

**EPISCOPAL COMMUNITY SERVICES OF
SAN FRANCISCO**

JUNE 30, 2023

INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Episcopal Community Services of San Francisco

Independent Auditors' Report, Consolidated Financial Statements and Supplementary Information

Independent Auditors' Report	1 - 3
Consolidated Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities and Changes in Net Assets	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 34
Supplementary Information	
Consolidating Statement of Financial Position	35
Consolidating Statement of Activities and Changes in Net Assets	36



A Century Strong

Independent Auditors' Report

THE BOARD OF DIRECTORS
EPISCOPAL COMMUNITY SERVICES OF SAN FRANCISCO
San Francisco, California

Opinion

We have audited the consolidated financial statements of **EPISCOPAL COMMUNITY SERVICES OF SAN FRANCISCO (ECS)**, which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ECS as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of ECS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ECS's ability to continue as a going concern for one year from the date of this report.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ECS's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ECS's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information (pages 35 and 36) is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited ECS's June 30, 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 5, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
December 26, 2023

Episcopal Community Services of San Francisco

Consolidated Statement of Financial Position

<i>June 30, 2023 (with comparative totals for 2022)</i>	2023	2022
Assets:		
Cash and cash equivalents and restricted cash	\$ 19,746,087	\$ 15,870,670
Grants and contracts receivable	11,102,954	9,717,855
Affiliate and rent receivables	1,130,167	2,138,682
Investments	15,112,884	14,975,385
Prepaid expenses and other assets	1,582,791	2,646,931
Fixed assets, net	197,976,768	157,221,031
Investment in affiliate	2,689,503	55,100
Operating lease right-of-use assets	28,187,734	
Total assets	\$ 277,528,888	\$ 202,625,654
Liabilities:		
Accounts payable and accrued expenses	\$ 17,748,410	\$ 8,451,526
Line of credit	10,000,000	5,000,000
Deferred revenue and contract advances	5,079,554	3,786,265
Notes payable, net	107,907,667	79,807,672
Accrued interest on notes payable	8,153,304	7,452,829
Tenant security deposits	839,198	841,297
Operating lease liabilities	28,063,495	
Total liabilities	177,791,628	105,339,589
Net Assets:		
Without donor restrictions:		
Undesignated	6,162,075	7,389,198
Board designated	259,428	259,428
Affiliated entities (Note 2b)	86,186,074	67,535,830
Non-controlling interests (Note 2b)	(6,399,786)	7,112,851
Total net assets without donor restrictions	86,207,791	82,297,307
With donor restrictions	13,529,469	14,988,758
Total net assets	99,737,260	97,286,065
Total liabilities and net assets	\$ 277,528,888	\$ 202,625,654

See accompanying notes to the consolidated financial statements.

Episcopal Community Services of San Francisco

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2023 (with comparative totals for 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Revenue:				
Contributions and foundation grants	\$ 1,952,147	\$ 507,980	\$ 2,460,127	\$ 2,770,461
Bequest and trust revenue		1,794,147	1,794,147	10,000,000
Contributions, gifts-in-kind	546,209		546,209	492,946
Government grants and contracts	51,800,219		51,800,219	53,614,343
Rental income	11,596,801		11,596,801	12,898,828
Other program income	3,356,659		3,356,659	1,470,766
Interest income	181,744		181,744	8,148
Other income	364,301		364,301	347,556
Release of donor restrictions	3,761,416	(3,761,416)	-	-
Total support and revenue	73,559,496	(1,459,289)	72,100,207	81,603,048
Expenses:				
Program services	67,927,446		67,927,446	67,871,197
Supporting services	9,721,684		9,721,684	7,528,523
Total expenses	77,649,130	-	77,649,130	75,399,720
Change in Net Assets Before Other Changes	(4,089,634)	(1,459,289)	(5,548,923)	6,203,328
Other Changes:				
Legal settlement (Note 12)	(1,250,000)		(1,250,000)	-
Impairment loss (Note 2h)	(11,269,430)		(11,269,430)	-
Equity contributions (Note 10)	20,519,548		20,519,548	-
Forgiveness of Paycheck Protection Program Loan			-	3,417,346
Total Change in Net Assets	3,910,484	(1,459,289)	2,451,195	9,620,674
Net Assets, beginning of year	82,297,307	14,988,758	97,286,065	87,665,391
Net Assets, end of year	\$ 86,207,791	\$ 13,529,469	\$ 99,737,260	\$ 97,286,065

See accompanying notes to the consolidated financial statements.

Episcopal Community Services of San Francisco

Consolidated Statement of Functional Expenses

Year Ended June 30, 2023 (with comparative totals for 2022)

	ECS					Housing Entities	Total Program Services	Management and General	Fundraising	Total Supporting Services	2023 Total	2022 Total
	Interim Housing	Supportive Housing	Education and Employment Services	Healthy Aging	Subtotal ECS Services							
Salaries	\$ 9,996,489	\$ 10,145,572	\$ 3,086,367	\$ 419,267	\$ 23,647,695	\$ 1,310,382	\$ 24,958,077	\$ 4,571,306	\$ 491,825	\$ 5,063,131	\$ 30,021,208	\$ 30,423,580
Employee benefits and other payroll related costs	3,282,618	2,500,929	899,683	132,642	6,815,872	561,299	7,377,171	860,840	64,916	925,756	8,302,927	8,163,830
Professional services	95,673	1,103,508	52,515	13,920	1,265,616	1,743,750	3,009,366	1,886,367	274,198	2,160,565	5,169,931	4,205,324
Training and conferences	37,982	58,374	46,546	749	143,651		143,651	143,521	9,594	153,115	296,766	127,414
Marketing and printing	29,613	128,122	20,527		178,262		178,262	38,776	182,508	221,284	399,546	244,712
Food products	37	186,647	696,214	177	883,075		883,075		93	93	883,168	921,794
Food products, gifts-in-kind	2,516	543,693			546,209		546,209			-	546,209	492,946
Client subsidies and services	1,188,938	328,652	5,096,888	43,782	6,658,260		6,658,260	4,086	5,624	9,710	6,667,970	6,007,803
Supplies and services	377,323	816,912	87,810	4,052	1,286,097	1,125,774	2,411,871	65,749	8,013	73,762	2,485,633	2,341,690
Vehicle and transportation	9,875	504	23,990		34,369	-	34,369	75		75	34,444	39,394
Occupancy	1,853,899	7,712,448	354,730		9,921,077	2,685,617	12,606,694	20,097		20,097	12,626,791	11,994,748
Telecommunications	84,349	171,387	26,791	6,894	289,421	40,610	330,031	111,724	7,630	119,354	449,385	494,491
Insurance	138,741	126,153	60,021	9,171	334,086	729,386	1,063,472	81,672	8,854	90,526	1,153,998	1,800,704
Equipment and maintenance	50,933	912,021	42,496	5,717	1,011,167	1,910,226	2,921,393	210,308	142	210,450	3,131,843	2,773,715
Other	10,831	55,985	131,253	39,260	237,329	26,046	263,375	161,674	24,064	185,738	449,113	619,927
Total expenses before depreciation and interest	17,159,817	24,790,907	10,625,831	675,631	53,252,186	10,133,090	63,385,276	8,156,195	1,077,461	9,233,656	72,618,932	70,652,072
Interest expense						1,446,510	1,446,510	381,680		381,680	1,828,190	1,721,441
Depreciation and amortization	293	160,622			160,915	2,934,745	3,095,660	106,348		106,348	3,202,008	3,026,207
Expenses as shown on the Consolidated Statement of Activities and Changes in Net Assets	17,160,110	24,951,529	10,625,831	675,631	53,413,101	14,514,345	67,927,446	8,644,223	1,077,461	9,721,684	77,649,130	75,399,720
Other expenses:												
Legal settlement (Note 12)							-	1,250,000		1,250,000	1,250,000	-
Total Expenses	\$ 17,160,110	\$ 24,951,529	\$ 10,625,831	\$ 675,631	\$ 53,413,101	\$ 14,514,345	\$ 67,927,446	\$ 9,894,223	\$ 1,077,461	\$ 10,971,684	\$ 78,899,130	\$ 75,399,720

See accompanying notes to the consolidated financial statements.

