



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

EPISCOPAL COMMUNITY SERVICES

June 30, 2020 and 2019

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Report of Independent Auditors

To 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, 2020 and 2019, 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 (U.S. GAAP); 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, 2020 and 2019, 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.

Moss Adams LLP

San Diego, California
March 29, 2021

Episcopal Community Services
Statements of Financial Position

ASSETS		June 30,	
	<u>2020</u>	<u>2019</u>	
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,045,684	\$ 830,204	
Investments	1,263,829	1,539,075	
Receivables, net	1,676,881	1,477,768	
Prepaid expenses and other current assets	<u>575,735</u>	<u>412,860</u>	
Total current assets	5,562,129	4,259,907	
DEPOSITS AND OTHER ASSETS	144,930	188,652	
UNCONDITIONAL PROMISES TO GIVE, net	509,799	451,072	
PROPERTY AND EQUIPMENT, net	<u>584,018</u>	<u>815,888</u>	
Total assets	<u>\$ 6,800,876</u>	<u>\$ 5,715,519</u>	
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 540,951	\$ 558,047	
Accrued payroll	1,187,508	731,914	
Line of credit	-	440,211	
Current portion of long-term debt	<u>203,319</u>	<u>122,028</u>	
Total current liabilities	1,931,778	1,852,200	
LONG-TERM DEBT	<u>1,238,797</u>	<u>262,116</u>	
Total liabilities	<u>3,170,575</u>	<u>2,114,316</u>	
COMMITMENTS AND CONTINGENCIES (Notes 9, 11, and 13)			
NET ASSETS			
Without donor restrictions	2,942,889	2,999,665	
With donor restrictions	<u>687,412</u>	<u>601,538</u>	
Total net assets	<u>3,630,301</u>	<u>3,601,203</u>	
Total liabilities and net assets	<u>\$ 6,800,876</u>	<u>\$ 5,715,519</u>	

Episcopal Community Services Statements of Activities

	Years Ended June 30,					
	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Grants and contracts	\$ 26,628,948	\$ -	\$ 26,628,948	\$ 25,902,728	\$ -	\$ 25,902,728
Service fees	1,644,578	-	1,644,578	1,932,338	-	1,932,338
Contributions	690,786	46,396	737,182	671,619	48,523	720,142
Other	19,285	-	19,285	42,115	-	42,115
Investment income, net of investment expenses	17,209	-	17,209	50,130	-	50,130
Change in value of beneficial interests in charitable remainder trusts	-	58,727	58,727	-	52,803	52,803
Net assets released from restrictions	19,249	(19,249)	-	60,126	(60,126)	-
Total revenues, gains, and other support	<u>29,020,055</u>	<u>85,874</u>	<u>29,105,929</u>	<u>28,659,056</u>	<u>41,200</u>	<u>28,700,256</u>
EXPENSES						
Programs						
Child development	19,263,884	-	19,263,884	18,597,304	-	18,597,304
Clinical services	5,949,899	-	5,949,899	5,111,477	-	5,111,477
Housing and supportive services	642,463	-	642,463	1,710,159	-	1,710,159
Nutrition services	688,441	-	688,441	775,719	-	775,719
Total program expenses	<u>26,544,687</u>	<u>-</u>	<u>26,544,687</u>	<u>26,194,659</u>	<u>-</u>	<u>26,194,659</u>
Management and general	2,228,153	-	2,228,153	2,396,736	-	2,396,736
Fundraising and communications	303,991	-	303,991	376,458	-	376,458
Total expenses	<u>29,076,831</u>	<u>-</u>	<u>29,076,831</u>	<u>28,967,853</u>	<u>-</u>	<u>28,967,853</u>
	(56,776)	85,874	29,098	(308,797)	41,200	(267,597)
Beginning 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>
End of year	<u>\$ 2,942,889</u>	<u>\$ 687,412</u>	<u>\$ 3,630,301</u>	<u>\$ 2,999,665</u>	<u>\$ 601,538</u>	<u>\$ 3,601,203</u>

