

***CAPITOL HILL HOUSING
IMPROVEMENT PROGRAM***

Financial Statements and Single Audit Reports

For the Years Ended December 31, 2010 and 2009

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Independent Auditors' Report***Board of Directors
Capitol Hill Housing Improvement Program
Seattle, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Capitol Hill Housing Improvement Program (CHHIP) as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of CHHIP's management. Our responsibility is to express opinions on these financial statements based on our audits. For the audit of 2010, we did not audit the financial statements of the aggregate discretely presented component units of CHHIP except for Capitol Hill Housing Foundation and SOPI Village LLC, whose statements reflect total assets and total revenues of \$4,143,807 and \$89,912, respectively, as of and for the year ended December 31, 2010. Additionally, we did not audit the financial statements of Elizabeth James Senior Housing and Villa Apartments LP, blended component units, whose statements reflect total assets and total revenues of \$7,227,838 and \$1,335,514, respectively, as of and for the year ended December 31, 2010. For the audit of 2009, we did not audit the financial statements of the aggregate discretely presented component units of CHHIP. Additionally, we did not audit the financial statements of Elizabeth James Senior Housing, a blended component unit, which statements reflect total assets and total revenues of \$2,598,732 and \$516,887 as of and for the year ended December 31, 2009. Those financial statements for 2010 and 2009 were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for the discretely presented component units (except for Capitol Hill Housing Foundation and SOPI Village LLC for 2010) and for Elizabeth James Senior Housing for 2010 and 2009 and Villa Apartments LP for 2010 and 2009, is based solely on the reports of the other auditor.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of CHHIP, as of December 31, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

CLARK NUBER

Certified Public
Accountants
and Consultants

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2011, on our consideration of CHHIP's 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 the 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 37 through 40 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion based on our audit and the reports of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Clark Nuber P.S.

Certified Public Accountants
May 26, 2011

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management Discussion and Analysis For the Year Ended December 31, 2010

As management of Capitol Hill Housing Improvement Program ("CHHIP"), we offer readers of the CHHIP financial statements this narrative overview and analysis of the financial activities of CHHIP for the year ended December 31, 2010.

Financial Highlights

- Assets exceeded liabilities (net assets) at the close of 2010 by over \$6.2 million.
- Cash and cash equivalents at December 31 totaled \$669,939.
- CHHIP completed the rehabilitation of Holiday Apartments, earning developer fees and bond fees totaling \$513,000.
- CHHIP, in partnership with two community-based non-profit organizations, began construction of a 30 unit apartment complex in unincorporated King County.

Overview of the Financial Statements

CHHIP's financial statements consist of three parts - management's discussion and analysis (this section), financial statements required by the Governmental Accounting Standards Board (GASB), and supplemental schedules.

CHHIP financial statements provide information about CHHIP's overall financial position and results of operations. The financial statements report information about CHHIP as a whole using accounting methods similar to those used by private sector companies. These statements, which are presented on the accrual basis, consist of the Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. The Balance Sheet includes all of CHHIP's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets regardless of when cash is received or paid.

The financial statements include the activities of CHHIP and 8 related entities that are required to be combined with CHHIP. These entities are three nonprofits, Elizabeth James Senior Housing, Central City Affordable Housing and CH Development Association and five limited partnerships and limited liability companies, Larned Apartments Limited Partnership, Byron/Wetmore Limited Partnership, Ponderosa at Madison LLC, Villa Apartments Limited Partnership and SOPI Village Manager LLC. Although legally separate, the nonprofits were formed to meet the mission of CHHIP. Since CHHIP board members comprise all or a majority of the nonprofit boards' members, they are considered instrumentalities of CHHIP and are included in CHHIP's financial statements. CHHIP is the general partner and CH Development Association has replaced the investor limited partners in Larned Apartments Limited Partnership, Byron/Wetmore Limited Partnership and Villa Apartments Limited Partnership. CHHIP has a majority ownership interest in SOPI Village Manager LLC.

The financial statements also include as "Discrete Component Units" 13 legally separate tax credit partnerships and limited liability companies for which CHHIP is financially accountable as the sole general partner or managing member. Additionally, the Capitol Hill Housing Foundation is included as a discrete component unit. Financial information for these affiliates is aggregated and reported in a separate column from the CHHIP financial information.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management Discussion and Analysis For the Year Ended December 31, 2010

Overview of the Financial Statements - Continued

The financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the financial statements.

The supplemental schedules provide a breakdown of CHHIP property operations at the building level. Audited financial statements are available for 12 of the component units and may be requested from CHHIP.

The following changes should be considered in reviewing these financial statements. Holiday Apartments was included in the CHHIP financial statements for 2009 but in 2010, after admittance of the investor limited partner, is presented as part of the discrete component units. Villa Apartments is considered to be a blended component unit for 2010 due to the exit of the investor limited partner. In 2009, Villa was presented as a discrete component unit.

Overview of the CHHIP Wide Financial Position and Operations

	<i>December 31,</i>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current Assets	\$	2,019,014	\$ 1,179,495	\$ 1,578,934
Non-current assets:				
Capital assets, net		39,868,436	39,565,947	39,174,823
Other		<u>8,522,116</u>	<u>8,669,043</u>	<u>8,944,068</u>
Total assets		<u>\$ 50,409,566</u>	<u>\$ 49,414,485</u>	<u>\$ 49,697,825</u>
Current liabilities	\$	1,845,242	\$ 3,034,512	\$ 1,656,169
Non-current liabilities		<u>42,265,050</u>	<u>40,719,528</u>	<u>41,916,843</u>
Total liabilities		<u>\$ 44,110,292</u>	<u>\$ 43,754,040</u>	<u>\$ 43,573,012</u>
Net Assets				
Invested in capital assets, net of related debt	\$	984,006	\$ 469,774	\$ (26,964)
Restricted		3,835,315	4,280,524	4,526,125
Unrestricted		<u>1,479,953</u>	<u>910,147</u>	<u>1,625,652</u>
Total net assets		<u>\$ 6,299,274</u>	<u>\$ 5,660,445</u>	<u>\$ 6,124,813</u>

The assets of CHHIP consist primarily of capital assets, its land, buildings and building improvements. This is consistent with CHHIP's mission to develop and operate affordable housing for low income residents on Capitol Hill and other Seattle neighborhoods. Capital assets are shown net of depreciation. Other assets include cash reserves for repairs and replacements and debt service as required by our lenders.

The liabilities are predominantly long term debt that was used to purchase, develop and rehabilitate our apartment buildings. Many of these loans, provided by governmental entities, have below market interest rates and do not require annual debt service. See Note 5 for a more complete discussion.

The difference between total assets and total liabilities, net assets, is one indicator of financial health. Net assets increased by \$654,932 in 2010 and decreased by \$464,368 in 2009.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management Discussion and Analysis For the Year Ended December 31, 2010

Overview of the CHHIP Wide Financial Position and Operations - Continued

The results of operations for CHHIP are presented below:

	<i>For the Year Ended December 31,</i>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues:				
Tenant revenues	\$	5,698,397	\$ 5,049,189	\$ 4,584,296
Fees for services		652,105	645,789	606,465
Project development fees		604,381		217,676
Other		(54,545)	92,191	65,472
Non-operating revenues:				
Contributions and grants		1,526,616	529,411	3,278,668
Interest Income		55,921	71,390	137,263
Gain on sale of asset			<u>714,000</u>	
Total revenues		<u>8,482,875</u>	<u>7,101,970</u>	<u>8,889,840</u>
Operating expenses:				
Salaries, benefits, and payroll taxes		2,706,780	2,599,697	2,409,886
Operating and maintenance		1,009,565	990,174	839,358
Other operating expenses		1,756,619	1,709,747	1,546,047
Depreciation and amortization		1,368,555	1,140,401	1,096,602
Non-operating expenses:				
Interest expense		<u>986,424</u>	<u>1,126,319</u>	<u>1,038,535</u>
Total expenses		<u>7,827,943</u>	<u>7,566,338</u>	<u>6,930,428</u>
Change in net assets		<u>\$ 654,932</u>	<u>\$ (464,368)</u>	<u>\$ 1,959,412</u>

Results of Operations - Operating revenues are generated principally from rental income as well as property management and other fees paid by affiliates or component units. Tenant revenues increased 13 percent in 2010 and 9 percent in 2009. Fiscal year 2010 saw a 5 percent increase in the number of units in the blended entity but also improved market conditions. The 2009 increase resulted from bringing our rents closer to the maximum allowable rents while taking into account market conditions. Tenant revenues increased 19 percent in 2008 primarily as a result of including the operations of two buildings acquired during the year, and a third changing status from discrete to blended component unit.

Vacancy loss for 2010 was 4.5 percent, an improvement over 2009, reflecting both improvement in the rental market and increased efficiencies in leasing and turning units. Vacancy loss for 2009 was 6.6% which although higher than we wanted, compared favorably to the rental market as a whole and our peer organizations in the down economy. Vacancy loss in 2008 was 4.8%.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management Discussion and Analysis For the Year Ended December 31, 2010

Overview of the CHHIP Wide Financial Position and Operations - Continued

CHHIP earns development fees for its management role in the development of new properties. During 2010, CHHIP earned development fees for two projects, Holiday Apartments and SOPI Village, representing 7 percent of total revenues. During 2009, there was no development fee revenue as several projects in the pre-development stage were stalled due to the economic downturn. Development fee revenue in 2008 was 2 percent of total revenue while in previous years it has been as high as 15 percent of total revenue. Project development fees can vary significantly from year to year depending on the number of projects in development and their stage of completion. Development fee revenue is recognized during the development period while the cash payments of developer fees are often deferred and paid over the early years of operation and sometimes over the 15-year tax credit period. This can lead to dramatic swings in income while our cash position remains stable.

Salaries, benefits and payroll tax expense increased in 2010 by 5 percent and by 8 percent in 2009. These increases reflect increases in health insurance and other benefits costs, and modest salary increases of 2 percent in 2010 and 2 to 4 percent in 2009.

Operating and maintenance expenses increased by only 2 percent in 2010 although the number of units in the blended entity increased by 5 percent. The substantial increases seen in 2009 and 2008 of 18 percent and 53 percent, respectively, occurred due to portfolio growth and due to substantial repair work performed at several of the buildings.

Interest expense, primarily from the long-term financing of the properties, continues to be a significant expense. Typically each property acquired has both amortizing and non-amortizing debt from commercial and governmental sources. A portion of the interest expense, under the terms of the financing, is deferred and will eventually be forgiven as long as the properties are managed in compliance with the loan agreements.