Episcopal Community Services of San Francisco

Consolidated Statement of Cash Flows

<i>Year Ended June 30, 2023 (with comparative totals for 2022)</i>	2023	2022
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,451,195	\$ 9,620,674
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	3,202,008	3,026,207
Capital contribution	(20,519,548)	
Forgiveness of Paycheck Protection Program Loan		(3,374,200)
Loss on impairment of property	11,269,430	
Amortization of operating lease right-of-use assets	6,715,491	
Changes in operating assets and liabilities:		
Grants and contracts receivable	(2,203,577)	524,132
Affiliate and rent receivables	1,826,993	(165,381)
Prepaid expenses and other assets	1,064,140	(1,476,985)
Accounts payable and accrued expenses	(1,226,795)	2,555,258
Deferred revenue and contract advances	1,293,289	(1,185,431)
Accrued interest on notes payable	700,475	589,481
Tenant security deposits	(2,099)	742,710
Operating lease liabilities	(6,839,730)	
Net cash (used) provided by operating activities	(2,268,728)	10,856,465
Cash Flows from Investing Activities:		
Proceeds from investments	12,832,499	17,270,432
Purchases of investments	(12,969,998)	(26,113,789)
Investment in affiliate	(2,634,403)	
Purchases of property and equipment	(44,686,932)	(10,155,941)
Net cash used by investing activities	(47,458,834)	(18,999,298)
Cash Flows from Financing Activities:		
Capital contribution	20,519,548	
Proceeds from notes payable	28,761,463	8,463,581
Payments on notes payable	(678,032)	(470,498)
Payments on line of credit		(5,000,000)
Borrowings from line of credit	5,000,000	5,000,000
Net cash provided by financing activities	53,602,979	7,993,083
Change in Cash and Cash Equivalents and Restricted Cash	3,875,417	(149,750)
Cash and Cash Equivalents and Restricted Cash, beginning of year	15,870,670	16,020,420
Cash and Cash Equivalents and Restricted Cash, end of year	\$ 19,746,087	\$ 15,870,670
Supplemental Cash Flow Information:		
Interest paid	\$ 1,127,715	\$ 315,907
Noncash transactions from operating, investing and financing activities:		
Operating lease right-of-use assets financed by lease liabilities	\$ 34,903,225	
Purchases of fixed assets in account payable and accrued expenses	\$ 10,523,679	\$ 2,739,720
Assets acquired by assuming long-term liabilities	\$ 28,775,113	\$ 6,960,957
Interest added to principal balance of notes payable	\$ 2,084,189	\$ 1,337,527

See accompanying notes to the consolidated financial statements.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Note 1 - Nature of Organization:

Episcopal Community Services of San Francisco (ECS) is a nonprofit organization incorporated in the State of California. ECS helps homeless and very low-income adults and families move with dignity toward greater stability and housing by providing compassionate, individualized services and access to comprehensive resources in the community. Between July 1, 2022 and June 30, 2023, ECS served single adults and families with programs in four service areas: interim housing, supportive housing, education and employment services, and healthy aging.

Interim Housing

The Sanctuary shelter accommodates up to 200 men and women each day and night of the year. Clean bedding, hot showers, and nutritious meals help guests meet their immediate needs, while ECS's staff offers behavioral health services, on-site medical care through a partnership with the Department of Public Health and activities focused on helping shelter guests address their longer-term housing needs and other challenges that contribute to their homeless situation. Between July 1, 2022 and June 30, 2023, the Sanctuary provided individuals with 101,686 shelter bed nights.

The Interfaith Shelter is a collaborative, volunteer-supported effort with the San Francisco Interfaith Council and congregations throughout the City, offering overnight lodging and meals to homeless adults each night during the winter months. During winter 2022/2023, ECS partnered with the County of Marin to provide a pop up winter shelter during severe weather events.

ECS began operating **Shelter-in-Place Hotels** in March 2020 as part of a coordinated, public-private, emergency response to the COVID-19 pandemic. This program offered interim housing, meals, laundry, healthcare, behavioral health, and other support services to over 900 guests in eight hotels and was intended to be a temporary emergency response. All sites ended operations on or before June 30, 2023.

ECS's **Reentry Interim Housing** program provides short-term shelter and support services to men exiting incarceration. Between July 1, 2022 and June 30, 2023, this program served 111 individuals.

The **Bryant Homeless Property Program** can serve up to 500 homeless clients who can store their property for up to 6 months in a clean, safe, and secure environment.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Supportive Housing

ECS provides **permanent supportive housing** and services to more than 2,000 individuals at 20 permanent housing sites. Services include on-site case management, vocational counseling, and access to health care for formerly homeless and extremely low-income adults and families, many of whom are dealing with mental health or physical disabilities, substance use issues, literacy challenges, and/or vocational barriers. Services are geared toward ensuring housing retention, building community, and enhancing individual well-being.

ECS is the sponsor of five facilities, serving 103 units at **Canon Kip Community House**, 47 units for formerly homeless families at **Canon Barcus Community House**, 134 units at **Bishop Swing Community House**, 214 units at **The Granada**, and 122 units at **The Diva**. The ownership structure for each facility is further explained in Note 2. ECS also provides services in units for single adults at its master-leased sites—**The Elm** (80 units), **The Mentone** (68 units), **The Hillsdale** (75 units), **The Alder** (116 units), **The Crosby** (124 units), **The Henry** (121 units), and **The Post** (89 units).

ECS provides services for single adults at Mercy Housing California's buildings: **The Tahanan** (145 units), **The Rose** (75 units), 50 formerly homeless family units at **1180 4th Street Apartments**, and 33 formerly homeless family units at **455 Fell St**. In collaboration with DISH Property Management, ECS provides services to 121 units at **The Auburn**, and 50 units at **The Minna Lee**.

ECS administers the **Step Up To Freedom** program, a Rapid Rehousing Program that places up to 40 justice-involved people into their own apartments with a two year rent subsidy.

ECS is the lead provider for the **SF Single Adult Coordinated Entry System (ACES)**. ACES serves as the gateway for people experiencing homelessness in the city to be assessed, prioritized, and matched to services and housing resources. ACES starts by providing problem solving and assessment, then prioritizes the most vulnerable individuals for supportive housing and housing navigation support. Clients who move into housing are offered stabilization services, such as connections to medical care or employment support, which help them transition into and maintain their new housing. ACES served 7,827 people in the year ending June 30, 2023, placing 1,470 of those people into supportive housing.

ECS **Behavioral Health** provides mobile behavioral health services to San Francisco's homeless in housing settings such as shelters, interim housing, navigation centers, shelter-in-place hotels, permanent supportive housing, and other parts of the homeless response system. Between July 1, 2022 and June 30, 2023, 355 individuals were supported through ECS's Behavioral Health services.

Rapid Rehousing for CalWORKS Families serves families that need housing assistance in Marin County. The subsidy is available for up to two years for families compliant with their CalWORKS case plan. This program began January 2023.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Education and Employment Services

ECS offers workforce development and employment services as a pillar of preventing and ending homelessness. In partnership with the Adult Coordinated Entry System (ACES), ECS offers **Rapid Re-employment** services including direct referral to employment specialists for people interested in seeking employment, benefits counseling for people seeking to eliminate or reduce their public benefits, and rapid-rehousing subsidies combined with employment.

