



REPORT OF INDEPENDENT AUDITORS AND  
FINANCIAL STATEMENTS WITH  
SUPPLEMENTARY INFORMATION

EPISCOPAL COMMUNITY SERVICES

June 30, 2018 and 2017



MOSSADAMS

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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, 2018 and 2017, 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, 2018 and 2017, and the change 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.

*Moss Adams LLP*

San Diego, California  
October 29, 2018

**Episcopal Community Services**  
**Statements of Financial Position**

<b>ASSETS</b>		June 30,	
		<u>2018</u>	<u>2017</u>
<b>Current Assets</b>			
Cash and cash equivalents	\$	1,034,161	\$ 870,130
Investments		1,455,694	1,332,439
Receivables, net		1,737,273	1,626,616
Prepaid expenses and other current assets		63,089	183,286
Total current assets		<u>4,290,217</u>	<u>4,012,471</u>
Deposits and Other Assets		196,912	259,496
Unconditional Promises to Give, net		398,269	451,910
Property and Equipment, net		<u>1,064,887</u>	<u>1,322,636</u>
Total assets	\$	<u><u>5,950,285</u></u>	\$ <u><u>6,046,513</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	\$	788,780	\$ 1,114,304
Accrued payroll		792,183	797,108
Deferred revenue		-	32,498
Current portion of long-term debt		116,378	140,214
Total current liabilities		<u>1,697,341</u>	<u>2,084,124</u>
Long-Term Debt		384,144	500,522
Total liabilities		<u>2,081,485</u>	<u>2,584,646</u>
Commitments and Contingencies (Notes 9, 11, and 13)			
<b>Net Assets</b>			
Unrestricted		3,308,462	2,998,763
Temporarily restricted		560,338	463,104
Total net assets		<u>3,868,800</u>	<u>3,461,867</u>
Total liabilities and net assets	\$	<u><u>5,950,285</u></u>	\$ <u><u>6,046,513</u></u>

# Episcopal Community Services

## Statements of Activities

	Years Ended June 30,					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>						
Grants and contracts	\$ 23,934,590	\$ -	\$ 23,934,590	\$ 22,673,612	\$ -	\$ 22,673,612
Service fees	2,094,133	-	2,094,133	2,238,750	-	2,238,750
Contributions	756,517	162,069	918,586	449,037	11,194	460,231
Other	51,404	-	51,404	455,929	-	455,929
Investment income	77,774	-	77,774	136,249	-	136,249
Change in value of beneficial interests in charitable remainder trusts	-	(53,641)	(53,641)	-	(149,040)	(149,040)
Net assets released from restrictions	11,194	(11,194)	-	39,771	(39,771)	-
Total revenues, gains, and other support	<u>26,925,612</u>	<u>97,234</u>	<u>27,022,846</u>	<u>25,993,348</u>	<u>(177,617)</u>	<u>25,815,731</u>
<b>EXPENSES</b>						
Programs:						
Child development	18,149,061	-	18,149,061	17,106,492	-	17,106,492
Clinical services	3,749,524	-	3,749,524	3,286,240	-	3,286,240
Housing and supportive services	1,478,522	-	1,478,522	1,707,099	-	1,707,099
Nutrition services	722,765	-	722,765	827,944	-	827,944
Total program expenses	<u>24,099,872</u>	<u>-</u>	<u>24,099,872</u>	<u>22,927,775</u>	<u>-</u>	<u>22,927,775</u>
Management and general	2,236,732	-	2,236,732	2,379,485	-	2,379,485
Fundraising and communications	279,309	-	279,309	215,524	-	215,524
Total expenses	<u>26,615,913</u>	<u>-</u>	<u>26,615,913</u>	<u>25,522,784</u>	<u>-</u>	<u>25,522,784</u>
CHANGE IN NET ASSETS FROM OPERATIONS	309,699	97,234	406,933	470,564	(177,617)	292,947
Gain on transfer of property (Note 15)	-	-	-	239,586	-	239,586
CHANGE IN NET ASSETS	309,699	97,234	406,933	710,150	(177,617)	532,533
<b>NET ASSETS</b>						
Beginning of year	<u>2,998,763</u>	<u>463,104</u>	<u>3,461,867</u>	<u>2,288,613</u>	<u>640,721</u>	<u>2,929,334</u>
End of year	<u>\$ 3,308,462</u>	<u>\$ 560,338</u>	<u>\$ 3,868,800</u>	<u>\$ 2,998,763</u>	<u>\$ 463,104</u>	<u>\$ 3,461,867</u>