Contributions and grants in 2010 include weatherization funds for 3 buildings totaling \$575,739 which were used for capital assets and a federal grant of \$516,345 for the predevelopment costs at our 12th and Jefferson project. Such grants increase revenues without an offsetting expense. Excluding these capital grants, contributions and grants for 2010 totaled \$434,532 compared to \$529,411 in 2009. Contributions and grants in 2008 totaled \$377,765, excluding the 2008 Ponderosa donation of \$2,900,903. The Ponderosa donation, in which we took ownership of the apartment building in return for assuming the mortgage and committing to maintain the property as affordable, was an unusual occurrence.

Supplemental Schedule - The supplemental Schedule of Departmental Operations provides additional insight into the financial operations of CHHIP. CHHIP budgets and manages financial performance based on its lines of business including its buildings (Property Operations) and organizational and off site activities (Administration and Management).

Property Operations, which includes all building-based revenues and expenses, shows revenues exceeded expenditures plus debt service and scheduled reserve deposits by \$64,933. In addition to the operating expenditures, we spent an additional \$114,000 on repair and maintenance funded from our building reserves.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management Discussion and Analysis For the Year Ended December 31, 2010

Economic Factors Affecting CHHIP's Future

Significant economic factors affecting CHHIP are as follows:

- CHHIP faces risk from political and governmental decisions beyond its control such as changes to the federal and local rental subsidy programs or changes in priorities for capital subsidies to develop new properties.
- CHHIP operates and develops affordable housing in and adjacent to Seattle and is subject to the ups and downs of the local real estate market conditions.
- Availability of credit and tax credit equity partners affects our ability to develop new projects and recapitalize existing projects.
- CHHIP faces increased competition for scarce resources such as state and local funds and corporate and foundation donations.
- Local employment trends affect resident incomes and therefore the demand for housing and the rental rates CHHIP can realize.
- Inflation may cause overall operating expenses to increase faster than it is desirable to raise rents for existing unit occupants which may generate higher turnover or vacancy. Certain operating expenses such as insurance or utilities may increase due to external events outside of the control of CHHIP.

Contacting CHHIP's Financial Management

The financial report is designed to provide a general overview of CHHIP's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Executive Director, Capitol Hill Housing Improvement Program, 1406 10th Avenue, Seattle, WA 98122.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Balance Sheets

Assets

December 31, 2010 and 2009

	2010		2009	
	<i>CHHIP</i>	<i>Discrete Component Units</i>	<i>CHHIP</i>	<i>Discrete Component Units</i>
Current Assets:				
Cash and cash equivalents	\$ 669,939	\$ 479,303	\$ 532,196	\$ 419,993
Accounts receivable, net	1,251,162	21,390	528,319	46,248
Prepaid expenses and other current assets	67,999	18,644	90,782	122,166
Current portion of lease receivable	29,914		28,198	
Total Current Assets	2,019,014	519,337	1,179,495	588,407
Restricted cash and cash equivalents	3,835,315	3,650,477	4,280,524	3,144,705
Lease receivable, net of current portion	982,186		1,008,413	
Notes and interest receivable	3,184,497		2,854,452	
Land, buildings, and equipment, net	39,868,436	52,312,241	39,565,947	48,231,853
Investment in limited partnerships and LLCs	244,642		319,558	
Unamortized financing costs, net	275,476	975,098	206,096	1,004,582
Total Assets	\$ 50,409,566	\$ 57,457,153	\$ 49,414,485	\$ 52,969,547

See accompanying notes.

(Continued)

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Balance Sheets (Continued)
Liabilities and Net Assets
December 31, 2010 and 2009

	2010		2009	
	<i>CHHIP</i>	<i>Discrete Component Units</i>	<i>CHHIP</i>	<i>Discrete Component Units</i>
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 843,585	\$ 2,375,068	\$ 725,566	\$ 1,956,748
Deferred income	154,443		21,978	
Current portion of accrued interest payable	86,733	47,088	91,320	107,342
Current portion of notes payable for Holiday Apartments			1,555,238	
Current portion of other notes payable	760,481	236,197	640,410	80,052
Total Current Liabilities	1,845,242	2,658,353	3,034,512	2,144,142
Security deposits	251,052	161,238	185,765	137,599
Notes payable, net of current portion	39,021,185	40,498,012	37,828,191	36,712,810
Accrued interest payable	2,992,813	927,299	2,705,572	1,042,287
Total Liabilities	44,110,292	44,244,902	43,754,040	40,036,838
Net Assets:				
Restricted for building improvements	3,149,589	2,185,283	3,581,122	1,835,224
Restricted for other purposes	685,726	1,465,194	699,402	1,309,481
Total restricted	3,835,315	3,650,477	4,280,524	3,144,705
Invested in capital assets, net of related debt	984,006	11,578,032	469,774	11,438,991
Unrestricted	1,479,953	(2,016,258)	910,147	(1,650,987)
Total Net Assets	6,299,274	13,212,251	5,660,445	12,932,709
Total Liabilities and Net Assets	\$ 50,409,566	\$ 57,457,153	\$ 49,414,485	\$ 52,969,547

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

**Statements of Revenues, Expenses, and Changes In Net Assets
For the Years Ended December 31, 2010 and 2009**

	2010		2009	
	<i>CHHIP</i>	<i>Discrete Component Units</i>	<i>CHHIP</i>	<i>Discrete Component Units</i>
Operating Revenues:				
Gross rent potential	\$ 5,802,129	\$ 3,744,865	\$ 5,243,345	\$ 3,928,665
Vacancy loss	(263,210)	(200,282)	(344,121)	(179,764)
Laundry, parking, and other tenant income	159,478	112,018	149,965	159,819
Fees for services	652,105		645,789	
Project development fees	604,381			
Other operating revenue (loss)	(54,545)	39,814	92,191	
Total Operating Revenues	6,900,338	3,696,415	5,787,169	3,908,720
Operating Expenses:				
Salaries, benefits, and payroll taxes	2,706,780	571,789	2,599,697	564,911
Utilities	717,998	424,719	653,426	473,537
Professional fees	224,842	272,749	254,258	248,402
Administrative	370,864	388,771	305,199	348,811
Taxes and insurance	277,747	141,722	283,483	142,960
Operating and maintenance	1,009,565	554,220	990,174	690,491
Bad debt expense	116,964	60,334	178,125	31,613
Other	48,204	180,883	35,256	117,614
Depreciation and amortization	1,368,555	1,745,833	1,140,401	1,965,696
Total Operating Expenses	6,841,519	4,341,020	6,440,019	4,584,035
Operating Income (Loss)	\$ 58,819	\$ (644,605)	\$ (652,850)	\$ (675,315)

See accompanying notes.

(Continued)

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Statements of Revenues, Expenses, and Changes In Net Assets (Continued)
For the Years Ended December 31, 2010 and 2009

	2010		2009	
	<i>CHHIP</i>	<i>Discrete Component Units</i>	<i>CHHIP</i>	<i>Discrete Component Units</i>
Operating Income (Loss)	\$ 58,819	\$ (644,605)	\$ (652,850)	\$ (675,315)
Nonoperating Revenues (Expenses):				
Contributions and grants	1,526,616	89,913	529,411	
Interest income	55,921	3,044	71,390	5,560
Gain on sale of transferable development rights and easements			714,000	43,920
Interest expense	(986,424)	(701,987)	(1,126,319)	(1,044,859)
Total Nonoperating Revenues (Expenses)	596,113	(609,030)	188,482	(995,379)
Change in Net Assets	654,932	(1,253,635)	(464,368)	(1,670,694)
Net Assets:				
Beginning of year	5,660,445	12,932,709	6,124,813	13,091,124
Change in component units	63,910	(63,910)		
Investment in Villa Apartments LP eliminated in the transfer	(80,013)			
Capital contributions		1,597,087		1,512,279
End of Year	\$ 6,299,274	\$ 13,212,251	\$ 5,660,445	\$ 12,932,709

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Statements of Cash Flows

For the Years Ended December 31, 2010 and 2009

	2010		2009	
	<i>CHHIP</i>	<i>Discrete Component Units</i>	<i>CHHIP</i>	<i>Discrete Component Units</i>
Cash Flows from Operating Activities:				
Receipts from tenants and customers	\$ 6,812,652	\$ 3,689,673	\$ 5,752,658	\$ 3,891,256
Payments to employees and for payroll taxes and benefits	(2,682,876)	(571,789)	(2,583,849)	(564,911)
Payments to suppliers	(2,474,931)	(1,395,808)	(2,444,358)	(1,617,073)
Net Cash Provided by Operating Activities	1,654,845	1,722,076	724,451	1,709,272
Cash Flows from Noncapital Financing Activities:				
Receipts from contributors and grantors	1,063,472	89,913	543,861	
Net Cash Provided by Noncapital Financing Activities	1,063,472	89,913	543,861	
Cash Flows from Capital and Related Financing Activities:				
Acquisition of land, building, and equipment	(1,611,072)	(5,712,446)	(1,443,617)	(125,554)
Proceeds from the sale of transferable development rights and easements			714,000	43,920
Proceeds from notes payable	7,491	6,080,418	827,942	306,400
Principal payments on notes payable	(449,119)	(2,210,209)	(1,026,152)	(2,294,914)
Interest paid on notes payable	(810,374)	(936,374)	(937,997)	(979,217)
Financing costs paid			(38,970)	
Proceeds from lease receivable	24,511		13,312	
Payment of financing costs		(65,000)		
Capital contributions		1,597,087		1,512,279
Net Cash Used by Capital and Related Financing Activities	(2,838,563)	(1,246,524)	(1,891,482)	(1,537,086)
Cash Flows from Investing Activities:				
Net change in restricted cash	415,829	(476,392)	245,601	(96,899)
Cash transfer due to change in component units	32,807	(32,807)		
Advances of notes receivable	(388,474)			
Receipts on repayment of notes receivable	42,136		62,569	
Interest receipts	81,934	3,044	50,056	5,560
Receipts from investments in limited partnerships and LLCs	73,757		91,710	
Net Cash Provided (Used) by Investing Activities	257,989	(506,155)	449,936	(91,339)
Net Change in Cash and Cash Equivalents	137,743	59,310	(173,234)	80,847
Cash and Cash Equivalents:				
Beginning of year	532,196	419,993	705,430	339,146
End of Year	\$ 669,939	\$ 479,303	\$ 532,196	\$ 419,993

See accompanying notes.

