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Advisory, Tax and Assurance

Episcopal Community Services of San Francisco

June 30, 2024

Single Audit Report

Episcopal Community Services of San Francisco

Single Audit Report

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

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, 2024, 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, 2024, 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, ECS reclassified equity contributions previously included as other changes to support and revenue under government grants. Our opinion is not modified with respect to this matter.

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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the 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. The accompanying Schedule of Expenditures of Federal Awards (pages 37 and 38), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 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 Consolidating Financial Statements and the Schedule of Expenditures of Federal Awards are 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, 2023 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 26, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2024, on our consideration of ECS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ECS's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ECS's internal control over financial reporting and compliance.

Hood & Strong LLP

San Francisco, California
December 9, 2024

Episcopal Community Services of San Francisco

Consolidated Statement of Financial Position

June 30, 2024 (with comparative totals for 2023)	2024	2023
Assets:		
Cash and cash equivalents and restricted cash	$ 20,307,071	$ 19,746,087
Grants and contracts receivable	14,819,540	11,102,954
Affiliate and rent receivables	2,620,660	1,130,167
Investments	7,743,116	15,112,884
Prepaid expenses and other assets	1,969,161	1,582,791
Fixed assets, net	221,943,205	197,976,768
Investment in affiliates	2,641,708	2,689,503
Operating lease right-of-use assets	25,763,744	28,187,734
Total assets	$ 297,808,205	$ 277,528,888
Liabilities:		
Accounts payable and accrued expenses	$ 17,650,698	$ 18,104,431
Line of credit	10,000,000	10,000,000
Deferred revenue and contract advances	5,876,879	5,439,914
Notes payable, net	137,250,551	107,907,667
Accrued interest on notes payable	8,578,585	8,153,304
Tenant security deposits	129,818	79,868
Operating lease liabilities	26,234,027	28,063,495
Total liabilities	205,720,558	177,748,679
Net Assets:		
Without donor restrictions:		
Undesignated	6,164,876	6,162,075
Board designated	259,428	259,428
Affiliated entities (Note 2)	83,585,712	86,186,074
Non-controlling interests (Note 2)	(7,589,860)	(6,399,786)
Total net assets without donor restrictions	82,420,156	86,207,791
With donor restrictions	9,667,491	13,529,469
Total net assets	92,087,647	99,737,260
Total liabilities and net assets	$ 297,808,205	$ 277,485,939

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, 2024 (with comparative totals for 2023)

	2024			
	Without Donor Restrictions	With Donor Restrictions	Total	2023 Total
Support and Revenue:				
Contributions and foundation grants	$ 1,096,259	$ 2,632,363	$ 3,728,622	$ 2,460,127
Bequest and trust revenue	45,065	231,000	276,065	1,794,147
Contributions, gifts-in-kind	545,791		545,791	546,209
Government grants and contracts	56,997,015		56,997,015	72,319,767
Rental income	14,944,713		14,944,713	11,596,801
Other program income	2,804,687		2,804,687	3,356,659
Interest income	352,497		352,497	181,744
Other income	337,772		337,772	364,301
Release of donor restrictions	6,725,341	(6,725,341)	-	-
Total support and revenue	83,849,140	(3,861,978)	79,987,162	92,619,755
Expenses:				
Program services	74,022,538		74,022,538	67,927,446
Supporting services	11,538,403		11,538,403	9,721,684
Total expenses	85,560,941	-	85,560,941	77,649,130
Change in Net Assets Before Other Changes	(1,711,801)	(3,861,978)	(5,573,779)	14,970,625
Other Changes:				
Government grant refund	(2,075,834)		(2,075,834)	-
Legal settlement (Note 11)			-	(1,250,000)
Impairment loss			-	(11,269,430)
Total Change in Net Assets	(3,787,635)	(3,861,978)	(7,649,613)	2,451,195
Net Assets, beginning of year	86,207,791	13,529,469	99,737,260	97,286,065
Net Assets, end of year	$ 82,420,156	$ 9,667,491	$ 92,087,647	$ 99,737,260

See accompanying notes to the consolidated financial statements.

Episcopal Community Services of San Francisco

Consolidated Statement of Functional Expenses

Year Ended June 30, 2024 (with comparative totals for 2023)

