

EPISCOPAL COMMUNITY SERVICES
OF SAN FRANCISCO

JUNE 30, 2017

SINGLE AUDIT REPORT

Episcopal Community Services of San Francisco

Single Audit Report

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **EPISCOPAL COMMUNITY SERVICES OF SAN FRANCISCO (ECS)**, which comprise the consolidated statement of financial position as of June 30, 2017, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to ECS's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the ECS as of June 30, 2017, 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.

Report on Summarized Comparative Information

We have previously audited ECS's June 30, 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.


Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2016, on our consideration of ECS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



San Francisco, California
December 20, 2017

Episcopal Community Services of San Francisco and Affiliates

Consolidated Statement of Financial Position

June 30, 2017 (With comparative totals for 2016)

	ECS	Canon Kip	Canon Kip II	Canon Barcus	275 10th St	Eliminations	2017 Consolidated	2016 Consolidated
Assets								
Cash and cash equivalents	\$ 3,256,075	\$ 58,610	\$ 621,842	\$ 219,611	\$ 133,040		\$ 4,289,178	\$ 553,643
Grants and contracts receivable	1,703,677						1,703,677	2,722,451
Contributions receivable	160,917						160,917	158,376
Other receivables	7,578		75,802	47,592	61,617		192,589	133,622
Prepaid expenses and other current assets	344,382		755			\$ (755)	344,382	323,537
Investments	2,612,641						2,612,641	2,789,794
Restricted cash		22,916		1,578,645	1,072,701		2,674,262	3,220,184
Affiliate receivables	338,792	16,721	35,917	21,365	7,550	(420,345)		
Fixed assets, net	213,299		7,586,745	12,120,849	23,696,805		43,617,698	41,718,803
Investment in affiliates	(358,428)					358,428		
Other assets	666,508			39,067	88,446		794,021	309,290
Total assets	\$ 8,945,441	\$ 98,247	\$ 8,321,061	\$ 14,027,129	\$ 25,060,159	\$ (62,672)	\$ 56,389,365	\$ 51,929,700
Liabilities and Net Assets								
Liabilities:								
Accounts payable	\$ 860,273	\$ 59,367	\$ 735,478	\$ 208,840	\$ 242,530		\$ 2,106,488	\$ 1,367,264
Affiliate payables	59,068	58,880	111,272	103,296	87,829	\$ (420,345)		
Other payables								920,000
Line of credit								
Contract advances	3,069,200			2,072			3,071,272	
Accrued expenses	1,109,491						1,109,491	920,967
Deferred revenue			30,246				30,246	
Deferred revenue affiliates	755					(755)		59,992
Deferred developer fee	455,749						455,749	455,749
Notes payable			9,547,128	8,727,932	17,125,359		35,400,419	31,108,878
Accrued interest on notes payable			114,215	2,956,576	1,405,995		4,476,786	6,669,541
Tenant security deposits			25,775	18,051	26,265		70,091	72,962
Total liabilities	5,554,536	118,247	10,564,114	12,016,767	18,887,978	(421,100)	46,720,542	41,575,353
Net Assets:								
Unrestricted:								
Unrestricted	1,889,514	(20,000)	(2,243,053)	2,010,362	6,172,181	(5,919,490)	1,889,514	2,357,673
Board designated	253,223						253,223	250,223
Non-Controlling Interests						6,277,918	6,277,918	7,282,502
Total unrestricted	2,142,737	(20,000)	(2,243,053)	2,010,362	6,172,181	358,428	8,420,655	9,890,398
Temporarily restricted	1,248,168						1,248,168	463,949
Total net assets	3,390,905	(20,000)	(2,243,053)	2,010,362	6,172,181	358,428	9,668,823	10,354,347
Total liabilities and net assets	\$ 8,945,441	\$ 98,247	8,321,061	14,027,129	\$ 25,060,159	(62,672)	\$ 56,389,365	\$ 51,929,700

See accompanying notes to financial statements.

Episcopal Community Services of San Francisco and Affiliates

Consolidated Statement of Activities and Changes in Net Assets

Year Ending June 30, 2017 (with comparative totals for 2016)