(Continued)

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2010 and 2009

	2010		2009	
	<i>CHHIP</i>	<i>Discrete Component Units</i>	<i>CHHIP</i>	<i>Discrete Component Units</i>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 58,819	\$ (644,605)	\$ (652,850)	\$ (675,315)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities-				
Depreciation and amortization	1,368,555	1,745,833	1,140,401	1,965,696
Partnership income	54,545		(92,191)	
Loss (gain) on the disposal of assets	17,106		(75,197)	4,003
Changes in assets and liabilities:				
Accounts receivables	(200,641)	15,800	196,442	(4,283)
Prepaid expenses	39,992	86,313	16,930	(16,354)
Accounts payable and accrued liabilities	141,095	480,943	151,553	417,093
Security deposits and deferred income	175,374	37,792	39,363	18,432
Net Cash Provided by Operating Activities	\$ 1,654,845	\$ 1,722,076	\$ 724,451	\$ 1,709,272
Schedule of Noncash Financing and Investing Activities:				
Non-cash balance sheet net adjustments relating to change in component units - increase (decrease) to balance-				
Accounts receivables, net	\$ (9,058)	\$ 9,058		
Prepaid expenses and other current assets	\$ (17,209)	\$ 17,209		
Restricted cash and cash equivalents	\$ 29,380	\$ (29,380)		
Land, buildings, and equipment, net	\$ (196,140)	\$ 196,140		
Unamortized financing costs, net	\$ (83,717)	\$ 83,717		
Accounts payable and accrued liabilities	\$ 54,398	\$ (54,398)		
Security deposits	\$ 14,153	\$ (14,153)		
Deferred income	\$ 8,225	\$ (8,225)		
Notes payable	\$ 62,261	\$ (62,261)		
Accrued interest payable	\$ 106,604	\$ (106,604)		

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Organization - Capitol Hill Housing Improvement Program (CHHIP) is a public corporation chartered in 1975 under Washington State and municipal law as a public development authority. CHHIP has broad powers to assist residents and property owners in preserving and improving housing and the neighborhood and to undertake activities in support of those goals.

These financial statements include the accounts of CHHIP and CHHIP's blended component units. The blended component units include CH Development Association, Elizabeth James Senior Housing, Central City Affordable Housing and several wholly-owned or majority-owned limited partnerships and LLCs. CHHIP and its blended component units include 30 apartment projects and 690 units. Blended component units, although legally separate entities, are, in substance, part of CHHIP's operations.

Discrete Component Units - CHHIP serves as the general partner or managing member in several limited partnerships and LLCs (see Note 6). These limited partnerships and LLCs constitute discrete component units of CHHIP because they are separate legal entities subject to CHHIP's will. As general partner or managing member, CHHIP is financially accountable for and oversees the day-to-day operation of these properties. The data for these limited partnerships and LLCs is combined and discretely presented in a separate column on the face of CHHIP's financial statements. Each limited partnership and LLC is audited separately. Copies of these financial statements may be obtained by contacting CHHIP. The limited partnerships and LLCs include 13 apartment projects and 412 units.

During 2009, the Capitol Hill Housing Foundation was formed and incorporated with the State of Washington as a not for profit corporation. Operations began during 2010 with the tax exempt determination letter being received from the Internal Revenue Service on December 23, 2010. The Foundation was formed with the intent to act primarily as a fundraising organization to supplement the resources that are available to CHHIP in support of its mission. The Foundation Board is independent of the CHHIP board. Although CHHIP will not control the timing or amount of receipts from the Foundation, it is anticipated that the majority of the funds raised will be restricted to activities of CHHIP by the donors. Because of these restrictions, the Foundation will be considered a discrete component unit of CHHIP.

On December 31, 2010, all remaining ownership interests in Villa Apartments LP (Villa) were transferred to CHHIP. As such, Villa changed from being reported as a discrete component unit in fiscal year 2009 to a blended component unit as of and for the year ended December 31, 2010. Total assets for Villa were \$4,526,407 and \$4,766,370 at December 31, 2010 and 2009, respectively. Total revenues for Villa were \$612,617 and \$569,016 for the years ended December 31, 2010 and 2009, respectively.

During 2010, an investor member obtained a majority ownership interest in SOPI Village LLC. As such, SOPI Village LLC changed from being reported as a blended component unit to a discrete component unit as of and for the year ended December 31, 2010. Total assets for SOPI Village LLC were \$4,114,642 and \$143,806 at December 31, 2010 and 2009, respectively. As development of the SOPI Village LLC continued in 2010, no revenues were reported for the year ended December 31, 2010.

During January 2010, a majority ownership interest in the Holiday Apartments Limited LP (Holiday) was sold by CHHIP to an investor. As such, Holiday changed from being reported as a blended component unit in fiscal year 2009 to a discrete component unit as of and for the year ended December 31, 2010. Total assets for Holiday were \$6,648,468 and \$4,456,819 at December 31, 2010 and 2009, respectively. Total revenues for Holiday were \$239,244 and \$191,868 for the years ended December 31, 2010 and 2009, respectively.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 1 - Continued

Basis of Accounting - The financial statements of CHHIP have been prepared in conformity with accounting principles generally accepted in the United States of America applied to governmental units. These financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Contributions and grants are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. CHHIP, in accordance with governmental accounting standards, elected not to apply all statements of the Financial Accounting Standards Board (FASB) issued subsequent to November 30, 1989.

Cash and Cash Equivalents - CHHIP considers all highly liquid temporary investments purchased with a maturity of three months or less at the acquisition date to be cash equivalents.

CHHIP's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. The FDIC insures the first \$250,000 of CHHIP's deposits at each financial institution with remaining balances insured by the collateral pool. As of December 31, 2010 and 2009, the carrying amount of CHHIP's demand deposits was \$2,514,915 and \$2,709,448 respectively and was not materially different from the bank balances.

At December 31, 2010 and 2009, CHHIP had \$1,990,339 and \$2,103,272, respectively, in the Washington State's Local Government Investment Pool (LGIP). The LGIP is operated in a manner consistent with Rule 2a-7 money market funds, as recognized by the Securities and Exchange Commission. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities in order to minimize both market and credit risk. The LGIP is audited annually by the Office of the State Auditor and by an outside independent auditor. Financial reports are available at the State Treasurer's Office. The amounts invested in the pool represent the fair value equal to the value of the pool shares held by CHHIP.

Certain cash balances are restricted for building improvements and other specific uses in accordance with debt and regulatory agreements and donor imposed restrictions. The restricted cash balances were held in deposits at December 31, 2010 and 2009, with the LGIP and other separate accounts as required by the agreements and donor imposed restrictions.

Accounts Receivable - Accounts receivable consist primarily of rents due from tenants, grants due from grantors and amounts due from the limited partnerships and LLCs described in Note 6. Annually, tenant receivables are analyzed and the allowance for doubtful accounts is adjusted. Other receivable allowances are established for uncertain collectibles.

Notes Receivable and Notes Payable - Many of the notes carry below market interest rates and/or contain provisions for deferral or forgiveness of interest or principal. Such notes and related interest amounts are recorded in the financial statements according to the terms of the notes. No adjustment to market rates has been made due to the compliance requirements that must be met for forgiveness or deferral to occur. Forgiveness of debt and related accrued interest for notes payable will be recorded as income in accordance with terms of the various loan agreements.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 1 - Continued

Land, Buildings and Equipment - CHHIP capitalizes assets with a cost greater than \$1,000 and an estimated useful life of one or more years. Land, buildings and equipment are recorded at cost or estimated fair market value at the date of donation. Depreciation of buildings and equipment is recorded on a straight-line basis over their estimated useful lives of five to 40 years.

CHHIP reviews land, building and equipment for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. No impairment losses were recognized in 2010 or 2009.

Investment in Limited Partnerships and LLCs - CHHIP is the sole general partner and owns a 0.01 percent interest in seven limited partnerships and is the managing member and owns a 0.01 percent interest in five limited liability companies. CHHIP owns a 51 percent interest in, and is the managing member of SOPI Village Manager LLC who is the managing member and .01 percent owner of a sixth LLC, SOPI Village LLC. The remaining ownership interests in these entities are owned by unrelated third parties. CHHIP records its investment in these partnerships and limited liability companies using the equity method of accounting as it is the general partner or managing member and possesses significant influence in the operating and financial policies of the investees.

Revenue Recognition - Gross rent potential reflects gross rental revenue at 100 percent occupancy. CHHIP deducts vacancy loss from gross rent potential to reflect actual occupancy. Rental revenue is recognized monthly as earned. Development fee revenue is recognized over the development period using the percentage-of-completion method.

Operating Revenues and Expenses - Operating revenues include fees and charges from the ongoing operations of providing and developing affordable housing. Operating revenues also include operating subsidies and grants provided by the US Department of Housing and Urban Development (HUD). The use of this classification is based on guidance from HUD, one of the users of the financial statements. Operating expenses are those expenses that are directly incurred while in the operation of providing housing. This presentation results in an operating income that is higher than a non-operating revenue presentation by the amount of the subsidies and/or grants. Overall it does not affect the presentation of the change in net assets in the statement of revenues, expenses, and changes in net assets, or the presentation of cash and cash equivalents in the statement of cash flows. All other revenues and expenses are considered non-operating.

Restricted Net Assets - Net assets have been reported as restricted for building improvements and other purposes due to constraints that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. CHHIP's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 1 - Continued

Federal Income Tax - CHHIP has been notified by the Internal Revenue Service that it is exempt from federal income taxes as an entity described in Section 115 of the Internal Revenue Code. CH Development Association, Elizabeth James Senior Housing and Central City Affordable Housing have been notified by the Internal Revenue Service that they are exempt from federal income taxes as entities described in Section 501(c)(3) of the Internal Revenue Code. CHHIP's wholly-owned limited partnerships and LLCs that are reported as blended component units have no provision or benefit for income taxes included in these financial statements since taxable income or loss passes through to, and is reportable by, each partner individually.

Concentrations of Credit Risk - All of CHHIP's properties are located in Seattle, Washington. As such, CHHIP's operations are directly linked to the economic conditions in the Seattle area.

