



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

EPISCOPAL COMMUNITY SERVICES

June 30, 2019 and 2018

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Report of Independent Auditors

The Board of Directors
Episcopal Community Services

Report on the Financial Statements

We have audited the accompanying financial statements of Episcopal Community Services, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Community Services as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Episcopal Community Services adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

Moss Adams LLP

San Diego, California
October 31, 2019

Episcopal Community Services
Statements of Financial Position

ASSETS		June 30,	
	2019	2018	
CURRENT ASSETS			
Cash and cash equivalents	\$ 830,204	\$ 1,034,161	
Investments	1,539,075	1,455,694	
Receivables, net	1,477,768	1,737,273	
Prepaid expenses and other current assets	412,860	63,089	
Total current assets	4,259,907	4,290,217	
DEPOSITS AND OTHER ASSETS	188,652	196,912	
UNCONDITIONAL PROMISES TO GIVE, net	451,072	398,269	
PROPERTY AND EQUIPMENT, net	815,888	1,064,887	
Total assets	\$ 5,715,519	\$ 5,950,285	
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 558,047	\$ 788,780	
Accrued payroll	731,914	792,183	
Line of credit	440,211	-	
Current portion of long-term debt	122,028	116,378	
Total current liabilities	1,852,200	1,697,341	
LONG-TERM DEBT	262,116	384,144	
Total liabilities	2,114,316	2,081,485	
COMMITMENTS AND CONTINGENCIES (Notes 9, 11, and 13)			
NET ASSETS			
Without donor restrictions	2,999,665	3,308,462	
With donor restrictions	601,538	560,338	
Total net assets	3,601,203	3,868,800	
Total liabilities and net assets	\$ 5,715,519	\$ 5,950,285	

Episcopal Community Services

Statements of Activities

	Years Ended June 30,					
	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Grants and contracts	\$ 25,902,728	\$ -	\$ 25,902,728	\$ 23,934,590	\$ -	\$ 23,934,590
Service fees	1,932,338	-	1,932,338	2,094,133	-	2,094,133
Contributions	671,619	48,523	720,142	756,517	162,069	918,586
Other	42,115	-	42,115	51,404	-	51,404
Investment income, net of investment expenses	50,130	-	50,130	77,774	-	77,774
Change in value of beneficial interests in charitable remainder trusts	-	52,803	52,803	-	(53,641)	(53,641)
Net assets released from restrictions	60,126	(60,126)	-	11,194	(11,194)	-
Total revenues, gains, and other support	28,659,056	41,200	28,700,256	26,925,612	97,234	27,022,846
EXPENSES						
Programs:						
Child development	18,597,304	-	18,597,304	18,149,061	-	18,149,061
Clinical services	5,111,477	-	5,111,477	3,749,524	-	3,749,524
Housing and supportive services	1,710,159	-	1,710,159	1,478,522	-	1,478,522
Nutrition services	775,719	-	775,719	722,765	-	722,765
Total program expenses	26,194,659	-	26,194,659	24,099,872	-	24,099,872
Management and general	2,396,736	-	2,396,736	2,236,732	-	2,236,732
Fundraising and communications	376,458	-	376,458	279,309	-	279,309
Total expenses	28,967,853	-	28,967,853	26,615,913	-	26,615,913
CHANGE IN NET ASSETS	(308,797)	41,200	(267,597)	309,699	97,234	406,933
NET ASSETS						
Beginning of year	3,308,462	560,338	3,868,800	2,998,763	463,104	3,461,867
End of year	<u>\$ 2,999,665</u>	<u>\$ 601,538</u>	<u>\$ 3,601,203</u>	<u>\$ 3,308,462</u>	<u>\$ 560,338</u>	<u>\$ 3,868,800</u>

