

Tenderlion Housing Clinic, Inc.

Financial Statements
and Supplemental Information

June 30, 2023

Tenderloin Housing Clinic, Inc.

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Independent Auditors' Report

Board of Directors
Tenderloin Housing Clinic, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tenderloin Housing Clinic, Inc., a non-profit organization, (the Organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 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 December 11, 2023, on our consideration of the Organization'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly US, LLP

San Francisco, California
December 11, 2023

Tenderloin Housing Clinic, Inc.

Statement of Financial Position

June 30, 2023

Assets

Current Assets

| | |
|---|--------------|
| Cash and cash equivalents | \$ 5,827,601 |
| Cash held for clients | 4,736,342 |
| Cash, tenant security deposits | 181,357 |
| Contracts and grants receivable | 11,376,662 |
| Pledges receivable | 353,000 |
| Other receivables | 320,528 |
| Prepaid expenses and other current assets | 677,773 |

Total current assets 23,473,263

Property and Equipment, Net

15,271,032

Right-of-Use Assets, Operating Leases

120,111,457

Other Assets

| | |
|----------|---------|
| Deposits | 266,055 |
|----------|---------|

Total assets \$ 159,121,807

Liabilities and Net Assets

Current Liabilities

| | |
|------------------------------------|--------------|
| Accounts payable | \$ 5,964,195 |
| Accrued payroll and payroll taxes | 676,834 |
| Accrued vacation | 1,215,539 |
| Other accrued liabilities | 569,940 |
| Tenant security deposits | 181,357 |
| Cash held for clients | 4,734,862 |
| Operating lease liability, current | 16,724,983 |

Total current liabilities 30,067,710

Operating Lease Obligation, Less Current Portion

110,810,825

Total liabilities 140,878,535

Net Assets

| | |
|----------------------------|------------|
| Without donor restrictions | 17,598,533 |
| With donor restrictions | 644,739 |

Total net assets 18,243,272

Total liabilities and net assets \$ 159,121,807

See notes to financial statements

Tenderloin Housing Clinic, Inc.

Statement of Activities

Year Ended June 30, 2023

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|---------------|
| Support and Revenue | | | |
| Support: | | | |
| Government contracts and grants: | | | |
| SRO Housing Program, Department of Homelessness & Supportive Housing (HSH) | \$ 51,232,358 | \$ - | \$ 51,232,358 |
| Continuum of Care (COC), funded by Department of Housing and Urban Development (HUD) | 3,063,099 | - | 3,063,099 |
| New Horizons, Adult Probation Department (APD) | 2,514,002 | - | 2,514,002 |
| Tenant Right to Counsel, Mayor's Office of Housing and Community Development (MOHCD) | 1,891,699 | - | 1,891,699 |
| Modified Payment Program, HSH | 923,738 | - | 923,738 |
| Veterans Affairs Supportive Housing (VASH) | 249,657 | - | 249,657 |
| Central City SRO Collaborative, Department of Building Inspection (DBI) | 476,917 | - | 476,917 |
| Code Enforcement and Outreach Program, DBI | 393,351 | - | 393,351 |
| Other governments and contracts | 50,000 | - | 50,000 |
| Total government contracts and grants | 60,794,821 | - | 60,794,821 |
| Other support: | | | |
| Donations | 14,871 | 89,078 | 103,949 |
| Total support | 60,809,692 | 89,078 | 60,898,770 |
| Revenue | | | |
| Hotel rental income | 6,179,212 | - | 6,179,212 |
| Attorney fees | 995,240 | - | 995,240 |
| Galvin Apartments rental income | 445,389 | - | 445,389 |
| Miscellaneous income | 51,109 | - | 51,109 |
| Reimbursed legal costs | 254,183 | - | 254,183 |
| Investment gain | 49 | - | 49 |
| Total revenue | 7,925,182 | - | 7,925,182 |
| Net Assets Released From Restrictions | 1,632,438 | (1,632,438) | - |
| Total support and revenue | 70,367,312 | (1,543,360) | 68,823,952 |
| Expenses | | | |
| Program services | 60,510,234 | - | 60,510,234 |
| Management and general | 4,920,282 | - | 4,920,282 |
| Total expenses | 65,430,516 | - | 65,430,516 |
| Change in net assets | 4,936,796 | (1,543,360) | 3,393,436 |
| Net Assets | | | |
| Beginning, prior to adoption of ASC 842 | 19,165,729 | 2,188,099 | 21,353,828 |
| Impact of adoption of ASC 842 | (6,503,992) | - | (6,503,992) |
| Ending | \$ 17,598,533 | \$ 644,739 | \$ 18,243,272 |

See notes to financial statements

Tenderloin Housing Clinic, Inc.

