

**EPISCOPAL HOUSING CORPORATION
AND AFFILIATES**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

To the Board of Directors
Episcopal Housing Corporation and Affiliates

Opinion

We have audited the accompanying consolidated financial statements of Episcopal Housing Corporation and Affiliates (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Housing Corporation and Affiliates as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Episcopal Housing Corporation and Affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Independent Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

Independent Auditor's Report (Continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2023 on our consideration of Episcopal Housing Corporation and Affiliates' 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 Episcopal Housing Corporation and Affiliates' 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 Episcopal Housing Corporation and Affiliates' internal control over financial reporting and compliance.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
May 4, 2023

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,189,263	\$ 2,506,290
Investments	329,345	360,206
Fees and other receivables (short term), net of allowance for doubtful accounts of (2022 - \$62,972 and 2021 - \$48,111)	1,334,268	1,050,132
Rents receivable, net of allowance for doubtful accounts of (2022 - \$10,000 and 2021 - \$15,021)	3,291	6,786
Contributions receivable	-0-	150
Development costs and advances	2,848	2,813
Mortgage escrow	10,768	10,768
Tenant security deposits held in trust	18,174	17,806
Prepaid expenses	15,517	15,353
Total Current Assets	<u>4,903,474</u>	<u>3,970,304</u>
Property, net of accumulated depreciation	<u>4,462,163</u>	<u>4,609,918</u>
Other Assets		
Cash restricted under agreement with tenant	-0-	186,308
Contributions receivable (property related)	405,000	65,000
Reserve for replacement fund	72,926	68,028
Operating reserve fund	95,764	95,755
Accrued interest receivable (long term)	32,662	25,743
Notes receivable (long term)	149,721	149,721
Fees and other receivables (long term), net of allowance for doubtful accounts of (2022 - \$198,895)	450,317	269,421
Total Other Assets	<u>1,206,390</u>	<u>859,976</u>
Total Assets	<u><u>\$ 10,572,027</u></u>	<u><u>\$ 9,440,198</u></u>

	<u>2022</u>	<u>2021</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 48,521	\$ 1,009
Deferred rent	10,200	-0-
Current maturities of long term debt	13,566	11,975
Total Current Liabilities	<u>72,287</u>	<u>12,984</u>
Non-Current Liabilities		
Tenant security deposit	18,170	19,139
Long term debt, net of current maturities	1,962,649	1,988,600
Total Non-Current Liabilities	<u>1,980,819</u>	<u>2,007,739</u>
Total Liabilities	<u>2,053,106</u>	<u>2,020,723</u>
Commitments and Contingencies (Notes 10, 17, 18 and 19)		
Net Assets		
Without donor restrictions	7,323,921	6,754,475
With donor restrictions	1,195,000	665,000
Total Net Assets	<u>8,518,921</u>	<u>7,419,475</u>
Total Liabilities and Net Assets	<u>\$ 10,572,027</u>	<u>\$ 9,440,198</u>

The accompanying notes are an integral part of these consolidated financial statements.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Consolidated Statements of Activities
Years Ended December 31, 2022 and 2021

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Development fees	\$ 1,246,566	\$ -0-	\$ 1,246,566
Grants	-0-	530,000	530,000
Rental income	448,704	-0-	448,704
Net investment return	71,463	-0-	71,463
Government grant	-0-	-0-	-0-
Asset management fees	75,948	-0-	75,948
Contributions	15,998	-0-	15,998
Extinguishment of debt	-0-	-0-	-0-
	1,858,679	530,000	2,388,679
Net assets released from restrictions			
Satisfaction of program restrictions	-0-	-0-	-0-
	1,858,679	530,000	2,388,679
Expenses			
Program services	1,117,442	-0-	1,117,442
Supporting services			
Management and general	162,423	-0-	162,423
Fundraising	9,368	-0-	9,368
Total Supporting Services	171,791	-0-	171,791
Total Expenses	1,289,233	-0-	1,289,233
Change in Net Assets	569,446	530,000	1,099,446
Net Assets at Beginning of Year	6,754,475	665,000	7,419,475
Net Assets at End of Year	\$ 7,323,921	\$ 1,195,000	\$ 8,518,921

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Development fees	\$ 1,653,065	\$ -0-	\$ 1,653,065
Grants	-0-	665,000	665,000
Rental income	435,478	-0-	435,478
Net investment return	87,434	-0-	87,434
Government grant	60,217	-0-	60,217
Asset management fees	49,211	-0-	49,211
Contributions	20,958	-0-	20,958
Extinguishment of debt	80,313	-0-	80,313
	<u>2,386,676</u>	<u>665,000</u>	<u>3,051,676</u>
Net assets released from restrictions			
Satisfaction of program restrictions	500,000	(500,000)	-0-
	<u>2,886,676</u>	<u>165,000</u>	<u>3,051,676</u>
Expenses			
Program services	1,295,145	-0-	1,295,145
Supporting services			
Management and general	177,038	-0-	177,038
Fundraising	10,560	-0-	10,560
Total Supporting Services	<u>187,598</u>	<u>-0-</u>	<u>187,598</u>
Total Expenses	<u>1,482,743</u>	<u>-0-</u>	<u>1,482,743</u>
Change in Net Assets	1,403,933	165,000	1,568,933
Net Assets at Beginning of Year	<u>5,350,542</u>	<u>500,000</u>	<u>5,850,542</u>
Net Assets at End of Year	<u>\$ 6,754,475</u>	<u>\$ 665,000</u>	<u>\$ 7,419,475</u>

The accompanying notes are an integral part of these consolidated financial statements.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Consolidated Statements of Functional Expenses
Years Ended December 31, 2022 and 2021