Episcopal Community Services Statements of Functional Expenses

	Year Ended June 30, 2019			
	Programs	Management and General	Fundraising and Communications	Total
Personnel	\$ 18,390,980	\$ 1,768,259	\$ 225,724	\$ 20,384,963
Other direct costs	4,194,475	310,043	138,517	4,643,035
Occupancy	3,291,179	317,251	12,217	3,620,647
Depreciation	296,762	738	-	297,500
Interest	21,263	445	-	21,708
	<u>26,194,659</u>	<u>2,396,736</u>	<u>376,458</u>	<u>28,967,853</u>
Total expenses	<u>\$ 26,194,659</u>	<u>\$ 2,396,736</u>	<u>\$ 376,458</u>	<u>\$ 28,967,853</u>
	Year Ended June 30, 2018			
	Programs	Management and General	Fundraising and Communications	Total
Personnel	\$ 16,194,553	\$ 1,544,083	\$ 181,136	\$ 17,919,772
Other direct costs	4,536,398	375,415	85,695	4,997,508
Occupancy	3,043,311	312,054	12,478	3,367,843
Depreciation	298,959	738	-	299,697
Interest	26,651	4,442	-	31,093
	<u>24,099,872</u>	<u>2,236,732</u>	<u>279,309</u>	<u>26,615,913</u>
Total expenses	<u>\$ 24,099,872</u>	<u>\$ 2,236,732</u>	<u>\$ 279,309</u>	<u>\$ 26,615,913</u>

Episcopal Community Services

Statements of Cash Flows

	Years Ended June 30,	
	2019	2018
OPERATING ACTIVITIES		
Change in net assets	\$ (267,597)	\$ 406,933
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	297,500	299,697
Loss on disposal of property and equipment	13,231	28,298
Change in value of beneficial interest in charitable remainder trusts	(52,803)	53,641
Net realized and unrealized gains, net of fees on investments	(358)	(40,383)
Bad debt expense	2,331	8,276
Decrease (increase) in operating assets:		
Receivables	257,174	(118,933)
Prepaid expenses and other current assets	(349,771)	120,197
Deposits and other assets	8,260	62,584
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	(230,733)	(358,022)
Accrued payroll	(60,269)	(4,925)
Net cash (used in) provided by operating activities	<u>(383,035)</u>	<u>457,363</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(61,732)	(70,245)
Proceeds from sale of investments	-	144,519
Purchases of investments	(83,023)	(227,392)
Net cash used in investing activities	<u>(144,755)</u>	<u>(153,118)</u>
FINANCING ACTIVITIES		
Net increase in line of credit	440,211	-
Repayment of long-term debt	(116,378)	(140,214)
Net cash provided by (used in) financing activities	<u>323,833</u>	<u>(140,214)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(203,957)	164,031
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,034,161</u>	<u>870,130</u>
End of year	<u>\$ 830,204</u>	<u>\$ 1,034,161</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 21,708</u>	<u>\$ 31,093</u>

Episcopal Community Services Notes to Financial Statements

Note 1 – Nature of Organization

Episcopal Community Services (“ECS”), a California not-for-profit public benefit corporation, and in California, a not-for-profit religious organization. ECS provides services to the community through programs that address specific social needs, and is affiliated with the Episcopal Diocese of San Diego.

Programs offered by ECS are:

Child development programs – Head Start and Early Head Start are federally-funded comprehensive child development programs serving pregnant women, children from birth to age five, and their families. The programs are designed to help break the cycle of poverty by providing preschool children of low-income families with a comprehensive program to meet their emotional, social, health, nutritional, and psychological needs. ECS Head Start entered into a contract with the California Department of Education for the State Preschool Program (“CSPP”) for part day state preschool to enhance and extend the day and duration of Head Start/CSPP children and families.

Other programs – ECS also offers programs that assist individuals and families through the often difficult transition from an existence which is dependent on social services, unhealthy relationships, or substance abuse to one of self-sufficiency. ECS offers a full spectrum of services to Southern Californians in transition, including outpatient substance abuse disorder treatment, recovery and ancillary services to adults and transitional age youth, drug and alcohol education and support services, employment assistance, food, counseling services for the chronically mentally ill, and short-term housing for the special-needs homeless population. ECS provides mental health services to low-income children and their families with behavioral problems as a result of having experienced trauma, divorce, illness, neglect, violence in the home, or drug abuse.

Income taxes – ECS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. ECS may be subject to federal or state income taxes on unrelated business income. For each of the years ended June 30, 2019 and 2018, no provision for such taxes is required. ECS had no unrecognized tax benefits or liabilities as of June 30, 2019 and 2018. ECS files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the State of California.

Note 2 – Summary of Significant Accounting Policies

Method of accounting – The financial statements have been prepared on the accrual basis of accounting.