Episcopal Community Services Statements of Functional Expenses

	Year Ended June 30, 2020			
	Programs	Management and General	Fundraising and Communications	Total
Personnel	\$ 19,391,179	\$ 1,648,369	\$ 229,602	\$ 21,269,150
Other direct costs	3,765,727	259,730	61,643	4,087,100
Occupancy	3,073,309	310,160	12,746	3,396,215
Depreciation	297,037	738	-	297,775
Interest	17,435	9,156	-	26,591
Total expenses	<u>\$ 26,544,687</u>	<u>\$ 2,228,153</u>	<u>\$ 303,991</u>	<u>\$ 29,076,831</u>
	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
Total expenses	<u>\$ 26,194,659</u>	<u>\$ 2,396,736</u>	<u>\$ 376,458</u>	<u>\$ 28,967,853</u>

Episcopal Community Services

Statements of Cash Flows

	Years Ended June 30,	
	2020	2019
OPERATING ACTIVITIES		
Change in net assets	\$ 29,098	\$ (267,597)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	297,775	297,500
Loss on disposal of property and equipment	-	13,231
Change in value of charitable remainder trusts	(58,727)	(52,803)
Net realized and unrealized losses (gains), net of fees on investments	13,180	(10,243)
Bad debt expense	28,141	2,331
(Increase) decrease in operating assets		
Receivables	(227,254)	257,174
Prepaid expenses and other current assets	(162,875)	(349,771)
Deposits and other assets	43,722	8,260
(Decrease) increase in operating liabilities		
Accounts payable and accrued expenses	(17,096)	(230,733)
Accrued payroll	455,594	(60,269)
Net cash provided by (used in) operating activities	<u>401,558</u>	<u>(392,920)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(65,905)	(61,732)
Sale of investments	301,495	9,885
Purchases of investments	(39,429)	(83,023)
Net cash provided by (used in) investing activities	<u>196,161</u>	<u>(134,870)</u>
FINANCING ACTIVITIES		
(Decrease) increase in line of credit	(440,211)	440,211
Proceeds from issuance of long-term debt	2,930,210	-
Repayment of long-term debt	(1,872,238)	(116,378)
Net cash provided by financing activities	<u>617,761</u>	<u>323,833</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,215,480	(203,957)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>830,204</u>	<u>1,034,161</u>
End of year	<u>\$ 2,045,684</u>	<u>\$ 830,204</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 26,591</u>	<u>\$ 21,708</u>

Episcopal Community Services Notes to Financial Statements

Note 1 – Nature of Organization

Episcopal Community Services (“ECS”), is 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 also has a state-funded preschool program in one of its Head Start/Early Head Start locations in order to better serve the children and their families by extending the duration of the program into the afternoon.

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, 2020 and 2019, no provision for such taxes is required. ECS had no unrecognized tax benefits or liabilities as of June 30, 2020 and 2019. 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.

Recently adopted accounting pronouncements – On July 1, 2019, ECS adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* on the modified prospective basis. The adoption of this standard did not have a material impact on its financial statements.

Episcopal Community Services

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Financial statement presentation – 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. 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, net of investment expenses to fund current operations. ECS has \$687,412 and \$601,538 of net assets with donor restrictions at June 30, 2020 and 2019, 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. The terms of the agreements are evaluated and when the arrangement is determined to be not reciprocal, they are accounted for as a conditional contribution, as described below. Under ECS's Central East Regional Recovery Center Grant Program (CERRC) 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 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. Contributions received with a right-to-return and barrier in place are considered conditional and recognized when the barrier is overcome.

Cash and cash equivalents – ECS consider 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, 2020 and 2019, approximately \$471,000 and \$546,000, 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.