	2022			
	Program Services	Management and General	Fundraising	Total
Personnel expenses				
Salaries	\$ 399,053	\$ 56,501	\$ 4,049	\$ 459,603
Payroll taxes	29,011	4,108	294	33,413
Pension	8,550	1,211	87	9,848
Employee benefits	5,691	806	58	6,555
Total personnel expenses	<u>442,305</u>	<u>62,626</u>	<u>4,488</u>	<u>509,419</u>
Provision for bad debts	213,756	-0-	-0-	213,756
Depreciation	164,342	10,155	-0-	174,497
Occupancy	113,393	5,660	-0-	119,053
Repairs and maintenance	103,802	-0-	-0-	103,802
Taxes and licenses	49,474	1,818	-0-	51,292
Professional fees	-0-	24,018	-0-	24,018
Office expenses	13,169	6,233	-0-	19,402
Interest	14,626	-0-	-0-	14,626
Insurance	-0-	13,096	-0-	13,096
Travel	-0-	11,392	-0-	11,392
Minor equipment	-0-	9,555	-0-	9,555
Income taxes	-0-	9,186	-0-	9,186
Telephone	-0-	5,176	-0-	5,176
Advertising	-0-	-0-	4,880	4,880
Project investment losses	2,575	-0-	-0-	2,575
Dues and subscription	-0-	2,100	-0-	2,100
Payroll processing	-0-	757	-0-	757
Miscellaneous expenses	-0-	651	-0-	651
Grants	-0-	-0-	-0-	-0-
Total expenses by function	<u>\$ 1,117,442</u>	<u>\$ 162,423</u>	<u>\$ 9,368</u>	<u>\$ 1,289,233</u>

2021

	Program Services	Management and General	Fundraising	Total
Personnel expenses				
Salaries	\$ 319,658	\$ 48,231	\$ 6,447	\$ 374,336
Payroll taxes	24,587	3,710	496	28,793
Pension	7,883	1,189	159	9,231
Employee benefits	4,181	631	84	4,896
Total personnel expenses	<u>356,309</u>	<u>53,761</u>	<u>7,186</u>	<u>417,256</u>
Provision for bad debts	10,162	-0-	-0-	10,162
Depreciation	166,392	10,155	-0-	176,547
Occupancy	84,033	5,117	-0-	89,150
Repairs and maintenance	109,008	-0-	-0-	109,008
Taxes and licenses	16,000	1,365	-0-	17,365
Professional fees	-0-	31,956	-0-	31,956
Office expenses	3,482	7,873	-0-	11,355
Interest	47,113	-0-	-0-	47,113
Insurance	-0-	24,037	-0-	24,037
Travel	-0-	3,210	-0-	3,210
Minor equipment	-0-	1,631	-0-	1,631
Income taxes	-0-	23,835	-0-	23,835
Telephone	-0-	9,523	-0-	9,523
Advertising	-0-	-0-	3,374	3,374
Project investment losses	2,646	-0-	-0-	2,646
Dues and subscription	-0-	1,426	-0-	1,426
Payroll processing	-0-	1,647	-0-	1,647
Miscellaneous expenses	-0-	1,502	-0-	1,502
Grants	500,000	-0-	-0-	500,000
Total expenses by function	<u>\$ 1,295,145</u>	<u>\$ 177,038</u>	<u>\$ 10,560</u>	<u>\$ 1,482,743</u>

The accompanying notes are an integral part of these consolidated financial statements.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,099,446	\$ 1,568,933
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	213,756	10,162
Net realized gains on sale of investments	(5,851)	(8,290)
Net unrealized losses (gains) on investments	42,775	(29,838)
Depreciation	174,497	176,547
Extinguishment of debt	-0-	(80,313)
Non-cash government grant (PPP loan)	-0-	(60,217)
Changes in operating assets and liabilities:		
Fees and other receivables (short term)	(305,916)	(366,359)
Rents receivable	3,495	(4,974)
Contributions receivable	(339,850)	437,000
Development costs and advances	(35)	111,396
Fees and other receivables (long term)	(379,791)	(262,500)
Prepaid expenses	(164)	16,684
Accounts payable and accrued expenses	47,512	(100,561)
Agency payable	-0-	(50,000)
Deferred rent	10,200	-0-
Deferred developer fees	-0-	(92,976)
Net Cash Provided by Operating Activities	<u>560,074</u>	<u>1,264,694</u>
Cash Flows from Investing Activities		
Purchase of marketable securities	(11,915)	(124,888)
Proceeds from sales of marketable securities	5,852	120,121
Purchases of property	(26,742)	(504,084)
Net Cash Used in Investing Activities	<u>(32,805)</u>	<u>(508,851)</u>
Cash Flows from Financing Activities		
Change in tenant security deposit liability	(969)	(228)
Principal payments on long-term debt	(24,360)	(31,932)
Net Cash Used in Financing Activities	<u>(25,329)</u>	<u>(32,160)</u>
Net Increase in Cash, Cash Equivalents and Restricted Cash	501,940	723,683
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	<u>2,884,955</u>	<u>2,161,272</u>
Cash, Cash Equivalents and Restricted Cash - End of Year	<u><u>\$ 3,386,895</u></u>	<u><u>\$ 2,884,955</u></u>

	<u>2022</u>	<u>2021</u>
Reconciliation to Cash, Cash Equivalents and Restricted Cash on the Statements of Financial Position		
Cash and cash equivalents	\$ 3,189,263	\$ 2,506,290
Mortgage escrow	10,768	10,768
Tenant security deposits held in trust	18,174	17,806
Cash restricted under agreement with tenant	-0-	186,308
Reserve for replacement fund	72,926	68,028
Operating reserve fund	95,764	95,755
	<u> </u>	<u> </u>
Cash, Cash Equivalents, and Restricted Cash on the Statements of Cash Flows	<u>\$ 3,386,895</u>	<u>\$ 2,884,955</u>
Supplemental Disclosures of Cash Flow Information:		
Interest paid	<u>\$ 14,626</u>	<u>\$ 47,113</u>
Income taxes paid	<u>\$ 9,186</u>	<u>\$ 23,958</u>
Noncash Investing and Financing Activities		
Purchases of property	\$ 26,742	\$ 4,084
Decrease in property-related long term debt	-0-	500,000
	<u> </u>	<u> </u>
Net cash paid for property (included in net cash provided by investing activities)	<u>\$ 26,742</u>	<u>\$ 504,084</u>

The accompanying notes are an integral part of these consolidated financial statements.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 1: Nature of Organization and Summary of Significant Accounting Policies

These consolidated financial statements include the accounts of Episcopal Housing Corporation and its wholly-owned affiliates (collectively referred to as the Organization).