Episcopal Community Services

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Financial statement presentation – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. This ASU revises the not-for-profit reporting model and requires expenses to be disclosed by both functional and natural classification, reduces the net asset classifications to two (with and without donor restrictions), requires investment expenses to be disclosed net of investment income, and requires new disclosures on liquidity. ECS adopted the standard on July 1, 2018, and applied it retrospectively to all periods presented within, with the exception of the omission of certain information as permitted by the ASU.

Net assets are classified as net assets without donor restrictions, and net assets with donor restrictions, based upon the following criteria:

- Net assets without donor restrictions represent expendable funds available for operations that are not otherwise limited by donor restrictions.
- Net assets with donor restrictions consist of contributed funds subject to specific donor-imposed restrictions which are contingent upon a specific performance of a future event or a specific passage of time before ECS may spend the funds. Certain net assets with donor restrictions are also subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, primarily for generating investment income to fund current operations. ECS has \$601,538 and \$560,338 net assets with donor restrictions at June 30, 2019 and 2018, respectively.

Revenue recognition

Grants and contracts – Revenue is recognized from grants and contracts to the extent that eligible costs are incurred and as services are provided. Under ECS's Regional Recovery Center Grant Program ("RRC") revenue is recognized to the extent that eligible costs are incurred, up to the total units served multiplied by the applicable rate per unit.

Service fees – Revenue from service fees is recognized when services are provided.

Contributions – Contributions received are recorded as without donor restrictions, or with donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as with donor restrictions depending on the nature of the donor's restriction. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions with donor restrictions which are met in the same reporting period are reported as without donor restrictions revenue.

Cash and cash equivalents – ECS considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Episcopal Community Services Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Restricted cash – In accordance with the terms of a contract with a funding agency, funds received for the Head Start program are required to be maintained in a separate bank account. As of June 30, 2019 and 2018, approximately \$546,000 and \$734,000, respectively, of the Head Start program funds were held in a separate bank account. These funds are included in cash and cash equivalents in the accompanying statements of financial position.

Investments – Investments are reported at fair value based on quoted prices in active markets. The Controller, as monitored by the Chief Financial Officer, reviews and evaluates the values provided by investment managers annually and agrees with the valuation methods used.

Investment income, net of investment expenses or loss (including interest and realized gains and losses) is included in without donor restrictions revenues unless restricted by donor or law.

Receivables – Receivables consist of amounts due to ECS for services provided through June 30 that have not yet been collected. Amounts are generally considered past due if not collected within 30 days of billings. Interest is not charged on outstanding balances.

Unconditional promises to give – Unconditional promises to give expected to be collected in future years are recorded at fair value when the promise is made based on a discounted cash flow model. In future years, the discounts to present value are computed using discount rates established in the years in which those promises are received. Amortization of the discounts is included in contributions.

Included in unconditional promises to give are beneficial interests ECS has received in irrevocable charitable remainder trusts (CRTs). The trust agreements require the trusts to make periodic payments, as defined, to the grantors or other designated beneficiaries of the trust over the beneficiary's lifetime and, in some cases, after the beneficiary's death. The trusts terminate upon the death of the grantors or completion of the specified benefit periods after their death. Upon termination of the trusts, ECS will receive its share of the remaining trust assets as designated in the trust agreements. The portion of a trust attributable to the fair value of the future benefits to be received by ECS is recorded in the statement of activities as contributions with donor restrictions in the year the trust is established. The fair value of the beneficial interests in CRTs at June 30, 2019 and 2018, is calculated based on a discounted cash flow model using the fair value of the assets in the trusts as provided by the trustees, interest rate of approximately 3 percent and life expectancies (based on applicable mortality tables) and other terms, as applicable, for payments to beneficiaries beyond the life expectancies ranging from 2 to 23 years. The unobservable inputs used in the calculations are evaluated and adjusted, as necessary, annually by the Controller, as monitored by the Chief Financial Officer.

Allowance for estimated uncollectible accounts – The allowance for estimated uncollectible accounts is based on past experience and on an analysis of current receivables. ECS does not obtain collateral. Accounts deemed uncollectible are written-off against the allowance in the year deemed uncollectible. Management established an allowance of approximately \$32,000 and \$33,000 on receivables from client service fees as of June 30, 2019 and 2018, respectively.