	2017										2016 Total
	ECS			Canon Kip	Canon Kip II	Canon Barcus	275 10th St	Eliminations	Total		
	Unrestricted	Temporarily Restricted	Total								
Recurring Support and Revenue:											
Contributions and foundation grants	\$ 1,221,229	\$ 1,372,808	\$ 2,594,037						\$ 2,594,037	\$ 1,604,518	
Contributions, gifts-in-kind	795,721		795,721						795,721	887,340	
Government grants and contracts	22,708,242		22,708,242						22,708,242	20,888,770	
Rental income	2,506,805		2,506,805	\$ 393,944	\$ 462,311	\$ 1,395,423	\$ 1,398,035		6,156,518	5,883,708	
Other program income	910,224		910,224					\$ (130,399)	779,825	895,102	
Bequest										5,000	
Interest income	10,718		10,718	47	122	118	258		11,263	2,865	
Other income	9,274		9,274	24,355	13,219	8,176	24,626		79,650	31,250	
Release of donor restrictions	588,589	(588,589)									
Total recurring support and revenue	28,750,802	784,219	29,535,021	418,346	475,652	1,403,717	1,422,919	(130,399)	33,125,256	30,198,553	
Expenses:											
Program services	25,323,430		25,323,430	493,535	597,441	1,164,045	1,347,373	(130,399)	28,795,425	26,460,040	
Supporting services	3,572,387		3,572,387						3,572,387	2,778,475	
Total operating expense	28,895,817		28,895,817	493,535	597,441	1,164,045	1,347,373	(130,399)	32,367,812	29,238,515	
Change in Net Assets from Operations	(145,015)	784,219	639,204	(75,189)	(121,789)	239,672	75,546		757,444	960,038	
Depreciation and interest	31,817		31,817	167,290	199,323	679,186	1,010,025		2,087,641	2,189,920	
Total expenses	28,927,634		28,927,634	660,825	796,764	1,843,231	2,357,398	(130,399)	34,455,453	31,428,435	
Change in Net Assets including Affiliates	(176,832)	784,219	607,387	(242,479)	(321,112)	(439,514)	(934,479)		(1,330,197)	(1,229,883)	
Change in Net Assets resulting from transfer of Canon Kip Community House from CKA to CKA II				2,566,614	(1,921,941)				644,673		
Noncontrolling interest in affiliates	(288,327)		(288,327)					288,327			
Change in Net Assets	(465,159)	784,219	319,060	2,324,135	(2,243,053)	(439,514)	(934,479)	288,327	(685,524)	(1,229,883)	
Net Assets, Beginning of year	2,607,896	463,949	3,071,845	(2,344,135)		2,449,876	7,106,660	70,101	10,354,347	11,584,230	
Net Assets, End of year	\$ 2,142,737	\$ 1,248,168	\$ 3,390,905	\$ (20,000)	\$ (2,243,053)	\$ 2,010,362	\$ 6,172,181	\$ 358,428	\$ 9,668,823	\$ 10,354,347	

See accompanying notes to financial statements.

Episcopal Community Services of San Francisco and Affiliates
Consolidated Statement of Functional Expenses

Year Ending June 30, 2017 (with comparative totals for 2016)

	Shelters	Supportive Housing	Education Employment Services	Senior Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	2017 Total	2016 Total
Salaries	\$ 5,141,579	\$ 4,472,656	\$ 1,096,519	\$ 245,517	\$ 10,956,271	\$ 1,530,569	\$ 441,856	\$ 1,972,425	\$ 12,928,696	\$ 11,738,801
Employee benefits and other payroll related costs	2,071,203	1,458,718	451,495	294,728	4,276,144	498,929	105,844	604,773	4,880,917	4,302,017
Professional services	74,356	784,743	1,793	2,965	863,857	491,889	665	492,554	1,356,411	861,760
Training and conferences	18,833	29,497	6,069	2,122	56,521	28,564	4,830	33,394	89,915	85,537
Marketing and printing	16,159	35,715	9,176	2,712	63,762	8,399	89,602	98,001	161,763	144,320
Food products	26,623	93,710	581,690	148	702,171	28		28	702,199	690,471
Food products, gifts-in-kind	128,187	587,825	1,811	77,898	795,721				795,721	887,340
Operating costs - affiliates		3,471,995			3,471,995				3,471,995	2,996,126
Supplies and services	600,463	738,240	140,053	65,849	1,544,605	71,656	9,327	80,983	1,625,588	1,399,386
Vehicle and transportation	9,587	138	3,808		13,533	2,077		2,077	15,610	7,111
Occupancy	663,182	4,381,755	24,750		5,069,687	93,837		93,837	5,163,524	4,417,449
Telecommunications	60,911	97,793	19,391	6,168	184,263	28,773	7,372	36,145	220,408	248,838
Insurance	36,988	46,865	9,845	3,186	96,884	4,959	1,219	6,178	103,062	94,878
Equipment and maintenance	106,176	570,026	18,943		695,145	27,611	1,318	28,929	724,074	1,271,825
Other	2,418	792	1,655		4,865	52,390	29,884	82,274	87,139	63,595
Interest - operations						40,791		40,791	40,791	29,062
Inter-program services	1,099,923		(1,099,923)							
Total expenses before depreciation and interest	10,056,588	16,770,468	1,267,075	701,293	28,795,424	2,880,472	691,917	3,572,389	32,367,813	29,238,516
Depreciation and interest		2,057,405	1,197	1,740	2,060,342	27,298		27,298	2,087,640	2,189,920
Total expenses	10,056,588	18,827,873	1,268,272	703,033	30,855,766	2,907,770	691,917	3,599,687	34,455,453	31,428,436
Recovery of administrative costs	991,488	1,268,893	236,527	51,879	2,548,787	(2,548,787)		(2,548,787)		
	\$ 11,048,076	\$ 20,096,766	\$ 1,504,799	\$ 754,912	\$ 33,404,553	\$ 358,983	\$ 691,917	\$ 1,050,900	\$ 34,455,453	\$ 31,428,436

See accompanying notes to financial statements.