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. These affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Note 2 - Notes and Interest Receivable

Notes and interest receivable consisted of the following amounts due primarily from affiliated limited partnerships and LLCs (Note 6) as of December 31:

	<u>2010</u>	<u>2009</u>
<u>1214 Boylston Avenue Limited Partnership:</u>		
Developer fee note, interest at 7%, principal and accrued interest due at maturity on May 1, 2012.	\$ 26,024	
<u>Broadway & Pine LLC:</u>		
Note receivable, interest at 5%, annual payments from cash flow starting June 2007 through maturity on June 1, 2057.	180,000	180,000
<u>Firestation Seven Associates:</u>		
Note receivable, interest at 9%, monthly payments of \$306 until maturity in September 2017, secured by deed of trust.	16,959	19,163
<u>Fleming Apartments Limited Partnership:</u>		
Note receivable, interest at 1%, payments from operating income, principal and accrued interest due at maturity on December 31, 2049.	436,170	436,170
Developer fee note receivable, interest at 4.67%, payments from operating income, principal and accrued interest due at maturity on June 1, 2014.	160,324	160,324
Note receivable, interest at 0%, annual payments from cash flow, principal due at maturity on April 08, 2043.	339,580	339,580

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 2 - Continued

	<u>2010</u>	<u>2009</u>
<u>Helen V LLC:</u>		
Developer fee note receivable, interest at 1%, monthly payments from cash flow of \$1,163 until maturity on December 31, 2015.	106,391	105,378
<u>Oleta Apartments Limited Partnership:</u>		
Note receivable, interest at 0%, annual payments from cash flow starting June 2003 through maturity on June 30, 2053.	909,000	909,000
<u>Pantages Apartments LLC:</u>		
Note receivable, interest at 6%, annual payments from cash flow starting February 2006 through maturity on February 1, 2056.	220,000	220,000
<u>Villa Apartments Limited Partnership:</u>		
Developer fee note receivable, interest at 7%, principal and accrued interest due at maturity on December 31, 2011. Effective in 2010, the receivable balance is eliminated for financial reporting purposes as Villa Apartments Limited Partnership is now a blended component unit (see Note 1).		77,473
<u>Woodland Park Avenue LLC:</u>		
Note receivable, interest at 0%, annual payments from cash flow starting in 2009 through maturity on August 31, 2058.	140,000	140,000
<u>Holiday Apartments LP:</u>		
Note receivable, interest at 3%, annual payments from cash flow through maturity on December 1, 2061.	354,654	
<u>SOPV Village LLC:</u>		
Note receivable, interest at 4%, annual payments from cash flow starting in 2011 through maturity on December 31, 2061.	<u>120,000</u>	
Total principal	3,009,102	2,653,044
Accrued interest on the above notes	<u>175,395</u>	<u>201,408</u>
Total	<u>\$ 3,184,497</u>	<u>\$ 2,854,452</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 3 - Land, Buildings and Equipment

Land, buildings and equipment activity consisted of the following:

	<u>December 31,</u> <u>2008</u>	<u>Increases</u>	<u>December 31,</u> <u>2009</u>
Non-depreciable assets:			
Land	\$ 13,487,249	\$ -	\$ 13,487,249
Predevelopment costs	36,216	289,539	325,755
Depreciable assets:			
Building and facilities	38,936,103	850,176	39,786,279
Equipment and vehicles	1,346,329	303,902	1,650,231
Less accumulated depreciation	<u>(14,562,828)</u>	<u>(1,120,739)</u>	<u>(15,683,567)</u>
Total	<u>\$ 39,243,069</u>	<u>\$ 322,968</u>	<u>\$ 39,565,947</u>

	<u>December 31,</u> <u>2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Net</u> <u>Transfers</u>	<u>December 31,</u> <u>2010</u>
Non-depreciable assets:					
Land	\$ 13,487,249	\$ -	\$ -	\$ (1,606,143)	\$ 11,881,106
Predevelopment costs	325,755	416,825	(15,609)	(133,399)	593,572
Depreciable assets:					
Building and facilities	39,786,279	894,279		4,022,917	44,703,475
Equipment and vehicles	1,650,231	299,744	(64,529)	250,484	2,135,930
Less accumulated depreciation	<u>(15,683,567)</u>	<u>(1,356,005)</u>	<u>63,032</u>	<u>(2,469,107)</u>	<u>(19,445,647)</u>
	<u>\$ 39,565,947</u>	<u>\$ 254,843</u>	<u>\$ (17,106)</u>	<u>\$ 64,752</u>	<u>\$ 39,868,436</u>

Holiday Apartments Limited Partnership was a blended component unit in 2009. During 2010, a limited partner acquired a majority ownership with the partnership becoming a discretely presented component unit. This transfer during 2010 resulted in a net decrease of \$4,143,911 to land, buildings, and equipment.

During 2010, all ownership interests in the Villa Apartments Limited Partnership were transferred to CHHIP changing the limited partnership to a blended component unit. This transfer during 2010 resulted in a net increase of \$4,342,062 to land, buildings, and equipment.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 3 - Continued

SOPI Village LLC was a blended component unit in 2009. During 2010, a majority ownership interest was obtained by a limited member, changing the LLC to a discretely presented component unit. This transfer during 2010 resulted in a net decrease of \$133,399 to land, buildings, and equipment.

Note 4 - Leases

Operating Lease - CHHIP, as lessee, leases administrative office space and housing space. Rental expense under these leases totaled \$108,125 and \$101,647 for fiscal years 2010 and 2009, respectively. Minimum lease payments under these leases are as follows:

Years Ending December 31,

2011	\$	91,138
2012		92,885
2013		27,660
2014		5,798
2015 - 2017		<u>15,634</u>
	\$	<u>233,115</u>

CHHIP, as lessor, leases apartments under noncancellable terms of less than one year. Additionally CHHIP leases commercial space to seven entities. Minimum future lease revenue under the leases are as follows:

Years Ending December 31,

2011	\$	279,135
2012		240,812
2013		214,925
2014		<u>113,888</u>
	\$	<u>848,760</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 4 - Continued

Ground Lease - CHHIP as lessor has entered into a ground lease with Harrison Family Housing Limited Partnership through 2074. Lease payments are \$12,000 per year with a three percent annual increase. Payments are made subject to available cash flow, as defined or from proceeds of a sale or refinance. Minimum lease payments under the lease are as follows:

Years Ending December 31,

2011	\$	16,127
2012		16,611
2013		17,109
2014		17,622
2015		18,150
Thereafter		<u>2,941,445</u>
		<u>\$ 3,027,064</u>

Financing Lease - During 1999, CHHIP entered into a finance lease agreement, leasing real property to the Fleming Apartments Limited Partnership. CHHIP has recorded this lease as a direct financing lease expiring on December 31, 2097. The lessee has the right to extend the term of this agreement for a period of time equal to the remaining useful life of the capital improvements to the property as of December 31, 2097.

The lease payments due to CHHIP are made in the form of principal and interest payments totaling \$6,853 monthly directly to the bank as repayment of CHHIP's note payable, which had a balance \$897,236 and \$927,666 at December 31, 2010 and 2009, respectively (see Note 5), plus annual rent of \$12. The lease agreement requires the lessee to pay, to the bank as owner of the note payable, on behalf of CHHIP, rent in an amount sufficient to pay in full all of the principal, premium, and interest on the note payable when due, whether at maturity or upon earlier redemption or acceleration. Such rent shall be allocated to principal, premium and interest in proportion to the payment due on the note payable to be paid. The lessee has the option to buy the property at the end of the lease for \$1.

Minimum lease payments to be received under this lease are as follows:

Years Ending December 31,

2011	\$	82,227
2012		82,227
2013		82,227
2014		82,227
2015		82,227
Thereafter		<u>1,034,695</u>
		1,445,830
Less amounts representing interest		(433,730)
Less current portion		<u>(29,914)</u>
Noncurrent Portion		<u>\$ 982,186</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 5 - Notes Payable and Accrued Interest

Notes payable consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
<u>410 - 11th East Apartments:</u>		
Note payable to individual, original principal balance of \$83,802, interest at 8%, monthly payments of \$500 until maturity on July 10, 2014.	\$ 15,780	\$ 20,260
Note payable to City of Seattle, original principal balance of \$266,169, interest accrues at 1%, principal and accrued interest due at maturity in September 2034.	266,169	266,169
<u>Berneva Apartments:</u>		
Note payable to bank, original principal balance of \$260,000, interest at 6.625%, monthly payments of \$1,665 until maturity in October 2013, when remaining outstanding balance is due.	157,965	168,690
Note payable to City of Seattle, original principal balance of \$661,078, interest at 1%, principal and accrued interest due at maturity in October 2032.	661,078	661,078
<u>Boylston/Howell Apartments:</u>		
Note payable to State of Washington, original principal balance of \$1,830,000, interest at 2%, annual payments of \$57,928 until maturity on January 31, 2046.	1,486,844	1,514,751
Note payable to City of Seattle, original principal balance of \$1,619,193, interest at 1%, principal and accrued interest due at maturity in January 2035.	1,584,858	1,584,858
<u>Bremer Apartments:</u>		
Note payable to City of Seattle, amended and restated principal balance of \$1,015,266, interest accrues at 1%, principal and accrued interest due at maturity in August 2041.	1,015,266	1,015,266
Note payable to bank, original principal balance of \$925,308, interest at 8.63%, monthly payments of \$7,200 until maturity in October 2030.	819,293	834,281
<u>Brewster Apartments:</u>		
Note payable to State of Washington, original principal balance of \$1,050,000, interest at 1%, annual payments of \$26,789 until maturity on August 1, 2045.	768,887	787,798
Note payable to City of Seattle, original principal balance of \$1,166,363, interest at 1%, principal and accrued interest due at maturity in October 2034.	1,166,363	1,166,363

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 5 - Continued

	<u>2010</u>	<u>2009</u>
<u>Broadway Apartments:</u> Note payable to bank, original principal balance of \$102,511, interest at 6.898%, monthly payments of \$675 until maturity on October 1, 2030.	87,413	89,408
<u>Burke Gilman Gardens Apartments:</u> Note payable to State of Washington, original principal balance of \$1,150,833, no interest, annual payments of \$23,017 until maturity on June 30, 2048.	874,633	897,650
Note payable to City of Seattle, original principal balance of \$971,320, interest at 1%, principal and accrued interest due at maturity in January 2037.	968,165	968,165
<u>Byron Wetmore Apartments:</u> Note payable to State of Washington, original principal balance of \$252,475, 1% interest, annual payments of \$5,100 until maturity on September 1, 2042.	166,634	171,683
Note payable to City of Seattle, original principal balance of \$619,562, interest at 1%, principal and accrued interest due at maturity on September 30, 2031.	214,304	214,304
<u>Centennial Apartments:</u> Note payable to State of Washington, original principal balance of \$300,000, no interest, annual payments of \$16,625 and interest at 1% beginning December 31, 2029, until maturity on December 31, 2048.	300,000	300,000
Note payable to City of Seattle, original principal balance of \$761,677, interest at 1%, principal and interest due at maturity on January 1, 2039.	761,677	761,677
Note payable to bank, original principal balance of \$1,500,322, interest at 6.42%, monthly payments of \$9,404 until maturity on March 1, 2029.	1,234,763	1,266,096
<u>Central City Affordable Housing:</u> Note payable to City of Seattle, original principal balance of \$652,896, interest at 1%, principal balance due at maturity in February 2034.	640,702	640,702

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 5 - Continued

	<u>2010</u>	<u>2009</u>
Note payable to bank, interest at 8.5%, monthly payments of \$1,840 until maturity in October 2011; monthly payments are offset by a federal interest subsidy credit which reduces the effective interest rate to 1%; insured by HUD under Section 236.	16,566	36,318
Note payable to Local Initiatives Support Corporation, original principal balance of \$124,710, interest at 8%, quarterly payments of \$3,811, remaining principal and interest due September 2011.	48,701	59,504
<u>Devonshire Apartments:</u> Note payable to Washington State Department of Community Development, original principal balance of \$454,500, no interest, annual payments of \$9,080 until maturity in February 2043.	299,640	308,720
Note payable to City of Seattle, original principal balance of \$616,019, interest at 1%, principal and accrued interest due at maturity in February 2033.	612,126	612,126
<u>Eighteenth Avenue:</u> Note payable to State of Washington, original principal balance of \$230,000, interest at 2%, annual payments of \$7,319 until maturity on December 31, 2051.	189,317	192,780
Note payable to City of Seattle, original principal balance of \$449,573, interest at 1%, principal and accrued interest due at maturity on July 1, 2052.	449,573	449,573
Note payable to bank, original principal balance of \$344,000, interest at 7.88%, monthly payment of \$2,495 until maturity on July 1, 2032.	314,529	319,139
<u>Elizabeth Dean Wells Apartments:</u> Note payable to City of Seattle, original principal balance of \$116,125, interest at 1%, monthly payments of \$60 through September 2003, principal and accrued interest due at maturity in June 2012.	108,414	108,414
Note payable to bank, original principal balance of \$75,154, interest at 6.898%, monthly payments of \$500 until maturity in October 2030.	63,181	64,763