Episcopal Community Services

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Property and equipment – Property and equipment are recorded at cost for purchased assets and fair value at the date of donation for donated assets. Certain property and equipment acquired with grant funds are capitalized and are considered to be owned by the granting agency. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 2 to 25 years. It is ECS's policy to capitalize purchases with a cost greater than \$5,000.

Impairment of long-lived assets – ECS evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Functional allocation of expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Most expenses are directly charged to the program or functional category incurring the expense. Like kind shared direct general and administrative costs (costs that benefit all programs and cannot be identified to a specific program) are allocated to programs and grants based on relevant benefits received using a base that results in an equitable distribution. Types of cost allocation bases used to distribute like kind shared costs include number of employees, number of transactions, relative value, and square footage. These like kind costs are allocated at the end of each monthly accounting cycle.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions related to the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may materially differ from those estimates.

Contributed services received – ECS has received contributed services predominantly from parent volunteers in its Head Start program to assist in classroom tasks such as preparing snacks, helping children with handwashing, removing/putting on coats and sweaters, and interacting during learning activities. A total of 327,725 and 323,792 hours were donated during the years ended June 30, 2019 and 2018, respectively, in compliance with Federal rules and regulations. The services do not meet the criteria for recognition under FASB Accounting Standard Codification (ASC) 958-605-50-1, and accordingly no amounts were recognized during the year.

Episcopal Community Services Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. ECS recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. ECS's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before the financial statements are available to be issued. ECS has evaluated subsequent events through October 31, 2019, which is the date the financial statements were available to be issued.

Note 3 – Concentrations

Cash and cash equivalents – ECS maintains cash and cash equivalents in bank deposit accounts which at times exceed the federally insured deposit limits. ECS has not experienced any losses in such accounts.

Investments – ECS maintains investments in accounts which at times exceed the Securities Investors Protection Corporation ("SIPC") limits. ECS has not experienced any losses in such accounts.

Unconditional promises to give – Unconditional promises to give include beneficial interests in CRTs which are exposed to various risks such as interest rates, change in value of underlying assets in the trusts, and donor life expectancies. Changes in the near term are not expected to materially affect the amounts reported in the financial statements. As of June 30, 2019 and 2018, approximately 95 percent of unconditional promises to give is due from two trusts.

Grants and contracts – Included in revenue from grants and contracts during the years ended June 30, 2019 and 2018, is approximately \$19,872,000 and \$19,471,000, respectively, earned from Neighborhood House Association ("NHA"). These amounts represent approximately 69 percent and 72 percent of total revenues, gains, and other support for the years ended June 30, 2019 and 2018, respectively. ECS is a delegatee of NHA's Head Start contract with the federal government. The contract requires ECS to meet certain federal and grantor compliance requirements in order to continually receive funding for the duration of the contract. Their continued compliance is also a factor in retaining the contract for future years. The contract also allows the grantor to perform site visits, audits, and other monitoring visits which may result in disallowed costs or disciplinary actions if disallowed costs are identified or compliance requirements are not followed. As of and for the year ended June 30, 2019, there have not been any disciplinary actions and no disallowed costs identified by NHA. Included in receivables from grants and contracts is approximately \$1,154,000 and \$1,272,000 due from three funding sources at June 30, 2019 and 2018, respectively.

Episcopal Community Services

Notes to Financial Statements

Note 4 – Investments

Investments at fair value consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Stock funds	\$ 849,375	\$ 795,473
Bond funds	527,242	503,235
Real estate funds	103,798	97,248
Reinsurance-related securities fund	40,767	44,391
Cash and cash equivalents	<u>17,893</u>	<u>15,347</u>
Total investments	<u>\$ 1,539,075</u>	<u>\$ 1,455,694</u>

Investment income, net of investment expenses consists of the following for the year ended June 30:

	<u>2019</u>	<u>2018</u>
Net realized and unrealized gains	\$ 10,243	\$ 49,508
Interest and dividends	49,772	37,391
Investment fees	<u>(9,885)</u>	<u>(9,125)</u>
Total investment income, net of investment expenses	<u>\$ 50,130</u>	<u>\$ 77,774</u>

See Note 2 for the valuation methodologies used for investments that are measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, and Note 7 for classification in the fair value hierarchy.