	ECS											
	Interim Housing	Supportive Housing	Education and Employment Services	Healthy Aging	Subtotal ECS Services	Housing Entities	Total Program Services	Management and General	Fundraising	Total Supporting Services	2024 Total	2023 Total
Salaries	$ 12,442,290	$ 11,509,892	$ 1,715,499	$ 337,823	$ 26,005,504	$ 1,219,903	$ 27,225,407	$ 5,098,747	$ 502,980	$ 5,601,727	$ 32,827,134	$ 30,021,208
Employee benefits and other payroll related costs	4,072,523	2,828,680	514,991	113,783	7,529,977	527,556	8,057,533	1,008,871	101,419	1,110,290	9,167,823	8,302,927
Professional services	67,235	1,007,388	50,692	28,126	1,153,441	2,423,545	3,576,986	1,906,357	188,997	2,095,354	5,672,340	5,169,931
Training and conferences	132,588	56,543	13,549	1,069	203,749	8,735	212,484	190,469	7,658	198,127	410,611	296,766
Marketing and printing	35,861	137,619	20,170	5,713	199,363		199,363	33,571	215,661	249,232	448,595	399,546
Food products	35,669	212,133	1,077,072	2,355	1,327,229		1,327,229		15	15	1,327,244	883,168
Food products, gifts-in-kind		512,675			512,675		512,675			-	512,675	546,209
Client subsidies and services	5,933,913	267,261	795,160	12,051	7,008,385	73	7,008,458	7,829	645	8,474	7,016,932	6,667,970
Supplies and services	475,982	617,375	89,615	2,091	1,185,063	1,211,045	2,396,108	110,027	9,208	119,235	2,515,343	2,485,633
Vehicle and transportation	7,809	771	34,404		42,984		42,984	3,760		3,760	46,744	34,444
Occupancy	2,256,365	7,778,828	150,380		10,185,573	2,792,173	12,977,746	792,869		792,869	13,770,615	12,626,791
Telecommunications	120,473	186,598	20,210	6,793	334,074	77,748	411,822	57,367	7,919	65,286	477,108	449,385
Insurance	205,325	194,615	57,176	13,306	470,422	710,287	1,180,709	122,301	12,423	134,724	1,315,433	1,153,998
Equipment and maintenance	103,448	1,351,287	44,086	1,405	1,500,226	2,116,034	3,616,260	116,958	2,018	118,976	3,735,236	3,131,843
Other	33,213	45,158	55,194	41,372	174,937	464,674	639,611	289,114	110,031	399,145	1,038,756	449,113
Total expenses before depreciation and interest	25,922,694	26,706,823	4,638,198	565,887	57,833,602	11,551,773	69,385,375	9,738,240	1,158,974	10,897,214	80,282,589	72,618,932
Interest expense					-	1,418,533	1,418,533	517,384		517,384	1,935,917	1,828,190
Depreciation and amortization		160,518			160,518	3,058,112	3,218,630	123,805		123,805	3,342,435	3,202,008
Expenses as shown on the Consolidated Statement of Activities and Changes in Net Assets	25,922,694	26,867,341	4,638,198	565,887	57,994,120	16,028,418	74,022,538	10,379,429	1,158,974	11,538,403	85,560,941	77,649,130
Other expenses:												
Government grant refund						2,075,834	-			-	2,075,834	-
Impairment loss							-			-	-	11,269,430
Legal settlement (Note 11)							-			-	-	1,250,000
Total Expenses	$ 25,922,694	$ 26,867,341	$ 4,638,198	$ 565,887	$ 57,994,120	$ 18,104,252	$ 74,022,538	$ 10,379,429	$ 1,158,974	$ 11,538,403	$ 87,636,775	$ 90,168,560

See accompanying notes to the consolidated financial statements.

Episcopal Community Services of San Francisco

Consolidated Statement of Cash Flows

Year Ended June 30, 2024 (with comparative totals for 2023)	2024	2023
Cash Flows from Operating Activities:		
Change in net assets	$ (7,649,613)	$ 2,451,195
Adjustments to reconcile change in net assets to net cash(used) provided by operating activities:		
Depreciation and amortization	3,342,435	3,202,008
Loss on impairment of property		11,269,430
Amortization of operating lease right-of-use assets	9,831,389	6,715,491
Changes in operating assets and liabilities:		
Grants and contracts receivable	(3,716,586)	(2,203,577)
Affiliate and rent receivables	(1,490,493)	1,826,993
Prepaid expenses and other assets	(386,370)	1,064,140
Accounts payable and accrued expenses	(453,733)	(1,226,795)
Deferred revenue and contract advances	436,965	1,293,289
Accrued interest on notes payable	425,281	700,475
Tenant security deposits	49,950	(2,099)
Operating lease liabilities	(9,236,867)	(6,839,730)
Net cash (used) provided by operating activities	(8,847,642)	18,250,820
Cash Flows from Investing Activities:		
Proceeds from investments	14,362,780	12,832,499
Purchases of investments	(6,993,012)	(12,969,998)
Investment in affiliates	47,795	(2,634,403)
Purchases of property and equipment	(27,292,308)	(44,686,932)
Net cash used by investing activities	(19,874,745)	(47,458,834)
Cash Flows from Financing Activities:		
Proceeds from notes payable	75,396,757	28,761,463
Payments on notes payable	(46,070,437)	(678,032)
Payments on line of credit	(13,000,000)	
Borrowings from line of credit	13,000,000	5,000,000
Net cash provided by financing activities	29,326,320	33,083,431
Change in Cash and Cash Equivalents and Restricted Cash	603,933	3,875,417
Cash and Cash Equivalents and Restricted Cash, beginning of year	19,746,087	15,870,670
Cash and Cash Equivalents and Restricted Cash, end of year	$ 20,350,020	$ 19,746,087
Supplemental Cash Flow Information:		
Interest paid	$ 1,510,637	$ 1,127,715
Noncash transactions from operating, investing and financing activities:		
Operating lease right-of-use assets financed by lease liabilities	$ 5,764,273	$ 34,903,225
Purchases of fixed assets in account payable and accrued expenses	$ 8,047,807	$ 10,523,679
Assets acquired by assuming long-term liabilities	$ 27,164,989	$ 28,775,113
Interest added to principal balance of notes payable	$ 2,003,520	$ 2,084,189

See accompanying notes to the consolidated financial statements.

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. ECS has 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 individuals 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. The Sanctuary served 1,476 individuals between July 1, 2023 and June 30, 2024.

ECS operates volunteer-supported shelters in collaboration with various government and religious organizations located in San Francisco, Marin, and Alameda counties. These shelters offer lodging and meals to homeless and at-risk individuals during winter months and periods of severe weather.

ECS's **Reentry Interim Housing** program provides short-term shelter and support services to individuals exiting incarceration. This program served 111 individuals between July 1, 2023 and June 30, 2024.

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.

Supportive Housing

ECS provides **permanent supportive housing** and services to more than 2,000 individuals at 21 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 six facilities, serving 103 units at **Canon Kip Community House (Canon Kip)**, 47 units for formerly homeless families at **Canon Barcus Community House (Canon Barcus)**, 134 units at **Bishop Swing Community House (Bishop Swing),** 214 units at **Granada Hotel (Granada),** 122 units at **Hotel Diva (Diva),** and 44 units at **The Arks in Greenbrae (Eliseo)**. 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), units for 50 formerly homeless families at **1180 4th Street Apartments,** and units for 33 formerly homeless families 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 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 8,139 people in the year ending June 30, 2024, placing 1,142 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, 2023 and June 30, 2024, 140 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.