 Statement of Functional Expenses
 Year Ended June 30, 2023

| | Program Services | | | | | | | Total Program Services | Management and General | Total |
|---|----------------------|----------------------|---------------------|---------------------|---------------------|----------------------|-------------------|------------------------|------------------------|----------------------|
| | SRO Housing | Transitional Housing | Legal Assistance | Bristol Hotel | Housing Service | Community Organizing | Galvin Apartments | | | |
| Salaries and related expenses | \$ 23,020,605 | \$ 940,332 | \$ 1,424,605 | \$ 149,296 | \$ 1,117,380 | \$ 554,458 | \$ 170,153 | \$ 27,376,829 | \$ 1,995,361 | \$ 29,372,190 |
| Hotel leases | 17,195,881 | 678,898 | - | 1,155,894 | - | - | - | 19,030,673 | - | 19,030,673 |
| Repairs and maintenance, net capitalized | 5,044,953 | 101,001 | 37,054 | 135,685 | 209,731 | 7,754 | 101,895 | 5,638,073 | 51,939 | 5,690,012 |
| Utilities | 3,554,810 | 113,293 | 67,591 | 148,477 | 48,762 | 41,136 | 119,556 | 4,093,625 | 205,346 | 4,298,971 |
| Office, net capitalized | 1,005,144 | 8,309 | 70,484 | 85,156 | 86,544 | 28,444 | 41,125 | 1,325,206 | 296,671 | 1,621,877 |
| Legal and accounting | 482,067 | 109 | - | 7,817 | - | - | 1,438 | 491,431 | 577,650 | 1,069,081 |
| Office rent, block rental | 97,474 | 539,794 | 141,795 | - | 70,848 | 65,805 | - | 915,716 | - | 915,716 |
| Depreciation and amortization | - | - | - | - | - | - | 128,336 | 128,336 | 783,927 | 912,263 |
| Insurance | 522,858 | 31,044 | 8,566 | 16,123 | 2,256 | 29,505 | 27,869 | 638,221 | 80,167 | 718,388 |
| Lease expense - other | - | - | - | - | - | - | - | - | 571,804 | 571,804 |
| Subcontractors, contractors and outside consultants | 22,203 | - | 15,530 | - | 6,090 | - | - | 43,823 | 216,034 | 259,857 |
| Staffing related and other costs | 65,729 | 655 | 20,312 | - | 7,643 | 12,138 | - | 106,477 | 132,473 | 238,950 |
| Elevator | 194,368 | 3,701 | - | 5,601 | - | - | 4,148 | 207,818 | - | 207,818 |
| Community engagement | 152,519 | 13,047 | - | 4,327 | - | 20,848 | 273 | 191,014 | - | 191,014 |
| Litigation expense | - | - | 152,396 | - | - | - | - | 152,396 | - | 152,396 |
| Subsidies | 33,192 | 350 | - | - | 11,580 | 74,733 | - | 119,855 | - | 119,855 |
| Bank fees | 13,179 | - | - | - | 33,898 | - | - | 47,077 | 1,504 | 48,581 |
| Taxes | - | - | - | - | - | - | 3,664 | 3,664 | 7,406 | 11,070 |
| Total expenses | \$ 51,404,982 | \$ 2,430,533 | \$ 1,938,333 | \$ 1,708,376 | \$ 1,594,732 | \$ 834,821 | \$ 598,457 | \$ 60,510,234 | \$ 4,920,282 | \$ 65,430,516 |

See notes to financial statements

Tenderloin Housing Clinic, Inc.