The Conquering Homelessness through Employment Food Services (**CHEFS Kitchen**) provides training opportunities and employment at ECS. The **CHEFS Training program** is a free culinary training course combining classroom instruction, case management, in-kitchen hands-on training, and a paid internship with the goal to secure permanent employment. The program prepares students for employment in the culinary field. Students earn a Food Handlers Certificate and hone their abilities, station-by- station, until they have mastered the skills to run a kitchen by themselves. CHEFS training program was put on hold in March of 2020 due to the COVID-19 pandemic and resumed in September 2020 on a limited basis to take into account added safe distancing.

The **CHEFS Social Enterprise** is a catering and food service program that provides employment opportunities for CHEFS students and graduates. Catering and food service contracts support the program and employees. The program provides catering and food preparation services for local organizations and grew substantially in 2021 as it scaled up to prepare and deliver over 558,662 meals to guests and residents in affordable housing, interim housing, and shelter-in-place hotels.

During the fiscal year ended June 30, 2023, ECS began a new Workforce program, **Realizing Employment and Careers in Human Services ('REACH') Program** (formerly Supportive Services Sector Employment Training). REACH prepares participants for positions in social services including shelter monitor, housing navigator, case manager, activities coordinator, etc. Between July 1, 2022 and June 30, 2023, REACH provided paid training and placement support to 184 participants.

Healthy Aging

Canon Kip Senior Center services include a daily nutritious lunch, recreational and social activities to reduce isolation, support groups, educational workshops and case management for seniors and adults with disabilities. In-person, congregate services were provided through physically distanced in-person services, telephone and video conferencing, meal take-out, and delivery of activities and technological devices to reduce isolation. Between July 1, 2022 and June 30, 2023, this program supported 902 participants and provided 85 tablets for seniors to access remote activities.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The accompanying consolidated financial statements are presented on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

b. Principles of Consolidation

The accompanying consolidated financial statements reflect the consolidation of the individual financial statements of ECS and its affiliates, Canon Barcus Associates, L.P. (CBA), Canon Kip Associates II, L.P. (CKA II), 275 10th Street Associates, L.P. (275 LP), 1251 S. Eliseo LLC (Eliseo), and ECS Housing Corporation (EHC), a nonprofit supporting organization to ECS, sole member and manager of 1000 Sutter LLC and 440 Geary LLC; known collectively as the housing affiliate entities. CBA is the owner of Canon Barcus Community House. CKA II became the owner of Canon Kip Community House on the 14th of December 2016. 275 LP is the owner of the Bishop Swing Community House. ECS appoints the members of the Boards of Directors of Canon Barcus, Inc. (CBI), the managing general partner of CBA, and of Canon Kip, Inc. (CKI), the managing general partner of CKA II. CBI holds a 0.1% equity interest in CBA and CKI holds a 0.01% equity interest in CKA II. 275 10th Street LLC (275 LLC), of which ECS is the sole member, serves as the general partner of 275 LP and holds a 0.01% interest in the partnership. EHC is the managing entity for 275 LLC.

Non-controlling interests by affiliate are as follows as of June 30, 2023:

Canon Kip Associates II, L.P.	\$ 4,511,659
Canon Barcus Associates, L.P.	(655,392)
275 10 th Street Associates, L.P.	(10,256,053)
	<hr/>
	\$ (6,399,786)

Consolidated financial statements are required because of the relationships among the housing entities. All significant intercompany accounts and transactions have been eliminated in the consolidation.

c. Description of Net Assets

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

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Net Assets without donor restrictions - the portion of net assets that are not restricted by donor-imposed stipulations. The Board of Directors has designated \$259,428 for future operations.

Net Assets with donor restrictions - the portion of net assets the use of which by ECS is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of ECS.

d. Recognition of Revenue

Contributions are recognized at their fair value when the donor makes an unconditional promise to give to ECS. Donor-restricted contributions are reported as increases in donor restricted net assets depending on the nature of the restrictions. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using market discount rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. ECS uses the allowance method to determine uncollectible receivables. The allowance is based upon prior years' experience and management's analysis of specific promises made. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

ECS is the beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts are recognized in ECS's consolidated financial statements as bequests receivable when clear title is established and the proceeds are measurable.

The ECS housing affiliate entities account for tenant leases as operating leases. ECS determines if a contract is a lease or contains a lease at inception. At the commencement of an operating lease, no income is recognized; subsequently, lease payments received are recognized on a straight-line basis. Rental revenue attributable to tenant leases is recorded when due from the residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other income includes fees for late payments, cleaning, damages, laundry facilities and other tenant charges and is recorded when earned. Advance receipts of revenue are deferred and classified as liabilities until earned.

Contributed goods and services are recognized as in-kind revenues at their estimated fair value if they require a specialized skill, are provided by someone with that skill and would need to be purchased if they are not donated. In valuing donated food, ECS estimated the fair value on the basis of wholesale values that would be received for selling similar products in the United States.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

For the year ended June 30, 2023, ECS recognized in-kind contributions of \$546,209 which was utilized in the following functional program areas:

Interim housing	\$ 2,516
Supportive housing	543,693
	<hr/>
	\$ 546,209

A portion of ECS's revenue is derived from cost-reimbursable federal and state contracts, which are conditioned upon certain performance requirements and/ or incurring qualifying expenses. Amounts received are recognized as revenue when ECS has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the Statement of Financial Position. ECS has been awarded cost-reimbursable grants of approximately \$10,531,000, that have not been recognized at June 30, 2023, because qualifying expenditures have not yet been incurred. This amount consisted of \$596,000 of unspent costs due to these programs being closed prior to the end of the fiscal year as directed by the related contracting agencies. Approximately \$2,859,000 was unspent mostly due to contracting agencies' delays in finalizing contracts, \$6,506,000 was unspent due to reduced spending due to vacancies and operational expenses, and \$570,000 is scheduled to be carried over to the following fiscal year.

e. Cash and Cash Equivalents

For the purpose of the Consolidated Statement of Cash Flows, ECS considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Cash and cash equivalents include restricted cash of \$10,421,490 at June 30, 2023 that represents funds subject to restrictions from other parties regarding the future use of such cash, tenant security deposits, replacement reserves, and operating reserves.

f. Investments

Investments are reported at fair market value. Gains and losses that result from market fluctuations are recognized in the Consolidated Statement of Activities and Changes in Net Assets in the period such fluctuations occur. Interest income is accrued when earned.

Investments are comprised of money market funds of \$15,112,884 and are classified as Level 1, as defined below.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

g. Fair Value Measurements

ECS carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ECS classifies its financial assets and liabilities according to three levels and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

h. Fixed Assets

Fixed assets consisting of buildings and improvements, land, vehicles, tax credit costs, furniture, equipment leasehold improvements, and construction in process are recorded at cost, or if donated, at the fair value at the date of the gift. Depreciation and amortization have been provided using the straight-line method over the estimated useful lives of the assets, which range from three to forty years.

ECS and its affiliates review buildings and improvements for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the assets to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from the appraisal, discounted cash flow analysis, or other valuation technique. In 2023, ECS determined the estimated fair market value of the building for 275 10th Street Associates, L.P. was less than its carrying amount. Management determined that the building was impaired and ECS recognized an impairment loss of \$11,269,430 in 2023.

i. Loan costs

Loan costs are amortized over the life of the related debt using the straight-line method, which approximates the effective yield method of amortization and are included in loan payable in the accompanying Consolidated Statement of Financial Position.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

j. Income Taxes

ECS is a tax-exempt organization under the provisions of the Internal Revenue Code, Section 501(c)(3), and the California Revenue and Taxation Code, Section 23701(d). Accordingly, no provision for federal and state income taxes has been reflected in these consolidated financial statements.