Episcopal Community Services Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2020 and 2019, 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 1.25 and 3 percent, respectively, and life expectancies (based on applicable mortality tables) and other terms, as applicable, for payments to beneficiaries beyond the life expectancies ranging from 1 to 22 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 on receivables from client service fees as of June 30, 2020 and 2019.

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 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.

Episcopal Community Services

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are distributed using a base most appropriate (e.g., headcount, square footage, time, and effort) that results in an equitable distribution. Management and general expenses include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization. ECS reviews the cost allocation basis periodically to determine appropriateness of the basis being used for shared costs to ensure the basis is reasonable.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 222,934 and 327,725 hours were donated during the years ended June 30, 2020 and 2019, respectively, in compliance with federal rules and regulations. The services do not meet the criteria for recognition under Financial Accounting Standards Board (FASB) ASC 958-605-50-1, and accordingly no amounts were recognized during the year.

Recently issued accounting standards – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In June 2020, the FASB approved a proposal to defer the effective date of the guidance until annual and interim reporting periods beginning after December 15, 2019, for nonpublic entities. ECS is currently evaluating the impact that this standard will have on its financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)

On February 25, 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. In June 2020, the FASB approved a proposal to defer the effective date of the guidance until annual and interim reporting periods beginning after December 15, 2021, for nonpublic entities. ECS is currently evaluating the impact that this standard will have 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 March 29, 2021, 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, 2020 and 2019, approximately 96 percent and 95 percent, respectively, of unconditional promises to give is due from two trusts.

Episcopal Community Services

Notes to Financial Statements

Note 3 – Concentrations (continued)

Grants and contracts – Included in revenue from grants and contracts during the years ended June 30, 2020 and 2019, is approximately \$19,812,000 and \$19,872,000, respectively, earned from Neighborhood House Association (NHA). These amounts represent approximately 68 percent and 69 percent of total revenues, gains, and other support for the years ended June 30, 2020 and 2019, respectively. ECS is a delegate 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, 2020, there have not been any disciplinary actions and no disallowed costs identified by NHA. Included in receivables from grants and contracts is approximately \$1,116,000 and \$1,154,000 due from two and four funding sources at June 30, 2020 and 2019, respectively.

Note 4 – Investments

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

	<u>2020</u>	<u>2019</u>
Stock funds	\$ 699,642	\$ 849,375
Bond funds	426,608	527,242
Real estate funds	81,709	103,798
Reinsurance-related securities fund	39,632	40,767
Cash and cash equivalents	<u>16,238</u>	<u>17,893</u>
Total investments	<u>\$ 1,263,829</u>	<u>\$ 1,539,075</u>

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

	<u>2020</u>	<u>2019</u>
Net realized and unrealized (losses) gains	\$ (13,180)	\$ 10,243
Interest and dividends	39,429	49,772
Investment fees	<u>(9,040)</u>	<u>(9,885)</u>
Total investment income, net of investment expenses	<u>\$ 17,209</u>	<u>\$ 50,130</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.

Episcopal Community Services
Notes to Financial Statements

Note 5 – Receivables

As of June 30, receivables consist of:

	<u>2020</u>	<u>2019</u>
Grants and contracts	\$ 1,616,489	\$ 1,301,002
Service fees	89,550	89,550
Other	<u>2,490</u>	<u>119,666</u>
	1,708,529	1,510,218
Less allowance for doubtful accounts	<u>(31,648)</u>	<u>(32,450)</u>
 Total receivables	 <u><u>\$ 1,676,881</u></u>	 <u><u>\$ 1,477,768</u></u>

Note 6 – Unconditional Promises to Give

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

	<u>2020</u>	<u>2019</u>
Due in more than five years		
Beneficial interest in CRTs	\$ 616,581	\$ 652,237
Less discount to fair value	<u>(106,781)</u>	<u>(201,165)</u>
 Total beneficial interest in CRTs	 <u>509,800</u>	 <u>451,072</u>
 Net unconditional promises to give	 <u><u>\$ 509,800</u></u>	 <u><u>\$ 451,072</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).