Episcopal Housing Corporation (EHC) is a non-stock, charitable organization exempt from federal income tax under section 501(a) of the Internal Revenue Code, as an organization described in section 501(c)(3). EHC was incorporated on March 30, 1995, in the State of Maryland.

EHC's mission is to respond to God's call to establish justice for the most in need by building affordable housing and creating the foundations for healthy and sustainable communities. Since its incorporation, EHC has been the developer and/or agent for other organizations in the acquisition, construction, and renovation of residential housing and community facilities.

On July 25, 2012, EHC formed 3401 Ashburton, LLC (Ashburton) as a wholly-owned affiliate of EHC. Ashburton was established exclusively for the purpose of providing affordable low-income housing, for those in need. Ashburton is subject to a Section 8 Housing Assistance Payments (HAP) agreement with the Department of Housing and Urban Development (HUD) and a significant portion of its rental income is received from HUD.

On August 9, 2016, EHC formed Sojourner Argyle, LLC (Sojourner@Argyle) as a wholly-owned affiliate of EHC. The purpose of Sojourner is to provide permanent, supportive housing for formerly homeless individuals. Sojourner received a Community Development Administration (CDA) loan in 2017 (see Note 19) and is subject to a Department of Housing and Community Development regulatory agreement. Under this regulatory agreement, Sojourner is required to maintain certain restricted deposits and funded reserves (see Note 3). Sojourner is subject to a Section 8 Housing Assistance Payments (HAP) agreement with the HUD and a significant portion of its rental income is received from HUD.

On April 8, 2020, EHC formed 17 West Mulberry, LLC as a wholly-owned affiliate of EHC. The purpose of this LLC is to provide permanent, supportive housing for formerly homeless individuals.

EHC, using Limited Liability Corporations (LLC), is a part owner of Tax Credit Low-Income Housing Partnerships (Partnerships). These partnerships are designed to produce and to preserve affordable rental housing. In these partnerships, EHC's LLCs are either the Managing Member or Co-Managing Member of the respective partnerships (See Note 7).

EHC is the sole member of the of the following LLCs:

Entity	Date Formed
2401, LLC	April 6, 2010
EHC - North Creek Run II, LLC	March 28, 2013
EHC - Brinkley Hill, LLC	September 14, 2015
EHC - Preserve at Red Run, LLC	January 26, 2017
EHC - Four Ten Lofts, LLC	January 29, 2019
EHC - Peerless, LLC	July 16, 2020
EHC - Sojourner Place at Preston, LLC	February 4, 2021

EHC - Four Ten Lofts, LLC owns 51% of Four Ten Lofts Development, LLC (Development) which was formed on April 9, 2018. Since an EHC entity owns 50% or more of it, Development is included in the accompanying consolidated financial statements at its respective ownership percentage.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

The accounting and reporting policies of the Organization conform to accounting principles generally accepted in the United States of America. Following is a description of the most significant of those policies:

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Episcopal Housing Corporation and its wholly-owned affiliates: 3401 Ashburton, LLC; Sojourner Argyle, LLC; 17 West Mulberry, LLC; 2401, LLC; EHC - North Creek Run II, LLC; EHC - Brinkley Hill, LLC; EHC - Preserve at Red Run, LLC; EHC - Four Ten Lofts, LLC; Four Ten Lofts Development, LLC; EHC - Peerless, LLC and EHC - Sojourner Place at Preston, LLC. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting: The consolidated financial statements are presented under the accrual basis of accounting in accordance with generally accepted accounting principles, whereby revenue is recognized when earned and expenses are recognized when incurred.

Use of Estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Organization classifies all investments which are readily convertible to cash and which have a maturity date of three months or less when purchased as cash and cash equivalents.

Investments in Marketable Securities: Investments with readily determinable fair market values are reported at fair value in the consolidated statements of financial position. Investments whose fair market values are not readily determinable are recorded at cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses on investments are reported in the consolidated statements of activities as part of net investment return.

Investments in Limited Liability Companies: The Organization accounts for its investments in various limited liabilities companies under the cost method whereby the carrying value is increased by member contributions and decreased by member distributions (see Note 7).

Contributions Receivable: Unconditional promises to give are recorded as contributions receivable and recognized as revenue in the period the pledge is received. Unconditional promises to give in a future period are discounted to their net present value at the time the revenue is recorded. A provision is made for uncollectible contributions based on anticipated collection losses. Estimated losses are generally determined from historical collection experience and a review of outstanding contributions receivable. Contributions receivable are written off by management when, in their determination, all appropriate collection efforts have been taken. The management of the Organization has reviewed its outstanding contributions receivable for collectability and has determined the amounts are fully collectible and, therefore, has not established an allowance for doubtful accounts.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Rents, Fees and Other Receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables. Management determines the allowance for doubtful accounts by reviewing its outstanding receivable balances and its historical collection experience with individual accounts and payor sources. Receivables are written off by management when, in their determination, all collection efforts have been exhausted. Recoveries of these receivables previously written off are recorded when received. The Organization has established an allowance for doubtful accounts of \$261,867 and \$48,111 at December 31, 2022 and 2021, respectively, related to fees and other receivables. The Organization has also established an allowance for doubtful accounts of \$10,000 and \$15,021 at December 31, 2022 and 2021, respectively, related to rents receivables.

Property and Depreciation: Property is stated at cost less accumulated depreciation. Expenditures for maintenance and routine repairs are charged to expense as incurred; expenditures for improvements and major repairs that materially extend the useful lives of fixed assets are capitalized. It is the Organization's policy to capitalize all property acquisitions having useful lives of 5 years or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the estimated useful lives of the improvements or the terms of the related leases. The following is a summary of the useful lives of property:

Building and improvements	5 - 40 years
Leasehold improvements	5 - 30 years
Furniture and fixtures	5 years

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as an increase in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit donor restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as an addition to net assets with donor restrictions. Absent donor restrictions regarding how long donated assets must be maintained, the Organization reports the release of donor restrictions when the donated or acquired assets are placed in service.

Net Assets: Net assets, revenue, support, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated from net assets without donor restrictions, net assets for an operating reserve for future needs.

Net Assets with Donor Restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition and Deferred Revenue: The Organization primarily derives revenue from development fees, asset management fees, rental income, contributions and grants and investment income. Rental income and investment income are recognized as revenue when earned. Rental payments received in advance are deferred until earned.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Unconditional contributions are recognized as revenue in the year the contributions are pledged and/or received.