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 5 - Continued

	<u>2010</u>	<u>2009</u>
<u>Elizabeth James Senior Housing:</u> Second mortgage payable to bank, original principal balance of \$1,940,400, interest at 5.7%, monthly payments of \$11,614 beginning in February, 2008 until maturity in October, 2035, insured by HUD under Section 241 (a).	1,849,361	1,882,289
<u>Fleming Apartments:</u> Note payable to bank, original principal balance of \$1,152,772, interest at 5.92%, monthly payments of \$6,853 until June 2028 when the note can be extended upon meeting certain conditions.	897,236	927,666
<u>Fredonia Apartments:</u> Note payable to City of Seattle, original principal balance of \$409,760, interest at 1%, monthly payments of \$275 until March 2014, when balance is due in full.	409,760	409,760
Note payable to bank, original principal balance of \$821,302, interest at 6.898%, monthly payments of \$5,408 until maturity in October 2030.	700,337	716,321
<u>Gale Place Apartments:</u> Note payable to City of Seattle, original principal balance of \$1,034,400, 1% interest, no payments until maturity in April 2028 unless extended at CHHIP's option for five years in five-year intervals.	766,400	766,400
Note payable to bank, original principal balance of \$455,604, interest at 6.898%, monthly payments of \$3,000 until maturity in October 2030.	387,084	396,044
<u>Harrison Apartments:</u> Note payable to City of Seattle, original principal balance of \$825,000, interest at 1%, principal and accrued interest due at maturity on December 15, 2040.	808,211	808,211
<u>Hazel Plaza I Apartments:</u> Note payable to State of Washington, original principal balance of \$15,571, no interest, principal to be forgiven upon maturity in September 2020 if units are rented as stipulated in loan agreement.	15,571	15,571

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 5 - Continued

	<u>2010</u>	<u>2009</u>
Note payable to City of Seattle, original principal balance of \$475,242, interest accrues at 1% upon advance of funds, principal and accrued interest due upon maturity in December 2031.	475,091	475,091
Note payable to bank, original principal balance of \$199,850, interest at 8.5%, monthly payments of \$1,701 until maturity in November 2011, monthly payments are offset by a federal interest subsidy credit which reduces the effective interest rate to 1%, insured by HUD under Section 236.	16,357	34,529
<u>Holden Vista Apartments:</u> Note payable to State of Washington, original principal balance of \$544,843, interest at 3% through February 2008, 0% interest through February 2010, 1% interest through March 31, 2046; beginning March 31, 2008, payments and interest deferred until March 31, 2010, monthly payments of \$15,994 to begin March 31, 2011, until maturity on March, 31, 2046.	481,546	481,546
Note payable to bank, original principal balance of \$169,812, interest at 8.5%, monthly payments of \$1,629 until maturity in August 2010, monthly payments are offset by a federal interest subsidy credit which reduces the effective interest rate to 1%, insured by HUD under Section 236. This note was paid in full in 2010.		11,067
<u>Holiday Apartments:</u> Note payable to Impact Capital, maximum loan available of \$560,000, interest at 6%, monthly payments of interest only until maturity on October 15, 2010; this note was paid in full in 2010. Effective in 2010, the property this loan relates to is reported as a discrete component unit (see Note 1).		560,000
Note payable to bank, original principal balance of \$1,763,748, interest at 5.19%, monthly payments of interest only until April 1, 2010, at which time monthly payments based on a 360-month amortization begin, maturity on September 15, 2025. Effective in 2010, the property this loan relates to is reported as a discrete component unit (see Note 1).		1,763,748

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 5 - Continued

	<u>2010</u>	<u>2009</u>
Note payable to bank, original principal balance of \$1,536,252, interest at 4.13%, monthly interest only payments of \$5,287, until maturity on September 15, 2010. Effective in 2010, the property this loan relates to is reported as a discrete component unit (see Note 1).		1,536,252
Note payable to City of Seattle, original principal balance of \$800,000, interest accrues at 3% upon advance of funds, principal and accrued interest due upon maturity on April 15, 2010. This loan was paid in full in 2010. Effective in 2010, the property this loan relates to is reported as a discrete component unit.		788,235
<u>John Carney Apartments:</u> Note payable to City of Seattle, original principal balance of \$744,681, interest accrues at 1%, principal and accrued interest due at maturity in July 2031.	744,681	744,681
Note payable to bank, original principal balance of \$451,807, interest at 6.898%, monthly payments of \$2,975 until maturity in October 2030.	385,263	394,055
<u>Larned Apartments Limited Partnership:</u> Note payable to State of Washington, original principal balance of \$350,000, no interest, due in full September 2032.	350,000	350,000
Note payable to City of Seattle, original principal balance of \$947,410, interest accrues at 1% for the first 20 years, matures in July 2031 with options to renew subject to maintaining affordability.	857,410	857,410
Note payable to Washington State Convention and Trade Center, original principal balance of \$380,000, no interest, matures in December 2032 with options to renew subject to maintaining affordability.	380,000	380,000
<u>Lincoln Court:</u> Note payable to State of Washington, original principal balance of \$1,000,000, interest at 1%, quarterly interest only payments of \$2,500, outstanding principal balance will be forgiven at maturity on July 1, 2044.	1,000,000	1,000,000

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 5 - Continued

	<u>2010</u>	<u>2009</u>
Note payable to City of Seattle, original principal balance of \$1,400,512, interest at 1%, annual principal and interest payments of \$35,731 from available cash flow, as defined, until maturity in November 2053.	1,400,512	1,400,512
Note payable to bank, original principal balance of \$1,250,000, interest at 5.527%, monthly principal and interest payments of \$7,119 until maturity on December 1, 2033.	1,110,770	1,134,096
<u>Mary Ruth Manor Apartments:</u>		
Note payable to bank, original principal balance of \$263,339, interest at 8.5%, monthly payments of \$2,424 until maturity in January 2012, monthly payments are offset by a federal interest subsidy credit which reduces the effective interest rate to 1%, insured by HUD under Section 236.	27,785	53,316
Note payable to City of Seattle, original principal balance of \$759,646, interest at 1%, principal and accrued interest due at maturity in September 2034.	745,346	745,346
Note payable to bank, refinanced October 2009 refinanced balance of \$557,500, interest at 5.5%, monthly payments of \$3,307 until maturity on October 2036, insured by HUD under Section 241(a).	546,659	555,993
<u>Maxwell Apartments:</u>		
Note payable to City of Seattle, original principal balance of \$190,109, interest at 1%, principal and accrued interest due at maturity in June 2029.	189,705	189,705
Note payable to bank, original principal balance of \$58,773, interest at 6.898%, monthly payments of \$387 until maturity in October 2030.	50,117	51,168
<u>Melrose Apartments:</u>		
Note payable to City of Seattle, original principal balance of \$725,000, interest at 1%, principal and accrued interest due at maturity in August 2029.	725,000	725,000
Note payable to bank, original principal balance of \$413,688, interest at 6.898%, monthly payments of \$2,724 until maturity in October 2030.	352,758	360,809

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 5 - Continued

	<u>2010</u>	<u>2009</u>
<u>Miller Park Apartments:</u>		
Note payable to State of Washington, original principal balance of \$707,420, no interest, annual payments of \$35,371 beginning April 1, 2027, until maturity on April 1, 2046.	707,420	707,420
Note payable to City of Seattle, original principal balance of \$647,875, interest at 1%, principal and accrued interest due at maturity in March 2036.	647,875	647,875
Note payable to bank, original principal balance of \$242,600, interest at 8.5%, monthly payments of \$1,865 until maturity in March 2028.	202,686	207,613
<u>Park Hill Apartments:</u>		
Note payable to City of Seattle, original principal balance of \$383,640, interest at 1%, principal and accrued interest due upon maturity in March 2013.	330,000	330,000
Note payable to City of Seattle, original principal balance of \$25,000, interest at 3%, principal and accrued interest due at maturity in March 2013.	25,000	25,000
Note payable to bank, original principal balance of \$681,128, interest at 6.898%, monthly payments of \$4,485 until maturity in October 2030.	580,809	594,064
<u>Tiltsonian Apartments:</u>		
Note payable to bank, original principal balance of \$106,308, interest at 6.898%, monthly payments of \$700 until maturity in October 2030.	90,651	92,720
<u>Villa Apartments:</u>		
Note payable to City of Seattle, original principal balance of \$1,182,510, interest at 1%, principal and accrued interest due at maturity in August 2037. Effective in 2010, the property this loan relates to is reported as a blended component unit (see Note 1).	1,182,510	1,182,510
Note payable to bank, original principal balance of \$2,397,871, with monthly payments of \$16,226 including interest at 7.169%, principal and accrued interest due at maturity in February 2030. Effective in 2010, the property this loan relates to is reported as a blended component unit (see Note 1).	2,026,832	

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 5 - Continued

	<u>2010</u>	<u>2009</u>
Note payable to the State of Washington, interest free until 2029, annual payments of \$153,500 including interest at 3% due December 31, 2029 and for 10 consecutive years thereafter, compliance period remains until 2079. Effective in 2010, the property this loan relates to is reported as a blended component unit (see Note 1).	1,324,725	
Note payable to City of Seattle, matures October 21, 2037 with an option to extend for 35 years, interest accrues at 1% per annum for the first 20 years, then 5% will be forgiven annually for the remaining 20 years, certain contingent interest, as defined, shall be payable in the event of sale or change in ownership. Effective in 2010, the property this loan relates to is reported as a blended component unit (see Note 1).	1,398,589	
<u>Advance Payable:</u> CHHIP previously received funding from Homesight to be used for certain development activities. As the nature of the project changed, amounts previously provided by Homesight were required to be repaid. The amount outstanding as of December 31, 2010 was repaid by CHHIP to Homesight subsequent to year end.	50,000	
<u>Operating Line of Credit:</u> CHHIP has an operating line of credit with a bank in June 2008, with a maximum of \$300,000 at prime, which expires October 2011, no funds had been drawn as of December 31, 2010 or 2009.		
<u>Predevelopment Line of Credit:</u> CHHIP has a predevelopment line of credit with Impact Capital with a maximum of \$250,000 available and interest at 6% with principal to be paid in full upon maturity in October 2012.	<u>248,768</u>	<u>241,280</u>
	39,781,666	40,023,839
Less current portion of notes payable for Holiday Apartments		(1,555,238)
Less current portion of other notes payable	<u>(760,481)</u>	<u>(640,410)</u>
Noncurrent Portion	<u>\$ 39,021,185</u>	<u>\$ 37,828,191</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 5 - Continued