Statement of Cash Flows
Year Ended June 30, 2023

Cash Flows From Operating Activities

| | |
|---|------------------|
| Change in net assets | \$ 3,393,436 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 912,263 |
| Non cash lease expense | 562,303 |
| Changes in operating assets and liabilities: | |
| Contracts and grants receivable | (5,002,665) |
| Pledges receivable | 1,452,022 |
| Other receivables | 321,261 |
| Prepaid expenses and other current assets | 226,817 |
| Accounts payable | 1,778,699 |
| Accrued payroll and payroll taxes | (538,927) |
| Accrued vacation | 654,820 |
| Other accrued liabilities | 382,605 |
| Tenant security deposits | 140,170 |
| Cash held for clients | (835,907) |
| | <u>3,446,897</u> |
| Net cash provided by operating activities | <u>3,446,897</u> |

Cash Flows From Investing Activities

| | |
|---|--------------------|
| Purchases of equipment and improvements | <u>(5,020,667)</u> |
| Net cash used in investing activities | <u>(5,020,667)</u> |
| Net decrease in cash and cash equivalents and restricted cash | (1,573,770) |

Cash, Cash Equivalents and Restricted Cash, Beginning 12,319,070

Cash, Cash Equivalents and Restricted Cash, Ending \$ 10,745,300

Reconciliation of Totals in the Statement of Cash Flows to Related Captions in the Statement of Financial Position

| | |
|---|-----------------------------|
| Cash and cash equivalents | \$ 5,827,601 |
| Cash held for clients | 4,736,342 |
| Cash, tenant security deposits | <u>181,357</u> |
| Ending cash, cash equivalents and restricted cash | <u><u>\$ 10,745,300</u></u> |

Tenderloin Housing Clinic, Inc.

Notes to Financial Statements

June 30, 2023

1. Description of Organization

Tenderloin Housing Clinic, Inc. (the Organization) was incorporated on June 3, 1980, as a California nonprofit corporation. The Organization's primary purposes are to preserve, expand and stabilize low-income housing in the Tenderloin and surrounding communities of San Francisco, California, assist tenants to assert their legal rights, provide culturally competent support services, and create employment and leadership opportunities for formerly homeless tenants.

On January 1, 2004, the Clinic merged with City Housing, Inc. (CHI), the exclusive agent that operated and managed all the hotels now master-leased by the Organization. The Organization assumed all the assets and liabilities of CHI and was the surviving corporation.

All the Organization's properties are in San Francisco, California and its principal activities are as follows:

Single Room Occupancy (SRO) Housing

This program provides supportive housing to homeless tenants through master lease agreements with residential hotels in San Francisco, California since May 1, 1999. The Organization provides comprehensive property management services for twenty-one master-leased SRO hotels and the Bristol Hotel. The Organization's property management department manages tenants' leases and compliance with hotel leases and ensures the sanitation, safety, upkeep and code compliance of the hotels. The Organization offers voluntary comprehensive support services to tenants residing in these hotels. The support services offered by the Organization help residents maintain housing, enrich their self-respect, confidence and awareness, improve quality of life, minimize and/or resolve issues that may jeopardize their housing, build a strong sense of community and access information about other helpful services. The SRO hotels' operating expenses, including lease payments, are funded by a combination of rent collections and service contracts with HSH, COC, and VASH. Operations at the Bristol Hotel are funded by rent collections and a multiple year donation from a generous donor.

Transitional Housing

New Horizons is a transitional housing program funded by a contract with APD. The program provides up to 12 months of clean and sober transitional housing and housing planning assistance to individuals on probation at a master-leased SRO hotel. The Leroy Looper Graduate Program is a step-up program that offers 12 months of transitional housing to people who have successfully completed THC's New Horizons Transitional Program, residential treatment, or other transitional housing program and need additional time to secure permanent housing.

Legal Assistance

This program provides assistance and/or legal representation to long-term, senior, low-income and/or disabled tenants in San Francisco facing eviction from Ellis Act and Owner Move-In actions by landlords, as well as to tenants facing eviction in San Francisco under the Tenants Right to Counsel legislation. Funding for this program comes from a MOHCD contract and court-awarded legal fees associated with settled lawsuits. The program is primarily nonlitigation representation (where no fees of any kind are charged or collected), with some nonrevenue and revenue generating litigation. The MOHCD contract funds the majority of this program. Most of the revenue generating cases are on a contingency fee basis.