In 2023, ECS created a new entity, 721 Airport LLC (721 LLC or Ramada), to apply for Homekey Round 3 funding in order to acquire, rehabilitate, and operate a potential permanent supportive housing site located in South San Francisco, California. In April 2024, San Mateo County approved a resolution to subsidize $18,850,000 in capital costs related to the project. In August 2024, a $500,000 predevelopment loan was approved with a maturity date of December 31, 2025.

In 2023, ECS also created ECS 1390 El Camino Real LLC (1390 LLC or La Quinta) for a potential permanent supportive housing site in San Mateo County. In July 2024, a $500,000 predevelopment loan was approved with a maturity date of December 31, 2025. Since the State of California did not allocate HomeKey 3.0 funding during fiscal year ending 2025, the predevelopment loan is considered fully repaid and no further repayment obligations will arise. As a result, ECS will proceed with terminating La Quinta in fiscal year 2025.

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 in 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 served 89 individuals July 1, 2023 through June 30, 2024.

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 prep services for local organizations. CHEFS served 255,627 meals July 1, 2023 through June 30, 2024.

ECS operates a 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. REACH provided paid training and placement support to 126 participants between July 1, 2023 and June 30, 2024.

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. This program supported 994 participants and provided 85 tablets for seniors to access remote activities between July 1, 2023 and June 30, 2024.

Note 2 - Summary of Significant Accounting Policies:

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).

Principles of Consolidation

The accompanying consolidated financial statements reflect the consolidation of the individual financial statements of ECS and its affiliated entities, collectively known as the housing affiliates, which hold the projects, Canon Kip, Canon Barcus, Bishop Swing, Granada, Diva, Eliseo and ECS Housing Corporation (EHC) a nonprofit supporting organization to ECS, sole member and manager of Granada and Diva. Canon Barcus is the owner of Canon Barcus Community House. Canon Kip is the owner of Canon Kip Community House. Bishop Swing 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 Canon Barcus, and of Canon Kip, Inc. (CKI), the managing general partner of Canon Kip. CBI holds a 0.1% equity interest in Canon Barcus and CKI holds a 0.01% equity interest in Canon Kip. 275 10^{th} Street LLC (275 LLC), of which ECS is the sole member, serves as the general partner of Bishop Swing and holds a 0.01% interest in the partnership. EHC is the managing entity for Bishop Swing.

Non-controlling interests by affiliate are as follows as of June 30, 2024:

Canon Kip Associates II, L.P. (Canon Kip)	$ 3,676,987
Canon Barcus Associates, L.P. (Canon Barcus)	(738,737)
275 10th Street Associates, L.P. (Bishop Swing)	(10,528,110)
	$ (7,589,860)

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. The Ramada and La Quinta were not operational as of June 30, 2024.

Description of Net Assets

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

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.

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. ECS develops an allowance for uncollectible tenant receivables based on historical and current conditions at the end of the year. 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.

For the year ended June 30, 2024, ECS recognized in-kind contributions of $545,791 which was utilized in the following functional program areas:

Supportive housing	$ 512,675
Fundraising activities	33,116
	$ 545,791

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 Consolidated Statement of Financial Position. ECS has been awarded cost-reimbursable grants of approximately $15,617,000, that have not been recognized at June 30, 2024, because qualifying expenditures have not yet been incurred. Approximately $993,000 was unspent mostly due to contracting agencies' delays in finalizing contracts, $13,945,000 was unspent due to reduced spending due to vacancies and operational expenses, and $679,000 is scheduled to be carried over to the following fiscal year.

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 approximately $12,699,000 at June 30, 2024 that represents funds subject to restrictions from other parties regarding the future use of such cash, tenant security deposits, replacement reserves, and operating reserves.

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 $7,743,116 and are classified as Level 1, as defined below.

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.

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. Leasehold improvements are amortized over the life of the lease or the useful life of the assets, whichever is shorter.

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. No impairment loss was recognized during the year ended June 30, 2024.

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.

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).

Canon Kip Associates II, L.P. (CKAII) is a limited partnership that is controlled by Canon Kip Inc. (CKI), 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. (CBA) is a limited partnership that is controlled by Canon Barcus Inc. (CBI), 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. (275 LP) is a limited partnership that is controlled by 275 10th Street LLC, a single member limited liability company.

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

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

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

Eliseo is owned by 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 federal and state income taxes has been included in the consolidated financial statements.

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.

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 of 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 Consolidated 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.

Use of Estimates

The preparation of consolidated 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.

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, 2023 from which the summarized information was derived.

Certain reclassifications have been made to the 2023 consolidated financial statements in order to conform to the 2024 presentation. In 2024, ECS reclassified equity contributions received for the year ended June 30, 2023 of $20,519,548 from other changes in net assets to government grants under support and revenue to address a change in their interpretation of contractual agreements. These reclassifications had no impact on net assets or change in net assets. ECS also eliminated the capital contribution amounts and references from operating and financing activities of the cash flow statement. The elimination did not have an impact to the change in cash and cash equivalents for the year ended June 30, 2023.

Recent Accounting Pronouncements

Pronouncement Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets. The ASU requires loans and trade receivables measured at amortized cost to be presented at the net amount expected to ultimately be collected. The allowance for credit losses includes all losses that are expected to occur over the remaining life of the asset, rather than incurred losses through the date of the consolidated financial statements. Changes in the allowance for credit losses are recorded in the statement of activities as the amounts expected to be collected change. Contribution pledges recorded as receivable are excluded from the new impairment standard. ECS adopted the new standard effective July 1, 2023. The impact of adopting this guidance was not significant on these consolidated financial statements.