Episcopal Community Services

Notes to Financial Statements

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, 2020 and 2019:

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Stock funds				
U.S. Large	\$ 329,584	\$ -	\$ -	\$ 329,584
U.S. Small-Medium	126,524	-	-	126,524
Foreign	243,534	-	-	243,534
Bond funds				
Domestic	345,587	-	-	345,587
Foreign	81,021	-	-	81,021
Real estate funds				
Domestic	49,465	-	-	49,465
Foreign	32,244	-	-	32,244
Reinsurance-related securities fund	39,632	-	-	39,632
Cash and cash equivalents	16,238	-	-	16,238
Subtotal investments	1,263,829	-	-	1,263,829
Beneficial interests in CRTs	-	-	509,800	509,800
Total assets measured at fair value	<u>\$ 1,263,829</u>	<u>\$ -</u>	<u>\$ 509,800</u>	<u>\$ 1,773,629</u>
	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Stock funds				
U.S. Large	\$ 406,271	\$ -	\$ -	\$ 406,271
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	66,242	-	-	66,242
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	<u>\$ 1,539,075</u>	<u>\$ -</u>	<u>\$ 451,072</u>	<u>\$ 1,990,147</u>

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, 2018	\$ 398,269
Change in value of beneficial interest in CRTs	<u>52,803</u>
BALANCE, June 30, 2019	451,072
Change in value of beneficial interest in CRTs	<u>58,727</u>
BALANCE, June 30, 2020	<u><u>\$ 509,799</u></u>

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:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 2,243,252	\$ 2,206,646
Equipment	866,500	837,201
Vehicles	<u>240,456</u>	<u>240,456</u>
	3,350,208	3,284,303
Less accumulated depreciation and amortization	<u>(2,766,190)</u>	<u>(2,468,415)</u>
Total	<u><u>\$ 584,018</u></u>	<u><u>\$ 815,888</u></u>

Episcopal Community Services Notes to Financial Statements

Note 9 – Debt

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

	2020	2019
Note payable, Paul H. Liljestrand Partners LP, unsecured. Bears simple interest of 4.75 percent per annum. Monthly principal and interest payments of \$11,470; due June 2022.	\$ 262,116	\$ 384,144
Note payable, Bank of the West Paycheck Protection Program Loan; bears simple interest of 1.00 percent per annum; Forgivable up to eligible costs incurred; monthly principal and interest payments deferred until March 2021; any portion not forgiven is due May 2025.	1,180,000	-
	1,442,116	384,144
Less current portion	203,319	122,028
Total	\$ 1,238,797	\$ 262,116

Future minimum debt service payments are as follows:

Years Ending June 30,	
2021	\$ 203,319
2022	422,233
2023	275,774
2024	278,544
2025	262,246
Total	\$ 1,442,116

Line of credit – ECS has a revolving bank line of credit in the amount of \$750,000 secured by assets of ECS. The interest rate on the line of credit is the bank’s prime rate plus 0.250 percent (4.00 percent at June 30, 2020).

Total interest expense on debt was approximately \$27,000 and \$22,000 for the years ended June 30, 2020 and 2019, respectively.

Episcopal Community Services

Notes to Financial Statements

Note 10 – Net Assets with Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Time restrictions		
Charitable remainder trusts	\$ 509,799	\$ 451,072
Purpose restrictions - programs	<u>177,613</u>	<u>150,466</u>
 Total	 <u>\$ 687,412</u>	 <u>\$ 601,538</u>

For the year ended June 30, 2020, a total of approximately \$19,000 was released from net assets with donor restrictions and was comprised of approximately \$1,000 for Head Start, approximately \$15,000 for housing and supportive service programs, and approximately \$3,000 for other miscellaneous purposes.

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 \$3,000 for Head Start and approximately \$57,000 for housing and supportive service programs.

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 ECS 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 \$463,000 and \$429,000 for the years ended June 30, 2020 and 2019, 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, 2021.