Debt service requirements to maturity on these notes are as follows for the years ending December 31:

<i>Years Ending December 31,</i>	<u><i>Principal</i></u>	<u><i>Interest</i></u>
2011	\$ 760,481	\$ 843,516
2012	530,841	820,566
2013	937,735	792,495
2014	1,487,647	761,287
2015	460,875	737,596
2016-2020	2,734,661	3,273,269
2021-2025	3,601,779	2,390,580
2026-2030	6,468,216	1,316,241
2031-2035	10,626,422	497,015
2036-2040	7,170,248	184,263
2041-2045	2,893,018	67,874
2046-2050	259,637	4,706
2051-2055	<u>1,850,106</u>	<u> </u>
Total	<u>\$ 39,781,666</u>	<u>\$ 11,689,408</u>

Accrued interest payable on the above notes payable totaled \$3,079,546 and \$2,796,892 at December 31, 2010 and 2009, respectively and is presented separately from the above total for notes payable on the balance sheet. Interest expense on the above notes payable aggregated \$986,424 and \$1,126,319 for 2010 and 2009, respectively and included the deferred interest on certain non-amortizing loans.

Substantially all notes payable are secured by deeds of trust on the related buildings. The notes payable to the City of Seattle require rental of the apartment units to low or moderate income tenants at stipulated base rents with certain allowable increases, compliance with certain federal regulations as to discrimination and establishment of certain reserves for repairs and maintenance.

Certain material City and State interest and principal are forgivable when, and with the passage of time, CHHIP meets certain continuing management obligations. Such notes have been included in notes payable, and interest expense has been accrued in accordance with the terms of the loans.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 5 - Continued

Long-term liability activity consisted of the following during 2009:

	<u>Notes Payable</u>	<u>Accrued Interest Payable</u>
Beginning balance, December 31, 2008	\$ 40,222,049	\$ 2,608,570
Increases:		
Mary Ruth Manor Refinance	558,203	
Holiday Apartments	28,462	
Impact capital LOC	241,277	
Accrual		1,065,094
Decreases:		
Payments	<u>(1,026,152)</u>	<u>(876,772)</u>
Ending Balance, December 31, 2009	<u>\$ 40,023,839</u>	<u>\$ 2,796,892</u>

Long-term liability activity consisted of the following during 2010:

	<u>Notes Payable</u>	<u>Accrued Interest Payable</u>
Beginning balance, December 31, 2009	\$ 40,023,839	\$ 2,796,892
Increases:		
Homesight	50,000	
Impact capital LOC	7,491	
Accrual		167,017
Transfers from a change in reporting unit		
Holiday Apartments LP	(4,648,235)	(60,666)
Villa Apartments LP	4,750,146	180,972
Decreases:		
Payments	<u>(401,575)</u>	<u>(4,669)</u>
Ending Balance, December 31, 2010	<u>\$ 39,781,666</u>	<u>\$ 3,079,546</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 6 - Investments in Limited Partnerships and LLCs

CHHIP is the sole general partner and owns a 0.01 percent interest in seven limited partnerships and is the managing member and owns a 0.01 percent interest in five limited liability companies. CHHIP owns a 51 percent interest in, and is the managing member of SOPI Village Manager LLC who is then the managing member and .01 percent owner of a sixth LLC, SOPI Village LLC. The remaining ownership interests in these entities are owned by unrelated third parties.

During 2010 and 2009, CHHIP earned property management fees of \$254,990 and \$274,928 respectively, and limited partnership and LLC management fees of \$121,870, and \$99,595, respectively, from these entities. Additionally, CHHIP earned development fees totaling \$604,381 in 2010 from Holiday Apartments LP and SOPI Village LLC.

The following is a summary of selected financial information as of and for the year ended December 31, 2010, from the separate audited financial statements of the limited partnerships and LLCs described above and also represents condensed financial information for the aggregated discretely presented component units:

	<i>December 31, 2010</i>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
1214 Boylston Avenue Limited Partnership	\$ 2,176,981	\$ 833,371	\$ 1,343,610
Broadway & Pine Apartments LLC	9,515,023	5,204,480	4,310,543
Capitol Hill Housing Foundation	29,165	(785)	29,950
El Nor Limited Partnership	3,581,299	2,156,133	1,425,166
Fleming Apartments Limited Partnership	2,122,494	2,729,577	(607,083)
Gilman Court Limited Partnership	2,212,046	1,946,126	265,920
Harrison Family Housing Limited Partnership	2,797,190	2,812,289	(15,099)
Helen V Apartments LLC	3,661,755	3,606,952	54,803
Holiday Apartments Limited Partnership	6,648,468	5,843,720	804,748
Oleta Apartments Limited Partnership	2,266,918	2,633,241	(366,323)
Pantages Apartments LLC	9,351,363	5,837,639	3,513,724
Silvian Apartments LLC	3,882,842	3,032,000	850,842
SOPI Village LLC	4,114,642	3,577,669	536,973
Woodland Park Avenue LLC	5,096,967	4,032,490	1,064,477
	<u>\$ 57,457,153</u>	<u>\$ 44,244,902</u>	<u>\$ 13,212,251</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 6 - Continued

	<u>Year Ended December 31, 2010</u>	
	<u>Total</u> <u>Revenues</u>	<u>Net Income</u> <u>(Loss)</u>
1214 Boylston Avenue Limited Partnership	\$ 273,249	\$ (41,174)
Broadway & Pine Apartments LLC	384,664	(355,587)
Capitol Hill Housing Foundation	89,913	29,950
El Nor Limited Partnership	505,670	(60,421)
Fleming Apartments Limited Partnership	235,505	(98,846)
Gilman Court Limited Partnership	260,077	(102,150)
Harrison Family Housing Limited Partnership	285,272	(112,096)
Helen V Apartments LLC	324,527	(143,417)
Holiday Apartments Limited Partnerhsip	239,244	186,583
Oleta Apartments Limited Partnership	232,688	(101,753)
Pantages Apartments LLC	439,276	(255,978)
Silvian Apartments LLC	319,731	492
SOPV Village LLC (under development)		
Woodland Park Avenue LLC	199,556	(199,238)
	<u>\$ 3,789,372</u>	<u>\$ (1,253,635)</u>

The following is a summary of selected financial information as of and for the year ended December 31, 2009, from the separate audited financial statements of the limited partnerships and LLCs described above and also represents condensed financial information for the aggregated discretely presented component units:

	<u>December 31, 2009</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
1214 Boylston Avenue Limited Partnership	\$ 2,286,207	\$ 901,423	\$ 1,384,784
Broadway & Pine Apartments LLC	9,887,121	5,220,991	4,666,130
El Nor Limited Partnership	3,658,068	2,172,481	1,485,587
Fleming Apartments Limited Partnership	2,185,591	2,693,828	(508,237)
Gilman Court Limited Partnership	2,347,472	1,979,402	368,070
Harrison Family Housing Limited Partnership	2,903,605	2,806,608	96,997
Helen V Apartments LLC	3,782,523	3,584,303	198,220
Oleta Apartments Limited Partnership	2,348,635	2,613,205	(264,570)
Pantages Apartments LLC	9,630,863	5,861,161	3,769,702
Silvian Apartments LLC	3,888,548	3,038,198	850,350
Villa Apartments Limited Partnership	4,766,370	5,144,409	(378,039)
Woodland Park Avenue LLC	5,284,544	4,020,829	1,263,715
	<u>\$ 52,969,547</u>	<u>\$ 40,036,838</u>	<u>\$ 12,932,709</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 6 - Continued

	<u>Year Ended December 31, 2009</u>	
	<u>Total</u>	<u>Net Income</u>
	<u>Revenues</u>	<u>(Loss)</u>
1214 Boylston Avenue Limited Partnership	\$ 260,909	\$ (38,356)
Broadway & Pine LLC (under development)	397,008	(301,663)
El Nor Limited Partnership	496,269	(28,535)
Fleming Apartments Limited Partnership	234,405	(124,760)
Gilman Court Limited Partnership	246,417	(89,349)
Harrison Family Housing Limited Partnership	290,118	(69,480)
Helen V Apartments LLC	309,497	(114,561)
Oleta Apartments Limited Partnership	235,838	(165,244)
Pantages Apartments LLC	415,577	(298,077)
Silvian Apartments LLC	322,718	12,353
Villa Apartments Limited Partnership	569,016	(237,716)
Woodland Park Avenue LLC	180,428	(215,306)
	<u>\$ 3,958,200</u>	<u>\$ (1,670,694)</u>

In addition to the notes receivable described in Note 2, CHHIP has recorded accounts receivable from the limited partnerships and LLCs described above with a net balance of \$606,127 and \$412,402 at December 31, 2010 and 2009, respectively. The accounts receivable balance at December 31, 2010 and 2009, is reported net of an allowance for doubtful accounts totaling \$691,212 and \$618,882, respectively, and is included in accounts receivable in the balance sheets.

CHHIP as the general partner or managing member has the option to purchase partnership property and right of first refusal at any time during the last 12 months of the initial 15-year low-income housing tax credit compliance period for each of the limited partnerships and LLCs.

As a general partner or managing member, as applicable, of the above partnerships and LLCs, CHHIP is liable for recourse liabilities. The limited partnership and LLC agreements provide for various obligations of the general partner or managing member, including an obligation to provide funds for any development and operating deficits. At December 31, 2010, CHHIP had \$694,393 of outstanding guarantees and \$380,638 of advances under guarantees. In addition CHHIP has provided a development completion guarantee for SOPI Village LLC which was under construction at December 31, 2010, and will be completed in 2011.

Note 7 - Employee Benefits

CHHIP contributes to a Simplified Employee Pension plan (SEP), a defined contribution benefit plan, on behalf of all eligible employees. The SEP was established to provide a "public retirement system" in lieu of participation in Social Security. CHHIP's contributions range from 7.5 percent to 15 percent of gross wages annually with the rate of contribution decreasing as compensation increases. The amount of CHHIP's contributions in 2010 and 2009 was \$147,624 and \$140,458, respectively.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

Note 8 - Acquisitions and Development

During 2010 and 2009, CHHIP was engaged in the following acquisition and development projects:

Holiday Apartments Limited Partnership - During 2009, CHHIP identified a replacement tax credit investor for the Holiday Apartments which was acquired in 2008 with the intent to rehabilitate the building using low income housing tax credits, bond financing and State and City loans. At that time CHHIP had a nonbinding commitment from an investor with an anticipated closing date of August 2008. Due to changing financial markets the investor was unable to meet its commitment. Closing with the new investor occurred in January 2010. The rehabilitation of the building was completed June 2010.