Canon Kip Associates II, L.P. is a limited partnership that is controlled by Canon Kip, Inc., a supporting organization of ECS which is tax-exempt under the provisions of the Internal Revenue Code, Section 501(c)(3), and the California Revenue and Taxation Code.

Canon Barcus Associates, L.P. is a limited partnership that is controlled by Canon Barcus, Inc., a supporting organization of ECS which is tax-exempt under the provisions of the Internal Revenue Code, Section 501(c)(3), and the California Revenue and Taxation Code.

275 10th Street Associates, L.P. is a limited partnership that is controlled by 275 10th Street LLC, a single member limited liability company.

ECS Housing Corporation is a tax-exempt organization under the provisions of the Internal Revenue Code, Section 501(c)(3), and the California Revenue and Taxation Code.

1000 Sutter LLC is a single member limited liability company that is controlled by ECS Housing Corporation, a tax-exempt organization.

440 Geary LLC is a single member limited liability company that is controlled by ECS Housing Corporation, a tax-exempt organization.

1251 S. Eliseo LLC is a single member limited liability company that is controlled by ECS, its sole member and managing entity.

Management evaluated ECS's tax positions and concluded that ECS had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the consolidated financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

k. Allocation of Functional Expenses

The costs of providing program services, management and general and fundraising activities have been summarized on a functional basis in the Consolidated Statement of Activities and Changes in Net Assets. Management and general expenses by function have been allocated among program and supporting services classifications utilizing an indirect cost rate based on direct costs such as salaries, depreciation, and professional fees established in the simplified allocation method.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

l. Leases

ECS determines whether an arrangement is or includes a lease and categorizes leases as either operating or finance leases at their commencement. ECS does not have any financing leases. ECS elected not to recognize right-of-use (ROU) assets and lease liabilities for leases with a term of 12 months or less. Operating right-of-use lease assets represent ECS's right to use an underlying asset during the lease term and operating lease liabilities represent ECS's obligation to make payments arising from the lease. Operating leases are recorded in operating right-of-use assets and operating lease liabilities on the Statement of Financial Position.

Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The discount rate used to derive the present value is based on the risk-free rate for the period comparable to the lease term. Renewal periods are included in calculating the right of use assets and liabilities when they are reasonably certain of exercise. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

m. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain amounts. Accordingly, actual results could differ from those estimates.

n. Comparative Financial Statements and Reclassifications

The consolidated financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include the sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with ECS's consolidated financial statements for the year ended June 30, 2022 from which the summarized information was derived.

Certain reclassifications have been made to the 2022 consolidated financial statements in order to conform to the 2023 presentation. These reclassifications had no impact on net assets or change in net assets.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

o. Recent Accounting Pronouncements

Pronouncement Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees are required to recognize the following at the commencement date of all leases not classified as short-term: 1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right-of-use (ROU) asset, which represents the lessee's right to use, or control the use of, a specified asset for the lease term. ECS adopted the ASU as of July 1, 2022, using the transition method under which the prior year information is presented in accordance with Topic 840. ECS made an accounting policy election, available under Topic 842, not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. ECS applied a package of practical expedients to its leases that commenced before the adoption date, electing not to reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. Adoption of Topic 842 resulted in the recording of operating ROU assets and lease liabilities of \$34,650,590 at July 1, 2022. The adoption of the new lease standard did not materially impact the change in net assets or cash flows for the year ended June 30, 2023. With respect to tenant leases, ASU 2016-02 did not materially affect lease accounting by lessors.

p. Subsequent Events

The management of ECS has reviewed the changes in its net assets for the period of time from its fiscal year ended June 30, 2023 through December 26, 2023, the date the consolidated financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements nor have any subsequent events occurred which would require disclosure, except as disclosed in Notes 4 and 6.

Note 3 - Grants and Contracts Receivable:

Grants and contracts receivable consist of the following at June 30, 2023:

Government contracts	\$ 9,691,603
Contributions receivable	1,052,975
Other	358,376
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	\$ 11,102,954

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Grants and contracts receivable as of June 30, 2023 are expected to be received as follows: \$11,094,954 within one year and \$8,000 within two years.

Note 4 - Fixed Assets:

Fixed assets at June 30, 2023 were as follows:

Land	\$ 73,994,665
Site improvements	1,005,859
Building and building improvements	90,237,864
Leasehold improvements	4,627,592
Furniture and equipment	3,202,822
Vehicles	176,784
Construction in process	55,044,964
	<hr/>
	228,290,550
Less accumulated depreciation	(30,313,782)
	<hr/>
	\$ 197,976,768

Depreciation and amortization expense for the year ended June 30, 2023 was \$3,202,008.

1000 Sutter LLC entered into construction and architectural design agreements with a combined remaining commitment of approximately \$11,294,000 as of June 30, 2023. Subsequent to year end, ECS paid approximately \$6,290,000 of the remaining commitment.

1251 S. Eliseo LLC entered into construction and architectural design agreements with a combined remaining commitment of approximately \$13,083,358 as of June 30, 2023. Subsequent to year end, ECS paid approximately \$6,771,000 of the remaining commitment.

Note 5 - Line of Credit:

ECS has a \$10,000,000 line of credit with First Republic Bank, which is secured by ECS's grants and contracts receivable balances. Interest is payable monthly at a rate of 8.25% per annum at June 30, 2023 with a maturity date of April 20, 2024. The outstanding balance as of June 30, 2023 is \$10,000,000.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Note 6 - Notes Payable:

Notes payable at June 30, 2023 consisted of the following by entity:

Canon Kip Associates II, L.P.	\$ 12,961,143
Canon Barcus Associates, L.P.	8,157,469
275 10 th Street Associates, L.P.	16,945,131
1000 Sutter LLC	26,789,849
440 Geary LLC	43,054,075
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Total	\$ 107,907,667

Interest payable consisted of the following at June 30, 2023:

Canon Kip Associates II, L.P.	\$ 1,775,444
Canon Barcus Associates, L.P.	3,753,078
275 10 th Street Associates, L.P.	2,441,322
1000 Sutter LLC	58,094
440 Geary LLC	125,366
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Total	\$ 8,153,304

Interest expense consisted of the following for the year ended June 30, 2023:

ECS	\$ 381,680
Canon Kip Associates II, L.P.	321,805
Canon Barcus Associates, L.P.	244,142
275 10 th Street Associates, L.P.	210,912
1000 Sutter LLC	9,693
440 Geary LLC	659,958
<hr/>	
Total	\$ 1,828,190

a. Episcopal Community Services of San Francisco

In March 2022, ECS entered into a loan in the amount of \$1,101,437 that bore annual interest of 4.5% with a maturity date of January 9, 2023 from First Insurance Funding (the Loan). The Loan was taken out on behalf of 1000 Sutter LLC to pay for insurance related to the construction rehabilitation project of the building owned by 1000 Sutter LLC, and was secured by an interest in these policies. The loan was paid off in full in January 2023.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

b. Canon Kip, Inc., Canon Kip Associates, L.P. and Canon Kip Associates II, L.P.