Tenderloin Housing Clinic, Inc.

Notes to Financial Statements

June 30, 2023

Community Organizing and Outreach

This program includes the Central City SRO Collaborative (Collaborative) and Code Enforcement Outreach Program (CEOP) funded by contracts with DBI. The Collaborative and CEOP provide community outreach, counseling and tenant organizing to SRO and low-income residents of San Francisco. The Collaborative operates a tenant representative program at various SRO hotels to enhance stability in the hotels and address residential community concerns. Tenant representatives, with the help of the Organization's community organizers, conduct regular meetings and respond to tenant concerns.

Housing Service

This program provides housing, rental and payment assistance where the Organization acts as a disbursing agent. Comprehensive case management is also offered to adult clients under HSH and the COC funding. These services target to low-income individuals, low-income families and homeless individuals who may be mentally ill, have chronic substance abuse problems, and/or be afflicted with disabling HIV, AIDS or related disorders.

Galvin Apartments

The Organization owns and manages a 56-unit studio apartment building located on Brannan Street (the Galvin Apartments). It rents the studio apartments in accordance with below-market-rate housing policies as established by MOHCD, which caters to low-income individuals. Rental revenue from the building pays for the expenses associated with managing and operating the property. The Organization received the Galvin Apartments in September 2007 without paying consideration.

2. Summary of Significant Accounting Policies

The following is a summary of the Organization's significant accounting policies:

Basis of Accounting

The Organization maintains its records using the accrual method of accounting in accordance with generally accepted accounting principles (GAAP).

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets as follows:

Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations.

With Donor Restrictions

Net assets received with donor stipulations that limit the use of the assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restriction.

Tenderloin Housing Clinic, Inc.

Notes to Financial Statements

June 30, 2023

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 disclosures of contingent assets and liabilities (if any) 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.

Cash, Cash Equivalents and Restricted Cash

The Organization has defined cash and cash equivalents as petty cash, cash in bank and money market accounts. Restricted cash consists of cash held for clients and tenant security deposits.

Pledges Receivable

Pledges receivable consist of unconditional promises to give and are recorded at net realizable value. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of the promise. The fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue.

Property and Equipment

Property and equipment purchase costs in excess of \$5,000, with estimated useful lives in excess of one year, are capitalized at cost. Donated assets are capitalized at the fair market value on the date of receipt. Depreciation is computed on the straight-line method using estimated useful lives varying between three and forty years.

Leasehold improvements, in excess of \$5,000, are recorded at cost and are amortized using the straight-line method over the estimated useful lives of the respective assets, ranging from three to seven years, but not more than the remaining term of the respective lease.

Maintenance, repairs and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred.

Revenue Recognition

Attorney Fees

Revenue recognition from attorney fees is evaluated using the following five steps: (i) identification of the contract or contracts with customers; (ii) identification of the performance obligation in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

The Organization enters into contracts with clients that are contingent upon the outcome of cases. The contract is rendered effective once the court awards the attorney fee revenue, and collectability of the amount is assured. Services are often performed on behalf of the client prior to the existence of the contract, and in such cases the revenue is recognized on a cumulative catch-up basis at the effective date of the contract. Performance obligations in the contracts consist of legal services provided to the clients.

Tenderloin Housing Clinic, Inc.

Notes to Financial Statements

June 30, 2023

Rental Income

Hotel rental income is reported each month net of any vacancy loss in accordance with the Financial Accounting Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*.

Government Grants and Contributions

Government grants revenue and contributions revenue are accounted for as nonreciprocal transactions. Unconditional contributions and grants received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in net assets without restrictions. All other donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions.

Conditional contributions and grants are recognized only when the conditions they depend on are substantially met and contributions become unconditional. At June 30, 2023, grants amounting to \$67,426,953 have not been recognized in the accompanying financial statements because the conditions to incur qualifying expenses had not been met.

Management reviews the collectability of contributions and pledges receivable and establishes reserves for uncollectible amounts when needed. For the year ended June 30, 2023, all contributions and pledges were deemed collectible.

Functional Allocation of Expenses

Expenses are charged to programs and management and general services on the basis of periodic time and expense studies in addition to estimates made by management. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but which provide for the overall support and direction of the Organization.