Note 5 – Receivables

As of June 30, receivables consist of:

	<u>2019</u>	<u>2018</u>
Grants and contracts	\$ 1,301,002	\$ 1,664,487
Service fees	89,550	89,550
Other	<u>119,666</u>	<u>16,119</u>
	1,510,218	1,770,156
Less allowance for doubtful accounts	<u>(32,450)</u>	<u>(32,883)</u>
Total receivables	<u>\$ 1,477,768</u>	<u>\$ 1,737,273</u>

Episcopal Community Services Notes to Financial Statements

Note 6 – Unconditional Promises to Give

As of June 30, unconditional promises to give consist of:

	2019	2018
Due in more than five years:		
Beneficial interest in CRTs	\$ 652,237	\$ 451,910
Less discount to fair value	(201,165)	(53,641)
Total beneficial interest in CRTs	451,072	398,269
Net unconditional promises to give	\$ 451,072	\$ 398,269

See Note 2 for the valuation methodologies used for beneficial interests in CRTs that are measured at fair value on a recurring basis and recognized in the accompanying statements of financial position. The beneficial interests in CRTs are classified as Level 3 in the fair value hierarchy (see Note 7).

Note 7 – Fair Value Measurements

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. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Investments are exposed to various risks such as interest rates, market, and credit risk. Risk is managed through rigorous evaluation before an investment is made, quarterly monitoring of valuations, and regular communication with investment managers. It is at least reasonably possible, given the level of risk associated with investments, that changes in the near term could materially affect the amounts reported in the financial statements.

Episcopal Community Services

Notes to Financial Statements

Note 7 – Fair Value Measurements (continued)

The following tables present the assets carried at fair value on the statements of financial position as of June 30, 2019 and 2018:

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Stock funds:				
U.S. Large	\$ 406,270	\$ -	\$ -	\$ 406,270
U.S. Small-Medium	150,547	-	-	150,547
Foreign	292,558	-	-	292,558
Bond funds:				
Domestic	425,414	-	-	425,414
Foreign	101,828	-	-	101,828
Real estate funds:				
Domestic	66,243	-	-	66,243
Foreign	37,555	-	-	37,555
Reinsurance-related securities fund	40,767	-	-	40,767
Cash and cash equivalents	17,893	-	-	17,893
Subtotal investments	1,539,075	-	-	1,539,075
Beneficial interests in CRTs	-	-	451,072	451,072
Total assets measured at fair value	\$ 1,539,075	\$ -	\$ 451,072	\$ 1,990,147

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Stock funds:				
U.S. Large	\$ 378,522	\$ -	\$ -	\$ 378,522
U.S. Small-Medium	152,164	-	-	152,164
Foreign	264,787	-	-	264,787
Bond funds:				
Domestic	403,024	-	-	403,024
Foreign	100,211	-	-	100,211
Real estate funds:				
Domestic	60,268	-	-	60,268
Foreign	36,980	-	-	36,980
Reinsurance-related securities fund	44,391	-	-	44,391
Cash and cash equivalents	15,347	-	-	15,347
Subtotal investments	1,455,694	-	-	1,455,694
Beneficial interests in CRTs	-	-	398,269	398,269
Total assets measured at fair value	\$ 1,455,694	\$ -	\$ 398,269	\$ 1,853,963

Episcopal Community Services Notes to Financial Statements

Note 7 – Fair Value Measurements (continued)

The following table discloses the summary of changes in the fair value of ECS's Level 3 assets (beneficial interests in CRTs) for the years ended June 30:

BALANCE, July 1, 2017	\$	451,910
Change in value of beneficial interests in CRTs		(53,641)
BALANCE, June 30, 2018		398,269
Change in value of beneficial interests in CRTs		52,803
BALANCE, June 30, 2019	\$	451,072

The change in value of the beneficial interests in CRTs is a separate line in the statements of activities.