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, 2024 through December 9, 2024, 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 1, 2, 4, 6, and 9.

Note 3 - Grants and Contracts Receivable:

Grants and contracts receivable consist of the following at June 30, 2024:

Government contracts	$ 12,786,554
Contributions receivable	1,638,200
Other	394,786
	$ 14,819,540

Grants and contracts receivable as of June 30, 2024 are expected to be received as follows: $14,512,040 within one year, and $307,500 within an excess of one year.

Note 4 - Fixed Assets:

Fixed assets at June 30, 2024 were as follows:

Land	$ 73,994,665
Site improvements	1,005,859
Building and building improvements	123,772,255
Leasehold improvements	4,755,283
Furniture and equipment	3,620,939
Vehicles	176,784
Construction in progress	48,262,478
	255,588,263
Less accumulated depreciation	(33,645,058)
	$ 221,943,205

Depreciation and amortization expense for the year ended June 30, 2024 was $3,342,435.

During the year ended June 30, 2024, Diva and Eliseo placed all construction in process costs into service on the date of construction completion and certificate of occupancy was achieved.

Granada entered into construction and architectural design agreements with a combined remaining commitment of approximately $12,540,000 as of June 30, 2024. Subsequent to year end, ECS paid approximately $4,238,000 of the remaining commitment.

Note 5 - Line of Credit:

ECS had a $10,000,000 line of credit with First Republic Bank (which has since been acquired by JP Morgan Chase), which was secured by ECS's grants and contracts receivable balances. Interest was payable monthly at a rate of 8.5% per annum at maturity date of April 20, 2024. In April 2024, the line of credit was repaid in full and closed.

In March 2024, ECS executed a new line of credit agreement of $10,000,000 with East West Bank, which is secured by ECS's grants and contracts receivable balances. Interest is payable monthly at a rate of 8.5% per annum at June 30, 2024 with a maturity date of April 20, 2025. The outstanding balance as of June 30, 2024 is $10,000,000.

Note 6 - Notes Payable:

Notes payable at June 30, 2024 consisted of the following by entity:

Canon Kip	$ 12,962,146
Canon Barcus	8,158,467
Bishop Swing	16,946,043
Granada	45,857,260
Diva	47,338,767
Eliseo	5,987,868
Total	$ 137,250,551

Interest payable consisted of the following at June 30, 2024:

Canon Kip	$ 1,883,324
Canon Barcus	3,957,085
Bishop Swing	2,621,922
Granada	114,754
Eliseo	1,500
Total	$ 8,578,585

Interest expense consisted of the following for the year ended June 30, 2024:

ECS	$ 517,384
Canon Kip	321,805
Canon Barcus	242,999
Bishop Swing	210,912
Diva	641,317
Eliseo	1,500
Total	$ 1,935,917

<u>ECS</u>

In July 2024, ECS entered into a loan in the amount of $1,647,533 that bears annual interest of 7.75% with a maturity date of June 1, 2025 from First Insurance Funding. The loan was taken out to pay for insurance related to ECS and its housing entities and is secured by an interest in these policies.

In September 2024, ECS entered into a loan in the amount of $922,374 that bears annual interest of 7.75% with a maturity date of August 9, 2025 from First Insurance Funding. The Loan was taken out on behalf of Granada to pay for property and liability insurance related to the building owned by 1000 Sutter LLC

and was secured by an interest in these policies.

<u>Canon Kip</u>

The ECS Board of Directors appoints the members of the Board of Directors CKI. CKI is the managing General Partner of Canon Kip. CKI has a 0.01% ownership interest in Canon Kip. Until December 14, 2016, Canon Kip Associates, L.P. (CKA), a now dissolved entity, owned and operated Canon Kip, a 103-unit low-income housing tax credit, permanent supportive housing 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.

CKAII was formed as a limited partnership on February 12, 2016, to acquire, rehabilitate, own, and operate Canon Kip. 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, CKI. 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.

Canon Kip, 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.

Notes payable for Canon Kip, are secured by the property and are due upon maturity unless otherwise indicated. For the year ended June 30, 2024 Canon Kip accrued interest expense of $321,805 for a total outstanding accrued interest balance at year-end of $1,883,324. These notes payable consisted of the following as of June 30, 2024:

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 55th 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 55th anniversary of the project's 'date of recordation' which is December 15, 2071.	3,000,000
Total	13,013,977
Less unamortized loan costs	(51,831)
Total - net of unamortized loan costs	$ 12,962,146

Canon Barcus

The ECS Board of Directors appoints the members of the Board of Directors of CBI. CBI is the managing General Partner of CBA, which owns Canon Barcus 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. 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 Canon Barcus.

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

Notes payable are secured by the property and assignment of rents and project income unless otherwise noted. Canon Barcus accrued interest expense of $242,999 for the year ended June 30, 2024 for a total accrued interest balance at year-end of $3,957,085. These notes payable consisted of the following at June 30, 2024:

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	(32,081)
Total - net of unamortized loan costs	$ 8,158,467

Bishop Swing

ECS is the sponsor and developer of Bishop Swing, 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 LP. 275 LP 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 (SFRA).

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

275 LP holds long-term deferred payment loans from MOHCD, SFRA, and the California Department of Housing and Community Development (HCD).

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. Subsequent to June 30, 2024, Enterprise intends to withdraw from 275 LP and assign its majority interest to incoming, limited partner, EHC, with tentative exit date by December 31, 2024.

ECS earned a fee of $697,500 for development of Bishop Swing, 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.)

Notes payable are secured by the property and are not due until maturity unless otherwise noted. 275 LP recorded accrued interest expense of $210,912 for June 30, 2024 for a total outstanding accrued interest balance of $2,621,922. These notes payable consisted of the following at June 30, 2024:

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.	$ 1,900,379
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.	2,891,404
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.	5,191,299
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	(37,039)
Total - net of unamortized loan costs	$ 16,946,043

Additionally, 275 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. 275 LLC contributed these funds to 275 LP as a capital contribution in December 2008.