Episcopal Community Services of San Francisco and Affiliates

Consolidated Statement of Cash Flows

<i>June 30, 2017 (With comparative totals for 2016)</i>	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ (685,524)	\$ (1,229,883)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated stock	(53,011)	(64,600)
Depreciation and amortization	1,438,889	1,581,103
Net realized gain on investments	(10,409)	(2,162)
Changes in operating assets and liabilities:		
Grants and contracts receivable	1,018,774	(1,843,857)
Prepaid and other current assets	(82,353)	(168,227)
Deposit to restricted cash	545,922	(444,321)
Other assets	(493,553)	79,155
Accounts payable and accrued expenses	924,877	635,203
Contract advances	3,071,272	
Deferred revenue	(29,746)	(107,164)
Accrued interest on notes payable	450,697	597,729
Net cash (used) provided by operating activities	6,095,835	(967,024)
Cash Flows from Investing Activities:		
Proceeds from sales of investments	315,573	553,733
Purchases of investments	(75,000)	(834,667)
Additions to fixed assets	(515,758)	(1,362,623)
Net cash (used) provided by investing activities	(275,185)	(1,643,557)
Cash Flows from Financing Activities:		
Borrowings on notes payable	14,729	1,285,271
Payments on notes payable	(1,179,844)	
Borrowings on line of credit	7,030,000	8,270,000
Payments on line of credit	(7,950,000)	(7,350,000)
Net cash (used) provided by financing activities	(2,085,115)	2,205,271
Net (Decrease) Increase in Cash and Cash Equivalents	3,735,535	(405,310)
Cash and Cash Equivalents, Beginning of Year	553,643	958,953
Cash and Cash Equivalents, End of Year	\$ 4,289,178	\$ 553,643
Supplemental Cash Flow Information:		
Interest paid	\$ 226,657	\$ 29,062
Noncash investing and financing activities:		
Assets acquired by assuming long-term liabilities	\$ 2,813,204	
Interest added to principal balance of notes payable	\$ 2,643,452	

See accompanying notes to financial statements.

Episcopal Community Services of San Francisco

Notes to 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 served more than 8,000 adults and families during the year ended June 30, 2017 with programs in four service areas: shelters, supportive housing, education and employment, and services for seniors and persons with disabilities.

Shelters

The Sanctuary and **Next Door** shelters accommodate up to 534 men and women each day and night of the year. Clean bedding, hot showers, and nutritious meals help residents meet their immediate needs, while ECS's staff offers counseling and activities geared toward helping shelter residents address their longer-term housing needs and other challenges that contribute to their homeless situation.

The Interfaith Shelter is a collaborative, volunteer-supported effort with the San Francisco Interfaith Council and congregations throughout the City, offering overnight lodging and meals for 60-100 homeless adults each night during the winter months.

ECS is the lead service provider at the **Mission Street and Central Waterfront Navigation Centers**. Designed to engage men and women, many living in encampments, who until now have resisted shelter placement, these two Navigation Centers serve up to 140 guests at a time in a low-demand setting, accepting of "partners, pets, and possessions," while embracing them with wrap-around health, social and financial services and housing placement services.

Through its **Shelter Treatment Access and Resource Team (SF START)**, ECS provides behavioral health services not only at ECS's shelters but also at the other single adult shelters in San Francisco. SF-START also operates the City's **Coordinated Entry** for housing program, which provides support to chronically homeless adults making applications for permanent supportive housing.

Supportive Housing

In the year ended June 30, 2017, ECS provided support services to more than 1,300 individuals at eleven 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.

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

ECS is sponsor and developer of three of the facilities, serving 104 single adults at **Canon Kip Community House**, 47 formerly homeless families at **Canon Barcus Community House**, and 134 men and women at **Bishop Swing Community House**. ECS also provides services for single adults at its master-leased sites—**The Elm** (82 units), **The Mentone** (71 units), **The Hillsdale** (84 units), **The Alder** (117 units), **The Crosby** (124 units) and **The Henry** (121 units); for single adults at Mercy Housing California's **The Rose** (75 units); and for 50 formerly homeless families at Mercy's **1180 4th Street Apartments**. ECS will open a twelfth site, **The Auburn**, with 121 units in October 2017.

In mid-2016, ECS began its **Housing Opportunities Program (HOP)**, a pilot assisting with temporary rental subsidies and case management for homeless men and women who are employed or enrolled in employment training programs. HOP served 24 participants, placing 6 of them in housing during the program's initial year.

Education, Employment and Senior Services

ECS consolidated its Education and Employment Services and its Senior Services into a single department in June 2015.

Serving more than 300 people annually, ECS's **Adult Education Center** offers basic literacy, life skills classes, high school diploma preparation, GED education and testing preparation, vocational preparation and job search support. The organization's **CHEFS (Conquering Homelessness through Employment in Food Services)** is a culinary training program, which in fiscal year 2017 served an additional 45 homeless and formerly homeless adults, providing the opportunity for their participation as well in ECS's **CHEFS Kitchens** social enterprise. Staff also provides education and employment outreach to ECS housing sites.

More than 1,000 homeless or other very low-income seniors and disabled persons participated in ECS's **Canon Kip Senior Center (CKSC)** in fiscal year 2017. CKSC affords its program participants a mid-day meal, social and recreational activities, emergency housing assistance, health information and screenings, exercise, and case management.

ECS's principal sources of funding are government grants and contracts, as well as contributions from individuals, corporations, and foundations.