Conditional grants are recognized as support without donor restrictions only to the extent of actual expenses incurred under the terms of the grant agreements. Conditional grants received in excess of eligible expenses are recorded as deferred revenue. Eligible expenses incurred in excess of grant receipts are recorded as grants receivable on the consolidated statements of financial position.

The Organization generates contract revenue primarily from development fees and asset management fees. Revenue is recognized when control of the promised good or service is transferred to a customer, in an amount that reflects the consideration to which the Organization expects to be entitled from customers, in exchange for those goods and services. Development fees are recognized as revenue over time at the amount that reflects the consideration to which the Organization expects to be entitled to, in exchange for providing developer services. Asset management fees are also recognized as revenue over time.

Performance obligations are determined based on the nature of the services provided. The Organization's development and asset management fees are treated as single performance obligations satisfied over time as goods and services are rendered. The Organization determines the transaction price based on contractually agreed-upon amounts or rates as goods and services are rendered.

The Organization recognizes contract revenue in the consolidated statements of activities and contract assets on the consolidated statements of financial position only when services have been provided. Since the Organization has performed its obligation under the contracts, it has unconditional rights to the consideration recorded as contract assets and therefore classifies those billed and unbilled contract assets as fees and other receivables.

The Organization disaggregates revenue from contracts by the type of contract. The Organization notes that this disaggregation of revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The payment terms and conditions within the Organization's revenue-generating contracts vary by type of contract.

The Organization disaggregates its revenue from contracts with customers as follows:

	2022	2021
Performance obligations satisfied over time:		
Development fees	\$ 1,246,566	\$ 1,653,065
Asset management fees	75,948	49,211
	<u>\$ 1,322,514</u>	<u>\$ 1,702,276</u>

Contributions: Unconditional promises to give are recorded without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions. 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. When material, the discount on those amounts is computed using rates applicable to the facts and circumstances of each promise to give. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Donations of securities are recorded at fair value at the date of the gift and the gain or loss on sale is recognized in the period in which the sale is made.

Recognition of Donor Restrictions: All donor-restricted support is reported as an increase in net assets with donor restrictions. Upon the expiration of a temporary restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions in the consolidated statements of activities.

Functional Allocation of Expenses: The costs of providing various programs and other support activities have been summarized on a functional basis in the consolidated statements of activities and by natural classification in the consolidated statements of functional expenses. Costs that can be identified with specific programs or support services are allocated directly. Costs that cannot be specifically identified with a particular function and that benefit more than one functional category are allocated based on estimates of time and effort and other criteria.

Advertising: Advertising costs are charged to operations when incurred. The Organization had no significant direct-response advertising. Advertising expense for the years ended December 30, 2022 and 2021 totaled \$4,880 and \$3,374, respectively.

Income Taxes: EHC has been recognized by the Internal Revenue Service (IRS) as a tax-exempt organization, as defined by Section 501(c)(3) of the Internal Revenue Code (IRC), that is publicly supported and, therefore, not a private foundation. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. EHC had no unrelated business income for the year ended December 31, 2022 and 2021.

Sojourner Argyle, LLC, 3401 Ashburton, LLC, 17 W. Mulberry, LLC, EHC - Four Ten Lofts, LLC, EHC - Sojourner Place at Preston, LLC and EHC - Peerless, LLC are for-profit single member LLCs, considered disregarded entities, and therefore are not required to file separate income tax returns. All revenue and expenses of these entities are reflected on EHC's tax return.

2401, LLC is a for-profit single member LLC, but it is required to file a separate income tax return and pay income tax on taxable income (see Note 7). Income tax expense for the years ended December 31, 2022 and 2021 was \$9,186 and \$23,835, respectively. Accrued income tax expense was \$-0- at December 31, 2022 and 2021, respectively.

EHC - North Creek Run II, LLC, EHC - Brinkley Hill, LLC and EHC - Preserve at Red Run, LLC are all for-profit single member LLCs, but they are also required to file a separate income tax return and pay income taxes on taxable income (See Note 7). These LLCs did not generate any taxable income for the years ended December 31, 2022 and 2021 and as such, no tax liabilities were incurred.

The Organization's federal and state tax returns are subject to examination by the IRS, generally for a period of three years after the returns are filed.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* which was effective for fiscal years beginning after December 15, 2021, which is referred to Accounting Standards Codification (ASC) 842. The distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous guidance for leases. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the consolidated statement of financial position as a depreciable right-of-use asset (ROU) and a related liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including any payments to be made in lease option periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The ROU assets will be amortized over the term of the lease and the lease liability will be reduced by lease payments.

The Organization evaluates each contract and determines if an arrangement contains a lease at the inception of a contract. The Organization accounts for lease components and nonlease components as a single lease component. Variable lease payment amounts that cannot be determined at the commencement of the lease such as increases in lease payments based on changes in index rates or usage are not included in the ROU or lease liabilities. These are expensed as incurred. Though the Organization has a lease agreement for office space, this lease does not meet the qualifications defined in ASC 842, and thus will not be recorded on the consolidated statement of financial position as a ROU and related liability as disclosed in Note 12.

Management has adopted the new lease standard effective January 1, 2022 as it applies to lessors. Adoption of the new standard as a lessor is disclosed in Note 13. The adoption did not have any material impact on the Organization's financial position and results of operations.

Subsequent Events: In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 4, 2023, the date the consolidated financial statements were available to be issued. During the period from January 1, 2023 through May 4, 2023, except for the new construction contract described in Note 17, the Organization did not have any material recognizable subsequent events.

Note 2: Liquidity and Availability of Funds

A summary of the financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date comprise the following:

	2022	2021
Cash and cash equivalents	\$ 3,189,263	\$ 2,506,290
Investments	329,345	360,206
Fees and other receivable, net	1,334,268	1,050,132
Rents receivable, net	3,291	6,786
Financial Assets Available for General Expenditure	<u>\$ 4,856,167</u>	<u>\$ 3,923,414</u>

As part of the Organization's liquidity management plan, the Organization invests cash in excess of daily requirements in mutual funds.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 3: Restricted Deposits and Fund Reserves

Reserve for Replacements: Under the terms of a regulatory agreement, Sojourner@Argyle is required to deposit \$400 per month as well as an annual deposit of 100% of any residual cash flow remaining at the end of each fiscal year, as defined in the agreement, into a separate federally insured account for the replacement of property and other project expenditures. Any income earned on this fund shall be added to the fund. Withdrawals from this fund must be approved by CDA.