## Episcopal Community Services Statements of Functional Expenses

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
	<b>\$ 24,099,872</b>	<b>\$ 2,236,732</b>	<b>\$ 279,309</b>	<b>\$ 26,615,913</b>

Year Ended June 30, 2017				
	Programs	Management and General	Fundraising and Communications	Total
Personnel	\$ 15,884,527	\$ 1,650,244	\$ 91,750	\$ 17,626,521
Other direct costs	4,236,565	437,561	113,165	4,787,291
Occupancy	2,576,620	271,182	10,609	2,858,411
Depreciation	230,063	20,136	-	250,199
Interest	-	362	-	362
	<b>\$ 22,927,775</b>	<b>\$ 2,379,485</b>	<b>\$ 215,524</b>	<b>\$ 25,522,784</b>

# Episcopal Community Services

## Statements of Cash Flows

	Years Ended June 30,	
	2018	2017
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 406,933	\$ 532,533
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	299,697	250,199
Loss on disposal of property and equipment	28,298	4,729
Gain on transfer of property	-	(239,586)
Change in value of charitable remainder trusts	53,641	149,040
Net realized and unrealized (gains) losses net of fees on investments	(40,383)	(100,813)
Bad debt expense	8,276	-
(Increase) decrease in operating assets:		
Receivables	(118,933)	(800,671)
Prepaid expenses and other current assets	120,197	(81,252)
Deposits and other assets	62,584	(58,101)
Unconditional promises to give	-	38,000
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	(325,524)	607,706
Accrued payroll	(4,925)	(321,795)
Deferred revenue	(32,498)	32,498
Net cash provided by operating activities	<u>457,363</u>	<u>12,487</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(70,245)	(122,448)
Sale of investments	144,519	-
Purchases of investments	(227,392)	(35,435)
Net cash used in investing activities	<u>(153,118)</u>	<u>(157,883)</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(140,214)	(31,089)
Net cash used in financing activities	<u>(140,214)</u>	<u>(31,089)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	164,031	(176,485)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>870,130</u>	<u>1,046,615</u>
End of year	<u>\$ 1,034,161</u>	<u>\$ 870,130</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash payments for interest	<u>\$ 31,093</u>	<u>\$ 362</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Additions to property and equipment with long-term debt	<u>\$ -</u>	<u>\$ 611,512</u>



# Episcopal Community Services

## Notes to Financial Statements

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### 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.

**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, 2018 and 2017, no provision for such taxes is required. ECS had no unrecognized tax benefits or liabilities as of June 30, 2018 and 2017. 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.

**Financial statement presentation** – Net assets are classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria:

- Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.
- Temporarily restricted net assets 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.

# Episcopal Community Services

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, primarily for generating investment income to fund current operations. ECS has no permanently restricted net assets at June 30, 2018 and 2017.

### 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 are recognized when services are provided.

*Contributions* – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support 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 either reported as temporarily or permanently restricted, depending on the nature of the donor’s restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted revenue.

*Other* – During the year ended June 30, 2017, revenue from services provided to a third-party developer was recognized when the services were provided. This revenue was not recurring during the year ended June 30, 2018. See Note 15.