Jefferson and 12th LLC - During 2010, CHHIP continued predevelopment work on a 40 unit apartment building with ground floor commercial space. Closing with the land owner, funders and tax credit investor occurred May 2011.

12th Avenue Arts - During 2010, CHHIP continued to move forward with a concept for developing affordable housing, arts space and commercial space on a city owned surface parking lot. A letter of intent was executed with the city regarding the site in May of 2011.

SOPI Village LLC - During August 2009, CHHIP entered into a memorandum of understanding to partner with two local nonprofit organizations in the development of a 30-unit apartment complex in unincorporated King County. On January 1, 2010, SOPI Village Manager LLC of which CHHIP is managing member was admitted to SOPI Village LLC. Closing with the tax credit investor and commencement of construction occurred in October 2010. Construction will be completed September 2011.

Note 9 - Contingencies

CHHIP is exposed to risks commonly associated with the ownership and rental of real property. Risks including bodily injury, property damage by fire and forces of nature; loss of assets from theft and employee dishonesty; and liability for employees' conduct are mitigated by a combination of insurance, training and policies and procedures. Management is of the opinion that those risks are immaterial to the financial statements.

In connection with various federal, state, and city grants and loan programs, CHHIP is obligated to operate in accordance with those grant and loan requirements and is subject to audit by those agencies. In cases of noncompliance, the agencies involved may require that CHHIP refund payment of program funds. The amount, if any, of expenses which may be disallowed by the agencies cannot be determined at this time, although CHHIP expects such amounts, if any, to be immaterial.

Note 10 - Risk Management

CHHIP has obtained insurance coverage through a commercial insurance broker with the exception of workers compensation insurance and unemployment insurance which are provided by agencies of the State of Washington. Property loss coverage is on a replacement basis with a deductible of \$5,000 per occurrence. Settled claims have not exceeded coverage purchased during the past three years.

SUPPLEMENTARY INFORMATION

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

**Schedule Of Departmental Operations
For The Year Ended December 31, 2010**

	<i>Property Operations</i>	<i>Administration & Management</i>	<i>Total</i>
Receipts:			
Rents	\$ 5,802,129	\$ -	\$ 5,802,129
Vacancy	(263,210)		(263,210)
Tenant fees	159,478		159,478
Development fees		604,381	604,381
Fees for services		1,670,588	1,670,588
Contributions and grants	221,085	1,305,531	1,526,616
Partnership income			
Other income (expense)	79,127	(82,085)	(2,958)
Total Receipts	5,998,609	3,498,415	9,497,024
Expenditures:			
On-site management expense	942,830		942,830
Office salaries, benefits & payroll taxes		1,954,256	1,954,256
Utilities	717,902	96	717,998
Professional fees	263,918	138,176	402,094
Insurance	195,855	25,553	221,408
Property management fees	607,727		607,727
Repairs, maintenance & improvements	1,343,375		1,343,375
Maintenance services	107,857	59,477	167,334
Debt service	1,270,497		1,270,497
Office lease & NNN costs		108,125	108,125
Reserves	348,351		348,351
Other	135,364	341,458	476,822
Total Expenditures	5,933,676	2,627,141	8,560,817
Operating Income	64,933	871,274	936,207
Reconciliation to Statement of Income:			
Depreciation	(1,357,459)	(11,095)	(1,368,554)
Reserves additions	348,351		348,351
Interest income - restricted	8,790	439	9,229
Interest & financial expenses	(984,479)	(19,549)	(1,004,028)
Other income (expenses)	1,434		1,434
Fixed asset additions from operations	576,090		576,090
Expenses paid from reserves	(114,294)		(114,294)
Debt service payments	1,270,497		1,270,497
Front-line charges	309,165	(309,165)	
Management fees	599,855	(599,855)	
Maintenance service adjustments	107,857	(107,857)	
Net Income (Loss)	\$ 830,740	\$ (175,808)	\$ 654,932

See independent auditors' report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

**Schedule Of Property Operations
For The Year Ended December 31, 2010**

	<i>18th Avenue</i>	<i>410 11th East</i>	<i>Berneva</i>	<i>Boylston/ Howell</i>	<i>Bremer</i>	<i>Brewster</i>	<i>Broadway</i>	<i>Burke Gilman Gardens</i>	<i>Casa diCinque</i>
Receipts:									
Rents	\$ 105,876	\$ 43,690	\$ 92,658	\$ 252,550	\$ 333,939	\$ 245,865	\$ 48,977	\$ 133,214	\$ 39,108
Vacancy	(2,608)	(2,552)	(1,356)	(8,565)	(19,517)	(12,531)	(5,346)	(7,593)	
Tenant fees	1,021	1,583	1,421	5,994	9,609	3,753	745	3,256	1,181
Other income	261				5,548		6,229		
Total Receipts	104,550	42,721	92,723	249,979	329,579	237,087	50,605	128,877	40,289
Expenditures:									
On-site management expense	14,462	10,669	20,490	38,552	48,380	33,036	4,158	14,290	5,259
Utilities	10,979	5,088	13,110	36,827	35,552	29,273	3,468	15,409	6,955
Professional fees	7,476	1,803	3,606	9,015	14,722	10,676	1,502	4,507	1,502
Insurance	3,130	2,155	4,160	11,241	11,874	9,117	1,879	5,308	1,138
Property management fees	5,219	3,734	7,197	36,725	47,986	34,776	7,182	7,598	5,690
Repairs, maintenance & improvements	13,164	6,558	25,327	31,522	64,968	65,231	17,601	37,255	1,919
Maintenance services	1,922	533	2,369	5,467	4,966	5,228	103	3,926	262
Debt service	37,264	6,000	19,978	57,928	86,403	26,789	8,100	23,017	
Reserves	5,400	4,000	2,250	10,000	18,210	8,400	1,500	7,500	
Other	1,210	741	780	2,121	5,756	5,470	564	2,997	5,962
Total Expenditures	100,226	41,281	99,267	239,398	338,817	227,996	46,057	121,807	28,687
Operating Income (Loss)	4,324	1,440	(6,544)	10,581	(9,238)	9,091	4,548	7,070	11,602
Reconciliation to Statement of Income:									
Depreciation & amortization	(24,025)	(8,571)	(23,399)	(73,729)	(53,346)	(60,792)	(8,678)	(70,429)	
Reserves additions	5,400	4,000	2,250	10,000	18,210	8,400	1,500	7,500	
Interest income - restricted	216	135	32	479	156	1,847	55	286	99
Interest & financial expenses	(34,057)	(4,065)	(17,424)	(45,235)	(81,469)	(18,310)	(6,083)	(9,682)	
Other income (expense)									
Fixed asset additions from operations	5,548	1,443	15,657	8,013	12,613	33,049	3,845	4,288	
Expenses paid from reserves		(3,833)		(1,971)	(4,480)		(4,068)	(1)	
Debt service payments	37,264	6,000	19,978	57,928	86,403	26,789	8,100	23,017	
Frontline & bookkeeping charges	2,077	3,000	5,999	14,998	24,494	17,496	2,499	7,498	2,499
Management fees	5,219	3,734	7,197	36,725	47,986	34,776	7,182	7,598	5,690
Maintenance service adjustments	1,922	533	2,369	5,467	4,966	5,228	103	3,926	262
Net Income (Loss)	\$ 3,888	\$ 3,816	\$ 6,115	\$ 23,256	\$ 46,295	\$ 57,574	\$ 9,003	\$ (18,929)	\$ 20,152

See independent auditors' report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

**Schedule Of Property Operations - Continued
For The Year Ended December 31, 2010**

	<i>Centennial</i>	<i>Devonshire</i>	<i>Elizabeth Dean Wells</i>	<i>Fredonia</i>	<i>Gale Place</i>	<i>Hazel Plaza</i>	<i>Holden Vista</i>	<i>John Carney</i>	<i>Lincoln Court</i>
Receipts:									
Rents	\$ 249,171	\$ 451,491	\$ 47,508	\$ 216,458	\$ 231,711	\$ 124,056	\$ 129,880	\$ 177,888	\$ 232,545
Vacancy	(12,704)	(40,001)		(6,083)	(10,774)	(2,288)	(6,066)	(7,383)	(11,262)
Tenant fees	9,212	17,715	1,367	4,324	9,039	2,220	2,839	4,806	7,600
Other income		38,000		8,409		13,415	6,394	2,759	
Total Receipts	245,679	467,205	48,875	223,108	229,976	137,403	133,047	178,070	228,883
Expenditures:									
On-site management expense	38,767	55,555	4,746	23,501	30,615	30,412	26,779	23,951	33,862
Utilities	23,967	70,039	7,387	16,928	31,432	15,878	20,542	22,678	30,667
Professional fees	10,588	18,799	2,756	3,606	6,214	13,294	11,066	7,904	9,019
Insurance	8,514	13,810	1,963	4,903	8,141	4,823	5,008	6,353	7,344
Property management fees	13,832	68,161	6,912	33,980	32,321	8,149	7,872	27,059	7,996
Repairs, maintenance & improvements	22,977	175,239	4,633	28,332	57,807	21,686	32,313	27,970	34,071
Maintenance services	4,459	7,060	1,040	3,608	4,922	4,134		2,484	2,246
Debt service	112,851	9,080	6,000	68,196	36,000	20,412	11,403	35,700	95,423
Reserves	8,500	101,500	750	5,904	4,320	11,208	6,960	5,800	17,400
Other	1,862	6,920	708	16,142	9,419	6,525	7,916	1,941	3,984
Total Expenditures	246,317	526,163	36,895	205,100	221,191	136,521	129,859	161,840	242,012
Operating Income (Loss)	(638)	(58,958)	11,980	18,008	8,785	882	3,188	16,230	(13,129)
Reconciliation to Statement of Income:									
Depreciation & amortization	(56,528)	(58,719)	(6,703)	(28,004)	(48,440)	(22,714)	(18,740)	(40,797)	(80,356)
Reserves additions	8,500	101,500	750	5,904	4,320	11,208	6,960	5,800	17,400
Interest income - restricted	79	344	14	668	46	78	91	368	85
Interest & financial expenses	(90,879)	(6,121)	(5,484)	(52,833)	(26,940)	(6,816)	(4,135)	(34,256)	(85,883)
Other income (expense)						1,434			
Fixed asset additions from operations	763	109,065		7,125	7,558	177	6,031	14,769	8,391
Expenses paid from reserves		(14,203)		(14,055)		(15,179)		(2,216)	(7,122)
Debt service payments	112,851	9,080	6,000	68,196	36,000	20,412	11,403	35,700	95,423
Frontline & bookkeeping charges	14,998	30,993	2,499	5,999	11,580	3,693		13,288	14,497
Management fees	13,832	68,161	6,912	33,980	32,321	8,149		27,059	7,996
Maintenance service adjustments	4,459	7,060	1,040	3,608	4,922	4,134		2,484	2,246
Net Income (Loss)	\$ 7,437	\$ 188,202	\$ 17,008	\$ 48,596	\$ 30,152	\$ 4,024	\$ 6,232	\$ 38,429	\$ (40,452)