Litigation Expenses

Litigation expenses such as court costs, filing fees and courier charges are expensed when incurred because those expenses may not be recoverable.

Income Taxes

The Organization is exempt from paying federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for such taxes in the accompanying financial statements.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

Tenderloin Housing Clinic, Inc.

Notes to Financial Statements

June 30, 2023

Recently Issued Accounting Standards

During June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. FASB has issued subsequent standards to clarify, correct errors in or improve the guidance. ASU No. 2016-13 (as amended) is effective for the Organization for its year ending June 30, 2024, and early adoption is permitted. The Organization is currently assessing the effect that ASU No. 2016-13 and its impact on its financial statements.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through December 11, 2023, which represents the date the financial statements were available to be issued.

3. New Accounting Pronouncement

Effective July 1, 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating leases are expensed on a straight-line basis as lease expense over the noncancelable lease term. At the date of adoption, the Organization recorded right-of-use assets and lease liabilities of \$125,522,344 and \$132,384,393, respectively. The Organization had a cumulative adjustment of \$6,503,992 to net assets upon adoption of Topic 842 related to its leases that existed at the date of adoption.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Organization elected:

- The package of practical expedients permitted under the transition guidance which does not require the Organization to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs.

The new standard also provided for accounting policy election as follows:

- The Organization has elected the policy not to separate lease and nonlease components for equipment and real property leases.
- When the rate implicit in the lease is not determinable, rather than use the Organization's incremental borrowing rate, the Organization elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes.
- The Organization elected not to apply the recognition requirements to all leases with an original term of 12 months or less, for which the Organization is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term.

Tenderloin Housing Clinic, Inc.

Notes to Financial Statements

June 30, 2023

- The Organization elected to account for its leases using the portfolio approach; as such, leases that have similar commencement dates, length of terms, renewal options or other contract terms have been combined into a lease portfolio whereby the resulting accounting at the portfolio level does not differ materially from that at the individual lease level.

Additional required disclosures for Topic 842 are contained in Note 11.

4. Liquidity and Availability of Financial Assets

The Organization has a goal to maintain financial assets to meet sixty days of normal operating expense, which is on average approximately \$10.6 million. As part of its liquidity management, the Organization keeps cash in excess of daily requirements in checking accounts at various banking institutions.

Financial assets available for general expenditure without donor or other restrictions limiting their use within one year of the statement of financial position date, comprise of the following:

| | |
|---|----------------------|
| Financial assets (current) at June 30, 2023: | |
| Cash and cash equivalents | \$ 5,827,601 |
| Contracts and grants receivable | 11,376,662 |
| Other receivables | <u>320,528</u> |
| Financial assets available to meet general expenditures within one year | <u>\$ 17,524,791</u> |

5. Cash Held for Clients

Under the Housing Service program, the Organization acts as an agent for its clients in receiving checks and disbursing money for rent and other expenditures on their behalf. The Organization does this as part of the cash management services provided by the Housing Service Program. All client funds are segregated and held separate from the Organization's funds. The Organization bears all expenses incurred to maintain any agency bank accounts. At June 30, 2023, the bank balance for these funds was \$1,578,033.

Under the Legal Assistance Program, the Organization maintains client trust bank accounts. During legal proceedings, clients often remit rents and landlords remit stipulated payments, which are deposited into the client trust bank account. The Organization pays rents and stipulated payments to parties based on the terms of the settlement agreement of the respective lawsuit. At June 30, 2023, the trust account balance was \$3,158,309.

6. Contracts Receivable

At June 30, 2023, contracts receivable consist of the following:

| | |
|-------|----------------------|
| HSH | \$ 10,412,627 |
| APD | 473,649 |
| MOHCD | 417,109 |
| DBI | <u>73,277</u> |
| | <u>\$ 11,376,662</u> |

Tenderloin Housing Clinic, Inc.

Notes to Financial Statements
June 30, 2023

7. Pledges Receivable

At June 30, 2023, unconditional promises to give consist of \$353,000 with donor restrictions to be received within one year.