Note 8 – Property and Equipment

As of June 30, property and equipment consists of:

	2019	2018
Leasehold improvements	\$ 2,206,646	\$ 2,209,505
Equipment	837,201	856,567
Vehicles	240,456	335,248
	3,284,303	3,401,320
Less accumulated depreciation and amortization	(2,468,415)	(2,336,433)
Total	\$ 815,888	\$ 1,064,887

Episcopal Community Services

Notes to Financial Statements

Note 9 – Debt

As of June 30, long-term debt consists of:

	<u>2019</u>	<u>2018</u>
Note payable, Paul H. Liljestrand Partners LP, unsecured. Bears simple interest of 4.75 percent per annum. Monthly principal and interest payments of \$11,471; due June 2022.	<u>\$ 384,144</u>	<u>\$ 500,522</u>
	384,144	500,522
Less current portion	<u>122,028</u>	<u>116,378</u>
Total	<u><u>\$ 262,116</u></u>	<u><u>\$ 384,144</u></u>

Future minimum debt service payments are as follows:

Years ending June 30,	
2020	\$ 122,028
2021	127,952
2022	<u>134,164</u>
Total	<u><u>\$ 384,144</u></u>

Line of credit – ECS has a revolving bank line of credit in the amount of \$500,000 secured by assets of ECS. There was a \$440,000 balance outstanding on the line of credit as of June 30, 2019. There was no balance outstanding on the line of credit as of June 30, 2018. The interest rate on the line of credit is the bank's prime rate plus 0.250 percent (5.75 percent at June 30, 2019).

Total interest expense on debt was approximately \$21,700 and \$31,100 for the years ended June 30, 2019 and 2018, respectively.

Note 10 – Net Assets with Donor Restrictions

As of June 30, net assets with donor restrictions consist of:

	<u>2019</u>	<u>2018</u>
Time restrictions:		
Charitable remainder trusts	\$ 451,072	\$ 398,269
Purpose restrictions - programs	<u>150,466</u>	<u>162,069</u>
Total	<u><u>\$ 601,538</u></u>	<u><u>\$ 560,338</u></u>

Episcopal Community Services Notes to Financial Statements

Note 10 – Net Assets with Donor Restrictions (continued)

For the year ended June 30, 2019, a total of approximately \$60,000 was released from net assets with donor restrictions and was comprised of approximately \$3,200 for Head Start and approximately \$56,800 for housing and supportive service programs.

For the year ended June 30, 2018, a total of approximately \$11,000 was released from net assets with donor restrictions and was comprised of approximately \$5,800 for nutrition and approximately \$5,400 for Head Start.

Note 11 – Employee Benefit Plan

ECS has a 401(k) retirement plan (the “Plan”) that provides salary deferral and matching employer contributions. Beginning on July 1, 2016, the Plan was amended to include a safe harbor nonelective contribution in which the organization makes a contribution equal to three percent of compensation. All employees who have completed one month of service and are 21 years of age are eligible. ECS has expensed and accrued contributions to the Plan totaling approximately \$429,000 and \$387,000 for the years ended June 30, 2019 and 2018, respectively.

Note 12 – Union Contract

A substantial portion of ECS’s labor force is subject to a collective bargaining agreement. The agreement expires June 30, 2020.

Note 13 – Commitments and Contingencies

ECS occupies facilities in various locations under month-to-month and long-term operating leases with terms extending through August 2027. Rental expense under operating leases was approximately \$2,156,000 and \$2,056,000 for the years ended June 30, 2019 and 2018, respectively.

Episcopal Community Services

Notes to Financial Statements

Note 13 – Commitments and Contingencies (continued)

Future minimum annual rentals under long-term operating leases are as follows:

Years ending June 30,		
2020	\$	1,950,794
2021		1,583,877
2022		1,254,673
2023		1,043,655
2024		726,695
Thereafter		<u>1,125,780</u>
Total	\$	<u><u>7,685,474</u></u>

Grants and contracts – ECS has contracts with government agencies which are subject to audit. No provision has been made for any additional liabilities that may arise from such audits, since the amounts, if any, cannot be determined. Management believes that any additional liability that may result from any such audits would not be material. Certain of these contracts may be terminated or reduced with 30 days' written notice to ECS in the event that federal, state, or county funding for the agreement ceases or is reduced prior to the expiration dates of the contracts.

Risks and uncertainties – The operations of ECS are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies. Such administrative directives, rules, and regulations are subject to change by an act of Congress or other government agency or an administrative change. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, if any, to comply with a change.

Legal – ECS is a party to certain legal actions arising in the ordinary course of business. In the opinion of management, liabilities, if any, under these actions will not have a material impact on its financial position.