Operating Reserve: Under the terms of a regulatory agreement, Sojourner@Argyle was required to establish an operating reserve, which shall be held until CDA determines that for each of 12 consecutive months, the project income equals or exceeds the sum of all project expenses plus 110% of all debt service obligations and the project has maintained 90% occupancy. Thereafter, funds in the operating reserve may be released at the discretion of CDA.

Mortgage Escrow: Sojourner@Argyle is required to fund a mortgage escrow account to cover upcoming real estate tax and insurance bills.

Note 4: Development Costs and Advances

EHC, as a developer and/or agent, advances money during the development of projects as costs are incurred. During the development stage and upon completion, EHC will be reimbursed costs previously advanced. At December 31, 2022 and 2021, development costs and advances were approximately \$2,848 and \$2,813, respectively.

Note 5: Investments

The Organization's investments, at fair value, as of December 31, 2022 and 2021 consist of the following:

	2022	2021
Mutual funds, equity	\$ 159,681	\$ 178,634
Mutual funds, fixed income	155,818	164,937
Mutual funds, real estate	11,213	15,119
Common stock	2,633	1,516
	\$ 329,345	\$ 360,206

Net investment return for the years ended December 31, 2022 and 2021 consisted of the following:

	2022	2021
Interest and dividend income	\$ 44,061	\$ 7,841
Taxable distribution from St. Stephen's Court, LLC	57,407	33,381
Interest income from notes receivable	6,919	8,084
Unrealized gains (losses) on investments	(42,775)	29,838
Realized gains on investments	5,851	8,290
	\$ 71,463	\$ 87,434

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 6: Fair Value Measurement

Generally Accepted Accounting Principles (GAAP) establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation techniques used by the Organization include the following:

Mutual Funds and Common Stocks: Valued at the last sales price reported on the active market in which the individual fund is traded.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. The table below presents the balances of assets as of December 31, 2022 measured at fair value on a recurring basis by level within the hierarchy.

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Mutual funds, equity	\$ 159,681	\$ 159,681	\$ -0-	\$ -0-
Mutual funds, fixed income	155,818	155,818	-0-	-0-
Mutual funds, real estate	11,213	11,213	-0-	-0-
Common stock	2,633	2,633	-0-	-0-
	<u>\$ 329,345</u>	<u>\$ 329,345</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 6: Fair Value Measurement (Continued)

The table below presents the balances of assets as of December 31, 2021 measured at fair value on a recurring basis by level within the hierarchy.

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Mutual funds, equity	\$ 178,634	\$ 178,634	\$ -0-	\$ -0-
Mutual funds, fixed income	164,937	164,937	-0-	-0-
Mutual funds, real estate	15,119	15,119	-0-	-0-
Common stock	1,516	1,516	-0-	-0-
	<u>\$ 360,206</u>	<u>\$ 360,206</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Note 7: Investment in Tax Credit Low Income Housing Projects

2401, LLC: 2401, LLC is the managing member and holds a 0.0120% membership interest in St. Stephen's Court, LLC and receives a share of distributions of net cash flow. 2401, LLC's share of net cash flow for the years ended December 31, 2022 and 2021 was \$57,407 and \$33,381, respectively, and is included in net investment return. EHC has agreed to lend St. Stephen's Court, LLC amounts required to fund operating deficits, if any, incurred by it through the end of the tax credit compliance period (year 2050) to the extent they exceed the project's operating reserve.

EHC is entitled to receive an annual company management fee for property management oversight, tax credit compliance monitoring and related services provided to St. Stephen's Court, LLC. The base fee is \$10,800, subject to an annual increase of 3%, and was approximately \$14,948 and \$14,511 for the years ended December 31, 2022 and 2021, respectively. 2401, LLC is also entitled to receive an annual supplementary management fee of \$25,000 for services in the ongoing management of the project. At December 31, 2022 and 2021, management fees receivable from St. Stephen's Court, LLC were \$39,948 and \$39,511, respectively.

EHC - North Creek Run II, LLC: EHC - North Creek Run II, LLC is a managing member and holds a 0.00459% membership interest in North Creek Run II, LLC. There has been no net cash flow available for distribution for the years ended December 31, 2022 and 2021.

EHC - Brinkley Hill, LLC: EHC - Brinkley Hill, LLC is a co-managing member and holds a 0.0051% membership interest in Brinkley Hill Associates, LLC. There has been no net cash flow available for distribution for the years ended December 31, 2022 and 2021.

EHC - Preserve at Red Run, LLC: EHC - Preserve at Red Run, LLC is a co-managing member and holds .0025% membership interest in Red Run Associates, LLC. There has been no net cash flow available for distribution for the years ended December 31, 2022 and 2021.

EHC - Peerless, LLC: EHC - Peerless, LLC is a co-managing member and holds a 0.0025% membership interest in Peerless Avenue Associates, LLC. There has been no net cash flow available for distribution for the years ended December 31, 2022 and 2021.

EHC - Four Ten Lofts, LLC: EHC - Four Ten Lofts, LLC is a 51% owner of Four Ten Lofts Development, LLC. Four Ten Lofts Development, LLC holds a .01% membership interest in Four Ten Lofts, LLC. There has been no net cash flow available for distribution for the years ended December 31, 2022 and 2021.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 7: Investment in Tax Credit Low Income Housing Projects (Continued)

EHC - Sojourner Place at Preston, LLC: EHC - Sojourner Place at Preston, LLC is a .0051% owner of Sojourner Place at Preston, LLC. There has been no net cash flow available for distribution for the years ended December 31, 2022 and 2021.

