the financial statements of Building Changes, which comprise Building Changes' statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 18, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Building Changes' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Building Changes' internal control. Accordingly, we do not express an opinion on the effectiveness of Building Changes' 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Statement of Findings and Responses as items 2021-001, 2021-002, and 2021-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Building Changes' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly,

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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*.

Building Changes' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Building Changes' response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. Building Changes' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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 Building Changes' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Building Changes' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Seattle, WA
May 18, 2023

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP	unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	X	yes		no
• Significant deficiency(ies) identified?		yes	X	none reported
Noncompliance material to financial statements noted?		yes	X	no

Section II - Financial Statement Findings

2021-001 – Revenue Recognition

Criteria: Management is responsible for applying Accounting Standards Codification (ASC) 958-605, *Not-for-Profit Entities – Revenue Recognition*, and therefore is responsible for the design, implementation, and maintenance of internal controls relevant to this standard to ensure the preparation and fair presentation of financial statements in accordance with the accrual basis of accounting that are free from material misstatement, whether due to fraud or error.

Condition: During our testing of foundation and corporate contributions, we noted two instances of inaccurate treatment of conditional and unconditional contributions. We noted one instance in which a pledge was incorrectly recognized as revenues at the stock valuation upon receipt instead of the original pledged amount.

Cause: The Organization does not have appropriate internal controls and processes in place to ensure contribution revenue is properly recognized. In addition, the controller needs additional training on ASC 958-605.

Effect or Potential Effect: Foundation and corporate contributions were understated by $400,000, net, due to the improper analysis and recognition of conditional and unconditional contributions. Foundation and corporate contributions were overstated by $217,666 due to the improper recording of pledged contributions.

Recommendation: We believe that the occurrence of these adjustments could have been reduced had the foundation and corporate contributions been analyzed and reviewed in accordance with ASC 958-605 during the preparation of the financial statements. In addition, management should implement additional training on revenue recognition under ASC 958 for members of the accounting team.

Views of Responsible Officials: Management agrees with the finding. See the attached unaudited corrective action plan.

2021-002 – Net Assets with Donor-imposed Restrictions

Criteria: Management is responsible for applying ASC 958-210, *Not-for-Profit Entities – Balance Sheet*, and ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, and therefore is responsible for the design, implementation, and maintenance of internal controls relevant to this standard to ensure the preparation and fair presentation of financial statements in accordance with the accrual basis of accounting that are free from material misstatement, whether due to fraud or error.

Condition: During our testing of net assets, we noted six instances in which net assets were improperly classified based on the existence or absence of donor-imposed restrictions.

Cause: Management failed to appropriately assess net assets for the existence or absence of donor-imposed restrictions related to contributions and grants, due to a lack of understanding of applicable accounting standards.
Effect or Potential Effect: Net assets with donor restriction was overstated by $627,945, in aggregate, due to improper assessment of underlying contributions.

Recommendation: We believe that the occurrence of these adjustments could have been reduced had contributions been analyzed and reviewed for donor-imposed restrictions in accordance with ASC 958-210 and ASC 958-605 during the preparation of the financial statements. In addition, management should implement additional training on net assets and revenue recognition under ASC 958 for members of the accounting team.

Views of Responsible Officials: Management agrees with the finding. See the attached unaudited corrective action plan.

2021-003 – Fiscal Agency Transactions

Criteria: Management is responsible for applying ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, and therefore is responsible for the design, implementation, and maintenance of internal controls relevant to this standard to ensure the preparation and fair presentation of financial statements in accordance with the accrual basis of accounting that are free from material misstatement, whether due to fraud or error.

Condition: There were three instances of fiscal agency relationships treated as fiscal sponsorships in Building Changes' financial statements, causing an overstatement in revenue and expense.

Cause: Management failed to appropriately assess ASC 958-605 and ASC 958-720 for transactions in which the Organization was acting as an agent.

Effect or Potential Effect: There was an overstatement of revenues of $1,480,113 and an overstatement of expenses of $1,322,129 due to the improper assessment.

Recommendation: We believe that the occurrence of these adjustments could have been reduced had the activity been analyzed and reviewed for variance power in accordance with ASC 958-605 and ASC 958-720 during the preparation of the financial statements. We recommend management implement a policy to analyze all new fiscal agreements upon execution for proper treatment. In addition, management should implement additional training on ASC 958-605 and ASC 958-720 for members of the accounting team.

Views of Responsible Officials: Management agrees with the finding. See the attached unaudited corrective action plan.

BUILDING CHANGES
1200 12th Avenue South, Suite 1200
Seattle, WA 98144
P 206.805.6100
BuildingChanges.org

March 30, 2023

Michaela Kay
BDO
601 Union Street, Suite 2300
Seattle, WA 98101

Dear BDO Audit Partners,

This letter outlines a Corrective Action Plan in response to the information presented live and in the *Report to Finance and Audit Committee: Building Changes* you shared with our Finance and Audit Committee on March 7, 2023. In response to the findings and recommendations you provided, I am directing and committing our staff to take the following actions and remediations:

1. Revenue Recognition: Building Changes will recognize any conditions placed on the use of funds as stated in award letters and agreements. If any discrepancies or inconsistencies with regard to verbal instructions exist, we will solicit clarification from funders in writing to ensure we accurately recognize revenue.
2. Net Assets with Donor-imposed Restrictions: Similar to revenue recognition, Building Changes will ensure and recognize funds are utilized for the purpose established by donors in accordance with their written instruments. We have already imposed internal controls to ensure expenses are properly identified and associated with their funding source.
3. Fiscal Agency/Sponsorship: Agreements and policies will be in place which define the roles and responsibilities of Building Changes and the sponsored operating entity.
4. Bank Reconciliation: We will immediately resume the requirement of a second-level reviewer and approver to complete bank reconciliations.

Upon review of the 2021 financial records and policies, the above commitments have already been implemented.

If you have any questions related to this corrective action plan, please reach out to either myself or Jaclyn Pueyo, Building Changes' Controller.

Sincerely,

Daniel Zavala
Executive Director