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies:

The financial statements are prepared on an accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

a. Principles of Consolidation

The accompanying financial statements reflect the consolidation of the individual financial statements of ECS and its affiliates, Canon Barcus Associates (CBA), Canon Kip Associates (CKA), Canon Kip Associates II (CKA II), and 275 10th Street Associates, limited partnerships, known collectively as the housing entities. CBA is the owner of Canon Barcus Community House. CKA was the owner of Canon Kip Community House until the 14th of December 2016. CKA II purchased Canon Kip Community House on the 14th of December 2016 and became its owner then. 275 10th Street Associates 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 partners of CBA, and of Canon Kip, Inc. (CKI), the managing general partners of CKA and of CKA II. CBI holds a 0.1% equity interest in CBA and CKI holds a 1% equity interest in CKA and a .01% equity interest in CKA II. 275 10th Street, LLC, of which ECS is the sole member, serves as the managing general partner of 275 10th Street Associates and holds a 0.01% interest in the partnership.

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.

b. Description of Net Assets

ECS reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations. The board of directors has designated \$253,223 for future operations.

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

Permanently Restricted Net Assets - The portion of net assets the use of which by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of ECS. ECS has no permanently restricted net assets.

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

c. 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 temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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. Conditional promises to give are not included as support until the conditions are substantially met.

During the year ended June 30, 2017 ECS recorded pledges of two charitable remainder trusts. The first gift consists of a remainder interest in the donor's personal residence currently valued at \$320,913. The donor currently holds a life estate in the residence. The second gift consists of a remainder interest in a diverse portfolio of investments under trust, currently valued at \$290,495. The trustee is the Episcopal Church in the Diocese of California.

Total food donations received for various program services during the fiscal year 2017 were recognized in the Statement of Activities at their fair value of \$795,721.

Government grants and contracts, rental and other program income, are recognized when earned. Amounts received in advance are recorded as advances until earned.

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.

d. Cash and Cash Equivalents

For the purpose of the statement of cash flows, ECS considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Restricted cash represents developer fees received subject to restrictions from other parties regarding the future use of such cash, tenant security deposits, replacement reserves, and operating reserves.

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

e. Fixed Assets

Fixed assets consisting of furniture, equipment and leasehold improvements 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 (three to ten years) of the related assets.

f. Use of Estimates

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

g. Income Taxes

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

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 financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

h. Allocated Expenses

Management and general expenses by function have been allocated among program and supporting services classifications utilizing an indirect rate established under the simplified allocation method.

i. Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with ECS's consolidated financial statements for the year ended June 30, 2016 from which the summarized information was derived.

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

j. Subsequent Events

ECS evaluated subsequent events through November 20, 2017, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements, except as discussed in Note 1 and 7.

k. Recent Accounting Pronouncements.

Pronouncement Effective in the future:

In August 2016, the FASB issued ASU 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The amendments in the Accounting Standards Update make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in the Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments in the Update is permitted and applied retrospectively. ECS is currently evaluating the impact of this pronouncement on its financial statements.

In February 2016, the FASB issued authoritative guidance regarding Leases. The new standard will supersede much of the existing authoritative literature for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The standard will be effective for ECS, since it is not deemed a public business entity, for its fiscal year beginning after December 15, 2019, and for interim periods beginning after December 15, 2020 with early application permitted. Entities are required to use modified retrospective application for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements with the option to elect certain transition reliefs. ECS is currently evaluating the guidance and we are not certain of the impact but are assessing its implications.

Note 3 - Fair Value Measurements:

ECS follows ASC Topic 820, *Fair Market Measurements and Disclosures*, (ASC 820) which provides a framework for measuring fair value under generally accepted accounting principles. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis.

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also established a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Inputs are unobservable inputs for the asset or liability. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

ECS has measured its money market mutual funds at Level 2 and investments in affiliates at Level 3. Money market mutual funds are valued on the basis of fair value.

The table below presents the balances of assets measured as of June 30, 2017 at fair value on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market mutual funds	\$ 2,612,641		\$ 2,612,641	
Investments in affiliates	(358,428)			\$ (358,428)
	<u>\$ 2,254,213</u>		<u>\$ 2,612,641</u>	<u>\$ (358,428)</u>

There were no transfers of assets in and out of Levels 1, 2 and 3 of the fair value hierarchy.

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Level 3 Investments in affiliates
Balance, beginning of year	\$ (70,101)
Equity interest in net loss	(288,327)
<u>Balance, end of year</u>	<u>\$ (358,428)</u>

Note 4 - Fixed Assets:

Fixed assets at June 30, 2017 were as follows:

Land	\$ 4,534,171
Site improvements	998,784
Building and building improvements	45,745,826
Leasehold improvements	2,656,054
Furniture and equipment	1,621,343
Vehicles	59,510
Construction in process	4,458,270
	60,073,958
<u>Less: accumulated depreciation</u>	<u>(16,456,260)</u>
	<u>\$ 43,617,698</u>

Construction in process includes \$4,404,934 to rehabilitate Canon Kip Community House. See Note 6-a. below for further discussion. Construction in process is not depreciated until the completion of the development.

Note 5 - Debt:

Line of Credit

At June 30, 2017, ECS had an unsecured \$2,000,000 line of credit from the Episcopal Bishop of California, A Corporation Sole, funded through the Bishop's master credit line agreement with Union Bank of California. Interest is payable monthly at prime rate (4.25% at June 30, 2017). There was no outstanding balance as of June 30, 2017.