The ECS Board of Directors appoints the members of the Board of Directors of Canon Kip, Inc. (CKI). CKI is the managing General Partner of Canon Kip Associates II, L.P. (CKA II). CKI has a 0.01% ownership interest in CKA II. Until December 14, 2016, Canon Kip Associates, L.P. (CKA), a now dissolved entity, owned and operated Canon Kip Community House (CKCH), a 103-unit low-income housing tax credit, permanent supportive housing project (the Project) for formerly homeless adults, which was developed by ECS in 1994.

The Project, while held by CKA, completed its low-income housing tax credit compliance period on December 31, 2009, and on January 1, 2010, National Equity Fund 1992 Limited Partnership, CKA's Limited Partner, withdrew from the partnership and ECS entered CKA as the new limited partner.

Canon Kip Associates II, L.P. was formed as a limited partnership on February 12, 2016, to acquire, rehabilitate, own, and operate Canon Kip Community House. The initial Limited Partner was ECS. CKA II received a preliminary allocation of low-income housing tax credits in June 2016. On December 14, 2016, ECS withdrew from the partnership and assigned its partnership interest to NEF Assignment Corporation. On that same date, CKA transferred the Project, and associated debt, to CKA II as part of a major rehabilitation and re-syndication project for the property. The property underwent substantial rehabilitation which was completed in September 2018.

CKA II is controlled by its General Partner, Canon Kip, Inc. ECS has guaranteed CKI's contractual obligations, including the continued management, development completion, loans, tax credit and operations of CKA II. Management believes that the likelihood of funding a material amount of any of these guarantees is remote.

CKA II, through the General Partner, has entered a rental assistance payments contract with the City and County of San Francisco's Mayor's Office of Housing and Community Development (MOHCD), whereby the project receives rent subsidies for housing eligible low-income individuals in accordance with the MOHCD Shelter Plus Care Program through a grant provided to the City by the U.S. Department of Housing and Urban Development (HUD). The Shelter Plus Care program has since adopted HUD's program name, Continuum of Care (CoC) program and is no longer referred to as Shelter Plus Care on the federal and local levels. The program requires that 80 units of residential housing be designated to provide affordable housing and social services to homeless persons who are dually diagnosed with HIV/AIDS, mental health, or substance abuse issues. The contract expires at the termination of the grant from HUD to MOHCD and was transferred to the partnership upon acquisition of the property.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Notes payable for Canon Kip Associates II, L.P., are secured by the property and are due upon maturity unless otherwise indicated. For the year ended June 30, 2023 CKA II accrued interest expense of \$320,802 for a total outstanding accrued interest balance at year-end of \$1,775,444. These notes payable consisted of the following as of June 30, 2023:

Note payable to the City and County of San Francisco (CDBG/HOME) bearing interest of 3% per annum. Annual payments to be made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full on the 55 th anniversary of the project's 'Conversion Date' of October 1, 2071.	\$ 5,743,396
Note payable to the California Department of Housing and Community Development (HCD/RHCP loan) bearing simple interest of 3% per annum. Annual payments to be made subject to available net cash flow. The loan is due in 2071.	3,240,581
Note payable to Silicon Valley Bank, a division of First Citizens Bank (AHP) is non-interest bearing and is due and payable in 2074.	1,030,000
Note payable to the Department of Housing and Community Development for Multifamily Housing Program in the amount of \$3,000,000 bearing simple interest of 3% per annum. Annual interest payments shall be made in the amount of 0.42% of the outstanding principal balance. The principal and unpaid accrued interest to be repaid in full on the 55 th anniversary of the project's 'date of recordation' which is December 15, 2071.	3,000,000
Total	13,013,977
Less unamortized loan costs	(52,834)
Total - net of unamortized loan costs	\$ 12,961,143

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

c. Canon Barcus, Inc. and Canon Barcus Associates, L.P.

The ECS Board of Directors appoints the members of the Board of Directors of Canon Barcus, Inc. (CBI). CBI is the managing General Partner of Canon Barcus Associates, L.P. (CBA), which owns Canon Barcus Community House (CBCH), supportive housing for 47 formerly homeless families. CBI has a 0.1% ownership interest in CBA.

ECS earned a fee of \$455,749 for development of Canon Barcus Community House. The entire amount of the developer fee was collected and invested in a government money market fund until March 2020, when the balance was transferred out and used as part of ECS's down payment towards the CHEFS kitchen facility at the 1064 Mission project. (See Note 9.)

ECS has guaranteed CBI's contractual obligations, including the continued management and operations of CBA.

ECS leases admin and program facilities from CBA for \$1 per year and funded leasehold improvements to the facility.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Notes payable are secured by the property and assignment of rents and project income unless otherwise noted. CBA accrued interest expense of \$244,142 for the year ended June 30, 2023 for a total accrued interest balance at year-end of \$3,753,078. These notes payable consisted of the following at June 30, 2023:

Note payable to the City and County of San Francisco in the original amount of \$1,122,250, is non-interest bearing and matures and payable on January 7, 2053.	\$ 1,122,250
Note payable to the Successor Agency to the San Francisco Redevelopment Agency, in the original amount of \$689,406, bearing interest of 3% per annum through maturity in August 2050 and requires payment of principal and interest from 67% of surplus cash, if any, from the prior year's operations. Payment to the Successor Agency to the San Francisco Redevelopment Agency from surplus cash is subordinate to certain other obligations, including payment of any deferred developer fee or partnership management fee.	689,406
Note payable to First Republic Bank dated February 10, 2003 in the original amount of \$200,000. The loan is non-interest bearing, and payments of principal are deferred until maturity in 2033. Upon completion of the loan term without violation of the Requirements, the entire amount of the loan will be forgiven.	200,000
Note payable to the City and County of San Francisco in the original amount of \$7,997,539. The loan agreement states varying interest rates (ranging between 0% and 4.45%) and terms for specified loan amounts and matures in August 2049.	6,178,892
Total	8,190,548
Less unamortized loan costs	(33,079)
Total - net of unamortized loan costs	\$ 8,157,469

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

d. 275 10th Street LLC and 275 10th Street Associates, L.P. (Bishop Swing)

ECS is the sponsor and developer of Bishop Swing Community House (BSCH), a 134-unit low-income housing tax-credit, permanent supportive housing project for formerly homeless individuals, which completed construction in July 2009. Ownership of the development, located at 275 10th Street, is held by 275 10th Street Associates, L.P. (The Partnership). The Partnership holds a 70-year ground lease, with a 34-year option to extend, on the land owned by the Successor Agency to the San Francisco Redevelopment Agency.

275 10th Street LLC, of which ECS is the sole member, is the General Partner of 275 10th Street Associates, L.P. and holds a 0.01% equity position in the project. During the year ended June 30, 2019, ECS Housing Corporation was created to be the Managing entity for 275 10th Street LLC. ECS has guaranteed 275 10th Street LLC's contractual obligations, including the continued management and operations of the development. 275 10th Street Associates, L.P. has funded an operating reserve to cover any unexpected shortfall in operations.

The Partnership holds long-term deferred payment loans from the San Francisco Mayor's Office of Housing and Community Development, the Successor Agency to the San Francisco Redevelopment Agency, and the California Department of Housing and Community Development.

Enterprise Community Investment, Inc. brought in Bank of America Housing Fund VII Limited Partnership, LLP as the Limited Partner in 2008. In June 2011, The Partnership was granted its Low-Income Tax Credit Allocation and Certification, Form 8609, at which time the Limited Partner paid in its final equity contribution, bringing its total investment in the project to \$13,700,433.

ECS earned a fee of \$697,500 for development of Bishop Swing Community House, of which \$497,500 was invested in a government money market account. The entire amount of the developer fee was held until March 2020, when the balance was transferred out and used as part of ECS's down payment towards the CHEFS kitchen facility at the 1064 Mission project. (See Note 9.)