Note 8: Property and Depreciation

Property consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Land	\$ 364,664	\$ 364,664
Buildings and improvements	4,723,041	4,723,041
Leasehold improvements	291,739	291,739
Furniture and fixtures	61,157	61,157
Construction in progress	63,859	37,117
Total Cost	5,504,460	5,477,718
Less: Accumulated depreciation and amortization	(1,042,297)	(867,800)
	<u>\$ 4,462,163</u>	<u>\$ 4,609,918</u>

Note 9: Notes Receivable and Related Accrued Interest Receivable

	2022	2021
Notes Receivable:		
Brinkley Hill Associates, LLC	\$ 102,277	\$ 102,277
Red Run Associates, LLC	47,444	47,444
	<u>\$ 149,721</u>	<u>\$ 149,721</u>
Accrued Interest Receivable:		
Brinkley Hill Associates, LLC	\$ 10,472	\$ 7,201
Red Run Associates, LLC	22,190	18,542
	<u>\$ 32,662</u>	<u>\$ 25,743</u>

The Organization holds two deferred development fee notes receivable as of December 31, 2022 and 2021. The note receivable from Brinkley Hill Associates, LLC, a related party, bears interest at 3% per annum and matures in December 2032. The note receivable from Red Run Associates, LLC, a related party, bears interest at 5% and matures in year 2033. Payments of principal and interest on each note are subject to certain capital proceeds received by each entity and the availability of cash flow from each entity as defined in the respective note agreements. As of December 31, 2022 and 2021, these notes receivable and related accrued interest receivables are deemed to be long term assets as presented on the consolidated statements of financial position.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 10: Long-Term Debt

Long-term debt as of December 31, 2022 and 2021 consists of the following obligations:

	<u>2022</u>	<u>2021</u>
Mortgage payable - Ashburton building, interest rate of 0%. Principal payments of \$78,000 are due annually only from surplus cash. The loan matures January 2026, but subject to various conditions will be forgiven (See Note A).	\$ 780,000	\$ 780,000
Mortgage payable - Sojourner building, interest rate of 0%. Principal payments of \$17,500 are due annually only from surplus cash. The loan matures October 2057, but subject to various conditions will be forgiven (See Note A).	643,125	643,125
Mortgage payable - Mura Street, interest rate of 0%. No payments if the building is used for permanent housing for men in recovery. The loan matures February 2024, but subject to various conditions will be forgiven (See Note A).	331,850	331,850
Mortgage payable - Ashburton building, interest rate of 6.250%. Monthly principal and interest payments of \$2,249. The loan matures September 2025 and has a balloon payment of approximately \$196,000.	<u>221,240</u>	<u>245,600</u>
	1,976,215	2,000,575
Less: Current maturities	<u>(13,566)</u>	<u>(11,975)</u>
Long-term maturities	<u>\$ 1,962,649</u>	<u>\$ 1,988,600</u>

Note A: It is management's understanding that these mortgage payables will be forgiven at maturity, therefore, these noninterest bearing notes have not been present value discounted to record imputed interest as required by GAAP.

The aggregate annual maturities of the mortgages subsequent to December 31, 2022 are as follows:

Year ending December 31,	
2023	\$ 13,566
2024	346,288
2025	193,236
2026	780,000
2027	<u>643,125</u>
Total	<u>\$ 1,976,215</u>

Interest expense related to the mortgages for the years ended December 31, 2022 and 2021 was \$14,626 and \$47,113, respectively.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 11: Net Assets

Net Assets Without Donor Restrictions

Undesignated net assets without donor restrictions - consists of resources and obligations related to the daily operations of the Organization.

Net Assets With Donor Restrictions: The Organization has restricted funds, which may be fully expendable but only for the purposes established by the respective donors.

Net assets with donor restrictions were available for the following purposes as of December 31, 2022:

	2021	Current Year Activity		2022
		Released From		
		Contributions	Restrictions	
Subject to expenditure for a specified purpose: Construction Projects	\$ 665,000	\$ 530,000	\$ -0-	\$ 1,195,000

Net assets with donor restrictions were available for the following purposes as of December 31, 2021:

	2020	Prior Year Activity		2021
		Released From		
		Contributions	Restrictions	
Subject to expenditure for a specified purpose: Construction Projects	\$ 500,000	\$ 665,000	\$ (500,000)	\$ 665,000

Note 12: Operating Lease - Lessee

Office Space Lease: Under the terms of a memorandum of understanding with the Episcopal Diocese of Maryland (the Diocese), EHC improved a property owned by the Diocese and entered into an agreement to lease the property from the Diocese for a term that approximates thirty (30) years. Lease payments are satisfied by the value of the improvements made to the building by EHC on behalf of the Diocese. The cost of the completed improvements was approximately \$292,000, and EHC moved into the location in late 2013. EHC does not incur lease expense and therefore, based on the interpretation of ASC 842, no right-of-use asset or lease liability has been recorded on the consolidated statements of financial position related to this lease.

Note 13: Operating Lease - Lessor (Rental Income and Restricted Cash)

EHC owns and/or operates Oxford houses and several low-income apartments, for which it collects rent under short-term lease agreements. Total rental income under these leases was \$40,800 for the years ended December 31, 2022 and 2021.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 13: Operating Lease - Lessor (Rental Income and Restricted Cash) (Continued)

EHC also owns the CURE building, a three-story office building on North Broadway in Baltimore City and entered into a twenty (20) year, triple-net lease agreement with The Johns Hopkins Hospital (JHH) for the use of the building by its child and adolescent psychiatry community programs. The lease technically expired in February 2020, but JHH continued to lease the building on a month-to-month basis. As of November 3, 2022, EHC amended the lease with JHH which extended the agreement through October 2024 and requires monthly rental payments of \$10,200. Total rental income under this lease was \$35,095 and \$12,000 for the years ended December 31, 2022 and 2021, respectively.

Future minimum noncancelable lease payments to be received subsequent to December 31, 2022 are as follows:

Year ending December 31,	
2023	\$ 122,400
2024	<u>102,000</u>
Total	<u>\$ 224,400</u>

EHC's purchase of the CURE Building was funded by a first mortgage loan of \$400,000 from a commercial bank. Under the lease agreement with JHH, since the loan proceeds were more than the costs incurred by EHC in making the purchase, the excess proceeds are required to be expended for improvements to the property on behalf of JHH. This excess cash of approximately \$186,000 as of December 31, 2021 was being held by EHC in a separate bank account and was classified as long-term cash restricted under agreement with tenant on the consolidated statements of financial position.