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Notes to Consolidated Financial Statements

Note 6 - Affiliates:

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

The ECS Board of Directors appoints the members of the Board of Directors of Canon Kip, Inc. (CKI). CKI is the managing General Partner of Canon Kip Associates, L.P. (CKA), and Canon Kip Associates, L.P. II (CKA II). CKI has a 1% ownership interest in CKA and a .01% ownership interest in CKA II. Until December 14, 2016 Canon Kip Associates owned and operated Canon Kip Community House, 104 units of supportive housing for formerly homeless adults (the Project), developed by ECS in 1994.

The project completed the low income housing tax credit compliance period on December 31, 2009. On January 1, 2010, National Equity Fund 1992 Limited Partnership, until then CKA's Limited Partner, withdrew from the partnership and ECS entered CKA as the new limited partner.

Canon Kip Associates II, L.P. was formed as a limited partnership on February 12, 2016, to acquire, rehabilitate, own and operate Canon Kip Community House. The initial Limited Partner was ECS. CKA II received a preliminary allocation of low income housing tax credits in June 2016. On December 14, 2016 ECS withdrew from the partnership and assigned its partnership interest to NEF Assignment Corporation. On that same date CKA transferred the Project, and associated debt, to CKA II as part of a major rehabilitation and re-syndication project for the property. The property is undergoing substantial rehabilitation which is expected to be completed in 2018. During this development phase CKA II incurs costs, including governmental, legal and consulting fees, as well as construction costs. As of June 30, 2017, Construction in Process totaled \$4,404,934. These costs were funded with the initial capital contributions received from the partners and with draws against Notes Payable. See Note Payable information below. As of June 30, 2017, CKA II has additional construction commitments of \$7,994,536 for work to be performed after that date. This spending will be funded through draws against the Note Payable to the City and County of San Francisco, and against the Silicon Valley bank construction loan. This construction loan will be repaid after the end of construction with additional capital contributions from the Limited Partners and a \$3,000,000 note from the California Department of Housing and Community Development's Multifamily Housing Program (MHP).

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

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

The Project, through the General Partner, has entered into a rental assistance payments contract with the City and County of San Francisco's Mayor's Office of Housing (MOH), whereby the project receives rent subsidies for housing eligible for low income individuals as in accordance with the MOH Shelter Plus Care Program through a grant provided to the City by the U.S. Department of Housing and Urban Development (HUD).

The program requires that 80 units of residential housing be designated to provide affordable housing and social services to homeless person 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 MOH, and was transferred to the partnership upon acquisition of the property.

Included in ECS's affiliate receivables are \$46,566 due to ECS from CKA. Included in ECS's affiliate payables are \$6,550 in facilities expenses due to CKA from ECS. ECS's affiliate receivables include \$37,033 in asset management and support services fees in the year ended June 30, 2017. These amounts have been eliminated in consolidation.

Included in ECS's affiliate receivables are \$101,101 due to ECS from CKA II. Included in ECS's affiliate payables are \$23,603 in facilities expenses due to CKA II from ECS. ECS's affiliate receivables include \$27,500 in support services fees in the year ended June 30, 2017. These amounts have been eliminated in consolidation.

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

Notes payable for Canon Kip II are secured by the property and are due upon maturity unless otherwise noted. CKA II has recorded accrued interest expense of \$114,215 in conjunction with the notes payable, which consist of the following:

Note payable to the City and County of San Francisco (CDBG/HOME) in the maximum amount of \$5,743,396, and bears simple interest of 3% per annum. Annual payments shall 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".

\$ 5,276,547

Note payable to the California Department of Housing and Community Development (HCD/RHCP loan) in the original amount of \$3,240,581, and bears simple interest of 3% per annum. Annual payments shall be made subject to available net cash flow. The loan is due and payable in 2071.

3,240,581

Note payable to Silicon Valley Bank (AHP) in the maximum amount of \$1,030,000, is non-interest bearing, and is due and payable in 2074.

1,030,000

Silicon Valley Bank construction loan, in the maximum amount of \$11,643,964, bearing interest at a fixed rate of 2% per annum. Interest-only payments are due monthly. All principal and unpaid accrued interest shall be due and payable on September 1, 2019. The loan is subject to possible extension and shall bear a fixed interest rate equal to the greater of the percentage obtained by adding 1% to the then current 2-year Treasury rate as published by the U.S. Department of Treasury, or 1.65% per annum. No amounts were drawn on this loan as of June 30, 2017.

0

Total \$ 9,547,128

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

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

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

ECS earned a fee of \$455,749 for development of Canon Barcus Community House. The entire amount of the developer fee has been collected and invested in a government money market fund. The developer fee is restricted to fund the tax benefits guaranty and the operating deficit guaranty required by CBA's limited partner.

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

ECS funded leasehold improvements and leases administrative and program facilities from CBA for \$1 per year. Included in ECS's affiliate receivables are \$103,296, due from CBA. Included in ECS's affiliate payables are \$21,365 due to CBA from ECS for facilities expenses. ECS's affiliate receivables include \$35,866 in partnership, asset and incentive management fees in the year ended June 30, 2017. These amounts have been eliminated in consolidation.