Granada

ECS is the sponsor and developer of Granada, a 214-unit permanent supportive housing project acquired through HCD Homekey Round 1. The project is held and operated by 1000 LLC. EHC is the sole member and manager of the LLC.

Granada entered into two loans, one for $10,000,000 with the City and County of San Francisco (CCSF), administered by MOHCD, 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. The SFHAF loan entered into a first modification and extension agreement to increase the total 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 November 30, 2023, the SFHAF loan maturity date was extended to November 30, 2024. SFHAF requested and proposed an early takeout of the construction loan by CCSF, which would replace SFHAF with CCSF as the construction and permanent financing lender. The proposed exit date for SFHAF as construction lender and CCSF as incoming lender was tentatively scheduled for late July 2024.

On April 19, 2024, the SFHAF loan entered into a second extension and modification agreement to increase the loan total to 63,191,071, which was approved by CCSF Loan Committee. The $20,097,667 tranche bears an interest of 5.5% per annum, while the initial, amended tranche of $43,099,404 bears an interest rate of 3.5% per annum.

Subsequent to year-end, CCSF purchased the construction loan from SFHAF on August 6, 2024, and the loan will fully convert to permanent financing in the spring of 2025 post-construction completion.

For the year ended June 30, 2024, Granada recorded interest of $1,024,772 of which $910,018 was capitalized as Construction in Process. Accrued interest balance at year-end is $114,754. These notes payable consist of the following at June 30, 2024:

Notes 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, with 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. On April 1, 2024, the note was amended with a second modification to increase the limit to $63,191,071. The $20,091,667 tranche bears an interest rate of 5.5% per annum.	39,454,521
Total	46,060,687
Less unamortized permanent loan costs	(203,427)
Total - net of unamortized permanent loan costs	$ 45,857,260

Diva

ECS is the sponsor and developer of Diva, a 128-unit hotel acquired through HCD Homekey Round 1 and CCSF funding, which converted to a 122-unit permanent supportive housing project for formerly homeless individuals. Construction was completed in August 2023. The project is held by 440 LLC, and EHC is the sole member and manager of the LLC.

Diva entered into a construction loan for $32,000,000 with SFHAF and utilized $26,429,235 for acquisition costs. ECS also entered a Repayment Guaranty, Completion Guaranty and Environment Indemnity Agreement with SFHAF as part of the loan agreement. The loan was amended to increase the maximum loan amount to $47,386,810 and extended the maturity date to September 30, 2023. CCSF signed a letter of support for conversion of the modified construction loan. On the maturity date, the loan was extended to December 31, 2023.

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. Construction interest accrued after the loan maturity date of September 30, 2023 was charged at a per diem rate.
On December 26, 2023, the construction loan converted to permanent financing with the City and County of San Francisco's Our City, Our Home program. The loan is non-interest-bearing and subject to repayment through residual receipts.

For the year ended June 30, 2024, Diva recorded interest of $646,896 of which $126,873 was capitalized as construction in process through August 16, 2023, placed-in-service date. Accrued interest balance at year-end is $0. These notes payable consisted of the following at June 30, 2024:

Note payable to the City and County of San Francisco Mayor's Office of Housing and Community Development for the amount of $47,386,810, bearing interest at 0.0% per annum. Payments are made from residual receipts until maturity date of December 26, 2078.	$ 47,386,810
Total	47,386,810
Less unamortized permanent loan costs	(48,043)
Total - net of unamortized permanent loan costs	$ 47,338,767

Eliseo

ECS is the sponsor and developer of Eliseo, a 44-unit permanent supportive housing project for chronically homeless individuals, which was acquired through HCD Homekey Round 2, and completed construction in September 2023. The project is located at 1251 South Eliseo Drive, Greenbrae, California and is also known to the community as the Arks in Greenbrae. Lease-up began in October 2023 and full occupancy was achieved in November 2023. The project is held by 1251 LLC, and ECS is the sole member and manager of the LLC.

Eliseo through ECS and the County of Marin was awarded $6,000,000 from HCD's No Place Like Home (NPLH) program, which was made available to the County of Marin after construction completion and the project assumed permanent financing. Eliseo began permanent loan conversion procedures with HCD in November 2023 and successfully closed on June 28, 2024. The note payable is secured by the deed of trust and not due until maturity unless otherwise noted.

The note payable consisted of the following at June 30, 2024:

Note payable to the California Department of Housing and Community Development for No Place Like Home program in the original amount of $6,000,000, bearing interest of 3% per annum through maturity on June 27, 2079 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.	$ 6,000,000
Total	6,000,000
Less unamortized permanent loan costs	(12,132)
Total - net of unamortized permanent loan costs	$ 5,987,868

Note 7 - Net Assets with Donor Restrictions:

Net assets with donor restrictions were as follows as of June 30, 2024:

Interim housing	$ 26,319
Supportive housing	7,403,548
Education and employment services	206,865
Time restriction	2,010,273
Healthy aging	20,486
	$ 9,667,491

Net assets released from restrictions during the year ended June 30, 2024 were as follows:

Interim housing	$ 119,725
Supportive housing	5,079,719
Capital projects	30,050
Time restriction	1,250,000
Other	245,847
	$ 6,725,341

Note 8 - Availability of Financial Assets and Liquidity:

ECS's financial assets available within one year of June 30, 2024 for general expenditures were as follows:

Financial assets at year end:	
Cash and cash equivalents	$ 20,307,071
Grants and contracts receivable	14,819,540
Affiliate and rent receivables	2,620,660
Investments	7,743,116
Total financial assets	45,490,387
Less amounts not available to be used within one year:	
Restricted cash	(12,698,055)
Cash restricted for use by the affiliates	(6,043,248)
Net assets with donor restrictions	(9,667,491)
Board-designated net assets	(259,428)
Add net assets with purpose restrictions to be met in less than one year	8,707,218
	(19,961,004)
Financial assets available to meet general expenditures over the next twelve months	$ 25,529,383

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.