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Notes payable are secured by the property and are not due until maturity unless otherwise noted. 275 10th Street Associates recorded accrued interest expense of \$210,912 for June 30, 2023 for a total outstanding accrued interest balance of \$2,441,322. These notes payable consisted of the following at June 30, 2023:

Note payable to the City and County of San Francisco Mayor's Office of Housing and Community Development for two HOME loans in the original amount of \$1,932,585, is non-interest bearing and matures on June 27, 2060.	\$ 1,907,205
Note payable to the City and County of San Francisco Mayor's Office of Housing and Community Development for Affordable Housing Funds (AHF) in the original amount of \$5,141,107, is non-interest bearing and matures November 28, 2062.	2,871,151
Note payable to the Successor Agency to the San Francisco Redevelopment Agency, in the original amount of \$5,250,000, is non-interest bearing and matures November 27, 2067.	5,204,726
Note payable to the California Department of Housing and Community Development for Multifamily Housing Program in the original amount of \$7,000,000, bearing interest of 3% per annum through maturity on February 10, 2065 and requires payments in the amount of 0.42% per annum on the unpaid principal balance of the loan payable annually through the February 10, 2039 and commencing on the 30th anniversary of annual loan payments per terms of promissory note.	7,000,000
Total	16,983,082
Less unamortized loan costs	(37,951)
Total - net of unamortized loan costs	<u>\$ 16,945,131</u>

Additionally, 275 10th Street LLC carries a note payable to Silicon Valley Bank, a division of First Citizens Bank in the original amount of \$675,000. The AHP loan is non-interest bearing, and principal payments are deferred until maturity, which is 15 years from the date of project completion. Upon completion of the loan term without violation of loan requirements, the entire amount of the loan will be forgiven. The LLC contributed these funds to the Partnership as a capital contribution in December 2008.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

e. 1000 Sutter LLC (Granada Hotel)

On July 16, 2020, the State of California Housing and Community Development Department (HCD) issued a Notice of Funding Availability (NOFA) to be utilized in the acquisition, development, rehabilitation, and operations of affordable housing projects, called the Homekey Program. In August 2020, ECS partnered with the City and County of San Francisco's Department of Homelessness and Supportive Housing (HSH) as co-sponsors, with the City as lead applicant, and submitted an application for these funds with the intention of acquiring, owning, rehabilitating and operating a 214-unit property located at 1000 Sutter Street, San Francisco, called the Granada Hotel. ECS then entered into a Purchase and Sale Agreement on September 29, 2020 for this property, and on October 18, 2020, 1000 Sutter LLC was formed.

HCD approved ECS and HSH's application, and a Standard Agreement was executed on November 6, 2020, with \$47,854,020 total Homekey funds awarded. ECS assigned both documents to 1000 Sutter LLC on November 13, 2020 for which ECS Housing Corporation is the sole manager and member, and on the same date, 1000 Sutter LLC acquired the Granada Hotel for \$46,000,000, of which \$42,334,020 were awarded Homekey funds. The remaining \$5,520,000 of Homekey award funds were utilized as a 24-month operating subsidy and was fully expended by June 30, 2022.

1000 Sutter LLC also entered into two loans, one for \$10,000,000 with the City and County of San Francisco (CCSF), of which \$6,606,166 was utilized at acquisition, and another for \$37,185,184 with the San Francisco Housing Accelerator Fund (SFHAF), for the development and rehabilitation of the project. ECS entered a Repayment Guaranty, Completion Guaranty, and Environmental Indemnity Agreement with SFHAF, and CCSF signed a letter of support for conversion of the construction loan amount of \$37,185,184.

On December 22, 2021, 1000 Sutter LLC and SFHAF amended the construction loan to increase the maximum loan amount to \$43,099,404 and extended the maturity date to November 30, 2023. CCSF signed an amended letter of support for the conversion of the modified construction loan for the amended amount.

On February 9, 2023, ECS and SFHAF presented to HSH a proposal to increase the commitment from CCSF for an additional \$20,091,667 to complete additional construction. HSH agreed to the proposal, which was presented to Loan Committee on May 12, 2023 and accepted by CCSF.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

For the year ended June 30, 2023, 1000 Sutter LLC recorded interest of \$386,795, of which \$338,365 was capitalized as Construction in Process. Accrued interest balance at year-end is \$58,094. These notes payable consist of the following at June 30, 2023:

Note payable to the City and County of San Francisco Mayor's Office of Housing and Community Development for an acquisition loan with an original limit of \$10,000,000, bearing interest of 3.5% per annum and maturing on November 13, 2075.	\$ 6,606,166
Note payable to the San Francisco Housing Accelerator Fund, with a letter of commitment from City and County of San Francisco Mayor's Office of Housing and Community Development for an ongoing construction loan with an original amount of \$37,185,184 and an amended limit of \$43,099,404, bearing interest of 3.5% per annum. The loan will continue to be drawn upon until the maturity date of November 30, 2023. On November 29, 2023, the note was extended to November 30, 2024.	20,215,167
Total	26,821,333
Less unamortized permanent loan costs	(31,484)
Total - net of unamortized permanent loan costs	\$ 26,789,849

f. 440 Geary LLC (Hotel Diva)

On August 12, 2020, CCSF HSH submitted a letter of intent to acquire a 128-unit property located at 440 Geary Street, San Francisco, CA, also known as Hotel Diva. The property had been operating as a Shelter-in-Place hotel since April 25, 2020 under an Emergency Agreement entered by the City's Human Services Agency (SFHSA) and the Seller. On the same date, CCSF HSH as lead applicant, and ECS as co-applicant, submitted an application to HCD's Homekey Program (NOFA dated July 16, 2020) for the acquisition, ownership, rehabilitation and operation of Hotel Diva. 440 Geary LLC was formed on October 18, 2020 to carry out this purpose.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

On November 23, 2020, a Standard Agreement for \$26,000,000 in Homekey award funds was executed between HCD and co-sponsors, HSH and ECS. On November 25, 2020, ECS entered into a Purchase and Sale Agreement with the Seller to acquire Hotel Diva. On December 2, 2020, ECS assigned the Homekey Standard Agreement and Purchase and Sale Agreement to 440 Geary LLC, for which ECS Housing Corporation is the sole manager and member. On the same date, 440 Geary LLC acquired the Hotel Diva for \$50,000,000, with the full \$26,000,000 in awarded Homekey funds. 440 Geary LLC also entered into a construction loan for \$32,000,000 with the SFHAF and utilized \$26,429,235 for the remainder of the purchase price and associated closing costs. ECS also entered a Repayment Guaranty, Completion Guaranty and Environmental Indemnity Agreement with SFHAF as part of the loan agreement.

On January 12, 2021, HCD amended the Homekey award from \$26,000,000 to \$29,000,000, in which the remaining \$3,000,000 of the Homekey award was utilized as a 24-month operating subsidy and was fully expended as of June 30, 2022.

On November 15, 2021, 440 Geary LLC and SFHAF amended the construction loan to increase the maximum loan amount to \$47,386,810 and extend the maturity date to September 30, 2023. CCSF signed a letter of support for conversion of the modified construction loan.