8. Property and Equipment, Net

At June 30, 2023, property and equipment consists of the following:

| | | |
|--|----|--------------------------|
| Land | \$ | 1,614,975 |
| Buildings | | 6,023,525 |
| Leasehold improvements | | 5,166,503 |
| Developed software | | 1,157,715 |
| Office furniture and equipment | | 645,585 |
| Vehicles | | 31,127 |
| | | <u>14,639,430</u> |
| Less accumulated depreciation and amortization | | <u>(3,946,387)</u> |
| | | 10,693,043 |
| Construction in progress | | <u>4,577,989</u> |
| | \$ | <u><u>15,271,032</u></u> |

9. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2023 have the following purpose and time restrictions:

| | | |
|----------------------------|----|-----------------------|
| Bristol Hotel operations | \$ | 353,000 |
| Other purpose restrictions | | <u>291,739</u> |
| | \$ | <u><u>644,739</u></u> |

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

| | | |
|---|----|-------------------------|
| Bristol Hotel operations | \$ | <u>1,632,438</u> |
| Total net assets released from restrictions | \$ | <u><u>1,632,438</u></u> |

Tenderloin Housing Clinic, Inc.

Notes to Financial Statements

June 30, 2023

10. Retirement Plan

The Organization sponsors an employee retirement benefit plan known as the THC 403(b) Plan (the Plan). Upon hire, all active employees are eligible to make elective deferrals before and/or after taxes, up to limits set by the Internal Revenue Service. The Organization at its discretion may make an annual contribution to the Plan accounts of all eligible employees. Eligible employees for the nonelective discretionary annual contribution must be 18 years old, employed on the last day of the plan year and worked 975 hours during the Plan. The nonelective discretionary annual contribution is calculated as the total nonelective contribution divided by total number of participants eligible for the nonelective contribution. For the plan year ended June 30, 2023, the nonelective discretionary annual contributions were approximately \$459,100.

11. Leases

During the year ended June 30, 2023, the Organization's lease portfolio consists of the following operating leases:

Office Equipment

The Organization has an office equipment lease that expires in July 2027. Monthly lease expense for the year ended June 30, 2023, was \$5,644.

Facilities

The Organization has multiple lease agreements for office space located in the city and county of San Francisco, California, with various commencement dates and various expiration dates. Monthly lease expense for the year ended June 30, 2023, range from \$1,711 to \$11,845.

Residential Hotels

The Organization leases residential hotels from outside parties to provide housing to low-income and homeless people. These leases have an initial one-year term and consecutive one-year renewal terms at the Organization's option. The leases have different termination dates, depending upon the inception and length of the agreement. Monthly lease expense for the year ended June 30, 2023, ranged from \$15,300 to \$185,549.

Right-of-use assets represents the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of the Organization's leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Organization's sole discretion. The Organization's regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Organization's includes such options in the lease term.

Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified, and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

Tenderloin Housing Clinic, Inc.

Notes to Financial Statements

June 30, 2023

The Organization made significant assumptions and judgements in applying the requirements of Topic 842. In particular, the Organization:

- Evaluated whether a contract contains a lease, by considering factors such as whether Tenderloin Housing Clinic, Inc. obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights;
- Determined whether contracts contain embedded leases;
- Evaluated leases with similar commencement dates, lengths of term, renewal options or other contract terms, which therefore meet the definition of a portfolio lease, whether to apply the portfolio approach to such leases;
- Determined for leases that contain a residual value guarantee, whether payment at the end of the lease term was probable and, accordingly, whether to consider the amount of a residual value guarantee in future lease payments.

The Organization does not have any material leasing transactions with related parties.

The following table summarizes the operating lease right-of-use assets and operating lease liabilities as of June 30, 2023:

| | |
|-------------------------------------|-----------------------|
| Operating lease right-of-use assets | \$ 120,111,457 |
| Operating lease liabilities: | |
| Current | 16,724,983 |
| Long-term | <u>110,810,825</u> |
| Total operating lease liabilities | <u>\$ 127,535,808</u> |

Below is a summary of expenses incurred pertaining to leases during the year ended June 30, 2023:

| | |
|--------------------------|----------------------|
| Operating lease expense | \$ 20,387,173 |
| Short-term lease expense | <u>120,000</u> |
| Total lease expense | <u>\$ 20,507,173</u> |

The table below summarizes the Organization's scheduled future minimum lease payments for years ending after June 30, 2023:

| | |
|-----------------------------|-----------------------|
| Years ending June 30: | |
| 2024 | \$ 20,427,419 |
| 2025 | 19,754,753 |
| 2026 | 13,054,349 |
| 2027 | 11,073,685 |
| 2028 | 10,461,235 |
| Thereafter | <u>78,314,836</u> |
| Total lease payments | 153,086,277 |
| Less present value discount | <u>(25,550,469)</u> |
| Total lease liabilities | <u>\$ 127,535,808</u> |

Tenderloin Housing Clinic, Inc.