Note 9 - Affiliated Organization:

1064 Mission

ECS assisted with the creation of 1064 Mission, LP (1064 LP), a limited partnership established in San Francisco. 1064 LP'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 that collaborated on the housing development of 1064-1068 Mission Permanent Supportive Housing (1064 Mission).

As of June 30, 2024, 1064 Mission is not considered part of ECS's consolidated reporting because ECS does not have both control and an economic interest in 1064 LP. Control is construed to mean majority control of 1064 LP through voting interest. Economic interest indicates either residual interest in 1064 LP or some form of material financial support.

Total assets of 1064 Mission were approximately $135,000,000 and total liabilities were approximately $80,000,000 according to 1064 Mission's unaudited financial statements as of June 30, 2024. The liabilities balance includes an amount payable to ECS of $201,500, which represents developer fees not yet earned from the construction project through June 30, 2024. The remaining $201,500 will be earned when Form 8609 is issued and paid with the limited partner's fifth equity installment.

The managing general partner, 1064 Mission LLC (1064 LLC), is required to provide funds in 1064 LP 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. On September 13, 2023, the Chase construction loan was fully paid off during the conversion to permanent financing. Outstanding loans of 1064 Mission as of June 30, 2024, which are payable to the City and County of San Francisco (two loans), and Century Housing Corporation through the Federal Home Loan Bank AHP Program, were $46,946,078, $27,769,645, and $1,500,000, respectively.

Subsequent to year end, the Low-Income Housing Credit Allocation and Certification was received and executed. The managing general partner and co-general partner are requesting the final equity installment payment of $403,000 from the limited partner. Upon receipt of the installment, the co-general partner intends to withdraw from 1064 LP and assign its interest to 1064 LLC.

Note 10 - 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.

Future undiscounted cash flows were as follows:

Year ending June 30,	
2025	$ 7,666,399
2026	5,966,843
2027	4,743,620
2028	2,982,110
2029	2,849,908
Thereafter	4,099,635
Total lease payments	28,308,515
Less discount to present value	(2,074,488)
Present value of lease liabilities	$ 26,234,027

Rental expense for the year ended June 30, 2024 was $9,112,651.

The weighted average remaining lease term as of June 30, 2024 was approximately 4.92 years. The weighted average discount rate as of June 30, 2024 was 3.36%.

Note 11 - 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, Canon Barcus, Bishop Swing, Granada, Diva, 1064 Mission, and Eliseo. 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.

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. ECS did not incur any contingency loss for the year ended June 30, 2024.

Note 12 - 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 $856,912 for the year ended June 30, 2024.

Note 13 - 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 $17,880,000 at June 30, 2024. 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, 2024

	ECS	Canon Kip	Canon Barcus	Bishop Swing	Granada	Diva	Eliseo	Eliminations	2024 Consolidated
Assets:									
Cash and cash equivalents and restricted cash	$ 1,564,969	$ 3,945,754	$ 1,780,864	$ 1,521,287	$ 4,459,327	$ 5,488,887	$ 1,545,983		$ 20,307,071
Grants and contracts receivable	13,517,847	117,515	28,235	95,777	538,110	521,621	435		14,819,540
Affiliate and rent receivables	3,539,278	370,865	422,562	559,186	107,257	190,166	439,631	$ (3,008,285)	2,620,660
Investments	7,743,116								7,743,116
Prepaid expenses and other assets	1,529,442	45,385	500	4,422	364,968	12,214	12,230		1,969,161
Fixed assets, net	1,708,530	14,496,747	9,697,256	7,810,815	94,575,449	67,552,656	26,101,752		221,943,205
Investment in affiliates	2,641,708								2,641,708
Operating lease right-of-use assets	25,763,744								25,763,744
Total assets	$ 58,008,634	$ 18,976,266	$ 11,929,417	$ 9,991,487	$ 100,045,111	$ 73,765,544	28,100,031	$ (3,008,285)	$ 297,808,205
Liabilities:									
Accounts payable and accrued expenses	$ 5,600,783	$ 148,610	$ 133,116	$ 439,969	$ 8,065,572	$ 3,176,484	$ 86,164		$ 17,650,698
Affiliate payables	12,296	267,627	309,470	449,117	708,736	721,129	539,910	$ (3,008,285)	-
Line of credit	10,000,000								10,000,000
Deferred revenue and contract advances	69,733	9,089	91,259	34,337	4,593,492	653,984	424,985		5,876,879
Notes payable, net		12,962,146	8,158,467	16,946,043	45,857,260	47,338,767	5,987,868		137,250,551
Accrued interest on notes payable		1,883,324	3,957,085	2,621,922	114,754		1,500		8,578,585
Tenant security deposits		28,483	18,757	28,209	851	43,849	9,669		129,818
Operating lease liabilities	26,234,027								26,234,027
Total liabilities	41,916,839	15,299,279	12,668,154	20,519,597	59,340,665	51,934,213	7,050,096	(3,008,285)	205,720,558
Net Assets:									
Without donor restrictions:									
Undesignated	6,164,876								6,164,876
Board designated	259,428								259,428
Affiliated entities (Note 2)		3,676,987	(738,737)	(10,528,110)	40,704,446	21,831,331	21,049,935	7,589,860	83,585,712
Non-controlling interests (Note 2)								(7,589,860)	(7,589,860)
Total net assets without donor restrictions	6,424,304	3,676,987	(738,737)	(10,528,110)	40,704,446	21,831,331	21,049,935	-	82,420,156
With donor restrictions	9,667,491								9,667,491
Total net assets	16,091,795	3,676,987	(738,737)	(10,528,110)	40,704,446	21,831,331	21,049,935	-	92,087,647
Total liabilities and net assets	$ 58,008,634	$ 18,976,266	$ 11,929,417	$ 9,991,487	$ 100,045,111	$ 73,765,544	28,100,031	$ (3,008,285)	$ 297,808,205