**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.

**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, 2018 and 2017, approximately \$734,000 and \$545,000, 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 or loss (including interest and realized gains and losses) is included in unrestricted revenues unless restricted by donor or law.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**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 temporarily restricted contributions in the year the trust is established. The fair value of the beneficial interests in CRTs at June 30, 2018 and 2017 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 rates 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 4 to 25 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 \$33,000 and \$27,000 on receivables from client service fees as of June 30, 2018 and 2017, respectively.

**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.

# Episcopal Community Services

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

**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.

**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.

**Recently issued accounting standards** – In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. The ASU aims to improve presentation of financial information, ultimately making nonprofit financial reporting statements more informative, transparent and useful to readers. Key qualitative and quantitative requirements covered in the final ASU include net asset classes, return on investment expenses, liquidity and availability of capital resources and presentation of operating cash flows. The guidance is effective for fiscal years beginning after December 31, 2017, and early adoption is permitted. ECS is in the process of evaluating the impact of adoption on its financial statements.

**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 22, 2018, 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, 2018 and 2017, approximately 95 and 96 percent of unconditional promises to give, respectively, is due from two trusts.

## Episcopal Community Services Notes to Financial Statements

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### Note 3 – Concentrations (continued)

**Grants and contracts** – Included in revenue from grants and contracts during the years ended June 30, 2018 and 2017 is approximately \$19,471,000 and \$18,488,000, respectively, earned from Neighborhood House Association (NHA). These amounts represent approximately 72 percent of total revenues, gains, and other support for each of the years ended June 30, 2018 and 2017. 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, 2018, there have not been any disciplinary actions and no disallowed costs identified by NHA. Included in receivables from grants and contracts is approximately \$1,272,000 and \$659,000 due from three and one funding sources at June 30, 2018 and 2017, respectively.

### Note 4 – Investments

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

	2018	2017
Stock funds	\$ 795,473	\$ 762,266
Bond funds	503,235	439,703
Real estate funds	97,248	73,834
Reinsurance-related securities fund	44,391	38,339
Cash and cash equivalents	15,347	18,297
Total investments	\$ 1,455,694	\$ 1,332,439

Investment income consists of the following for the year ended June 30:

	2018	2017
Net realized and unrealized gains	\$ 49,508	\$ 109,304
Interest and dividends	37,391	35,436
Investment fees	(9,125)	(8,491)
Total investment income	\$ 77,774	\$ 136,249

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.

## Episcopal Community Services

### Notes to Financial Statements

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#### Note 5 – Receivables

As of June 30, receivables consist of:

	<u>2018</u>	<u>2017</u>
Grants and contracts	\$ 1,664,487	\$ 1,259,167
Service fees	89,550	94,739
Other	16,119	300,000
	<u>1,770,156</u>	<u>1,653,906</u>
Less allowance for doubtful accounts	<u>(32,883)</u>	<u>(27,290)</u>
 Total receivables	 <u><u>\$ 1,737,273</u></u>	 <u><u>\$ 1,626,616</u></u>

#### Note 6 – Unconditional Promises to Give

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

	<u>2018</u>	<u>2017</u>
Due in more than five years:		
Beneficial interest in CRTs	\$ 451,910	\$ 728,258
Less discount to fair value	<u>(53,641)</u>	<u>(276,348)</u>
Total beneficial interest in CRTs	<u>398,269</u>	<u>451,910</u>
 Net unconditional promises to give	 <u><u>\$ 398,269</u></u>	 <u><u>\$ 451,910</u></u>

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, 2018 and 2017:

	June 30, 2018			Total
	Level 1	Level 2	Level 3	
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

  

	June 30, 2017			Total
	Level 1	Level 2	Level 3	
Stock funds:				
U.S. Large	\$ 367,304	\$ -	\$ -	\$ 367,304
U.S. Small-Medium	147,095	-	-	147,095
Foreign	247,867	-	-	247,867
Bond funds:				
Domestic	326,183	-	-	326,183
Foreign	113,520	-	-	113,520
Real estate funds:				
Domestic	42,929	-	-	42,929
Foreign	30,905	-	-	30,905
Reinsurance-related securities fund	38,339	-	-	38,339
Cash and cash equivalents	18,297	-	-	18,297
Subtotal investments	1,332,439	-	-	1,332,439
Beneficial interests in CRTs	-	-	451,910	451,910
Total assets measured at fair value	\$ 1,332,439	\$ -	\$ 451,910	\$ 1,784,349