In November 2022, EHC transferred \$172,000 to JHH to be held for future building improvements to the CURE Building. JHH has not yet incurred any improvement costs to date, thus this amount has been recorded as an other receivables on the consolidated statement financial position as of December 31, 2022 until such time as improvement costs are incurred. The remaining \$14,000, which is held by EHC in cash, will be distributed to JHH as needed for additional improvements.

Rental income earned through EHC's wholly-owned affiliates was \$372,809 and \$382,678 for the years ended December 31, 2022 and 2021, respectively, generated from short-term lease agreements.

Note 14: Government Grant

Paycheck Protection Program: EHC applied for and received funds in the amount of \$60,217 under the Paycheck Protection Program (PPP), which was created as a result of the coronavirus pandemic. The proceeds were considered a forgivable loan, assuming certain qualified expenses, primarily payroll related expenses, were incurred during the periods of 8-weeks to 24-weeks, commencing on the date of the loan agreement (April 15, 2020). Any portion of this loan that did not qualify for forgiveness was subject to an interest rate of 1%. The original loan document required monthly principal installments plus interest over an eighteen-month period commencing on November 15, 2020 with a maturity date of April 15, 2022. However, the repayment of principal period was extended until 10 months after the end of period of the 8-weeks to 24-weeks. This loan was reflected as a long-term liability at December 31, 2020. EHC applied for and received 100% forgiveness of the PPP loan on March 17, 2021 and therefore, the loan forgiveness was recognized as government grant revenue during the year ended December 31, 2021.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 15: Employee Retirement Plan

The Organization maintains a retirement plan under IRC Section 403(b) that generally covers all employees. Under the terms of the plan, participating employees may elect to contribute pre-tax dollars up to the maximum limit established by the IRS for each calendar year. In order to be eligible to receive contributions from the Organization, participants in the plan must be classified as a full-time employee and have completed six months of service, as defined in the plan documents. Employer contributions to the retirement plan are a specified match of a participating employee's elective contributions (dollar for dollar match up to 3%). Total pension expense for the years ended December 31, 2022 and 2021 was \$9,848 and \$9,231, respectively.

Note 16: Loans or Notes Provided by EHC Which are not Reflected in These Consolidated Financial Statements

Occasionally, there are instances where Grantors desire to provide a grant to a project that EHC has involvement. There are occasions where the Grantor is unable to provide the grant directly to the project and instead provides the grant to EHC for the benefit of the project. The Grantor is not expected to be repaid for the grant provided that the grant's provisions have been met.

There have been three occasions where EHC has received such grants and has subsequently provided those funds to third parties, who are also related parties through various ownership interests of its affiliates. EHC provides those funds in the form of an unsecured note with a very long maturity date. Given the nature of the note, EHC is not able to determine the likelihood of the note being collectible and therefore is not including those notes on the consolidated statements of financial position. These note proceeds were recognized as grant expenses in prior years. Based on the respective grant agreements, it is the intention of EHC's management to forgive these loans in full when they mature, unless the provisions of the grant agreements are not met.

Below are those notes which are outstanding for the years ended December 31, 2022 and 2021:

North Creek Run II, LLC: The original amount of the year 2013 loan to North Creek Run II, LLC was \$177,540. The loan was funded under the Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP). The loan does not bear interest and requires no payments until January 1, 2055. The loan is secured by a deed of trust on the real property of the Company (third lien position).

Red Run Associates, LLC: The original amount of the year 2019 loan to Red Run Associates, LLC was \$170,000. To date, none of this note has been repaid. The note was funded by the proceeds of a grant from the Maryland Energy Administration. The note is non-interest bearing and requires no monthly payments. All outstanding principal is due and payable in May 2059. The note is unsecured.

Four Ten Lofts, LLC: The original amount of the year 2020 note to Four Ten Lofts, LLC was \$1,600,000. To date, none of this note has been repaid. The note was funded by the proceeds of a grant from the Harry and Jeanette Weinberg Foundation. The entire principal balance of the note and any accrued but unpaid interest is due and payable in August 2061. The principal sum shall bear interest at the fixed rate of four- and one-half percent (4.5%) simple interest per annum.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 17: Commitments

Construction Contract: Subsequent to year end, the Organization entered into a contract for building improvements to a building located at 17 W. Mulberry Street in Baltimore City. The total amount of this contract is approximately \$1,045,732. The contractual services are broken into several phases which are expected to be completed by May 2024.

Note 18: Certain Significant Risks and Uncertainties

Cash and Cash Equivalents: The Organization maintains its cash balances at various financial institutions. Periodically during the year, the Organization's cash balances may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash balances.

Investment Risk: The Organization invests in a professionally managed portfolio that contains mutual funds and common stocks. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Impairment Risk: EHC reviews its rental properties for impairment whenever changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying value of an asset, an impairment loss would be reported. No impairment loss has been recognized for the years ended December 31, 2022 and 2021, respectively.

Concentrations: EHC earned \$1,246,566 and \$1,653,065 of development fees for the years ended December 31, 2022 and 2021, respectively. Approximately 90% and 67% of that was earned from two (2) customers and three (3) customers in years ended December 31, 2022 and 2021, respectively. Development fees receivable are \$1,589,440 and \$1,224,712 at December 31, 2022 and 2021, respectively. Approximately 97% and 93% of these receivables are from two (2) customers and three (3) customers at December 31, 2022 and 2021, respectively.

Note 19: Contingent Mortgage Payable

In 2017, Sojourner@Argyle entered in loan agreement with CDA for \$726,000 to provide residential rental units for individuals who meet certain income and other requirements. Per the terms of this loan agreement, it is the intent of CDA that all payments of principal and interest on the loan shall be deferred and remain outstanding in perpetuity. As a result, management recognized this loan as revenue when it was received, since it is management's understanding that based on certain conditions, this loan would eventually be forgiven. However, should any of the following events occur: (a) the project is no longer being used for households of lower income; (b) the project is sold or transferred or (c) the project is in default with the terms of the loan; the full amount of the loan plus interest shall become immediately due and payable.