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, 2024

	ECS										
	Without Donor Restrictions	With Donor Restrictions	Total	Canon Kip	Canon Barcus	Bishop Swing	Granada	Diva	Eliseo	Eliminations	Total
Support and Revenue:											
Contributions and foundation grants	$ 1,096,259	$ 2,632,363	$ 3,728,622								$ 3,728,622
Bequest and trust revenue	45,065	231,000	276,065								276,065
Contributions, gifts-in-kind	545,791		545,791								545,791
Government grants and contracts	56,997,015		56,997,015								56,997,015
Rental income	1,891,708		1,891,708	$ 2,245,835	$ 2,203,788	$ 2,013,792	$ 3,242,334	$ 1,763,724	$ 2,189,886	$ (606,354)	14,944,713
Other program income	1,901,794		1,901,794					902,893			2,804,687
Interest income	300,856		300,856	1,621	77	55	7,366	32,962	9,560		352,497
Other income	31,495		31,495	56,755	128,635	2,239	41,772	41,138	35,738		337,772
Release of donor restrictions	6,725,341	(6,725,341)	-								-
Total support and revenue	69,535,324	(3,861,978)	65,673,346	2,304,211	2,332,500	2,016,086	3,291,472	2,740,717	2,235,184	(606,354)	79,987,162
Expenses:											
Program services	57,994,120		57,994,120	3,138,883	2,415,845	2,288,143	3,084,958	4,002,311	1,704,632	(606,354)	74,022,538
Supporting services	11,538,403		11,538,403							-	11,538,403
Total operating expense	69,532,523	-	69,532,523	3,138,883	2,415,845	2,288,143	3,084,958	4,002,311	1,704,632	(606,354)	85,560,941
Change in Net Assets Before Other Changes	2,801	(3,861,978)	(3,859,177)	(834,672)	(83,345)	(272,057)	206,514	(1,261,594)	530,552	-	(5,573,779)
Other Changes:											
Government grant refund			-					(2,075,834)			(2,075,834)
Total Change in Net Assets	2,801	(3,861,978)	(3,859,177)	(834,672)	(83,345)	(272,057)	206,514	(3,337,428)	530,552	-	(7,649,613)
Net Assets, Beginning 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
Net Assets, End of year	$ 6,424,304	9,667,491	$ 16,091,795	$ 3,676,987	$ (738,737)	$ (10,528,110)	$ 40,704,446	$ 21,831,331	$ 21,049,935	$ -	$ 92,087,647

Episcopal Community Services of San Francisco

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2024

Federal Grantor/Pass Through Grantor/Program Title	Assistance Listing Number (ALN)	Pass-Through Entity Identifying Number	Grant Period	Federal Expenditures
Department of Agriculture				
Passed through the San Francisco Human Services Agency				
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	1000021710	7/1/21-6/30/23	$ 9,939
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	1000029290	7/1/24-6/30/27	35,383
Total Department of Agriculture				45,322
Department of Homeland Security				
Passed through the San Francisco Human Services Agency				
Emergency Food and Shelter National Board Program	97.024	085800-006	7/1/23-6/30/24	15,250
Total Department of Homeland Security				15,250
Department of Health and Human Services				
Passed through the San Francisco Human Services Agency				
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	1000022762	7/1/23-6/30/24	115,082
Temporary Assistance for Needy Families	93.558	1000021710	7/1/21-6/30/23	2,238
Temporary Assistance for Needy Families	93.558	1000029290	7/1/24-6/30/27	6,021
Temporary Assistance for Needy Families	93.558	1000020339	7/1/22-6/30/23	4,270
Medical Assistance Program	93.778	1000022456	7/1/22-6/30/23	5,888
Medical Assistance Program	93.778	1000022762	7/1/22-6/30/23	2,732
Medical Assistance Program	93.778	1000022762	7/1/23-6/30/24	2,832
Medical Assistance Program	93.778	1000029980	7/1/23-6/30/24	31,427
Medical Assistance Program	93.778	1000029981	7/1/23-6/30/27	32,025
Passed through the San Francisco Department of Public Health				
Medical Assistance Program	93.778	1000011165	7/1/23-6/30/24	277,697
Total Department of Health and Human Services				480,212
Department of Housing and Urban Development				
Passed through the San Francisco Department of Homelessness & Supportive Housing				
Emergency Solutions Grant Program	14.231	E-23-MC-06-0016	7/1/21-6/30/26	317,262
Emergency Solutions Grant Program	14.231	E-23-MC-06-0016	7/1/20-6/30/26	53,943
Passed through the Mayor's Office of Housing & Community Development				
Community Development Block Grant/Entitlement Grants	14.218	203900-23	7/1/23-6/30/24	66,560
Passed through the San Francisco Department of Homelessness & Supportive Housing				
Continuum of Care Program	14.267	CA0033L9T012209/ CA0033L9T012310	7/1/20-3/31/27	398,289
Continuum of Care Program	14.267	CA1246L9T012113/ CA1246L9T012214	7/1/20-6/30/24	578,040
Continuum of Care Program	14.267	CA1246L9T012214/ CA1246L9T012315	12/1/21-11/30/24	1,583,691
Continuum of Care Program	14.267	CA0060L9T012215/ CA0060L9T012316	7/1/20-12/31/26	210,000
Continuum of Care Program	14.267	CA1463L9T012207	7/1/21-6/30/24	131,287
Continuum of Care Program	14.267	CA1246L9T012113/ CA1246L9T012214	9/1/20-6/30/24	367,632
Continuum of Care Program	14.267	CA1246L9T012113/ CA1246L9T012214	9/1/20-6/30/24	593,035
Continuum of Care Program	14.267	CA1246L9T012113/ CA1246L9T012214	9/1/20-6/30/24	608,193
Continuum of Care Program	14.267	CA1387L9T012106/ CA1246L9T012214	8/1/21-9/30/27	886,387
Continuum of Care Program	14.267	CA1246L9T012113/ CA1246L9T012214	7/1/21-6/30/26	253,272
Total Department of Housing and Urban Development				6,047,591
Total Federal Awards				$ 6,588,375