## Episcopal Community Services Notes to Financial Statements

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### Note 7 – Fair Value Measurements (continued)

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

Balance, July 1, 2016	\$	600,950
Change in value of beneficial interests in CRTs		(149,040)
Balance, June 30, 2017		451,910
Change in value of beneficial interest in CRTs		(53,641)
Balance, June 30, 2018	\$	398,269

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:

	2018	2017
Leasehold improvements	\$ 2,209,505	\$ 2,203,133
Equipment	856,567	915,960
Buildings and improvements (Note 15)	-	-
Vehicles	335,248	335,248
	3,401,320	3,454,341
Less accumulated depreciation and amortization	(2,336,433)	(2,131,705)
Total	\$ 1,064,887	\$ 1,322,636

## Episcopal Community Services

### Notes to Financial Statements

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#### Note 9 – Debt

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

	<u>2018</u>	<u>2017</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.	\$ 500,522	\$ 611,512
Note payable, Episcopal Diocese of Los Angeles, paid in full	-	25,000
Note payable, Episcopal Diocese of San Diego, paid in full	-	4,224
	<u>500,522</u>	<u>640,736</u>
Less current portion	<u>116,378</u>	<u>140,214</u>
Total	<u>\$ 384,144</u>	<u>\$ 500,522</u>

Future minimum debt service payments are as follows:

<u>Years ending June 30,</u>	
2019	\$ 116,378
2020	122,028
2021	127,952
2022	<u>134,164</u>
Total	<u>\$ 500,522</u>

**Line of credit** – ECS has a revolving bank line of credit in the amount of \$500,000 secured by assets of ECS. No balance was outstanding on the line of credit as of June 30, 2018 and 2017. The interest rate on the line is the bank's prime rate plus 0.250 percent (5.25 percent at June 30, 2018).

Total interest expense on debt was approximately \$31,100 and \$360 for the years ended June 30, 2018 and 2017, respectively.

## Episcopal Community Services Notes to Financial Statements

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### Note 10 – Temporarily Restricted Net Assets

As of June 30, temporarily restricted net assets consist of:

	<u>2018</u>	<u>2017</u>
Time restrictions:		
Charitable remainder trusts	\$ 398,269	\$ 451,910
Purpose restrictions - programs	<u>162,069</u>	<u>11,194</u>
 Total	 <u>\$ 560,338</u>	 <u>\$ 463,104</u>

For the year ended June 30, 2018, a total of approximately \$22,400 was released from temporarily restricted net assets and was comprised of approximately \$5,800 released for Nutrition and approximately \$11,600 released for Head Start and approximately \$5,000 for HSS programs.

For the year ended June 30, 2017, a total of approximately \$40,000 was released from temporarily restricted net assets and was comprised of approximately \$38,000 released for program administration and approximately \$2,000 released 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 \$387,000 and \$379,000 for the years ended June 30, 2018 and 2017, 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 July 2027. Rental expense under operating leases was approximately \$2,056,000 and \$1,786,000 for the years ended June 30, 2018 and 2017, respectively.

## Episcopal Community Services

### Notes to Financial Statements

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#### Note 13 – Commitments and Contingencies (continued)

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

<u>Years ending June 30,</u>	
2019	\$ 2,039,515
2020	1,633,212
2021	1,447,179
2022	1,112,060
2023	1,052,133
Thereafter	<u>1,441,757</u>
Total	<u>\$ 8,725,856</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 and ECS's legal counsel, 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>2018</u>	<u>2017</u>
Note payable to Episcopal Diocese of Los Angeles	\$ -	\$ 25,000
Note payable to Episcopal Diocese of San Diego	-	4,224
Contribution from Episcopal Diocese of San Diego and affiliates	30,822	25,798

ECS also has a beneficial interest in a CRT for which a member of the Board of Directors is a trustee. ECS's beneficial interest is valued at approximately \$154,000 and \$200,000 as of June 30, 2018 and 2017, respectively.