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

Notes payable are secured by the property and assignment of rents and project income unless otherwise noted. CBA has recorded accrued interest expense of \$2,956,576 in conjunction with the notes payable which consist of the following at June 30, 2017:

	Principal
Note payable to the City and County of San Francisco in the original amount of \$1,122,250, is non-interest bearing and matures 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, bears 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 note 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 and in the original amount of \$200,000. The loan is interest free, 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 and terms for specified loan amounts and matures in August 2049.	6,716,276
Total	\$ 8,727,932

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

275 10th Street LLC and 275 10th Street Associates, L.P.

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

275 10th Street, LLC, of which ECS is the sole member, is the managing General Partner of 275 10th Street Associates, L.P. and holds a 0.01% equity position in the project. ECS has guaranteed 275 10th Street, LLC's contractual obligations, including the continued management and operations of the development. 275 10th Street Associates, L.P. has funded an operating reserve to cover any unexpected shortfall in operations.

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

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

ECS earned a fee of \$697,500 for development of Bishop Swing Community House. The entire amount of the developer fee has been collected, and \$497,500 remains invested in a government money market account to fund restricted developer activities and guaranties required by the investors.

Included in ECS's affiliate receivables are \$87,829 due from 275 10th Street Associates, L.P. for asset management, partnership management and facilities expenses. Included in ECS's affiliate payables are \$7,550 due to 275 10th Street Associates from ECS for some maintenance related expenses. These amounts have been eliminated in consolidation.

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

Notes payable are secured by the property and are not due until maturity unless otherwise noted. 275 10th Street Associates has recorded accrued interest expense of \$1,405,995 in conjunction with the notes payable, which consist of the following at June 30, 2017:

	Principal
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, bears interest of 3% per annum through November 16, 2007 and matures on June 27, 2060.	\$ 1,932,585
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.	2,942,774
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.	5,250,000
Note payable to the Department of Housing and Community Development for Multifamily Housing Program in the original amount of \$7,000,000, bears 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 30 th anniversary annual loan payments per terms of promissory note.	7,000,000
Total	\$ 17,125,359

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

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

Note 7 - Commitments and Contingencies:

Operating Leases

ECS is obligated under certain of its facilities through March 31, 2026, and lease options for additional ten years (one time). ECS is also obligated under several office equipment leases extending through October 15, 2022.

Total future lease obligations or are as follows:

June 30,	Amount
2018	\$ 4,848,000
2019	5,158,000
2020	5,275,000
2021	4,817,000
2022	4,851,000
Thereafter	15,746,000
	<hr/>
	\$ 40,695,000

Rental expense for the year ended June 30, 2017 was \$4,072,000.

Contract and grant agreements require the fulfillment of certain conditions as set forth in the grant instruments. Failure to fulfill the conditions could result in return of the funds to the grantors. ECS deems this contingency remote. Management is of the opinion that ECS has complied with the terms of all contracts and grants. ECS has provided certain guaranties in conjunction with its relationships with CK Associates, CK Associates II, CB Associates, and 275 10th Street Associates. 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.

Episcopal Community Services of San Francisco

Notes to Consolidated Financial Statements

Construction

As discussed in Note 6 - a above, CKA II has additional construction commitments of \$7,994,536 for work to be performed after June 30, 2017. CKA II is controlled by its General Partner, Canon Kip, Inc. ECS has guaranteed CKI's contractual obligations, including the continued management, development completion, loans, tax credit and operations of CKA II. Management believes that the likelihood of funding a material amount of any of these guarantees is remote.

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets of \$1,248,168 are available for use in accordance with the donors' intent. Temporarily restricted net assets of \$588,589 were used in accordance with the donors' intent.

Note 9 - 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 in order to receive a discretionary employer match and employer contribution. ECS total matching contributions were \$224,557 for the year ended June 30, 2017.

Note 10 - 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 \$2,905,000 at June 30, 2017. Grants and contracts receivable represent unsecured amounts due from federal, state and local governmental agencies.

Episcopal Community Services of San Francisco

Schedule of Financial Position (See Independent Auditors' Report on Supplementary Information)

<i>Year Ended June 30, 2017 (with comparative totals for 2016)</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 3,256,075	\$ 54,045
Receivables	1,703,677	2,722,450
Prepaid expenses and other assets	1,179,385	664,683
Investments	2,612,641	2,789,794
Investment in affiliates	338,792	193,563
Fixed assets, net	213,299	45,661
Total assets	\$ 9,303,869	\$ 6,470,196
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,028,831	\$ 1,896,206
Line of credit		920,000
Contract advances	3,069,200	
Deferred revenue	456,504	512,043
Total liabilities	5,554,535	3,328,249
Net Assets:		
Unrestricted:		
Unrestricted	2,247,943	2,427,775
Board designated	253,223	250,223
Total unrestricted	2,501,166	2,677,998
Temporarily restricted	1,248,168	463,949
Total net assets	3,749,334	3,141,947
Total liabilities and net assets	\$ 9,303,869	\$ 6,470,196

Episcopal Community Services of San Francisco

Schedule of Activities and Changes in Net Assets (See Independent Auditors' Report on Supplementary Information)

Year Ended June 30, 2017 (with comparative totals for 2016)