Note 14 – Related-Party Transactions

Related-party transactions as of and for the years ended June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Contribution from Episcopal Diocese of San Diego and affiliates	\$ 37,675	\$ 30,822

ECS also has a beneficial interest in a CRT for which a former member of the Board of Directors is a trustee. ECS's beneficial interest is valued at approximately \$190,000 and \$154,000 as of June 30, 2019 and 2018, respectively.

Episcopal Community Services Notes to Financial Statements

Note 15 – Liquidity and Availability

ECS regularly monitors liquidity required to meet its operating needs and other contractual commitments. The following table reflects ECS's financial assets as of June 30, 2019, reduced by amounts not available for general expenditures, due to contractual or donor-imposed restrictions, within one year. ECS has several liquid resources at its disposal, including cash, receivables, and investments.

Cash	\$ 830,204
Investments	1,539,075
Receivable, net	1,477,768
Unconditional promises to give, net	<u>451,072</u>
 Total financial assets	 4,298,119
 Investments held in custodial trust	 <u>(451,072)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u><u>\$ 3,847,047</u></u>

ECS is primarily supported by revenue generated from grants and contracts. ECS structures its financial assets to be available as general expenditures, liabilities, and other obligations become due. In addition, ECS has a line of credit limit up to \$500,000 that can be utilized for operations if needed (Note 9).

Supplementary Information

Report of Independent Auditors on the Supplementary Information

The Board of Directors
Episcopal Community Services

We have audited the financial statements of Episcopal Community Services as of and for the year ended June 30, 2019, and have issued our report thereon dated October 31, 2019, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenue and expenses by activity is presented for purposes of additional analysis and is 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Moss Adams LLP

San Diego, California
October 31, 2019

**Episcopal Community Services
Supplementary Information
Schedule of Revenue and Expenses by Activity
Year Ended June 30, 2019**

	State Preschool	Other Child Development Programs ⁽¹⁾	Housing and Supportive Services Programs ⁽²⁾	Clinical Services Programs ⁽³⁾	Nutrition Services	Fundraising and Communications	Management and General	Capital Fund Activity	Eliminations	Total
REVENUE, GAINS, AND OTHER SUPPORT										
Grants and contracts	\$ 186,778	\$ 20,892,960	\$ 1,369,624	\$ 3,454,216	\$ -	\$ -	\$ -	\$ -	\$ (850)	\$ 25,902,728
Service fees	-	-	-	1,945,048	852,526	-	-	-	(865,236)	1,932,338
Contributions and change in value of beneficial interests in CRTs	-	10	206,570	103,187	15,000	448,179	-	-	-	772,946
Other and investment income, net of investment expenses	-	15,295	8,820	1,020	190	-	66,919	-	-	92,244
Total revenue, gains, and other support	186,778	20,908,265	1,585,014	5,503,471	867,716	448,179	66,919	-	(866,086)	28,700,256
EXPENSES										
Personnel	120,530	13,549,034	969,595	3,461,008	291,663	225,724	1,768,259	-	(850)	20,384,963
Other direct costs	31,286	3,549,580	130,929	908,742	433,028	138,517	310,043	6,146	(865,236)	4,643,035
Occupancy	33,624	2,069,489	583,815	614,350	44,549	12,217	317,251	(54,648)	-	3,620,647
Depreciation	-	-	-	-	-	-	-	297,500	-	297,500
Interest	-	-	-	21,263	-	-	445	-	-	21,708
Management and general	18,544	1,840,875	119,953	470,705	76,924	1,812	(2,528,813)	-	-	-
Total expenses	203,984	21,008,978	1,804,292	5,476,068	846,164	378,270	(132,815)	248,998	(866,086)	28,967,853
NET ACTIVITY	\$ (17,206)	\$ (100,713)	\$ (219,278)	\$ 27,403	\$ 21,552	\$ 69,909	\$ 199,734	\$ (248,998)	\$ -	\$ (267,597)

⁽¹⁾ Child Development Programs: Head Start, Early Head Start, Training & Technical Assistance, and Quality Preschool Initiative

⁽²⁾ Housing and Supportive Services Programs: Friend to Friend and Uptown Safe Havens

⁽³⁾ Clinical Services Programs: ACCORD, Para Las Familias and Regional Recovery Center

Eliminations represent the reversal of revenue and expenses generated from Nutrition Services provided to Child Development and Housing and Supportive Services programs.

Revenue and Expenses shown are based on the accounting methods prescribed by the program grants and contracts.