On August 25, 2023, the application to convert the construction loan to permanent financing was presented and accepted by Loan Committee and was finalized on December 26, 2023. Interest accrued after the loan maturity date of September 30, 2023 will be charged at a per diem rate. For the year ended June 30, 2023, 440 Geary LLC recorded interest of \$1,323,409 of which \$1,289,172 was capitalized as construction in process. Accrued interest balance at year-end is \$125,366. These notes payable consisted of the following at June 30, 2023:

Note payable to San Francisco Housing Accelerator Fund, with a letter of commitment from the City and County of San Francisco Mayor's Office of Housing and Community Development for an acquisition and construction loan with an original amount of \$32,000,000 and amended limit of \$47,386,810, bearing interest at 3.5% per annum. No payments will be made until the maturity date of November 30, 2023.	\$ 43,078,761
Total	43,078,761
Less unamortized loan costs	(24,686)
Total – net of unamortized loan costs	\$ 43,054,075

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Note 7 - Net Assets with Donor Restrictions:

Net assets with donor restrictions were as follows as of June 30, 2023:

Interim housing	\$ 26,319
Supportive housing	12,204,431
Education and employment services	107,520
Time restriction	1,144,224
Senior services	46,975
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	\$ 13,529,469

Net assets released from restrictions during the year ended June 30, 2023 were as follows:

Interim housing	\$ 200,442
Supportive housing	186,890
Capital projects	2,568,910
Time restriction	573,864
Other	231,310
	<hr/>
	\$ 3,761,416

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Note 8 - Availability of Financial Assets and Liquidity:

ECS's financial assets available within one year of June 30, 2023 for general expenditures were as follows:

Financial assets at year end:	
Cash and cash equivalents	\$ 19,746,087
Grants and contracts receivable	11,102,954
Affiliate and rent receivables	1,130,167
Investments	15,112,884
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Total financial assets	47,092,092
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Less amounts not available to be used within one year:	
Restricted cash	(10,421,490)
Cash restricted for use by the affiliates	(5,310,296)
Net assets with donor restrictions	(13,529,469)
Board-designated net assets	(259,428)
Add net assets with purpose restrictions to be met in less than one year	12,885,245
<hr/>	
	(16,635,438)
<hr/>	
Financial assets available to meet general expenditures over the next twelve months	\$ 30,456,654
<hr/>	

ECS's working capital and cash flows have seasonal variations during the year mostly attributable to the annual cash advances received from the City and County of San Francisco at the beginning of the fiscal year and to the concentration of private donations received during the second and fourth fiscal quarters. The Board can undesignate the Board-designated funds and make them available for general operations. To manage liquidity ECS maintains a line of credit of \$10,000,000 with a bank. See Note 5.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Note 9 - **Affiliated Organization:**

1064 Mission, L.P.

ECS assisted with the creation of 1064 Mission, L.P. (the 'Partnership'), a limited partnership established in San Francisco. The Partnership's primary purpose is to acquire, rehabilitate, own, hold for investment, operate, manage, lease, or sell the construction of a new, affordable housing development. ECS acted as one of the project sponsors to collaborate on this housing development. As of June 30, 2023, The Partnership is not considered part of ECS's reporting entity because ECS does not have both control and an economic interest in the Partnership. Control is construed to mean majority control of the Partnership through voting interest. Economic interest indicates either residual interest in the Partnership or some form of material financial support.

Total assets of the Partnership were approximately \$139,000,000 and total liabilities were approximately \$93,000,000 according to the Partnership's unaudited financial statements as of June 30, 2023. The liabilities balance includes an amount payable to ECS of \$1,007,500, which represents developer fees not yet earned from the construction project through June 30, 2023. The \$1,007,500 consists of \$806,000 which will be earned at conversion to permanent financing scheduled to occur by September 13, 2023, the date of construction loan maturity, and the remaining \$201,500 will be earned when the Form 8609 is issued.

The managing general partner, 1064 Mission LLC, is required to provide funds in the Partnership from time to time as needed to cover operating deficits by making any letters of credit or other borrowings. Repayment of these borrowings is the sole obligation of the managing general partner. Outstanding loans of the Partnership as of June 30, 2023, which are payable to the City and County of San Francisco (two loans), Chase Bank, and Silicon Valley Bank, a division of First Citizen Bank, were \$46,946,078, \$27,769,645, \$11,432,501, and \$1,500,000, respectively.

On December 8, 2022, 1064 Mission LLC, through ECS, contributed CHEFS capital campaign funds of \$1,051,483 as general partner contribution to 1064 Mission, L.P., to be used towards the paydown of construction bond proceeds. 1064 Mission LLC, through ECS, had previously contributed \$1,535,125 on March 13, 2020 at construction loan closing. As of June 30, 2023, the total CHEFS capital campaign funds contributed by 1064 Mission LLC, through ECS, was \$2,586,608 for a total contribution of \$2,689,503.

On February 27, 2023, after construction completion, No Place Like Home ('NPLH') disbursed a total of \$13,156,254 to ECS and Mercy Housing, which was used to pay down the construction loan.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Note 10 - Property Acquisition:

On October 21, 2021, ECS entered into a Purchase and Sale agreement to acquire 1251 South Eliseo Drive for the purposes of rehabilitating and operating a 44-unit permanent supportive housing project to home chronically homeless individuals by October 2023.

In November 2021, HCD awarded ECS (through the County of Marin) a Homekey grant in the amount of \$15,497,200, of which \$12,900,000 was to be used in the acquisition and rehabilitation of the project, and the remaining \$2,597,200 to be used as operating subsidy.

On January 15, 2022, 1251 S. Eliseo LLC ('Eliseo') was formed and ECS entered into an operating agreement with the LLC as the sole member and manager.

In May 2022, Eliseo and the County of Marin entered into a Capital Grant Agreement for a total of \$11,400,000 to fund the rehabilitation of the property. Additional construction funding was secured through grants from the Marin Community Foundation (\$2,000,000), Community Development Block Grant (\$397,500), and Tamalpais Pacific (\$200,000).

In August 2022, HCD awarded ECS and the County of Marin an additional \$6,000,000 through the No Place Like Home ('NPLH') program. These funds will be made available to the County of Marin after construction when the project assumes permanent financing.

As of June 30, 2023, total equity contributions were \$20,519,548 paid for by the grants and ECS for the acquisition of the property.

Note 11 - Leases:

Operating Leases

ECS has 15 noncancellable operating leases. ECS is obligated under certain leases of its facilities through December 13, 2030 and holds lease options for up to an additional ten years for certain leases. ECS is also obligated under several office equipment leases extending through June 1, 2027.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Maturities of the operating lease liabilities are as follows:

Year ending June 30,	
2024	\$ 7,114,526
2025	4,774,440
2026	4,197,196
2027	4,246,572
2028	3,304,898
Thereafter	7,040,337
<hr/>	
Total lease payments	\$ 30,677,969
Less discount to present value	(2,614,474)
<hr/>	
Present value of lease liabilities	\$ 28,063,495

Rental expense for the year ended June 30, 2023 was \$7,949,477.

The weighted average remaining lease term as of June 30, 2023 was approximately 5.88 years. The weighted average discount rate as of June 30, 2023 was 3.00%.

Note 12 - Commitments and Contingencies:

Contingencies

ECS's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. Management believes the ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, ECS has no provision for the possible disallowance of program costs on their consolidated financial statements.

ECS has provided certain guarantees in conjunction with its relationships with Canon Kip Associates II, L.P., Canon Barcus Associates, L.P., 275 10th Street Associates, L.P., 1000 Sutter, LLC, 440 Geary LLC, 1064 Mission, L.P., and 1251 S. Eliseo LLC. These guarantees include construction completion, loan repayments, operating deficit, and tax credit. These financial commitments are not estimable given the nature of the contractual agreements. Management is of the opinion that ECS will not be called on to fulfill any of the guarantees based upon the current operations of these entities.