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue:				
Contributions and foundation grants	\$ 2,016,950	\$ 1,372,808	\$ 3,389,758	\$ 2,496,858
Government grants and contracts	22,708,242		22,708,242	20,888,770
Rental income and program fees	3,417,029		3,417,029	3,382,820
Interest income	19,992		19,992	3,141
Release of donor restrictions	588,589	(588,589)	-	-
Total support and revenue	28,750,802	784,219	29,535,021	26,771,589
Expenses:				
Program services	25,323,430		25,323,430	23,463,914
Management and general	2,880,471		2,880,471	2,233,521
Fundraising	691,916		691,916	544,954
Depreciation	31,817		31,817	32,296
Total expenses	28,927,634	-	28,927,634	26,274,685
Change in Net Assets	(176,832)	784,219	607,387	496,904
Net Assets, Beginning of year	2,677,998	\$ 463,949	3,141,947	2,645,043
Net Assets, End of year	\$ 2,501,166	\$ 1,248,168	\$ 3,749,334	\$ 3,141,947

Episcopal Community Services of San Francisco

Schedule of Functional Expenses
(See Independent Auditors' Report on Supplementary Information)

Year Ended June 30, 2017 (with comparative totals for 2016)

	Sanctuary	Next Door	Navigation Center	Central Waterfront	SF Start	Total Shelters	Supportive Housing	Education & Employment Services	Senior Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	2017 Total	2016 Total
Salaries	1,290,030	\$ 2,029,137	\$ 984,018	\$ 72,908	\$ 765,486	\$ 5,141,579	\$ 2,504,171	\$ 1,096,519	\$ 245,517	\$ 8,987,786	\$ 1,530,569	\$ 441,856	\$ 1,972,425	\$ 10,960,211	\$ 11,738,801
Employee benefits and other payroll related costs	507,751	869,088	362,797	14,911	316,656	2,071,203	3,427,203	451,495	294,728	6,244,629	498,929	105,844	604,773	6,849,402	4,302,017
Professional services	17,140	1,445	14,982	1,470	39,319	74,356	784,743	1,793	2,965	863,857	491,889	665	492,554	1,356,411	861,760
Professional services, pro-bono						-				-			-	-	-
Training and conferences	725	1,251	341	71	16,445	18,833	29,497	6,069	2,122	56,521	28,564	4,830	33,394	89,915	85,537
Marketing / Printing Expenses	4,226	4,345	7,588			16,159	35,715	9,176	2,712	63,762	8,399	89,602	98,001	161,763	144,320
Food products	10,702	9,138	5,128	1,655		26,623	93,710	581,690	148	702,171	28		28	702,199	690,471
Food products, gifts-in-kind		128,187				128,187	587,825	1,811	77,898	795,721			-	795,721	887,340
Supplies and services	124,861	150,854	242,979	71,758	10,011	600,463	738,240	140,053	65,849	1,544,605	71,656	9,327	80,983	1,625,588	1,399,386
Vehicle and transportation	4,785	4,692		110		9,587	138	3,808		13,533	2,077		2,077	15,610	7,111
Occupancy	630,369	6,600		1,463	24,750	663,182	4,381,755	24,750		5,069,687	93,837		93,837	5,163,524	4,417,449
Telecommunications	8,862	13,516	2,724	1,115	34,694	60,911	97,793	19,391	6,168	184,263	28,773	7,372	36,145	220,408	248,838
Insurance	16,154	15,058	2,627		3,149	36,988	46,865	9,845	3,186	96,884	4,959	1,219	6,178	103,062	94,878
Equipment and maintenance	17,825	29,685	19,160	39,506		106,176	570,026	18,943		695,145	27,611	1,318	28,929	724,074	1,271,825
Other	2,055	123			240	2,418	791	1,655		4,864	52,390	29,884	82,274	87,138	63,594
Interest - operations						-				-	40,791		40,791	40,791	29,062
Inter-program services	416,436	683,487				1,099,923		(1,099,923)		-			-	-	-
Total expenses before depreciation	3,051,921	3,946,606	1,642,344	204,967	1,210,750	10,056,588	13,298,472	1,267,075	701,293	25,323,428	2,880,472	691,917	3,572,389	28,895,817	26,242,389
Depreciation	-	-				-	1,582	1,197	1,740	4,519	27,298		27,298	31,817	32,296
Total expenses	3,051,921	3,946,606	1,642,344	204,967	1,210,750	10,056,588	13,300,054	1,268,272	703,033	25,327,947	2,907,770	691,917	3,599,687	28,927,634	26,274,685
Recovery of administrative costs	304,898	381,480	163,768	20,367	120,975	991,488	1,268,893	236,527	51,879	2,548,787	(2,548,787)		(2,548,787)	-	-
Total	\$ 3,356,819	\$ 4,328,086	\$ 1,806,112	\$ 225,334	\$ 1,331,725	\$ 11,048,076	\$ 14,568,947	\$ 1,504,799	\$ 754,912	\$ 27,876,734	\$ 358,983	\$ 691,917	\$ 1,050,900	\$ 28,927,634	\$ 26,274,685

Episcopal Community Services of San Francisco

Schedule of Cash Flows

(See Independent Auditors' Report on Supplementary Information)