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022

**Independent Auditor's Report on the
Schedule of Expenditures of Federal Awards**

To the Board of Directors
Episcopal Housing Corporation and Affiliates

Report on the Audit of the Schedule of Expenditures of Federal Awards

Opinion

We have audited the schedule of expenditures of federal awards of Episcopal Housing Corporation and Affiliates for the year ended December 31, 2022, and the related notes (the schedule).

In our opinion, the accompanying schedule of expenditures of federal awards presents fairly, in all material respects, the expenditures of federal awards of Episcopal Housing Corporation and Affiliates for the year ended December 31, 2022, 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; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; 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 Auditor's Responsibilities for the Audit of the Schedule section of our report.

We are required to be independent of Episcopal Housing Corporation and Affiliates and to meet our other 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 Schedule

Management is responsible for the preparation and fair presentation of the schedule 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 the schedule that is free from material misstatement, whether due to fraud or error.

**Independent Auditor's Report on the
Schedule of Expenditures of Federal Awards (Continued)**

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance 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 schedule.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedule, 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 schedule.
- 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 Episcopal Housing Corporation and Affiliates' 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 schedule.

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.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
September 13, 2023

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing	Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures (Allowable)
U.S. Department of the Treasury				
Passed through Baltimore County Department of Housing and Community Development				
COVID-19 Emergency Rental Assistance Program	21.023	MA4645/DO59750	\$ 21,348,416	\$ 21,348,416
U.S. Department of Housing and Urban Development				
Community Development Block Grants (CDBG) - Entitlement Grants Cluster				
Passed through Baltimore County Department of Housing and Community Development				
COVID-19 Community Development Block Grants/ Entitlement Grants	14.218	4016,10001429 4246,10001430 4590,10001573	618,509	618,509
Passed through Baltimore County Department of Planning				
COVID-19 Community Development Block Grants/Entitlement Grants	14.218	4419	38,540	38,540
Total Community Development Block Grants (CDBG) - Entitlement Grants Cluster			657,049	657,049
Passed through Baltimore County Department of Housing and Community Development				
COVID-19 Emergency Solutions Grants Program	14.231	4417,10001576	110,035	110,035
Passed through Baltimore County Department of Planning				
COVID-19 Emergency Solutions Grants Program	14.231	4256	221,826	221,826
Total Emergency Solutions Grants Program			331,861	331,861
Total U.S. Department of Housing and Urban Development			988,910	988,910
U.S Department of Homeland Security				
COVID-19 Emergency Food and Shelter National Board Program				
National Board Program	97.024	377800066	7,500	7,500
Total Expenditures of Federal Awards			\$ 22,344,826	\$ 22,344,826

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Notes to Schedule of Expenditures of Federal Awards
Year ended December 31, 2022

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant award activity of Episcopal Housing Corporation and Affiliates under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Episcopal Housing Corporation and Affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Episcopal Housing Corporation and Affiliates.

Pass-Through entity identifying numbers are presented when available.

Note B: Summary of Significant Accounting Policies

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

Note C: Indirect Cost Rate

Episcopal Housing Corporation and Affiliates has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note D: Agency Transactions Related to the Federal Awards

Episcopal Housing Corporation and Affiliates acts in an agency capacity with regards to the federal awards listed on the Schedule, which are provided as grants to one subrecipient in their entirety. Episcopal Housing Corporation and Affiliates do not charge any of its administrative costs related to the administering of these grants against these grants. Therefore, the amounts reported on the Schedule are not reflected as revenue on Episcopal Housing Corporation and Affiliates' audited financial statements, herein presented.

Independent Auditor's 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

To the Board of Directors
Episcopal Housing Corporation and Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Episcopal Housing Corporation and Affiliates (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report dated May 4, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Episcopal Housing Corporation and Affiliates' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Episcopal Housing Corporation and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Episcopal Housing Corporation and Affiliates' 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 consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Independent Auditor's 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 (Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Episcopal Housing Corporation and Affiliates' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 Episcopal Housing Corporation and Affiliates' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
May 4, 2023

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by The Uniform Guidance

To the Board of Directors
Episcopal Housing Corporation and Affiliates

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Episcopal Housing Corporation and Affiliates' compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Episcopal Housing Corporation and Affiliates' major federal programs for the year ended December 31, 2022. Episcopal Housing Corporation and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Episcopal Housing Corporation and Affiliates 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 December 31, 2022.

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Episcopal Housing Corporation and Affiliates and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Episcopal Housing Corporation and Affiliates' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by The Uniform Guidance (Continued)

Auditor's 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 Episcopal Housing Corporation and Affiliates' 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 generally accepted auditing standards, *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 Episcopal Housing Corporation and Affiliates' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 Episcopal Housing Corporation and Affiliates' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Episcopal Housing Corporation and Affiliates' 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 Episcopal Housing Corporation and Affiliates' 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.

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by The Uniform Guidance (Continued)

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

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

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

Gross, Mendelsohn & Associates, P. A.

Baltimore, Maryland
September 13, 2023

EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Schedule of Findings and Questioned Costs
Year Ended December 31, 2022

Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the consolidated financial statements of Episcopal Housing Corporation and Affiliates were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's 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*.
3. No instances of noncompliance material to the financial statements of Episcopal Housing Corporation and Affiliates which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses related to internal control over major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Episcopal Housing Corporation and Affiliates expresses an unmodified opinion of all major federal award programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this schedule.
7. The program tested as a major program was the Emergency Rental Assistance Program (Assistance Listing #21.023).
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Episcopal Housing Corporation and Affiliates did not qualify as a low-risk auditee as defined by the Uniform Guidance.

**EPISCOPAL HOUSING CORPORATION AND AFFILIATES
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2022**

Findings - Financial Statement Audit

None.

Findings and Questioned Costs - Major Federal Award Program Audit

None.

Summary Schedule of Prior Audit Findings

Finding #2021-001 Submission of Data Collection Form

Statement of Condition: The reporting package and data collection form for the year ended December 31, 2021 was not filed by the required due date of September 30, 2022 to the Federal Audit Clearinghouse.

Recommendation: We recommend that management maintains up-to-date information on the deadlines for submission of the Data Collection Form and monitors the amount of federal grants it has earned during any particular year in order to timely prepare for any future single audits.

Status: This finding was corrected.