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation and Accounting:

The Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Episcopal Community Services of San Francisco (ECS) under programs of the federal government for the year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of ECS, it is not intended to and does not present the entire financial position, changes in net assets or cash flows of ECS.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate:

ECS has elected to not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance. ECS applies indirect costs in accordance with the specific terms of its award agreements.

Independent Auditors' 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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of **EPISCOPAL COMMUNITY SERVICES OF SAN FRANCISCO (ECS)**, which comprise the consolidated statement of financial position as of June 30, 2024, 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, and have issued our report thereon dated December 9, 2024.

Report on Internal Control Over Consolidated Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2024-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether ECS's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as item 2024-001.

Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on ECS's response to the findings identified in our audit and described in the accompanying *Corrective Action Plan*. ECS's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Hood & Strong LLP

San Francisco, California
December 9, 2024

Independent Auditors' Report
on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the *Uniform Guidance*

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited **EPISCOPAL COMMUNITY SERVICES OF SAN FRANCISCO's (ECS)** compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of ECS's major federal programs for the year ended June 30, 2024. ECS's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, ECS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200*, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of ECS and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of ECS's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to ECS's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on ECS's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about ECS's compliance with the requirements of each major federal program as a whole.

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 ECS's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of ECS's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of ECS's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Hood & Strong LLP

San Francisco, California
December 9, 2024

Schedule of Findings and Questioned Costs
Year Ended June 30, 2024

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Consolidated Financial Statements

Type of auditors' report issued:	*Unmodified*
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	*None Reported*
Noncompliance material to consolidated financial statements noted?	No

Federal Awards

Type of auditors' report issued on compliance for major programs:	*Unmodified*
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	*None Reported*
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	No

Identification of major programs:

ALN Number(s)	Name of Federal Program or Cluster
14.267	Department of Housing and Urban Development – HUD Continuum of Care Program

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

II. FINANCIAL STATEMENT FINDINGS

Material Weakness

Finding: 2024-001

Recording of Release from Net Assets

Criteria and Condition

Accounting principles generally accepted in the Unites States of America, require the release of restricted net assets upon utilization for the intended donor imposed restriction.

Context

In 2024, ECS utilized approximately $4.9 million of donor-restricted net assets for programs in line with donor restrictions that was not released from restriction in the donor-restricted net asset schedule as of June 30, 2024. The release of these restricted funds had a significant effect on ECS's net assets, reducing the operating deficit in the "without donor restrictions" category by approximately $4.5 million.

Questioned Cost

There is no questioned cost regarding this finding.

Cause

Procedures in place to ensure the release of restricted contributions were complete and reconciled to the accounting records were overlooked.

Effect

Approximately $4.9 million of donor-restricted net assets had not been released as of June 30, 2024, and was not properly reflected in the donor-restricted net assets schedule.

Repeat Finding

This finding is not a repeat finding.

Recommendation

We recommend that management carefully monitor the utilization of restricted net assets throughout the year, particularly at year-end, to ensure that the appropriate amounts of restricted net assets are released in accordance with donor restrictions and accounting standards.

View of responsible officials

Management agrees with the recommendation.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

Episcopal Community Services San Francisco

Corrective Action Plan
Year Ended June 30, 2024

Material Weakness

Finding: 2024-001

Recording of Release from Net Assets

Criteria and Condition

Accounting principles generally accepted in the Unites States of America, require the release of restricted net assets upon utilization for the intended donor imposed restriction.

Context

In 2024, ECS utilized approximately $4.9 million of donor-restricted net assets for programs in line with donor restrictions that was not released from restriction in the donor-restricted net asset schedule as of June 30, 2024.The release of these restricted funds had a significant effect on ECS's net assets, reducing the operating deficit in the "without donor restrictions" category by approximately $4.5 million.

Questioned Cost

There is no questioned cost regarding this finding.

Cause

Procedures in place to ensure the release of restricted contributions were complete and reconciled to the accounting records were overlooked.

Effect

Approximately $4.9 million of donor-restricted net assets had not been released as of June 30, 2024, and was not properly reflected in the donor-restricted net assets schedule.

Repeat Finding

This finding is not a repeat finding.

Corrective Action Plan
Year Ended June 30, 2024

Recommendation

We recommend that management carefully monitor the utilization of restricted net assets throughout the year, particularly at year-end, to ensure that the appropriate amounts of restricted net assets are released in accordance with donor restrictions and accounting standards.

View of responsible officials

Management agrees with the recommendation.

Corrective Action Planned

While ECS does conduct a thorough review of its donor-restricted net assets schedule to ensure the release of restricted contributions is complete and reconciled to the accounting records, ECS will expand its review to incorporate a comprehensive tie-in with its investment accounts. This review is currently completed on an annual basis prior to the commencement of the audit fieldwork, but it will be done on a semi-annual basis moving forward.

Implementation Date

The audit finding was corrected during fiscal year ending June 30, 2024 and additional procedures will be carried forward to future periods.

Responsible Personnel

ECS's Chief Financial Officer and its Senior Controller are tasked with this responsibility.