Notes to Financial Statements

June 30, 2023

The following table includes supplemental cash flow and noncash information related to the leases for the year ended June 30, 2023:

| | |
|---|---------------|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | \$ 19,662,447 |
| Right-of-use assets obtained in exchange for lease liabilities | |
| Operating leases | \$ 10,987,846 |

The right of use assets and lease liabilities were calculated using a weighted average discount rate of 3.15% for operating leases. As of June 30, 2023, the weighted average remaining lease term was 10.99 years for operating leases.

12. Concentrations

The Organization receives a substantial amount of its support from federal and local government agencies. A single agency accounts for 74% of total revenue and accounts for 89% of total receivables. A significant reduction in the level of this support could have a material adverse effect on the Organization's programs and activities.

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). With the developments in the banking sector in March 2023, the Organization is evaluating steps to mitigate its risk as it relates to cash in excess of FDIC limits.

13. Contingencies

The Organization receives monies from several grant/contract programs that are operated by various government agencies. Those programs are subject to financial and compliance audits by the grantors/agencies or their representatives, to ensure compliance with conditions and restrictions of the agreements.

The Organization is involved in litigation and claims arising in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the financial position or results of operations of the Organization.

Tenderloin Housing Clinic, Inc.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

| <u>Pass-Through Grantor Program Title</u> | <u>Assistance Listing Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|--|----------------------------------|---|-----------------------------|
| Pass-through Awards | | | |
| Department of Housing and Urban Development (Pass-through from the City and County of San Francisco): | | | |
| Continuum of Care Funding | 14.267 | CA-501 | \$ 3,063,099 |
| Housing Voucher Cluster | | | |
| Veterans Affairs Supporting Housing (VASH) | 14.871 | PBV0008 and PBV0009 | <u>249,657</u> |
| Total expenditures of federal awards | | | <u>\$ 3,312,756</u> |

Tenderloin Housing Clinic, Inc.

Notes to Schedule of Expenditures of Federal Awards
June 30, 2023

1. Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes the federal award activity of Tenderloin Housing Clinic, Inc. under programs of the federal government for the year ended June 30, 2023, and is presented on the accrual basis of accounting. 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 operations of Tenderloin Housing Clinic, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Tenderloin Housing Clinic, Inc.

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.

3. Indirect Cost Rate

The Organization has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**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**

Independent Auditors' Report

Board of Directors of
Tenderloin Housing Clinic, Inc.

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 Tenderloin Housing Clinic, Inc. (a non-profit organization) (the Organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 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 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.

Baker Tilly US, LLP

San Francisco, California
December 11, 2023

**Report on Compliance for The Major
Federal Program and on Internal Control
Over Compliance Required by Uniform Guidance**

Independent Auditors' Report

To the Board of Directors of
Tenderloin Housing Clinic, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Tenderloin Housing Clinic, Inc. (a non-profit organization) (the Organization) 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 the Organization's major federal program for the year ended June 30, 2023. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

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 the Organization 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 the major federal program. Our audit does not provide a legal determination of the Organization'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 controls over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization'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 the Organization'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 for 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 the Organization's compliance with the requirements of the 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 the Organization'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 the Organization'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 the Organization'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 described 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.

Baker Tilly US, LLP

San Francisco, California
December 11, 2023

Tenderloin Housing Clinic, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section I - Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Type of auditor's report issued on compliance for the major federal program: Unmodified

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

Identification of major federal programs:

| <u>Assistance Listing Number</u> | <u>Name of Federal Program or Cluster</u> |
|----------------------------------|---|
| 14.267 | Continuum of Care |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Summary of Prior Year Findings

None.