Episcopal Community Services of San Francisco

Notes to the Consolidated Financial Statements For the Year Ended June 30, 2023

Litigation

ECS is contingently liable in connection with litigation claims arising in the normal course of its operations. ECS and its legal counsel believe that the outcome of such matters will not have a significant effect on its financial position or results of activities, except for as follows:

During the year ended June 30, 2023, ECS was named as defendant in a lawsuit. Management of ECS believes that it is reasonably possible that ECS will incur a potential loss of approximately \$1,250,000 in excess of insurance limits. During the year ended June 30, 2023, ECS recognized \$1,250,000 in contingency loss related to this litigation.

Note 13 - Employee Benefit Plan:

ECS has a 403(b) defined contribution plan that was established in July 2004. All employees are eligible to participate in the plan. ECS reinstated employer matching contributions effective January 9, 2015 and employer contributions effective January 8, 2016. Employees must meet certain criteria to receive a discretionary employer match and employer contribution. ECS total matching contributions were \$669,203 for the year ended June 30, 2023.

Note 14 - Concentration of Risk:

Financial instruments which subject ECS to concentrations of credit risk consist principally of cash deposits, grants, and contracts receivable.

ECS and its affiliates have cash deposits in financial institutions in excess of federally insured limits of approximately \$15,982,000 at June 30, 2023. Grants and contracts receivable represent unsecured amounts due from federal, state, and local governmental agencies.

Episcopal Community Services of San Francisco and Affiliates

Consolidating Statement of Financial Position (See Independent Auditors' Report)

June 30, 2023

	ECS	Canon Kip II	Canon Barcus	Bishop Swing 275 10th Street	Granada Hotel 1000 Sutter	Hotel Diva 440 Geary	1251 S. Eliseo	Eliminations		2023 Consolidated
Assets:										
Cash and cash equivalents and restricted cash	\$ 4,014,300	\$ 3,818,908	\$ 1,393,924	\$ 2,048,355	\$ 4,285,074	\$ 4,134,300	\$ 51,226			\$ 19,746,087
Grants and contracts receivable	10,002,123	54,872			433,432	508,228	1,908,829	\$ (1,804,530)		11,102,954
Affiliate and rent receivables	2,986,598	349,768	209,583	305,584	109,424	61,161		(2,891,951)		1,130,167
Investments	15,112,884									15,112,884
Prepaid expenses and other assets	1,300,838	55,544			179,938	46,471				1,582,791
Fixed assets, net	1,865,162	15,241,198	10,092,063	7,922,169	71,738,871	67,819,800	23,297,505			197,976,768
Investment in affiliate	2,689,503									2,689,503
Operating lease right-of-use assets	28,187,734									28,187,734
Total assets	\$ 66,159,142	\$ 19,520,290	\$ 11,695,570	\$ 10,276,108	\$ 76,746,739	\$ 72,569,960	\$ 25,257,560	\$ (4,696,481)		\$ 277,528,888
Liabilities:										
Accounts payable and accrued expenses	\$ 7,597,260	\$ 122,568	\$ 159,627	\$ 724,282	\$ 4,443,336	\$ 2,311,075	\$ 4,194,792	\$ (1,804,530)		\$ 17,748,410
Affiliate payables	238,761	106,728	183,098	393,093	828,383	598,503	543,385	(2,891,951)		-
Line of credit	10,000,000									10,000,000
Deferred revenue and contract advances	308,654	10,355	78,949		4,128,744	552,852				5,079,554
Notes payable, net		12,961,143	8,157,469	16,945,131	26,789,849	43,054,075				107,907,667
Accrued interest on notes payable		1,775,444	3,753,078	2,441,322	58,094	125,366				8,153,304
Tenant security deposits		32,393	18,741	28,333	401	759,330				839,198
Operating lease liabilities	28,063,495									28,063,495
Total liabilities	46,208,170	15,008,631	12,350,962	20,532,161	36,248,807	47,401,201	4,738,177	(4,696,481)		177,791,628
Net Assets:										
Without donor restrictions:										
Undesignated	6,162,075									6,162,075
Board designated	259,428									259,428
Affiliated entities (Note 2b)		4,511,659	(655,392)	(10,256,053)	40,497,932	25,168,759	20,519,383	6,399,786		86,186,074
Non-controlling interests (Note 2b)								(6,399,786)		(6,399,786)
Total net assets without donor restrictions	6,421,503	4,511,659	(655,392)	(10,256,053)	40,497,932	25,168,759	20,519,383	-		86,207,791
With donor restrictions	13,529,469									13,529,469
Total net assets	19,950,972	4,511,659	(655,392)	(10,256,053)	40,497,932	25,168,759	20,519,383	-		99,737,260
Total liabilities and net assets	\$ 66,159,142	\$ 19,520,290	\$ 11,695,570	\$ 10,276,108	\$ 76,746,739	\$ 72,569,960	\$ 25,257,560	\$ (4,696,481)		\$ 277,528,888

Episcopal Community Services of San Francisco and Affiliates

Consolidating Statement of Activities and Changes in Net Assets (See Independent Auditors' Report)

Year Ended June 30, 2023

	2023										
	ECS			Canon Kip II	Canon Barcus	Bishop Swing 275 10th Street	Granada Hotel 1000 Sutter	Hotel Diva 440 Geary	1251 S. Eliseo	Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Total								
Support and Revenue:											
Contributions and foundation grants	\$ 1,952,147	\$ 507,980	\$ 2,460,127								\$ 2,460,127
Bequests and trust revenue		1,794,147	1,794,147								1,794,147
Contributions, gifts-in-kind	546,209		546,209								546,209
Government grants and contracts	51,800,219		51,800,219								51,800,219
Rental income	1,748,276		1,748,276	\$ 2,337,986	\$ 1,655,428	\$ 1,863,902	\$ 2,189,422	\$ 2,063,913		\$ (262,126)	11,596,801
Other program income	3,078,171		3,078,171					278,488			3,356,659
Interest income	176,163		176,163	820	72	143		2,881	\$ 1,665		181,744
Other income	95,061		95,061	113,359	72,127	38,006	25,988	19,760			364,301
Release of donor restrictions	3,761,416	(3,761,416)	-								-
Total support and revenue	63,157,662	(1,459,289)	61,698,373	2,452,165	1,727,627	1,902,051	2,215,410	2,365,042	1,665	(262,126)	72,100,207
Expenses:											
Program services	53,413,101		53,413,101	3,111,296	2,238,226	2,975,528	2,847,314	3,602,277	1,830	(262,126)	67,927,446
Supporting services	9,721,684		9,721,684								9,721,684
Total operating expense	63,134,785	-	63,134,785	3,111,296	2,238,226	2,975,528	2,847,314	3,602,277	1,830	(262,126)	77,649,130
Change in Net Assets Before Other Changes	22,877	(1,459,289)	(1,436,412)	(659,131)	(510,599)	(1,073,477)	(631,904)	(1,237,235)	(165)	-	(5,548,923)
Other Changes:											
Legal settlement (Note 12)	(1,250,000)		(1,250,000)								(1,250,000)
Impairment loss (Note 2h)			-			(11,269,430)					(11,269,430)
Equity contributions (Note 10)			-						20,519,548		20,519,548
Total Change in Net Assets	(1,227,123)	(1,459,289)	(2,686,412)	(659,131)	(510,599)	(12,342,907)	(631,904)	(1,237,235)	20,519,383	-	2,451,195
Net Assets, Beginning of year	7,648,626	14,988,758	22,637,384	5,170,790	(144,793)	2,086,854	41,129,836	26,405,994	-	-	97,286,065
Net Assets, End of year	\$ 6,421,503	\$ 13,529,469	\$ 19,950,972	\$ 4,511,659	\$ (655,392)	\$ (10,256,053)	\$ 40,497,932	\$ 25,168,759	20,519,383	\$ -	\$ 99,737,260