**Note 15 – Transfer of Property**

In August 2016, buildings and improvements and land with a net book value of \$333,571 used in the San Diego Downtown Safe Haven housing program and the associated debt to the San Diego Housing Commission on the property of \$351,157 was assigned to a third-party developer for the purpose of construction of permanent supportive housing. Also related to the transaction was the recognition of the remaining conditional contribution of \$222,000 associated with this property. A net gain on the transfer of property of \$239,586 is recognized in the accompanying statement of activities for the year ended June 30, 2017. The agreement for the transfer of the property required ECS to provide various pre-development services for a fee of \$300,000 to be paid by the third-party developer. These services were provided and the \$300,000 fee is included in other income in the accompanying statement of activities for the year ended June 30, 2017.

## **Supplementary Information**

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## **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, 2018, and have issued our report thereon dated October 22, 2018, 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 29, 2018

**Episcopal Community Services  
Supplementary Information  
Schedule of Revenue and Expenses by Activity  
Year Ended June 30, 2018**

	Child Development Programs <sup>(1)</sup>	Housing and Supportive Services Programs <sup>(2)</sup>	Clinical Services Programs <sup>(3)</sup>	Nutrition Services	Fundraising and Communications	Management and General	Capital Fund Activity	Eliminations	Total
<b>Revenue, Gains, and Other Support</b>									
Grants and contracts	\$ 20,543,948	\$ 1,561,978	\$ 1,902,599	\$ -	\$ -	\$ -	\$ -	\$ (73,935)	\$ 23,934,590
Service fees	-	-	2,094,133	830,938	-	-	-	(830,938)	2,094,133
Contributions and change in value of beneficial interests in CRTs	10,607	38,789	242,934	-	572,615	-	-	-	864,945
Other and investment income	59	17,204	1,330	186	-	110,399	-	-	129,178
<b>Total revenue, gains, and other support</b>	<b>20,554,614</b>	<b>1,617,971</b>	<b>4,240,996</b>	<b>831,124</b>	<b>572,615</b>	<b>110,399</b>	<b>-</b>	<b>(904,873)</b>	<b>27,022,846</b>
<b>Expenses</b>									
Personnel	12,232,738	996,587	2,747,577	291,586	181,136	1,544,083	-	(73,935)	17,919,772
Other direct costs	4,401,409	174,107	382,769	380,753	85,695	375,415	28,298	(830,938)	4,997,508
Occupancy	2,186,103	307,237	528,590	41,626	12,478	312,054	(20,245)	-	3,367,843
Depreciation	-	-	-	-	-	-	299,697	-	299,697
Interest	-	-	26,651	-	-	4,442	-	-	31,093
Management and general	1,788,668	126,674	341,298	71,396	1,367	(2,329,403)	-	-	-
<b>Total expenses</b>	<b>20,608,918</b>	<b>1,604,605</b>	<b>4,026,885</b>	<b>785,361</b>	<b>280,676</b>	<b>(93,409)</b>	<b>307,750</b>	<b>(904,873)</b>	<b>26,615,913</b>
<b>Net Activity</b>	<b>\$ (54,304)</b>	<b>\$ 13,366</b>	<b>\$ 214,111</b>	<b>\$ 45,763</b>	<b>\$ 291,939</b>	<b>\$ 203,808</b>	<b>\$ (307,750)</b>	<b>\$ -</b>	<b>\$ 406,933</b>

<sup>(1)</sup> Child Development Programs: Head Start, Early Head Start, T&TA, and Quality Preschool Initiative

<sup>(2)</sup> Housing and Supportive Services Programs: Friend to Friend and San Diego Safe Havens

<sup>(3)</sup> 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.*