<i>Year Ended June 30, 2017 (with comparative totals for 2016)</i>	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ 607,387	\$ 496,904
Adjustments to reconcile change in net assets to net cash provided(used) by operating activities:		
Donated Stock	(53,011)	(64,600)
Depreciation	31,817	32,296
Net realized gain on investments	(10,409)	(2,162)
Changes in operating assets and liabilities:		
Grants and contracts receivable	1,018,774	(1,843,857)
Investment in affiliates	(145,229)	(187,916)
Prepaid expenses and other assets	(514,702)	6,906
Accounts payable accrued expenses	132,625	649,252
Contract advances	3,069,200	
Deferred revenue	(55,539)	(79,220)
Net cash provided(used) by operating activities	4,080,913	(992,397)
Cash Flows from Investing Activities:		
Proceeds from sales of investments	315,573	70,318
Purchases of investments	(75,000)	(351,252)
Additions to fixed assets	(199,456)	
Net cash provided (used) by investing activities	41,117	(280,934)
Cash Flows from Financing Activities:		
Borrowings on line of credit	7,030,000	8,270,000
Payments on line of credit	(7,950,000)	(7,350,000)
Net cash (used) provided by financing activities	(920,000)	920,000
Net Increase(Decrease) in Cash and Cash Equivalents	3,202,030	(353,331)
Cash and Cash Equivalents, Beginning of Year	54,045	407,376
Cash and Cash Equivalents, End of Year	\$ 3,256,075	\$ 54,045
Supplemental Cash Flow Information		
Interest paid	\$ 40,791	\$ 28,069

Episcopal Community Services of San Francisco

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Agriculture			
Passed through the San Francisco Human Services Agency State Administrative Matching Grants for Food Stamp Program 7/1/16 - 6/30/17	10.561	DPSS16001513	\$ 6,523
State Administrative Matching Grants for Food Stamp Program 7/1/16 - 6/30/17	10.561	DPSS17000080	13,427
Total Department of Agriculture			19,950
Department of Education			
Passed through the California Department of Education Adult Education and Family Literacy Act 7/1/16 - 6/30/17	84.002A	V002A160005	10,666
Total Department of Education			10,666
Department of Homeland Security			
Federal Emergency Management Agency			
Passed through the San Francisco Emergency Food and Shelter Local Board Emergency Food and Shelter National Board Program 11/1/15- 3/31/17	97.024	085800-006	17,185
Total Department of Homeland Security			17,185
Department of Health and Human Services			
Passed through the San Francisco Human Services Agency Medical Assistance Program 7/1/16 - 6/30/17	93.778	DPAG17000097	17,632
Passed through the San Francisco Human Services Agency Medical Assistance Program 7/1/16 - 6/30/17	93.778	DPAG17000095	61,470
Passed through the San Francisco Human Services Agency Medical Assistance Program 7/1/15 - 6/30/16	93.778	DPAG16000088	1,270
Passed through the San Francisco Human Services Agency Medical Assistance Program 7/1/15 - 6/30/16	93.778	DPAG16000087	7,891
Passed through the San Francisco Human Services Agency Medical Assistance Program 7/1/16 - 6/30/17	93.778	DPSS17000111	16,150
Total Department of Health and Human Services			104,413

Episcopal Community Services of San Francisco

Schedule of Expenditures of Federal Awards

Department of Housing and Urban Development				
Passed through the Mayor's Office of Housing & Community Development Emergency Solutions Grant Program 7/1/16 - 6/30/17	14.231	E16MC060016		81,116
Passed through the Office of Economic and Workforce Development Community Development Block Grants/Entitlement Grants 7/1/16 - 6/30/17	14.218	B16MC060016		99,309
Passed through the Mayor's Office of Housing & Community Development Community Development Block Grants/Entitlement Grants 7/1/16 - 6/30/17	14.218	B16MC060016		70,000
Passed through the San Francisco Human Services Agency HUD Continuum of Care Program 7/1/16-10/31/16	14.267	DPSS16001185		48,907
HUD Continuum of Care Program 1/2/16-1/1/17	14.267	DPHO17000415		71,532 41,310
HUD Continuum of Care Program 1/2/17-1/1/18	14.267	DPHO17000502		73,590 43,054
Shelter Plus Care Program 8/1/16-6/30/17	14.238	DPHO17000471		371,498
Total Department of Housing and Urban Development				900,316
Total Federal Awards				\$ 1,052,530

Note 1 - The above schedule of expenditures of federal awards is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2 - Indirect Cost:

ECS has elected to not use the 10% de minimis indirect cost rate. ECS applies indirect costs in accordance with 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 financial statements of **EPISCOPAL COMMUNITY SERVICES OF SAN FRANCISCO (ECS)**, which comprise the consolidated statement of financial position as of June 30, 2017, 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 financial statements, and have issued our report thereon dated November 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ECS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

Hood & Strong LLP

San Francisco, California
December 20, 2017



**Independent Auditors' Report
on Compliance for Each Major Federal Program and
on Internal Control Over Compliance**

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

Report on Compliance for Each Major Federal Program

We have audited the **EPISCOPAL COMMUNITY SERVICES OF SAN FRANCISCO's (ECS)** compliance with the types of compliance requirements described 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, 2017. ECS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of ECS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ECS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of ECS's compliance.

Opinion on Each Major Federal Program

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, 2017.

Report on Internal Control Over Compliance

Management of ECS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ECS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ECS's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 20, 2017

Episcopal Community Services of San Francisco

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? *None Reported*

Noncompliance material to 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? No

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

CFDA Number(s)
14.267

Name of Federal Program or Cluster
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

Episcopal Community Services of San Francisco

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.