See independent auditors' report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

**Schedule Of Property Operations - Continued
For The Year Ended December 31, 2010**

	Mary Ruth Manor	Maxwell	Melrose	Miller Park	Park Hill	Ponderosa at Madison LLC	Tiltsonian	Byron/ Wetmore Apartments LP	Central City Affordable Housing	Elizabeth James Senior Housing	Villa Apartments LP	Larned Apartments LP	Total
Receipts:													
Rents	\$ 203,920	\$ 34,920	\$ 196,090	\$ 109,622	\$ 283,962	\$ 177,468	\$ 41,264	\$ 106,979	\$ 142,560	\$ 548,717	\$ 599,035	\$ 201,007	\$ 5,802,129
Vacancy	(22,452)	(1,830)	(13,880)	(1,620)	(7,511)	(6,710)	(1,252)	(1,889)	(4,737)	(16,849)	(21,649)	(6,202)	(263,210)
Tenant fees	5,160	956	4,110	4,100	7,600	1,575	1,081	1,804	5,714	7,083	28,003	4,607	159,478
Other income	19,743					6		1,479	14,511	183,100	280	78	300,212
Total Receipts	206,371	34,046	186,320	112,102	284,051	172,339	41,093	108,373	158,048	722,051	605,669	199,490	5,998,609
Expenditures:													
On-site management expense	37,835	6,090	33,007	21,986	43,286	49,561	4,776	17,969	38,141	96,875	90,634	45,186	942,830
Utilities	29,992	3,974	32,010	13,366	34,153	16,396	4,067	17,896	21,710	53,231	65,806	29,122	717,902
Professional fees	17,004	1,202	9,015	4,282	9,015	10,309	1,502	4,606	8,780	24,473	23,914	11,761	263,918
Insurance	5,400	1,694	6,637	4,179	11,688	5,644	2,052	4,077	4,712	14,838	17,209	6,864	195,855
Property management fees	10,866	4,065	27,611	8,415	43,245	10,716	5,961	19,056	6,324	28,728	46,277	34,074	607,727
Repairs, maintenance & improvements	20,282	8,622	29,684	21,202	33,716	49,328	3,123	23,121	22,040	363,916	68,843	30,925	1,343,375
Maintenance services	5,490	801	5,894	2,122	10,379	3,380	962	1,480	5,037	5,294	8,428	3,861	107,857
Debt service	68,772	4,644	32,688	22,385	53,820		8,400	5,100	37,316	149,069	227,759		1,270,497
Reserves	9,996	1,440	5,600	10,461	10,000	14,484		7,000	10,000	22,518	27,330	9,920	348,351
Other	3,161	589	1,828	979	4,227	5,349	501	1,436	7,935	6,780	12,766	8,795	135,364
Total Expenditures	208,798	33,121	183,974	109,377	253,529	165,167	31,344	101,741	161,995	765,722	588,966	180,508	5,933,676
Operating Income (Loss)	(2,427)	925	2,346	2,725	30,522	7,172	9,749	6,632	(3,947)	(43,671)	16,703	18,982	64,933
Reconciliation to Statement of Income:													
Depreciation & amortization	(39,759)	(6,537)	(32,906)	(36,612)	(33,843)	(7,339)	(9,011)	(38,930)	(43,610)	(76,189)	(258,277)	(90,476)	(1,357,459)
Reserves additions	9,996	1,440	5,600	10,461	10,000	14,484		7,000	10,000	22,518	27,330	9,920	348,351
Interest income - restricted	58	46	221	419	528	499	64	113	133	743	387	501	8,790
Interest & financial expenses	(43,515)	(3,629)	(27,424)	(23,871)	(44,467)		(6,308)	(2,194)	(12,826)	(114,661)	(167,338)	(8,574)	(984,479)
Other income (expense)													1,434
Fixed asset additions from operations	1,041	3,064	1,284	1,058	977	11,560		2,743		299,361	11,430	5,237	576,090
Expenses paid from reserves	(7,260)	(1,703)	(975)		(1,970)			(13,484)	(4,258)	(876)	(13,945)	(2,695)	(114,294)
Debt service payments	68,772	4,644	32,688	22,385	53,820		8,400	5,100	37,316	149,069	227,759		1,270,497
Frontline & bookkeeping charges	4,617	2,001	14,998	5,999	14,998	5,309	2,499	7,251	6,415	13,850	33,144	19,977	309,165
Management fees	10,866	4,065	27,611	8,415	43,245	10,716	5,961	19,056	6,324	28,728	46,277	34,074	599,855
Maintenance service adjustments	5,490	801	5,894	2,122	10,379	3,380	962	1,480	5,037	5,294	8,428	3,861	107,857
Net Income (Loss)	\$ 7,879	\$ 5,117	\$ 29,337	\$ (6,899)	\$ 84,189	\$ 45,781	\$ 12,316	\$ (5,233)	\$ 584	\$ 284,166	\$ (68,102)	\$ (9,193)	830,740

See independent auditors' report.

SINGLE AUDIT REPORTS

***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***

***Board of Directors
Capitol Hill Housing Improvement Program
Seattle, Washington***

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of Capitol Hill Housing Improvement Program (CHHIP), as of and for the year ended December 31, 2010, which collectively comprise CHHIP's basic financial statements and have issued our report thereon dated May 26, 2011. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of Elizabeth James Senior Housing, as described in our report on CHHIP's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered CHHIP's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CHHIP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CHHIP'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.

CLARK NUBER

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHHIP's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, municipal awarding agencies, 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.

Clark Nuber P.S.

Certified Public Accountants
May 26, 2011

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Independent Auditors' Report

***Board of Directors
Capitol Hill Housing Improvement Program
Seattle, Washington***

Compliance

We have audited Capitol Hill Housing Improvement Program's (CHHIP) compliance with the types of compliance requirements described in OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of CHHIP's major federal programs for the year ended December 31, 2010. CHHIP'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 CHHIP's management. Our responsibility is to express an opinion on CHHIP's compliance based on our audit.

CHHIP's financial statements include the operations of certain projects that received \$3,928,026 in federal awards. Those projects are subject to U.S. Department of Housing and Urban Development (HUD) reporting requirements. Those projects were audited as a separate organizational unit as permitted by OMB Circular A-133, Section §__.500a and HUD. Accordingly, the federal awards of \$3,928,026 are excluded from the accompanying schedule of expenditures of federal awards.

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 CHHIP'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 of CHHIP's compliance with those requirements.

In our opinion, CHHIP complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

CLARK NUBER

Certified Public
Accountants
and Consultants

Internal Control over Compliance

The management of CHHIP is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CHHIP's internal control over compliance with the 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 CHHIP's internal control over compliance.

A deficiency in internal control over compliance 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 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 was not designed to identify all deficiencies in internal control over compliance 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.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of CHHIP as of and for the year ended December 31, 2010, and have issued our report thereon dated May 26, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards is 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

CLARK NUBER

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, municipal awarding agencies, 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.

Clark Nuber P.S.

Certified Public Accountants

May 26, 2011

Certified Public
Accountants
and Consultants

CAPITOL HILL HOUSING AND IMPROVEMENT PROGRAM

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2010**

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-through Identifying Number</i>	<i>Federal Disbursements/ Expenditures</i>
Department of Housing and Urban Development			
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families*	14.103	127-44112	\$ 31,072
Pass-Through Program From:			
Housing Authority of the City of Bremerton			
Section 8 Housing Assistance Payments Program	14.195	WA 19M000017	84,543
Section 8 Housing Assistance Payments Program	14.195	WA 19M000141	122,038
Total 14.195			206,581
City of Seattle			
Community Development Block Grants/Entitlement Grants			
410 Apartments*	14.218		30,100
Bremer Apartments*	14.218		102,630
Elizabeth Dean Wells Apartments*	14.218		88,383
Fredonia Apartments*	14.218		409,760
Gale Place Apartments*	14.218		286,400
Lincoln Court Apartments*	14.218		1,203,904
Park Hill Apartments*	14.218		232,912
Community Development Block Grant Entitlement Grants	14.218	7006/10	107,000
Total 14.218			2,461,089
Rental Rehabilitation Program			
Elizabeth Dean Wells Apartments*	14.230		20,031
Gale Place Apartments*	14.230		480,000
Park Hill Apartments*	14.230		122,088
Total 14.230			622,119
State of Washington			
HOME Investment Partnership Program*	14.239	04-40403-004	1,000,000
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-10-NI-WA-0003	516,345
Enterprise Community Partners, Inc.			
Organizational Capacity Building - Community Development	14.252	10SG207	15,000
Local Initiatives Support Corporation			
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	PA# 40257-0033	45,000
Total 14.252			60,000
Total Department of Housing and Urban Development			4,897,206

See notes to schedule of expenditures of federal awards and independent auditors' report.

CAPITOL HILL HOUSING AND IMPROVEMENT PROGRAM

**Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended December 31, 2010**

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-through Identifying Number</i>	<i>Federal Disbursements/ Expenditures</i>
US Department of Energy			
Pass-Through Program From:			
Washington State Department of Commerce			
ARRA - Weatherization Assistance for Low-Income Persons			
Devonshire	81.042		38,000
Elizabeth James Senior Housing	81.042		128,530
Holiday Apartments	81.042		105,808
Total 81.042			272,338
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128		10,000
Total US Department of Energy			282,338
US Department of Health and Human Services			
Pass-Through Program From:			
Washington State Department of Commerce			
Low Income Home Energy Assistance	93.568		106,200
Total US Department of Health and Human Services			106,200
Total Federal Expenditures			\$ 5,285,744

* Denotes outstanding loan

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

***Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2010***

Note 1 - Basis of Presentation

This schedule includes the federal grant activity of Capitol Hill Housing Improvement Program 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.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2010**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of Major Programs:

CFDA Numbers

Name of Federal Program or Cluster

14.218	Community Development Block Grant/Entitlement Grants
14.239	HOME Investment Partnership Program
14.251	Economic Development Initiative-Special Project
81.042	Neighborhood Initiative and Miscellaneous Grants ARRA-Weatherization Assistance for Low-Income Persons

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes No

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

***Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2010***

Section II - Financial Statement Findings

No matters were reported.

Section III - Findings and Questioned Costs for Federal Awards

No matters were reported.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

***Schedule of Prior Audit Findings
For the Year Ended December 31, 2010***

There were no prior audit findings; therefore, no matters are reportable.