Note 13 – Commitments, Contingencies, and Uncertainties

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 \$2,173,000 and \$2,156,000 for the years ended June 30, 2020 and 2019, respectively.

Episcopal Community Services Notes to Financial Statements

Note 13 – Commitments , Contingencies, and Uncertainties (continued)

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

Years Ending June 30,	
2021	\$ 2,146,021
2022	1,293,258
2023	1,234,736
2024	535,271
2025	355,881
Thereafter	<u>769,899</u>
Total	<u><u>\$ 6,335,066</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.

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency stemming from a new strain of coronavirus that was spreading globally (the "COVID-19 outbreak"). On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and a significant impact on the global economy. Healthcare was determined to be an essential service during the COVID-19 outbreak. Accordingly, ECS continued to provide some of their services throughout the COVID-19 outbreak while complying with health and safety directives from various regulatory agencies. Other programs, such as Head Start were operated remotely or shut down depending on state and local mandates. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report.

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.

Episcopal Community Services

Notes to Financial Statements

Note 14 – Related-Party Transactions

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

	<u>2020</u>	<u>2019</u>
Contribution from Episcopal Diocese of San Diego and affiliates	\$ 38,875	\$ 37,675

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 \$243,000 and \$190,000 as of June 30, 2020 and 2019, respectively.

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, 2020 and 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, which comprise of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,045,684	\$ 830,204
Investments	1,263,829	1,539,075
Receivable, net	1,676,881	1,477,768
Unconditional promises to give, net	<u>509,799</u>	<u>451,072</u>
Total financial assets	5,496,193	4,298,119
Investments held in custodial trust	<u>(509,799)</u>	<u>(451,072)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,986,394</u>	<u>\$ 3,847,047</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 \$750,000 that can be utilized for operations if needed (Note 9).

Supplementary Information

Report of Independent Auditors on the Supplementary Information

To 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, 2020, and have issued our report thereon dated March 29, 2021, 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
March 29, 2021

Episcopal Community Services
Supplementary Information
Schedule of Revenue and Expenses by Activity
Year Ended June 30, 2020

	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	\$ 683,237	\$ 20,910,355	\$ 653,522	\$ 4,385,839	\$ (4,005)	\$ -	\$ -	\$ -	\$ -	\$ 26,628,948
Service fees	-	-	-	1,644,578	851,868	-	-	-	(851,868)	1,644,578
Contributions and change in value of beneficial interests in CRTs	-	-	16,828	182,178	135,000	454,093	7,810	-	-	795,909
Other and investment income, net of investment expenses	-	-	17,985	1,067	203	-	17,239	-	-	36,494
Total revenue, gains, and other support	683,237	20,910,355	688,335	6,213,662	983,066	454,093	25,049	-	(851,868)	29,105,929
EXPENSES										
Personnel	477,116	14,343,235	371,102	3,910,384	289,726	229,602	1,648,369	-	-	21,269,534
Other direct costs	55,384	3,031,404	94,030	1,012,540	425,157	61,643	268,770	(10,344)	(851,868)	4,086,716
Occupancy	118,488	1,927,367	150,654	881,708	50,654	12,746	310,160	(55,562)	-	3,396,215
Depreciation	-	-	-	-	-	-	-	297,775	-	297,775
Interest	-	1,822	-	15,613	-	-	9,156	-	-	26,591
Management and general	53,905	1,619,567	46,643	507,577	75,214	27,889	(2,330,795)	-	-	-
Total expenses	704,893	20,923,395	662,429	6,327,822	840,751	331,880	(94,340)	231,869	(851,868)	29,076,831
NET ACTIVITY	\$ (21,656)	\$ (13,040)	\$ 25,906	\$ (114,160)	\$ 142,315	\$ 122,213	\$ 119,389	\$ (231,869)	\$ -	\$ 29,098

⁽¹⁾ Other Child Development Programs: Head Start, Early Head Start, T&TA, and Quality Preschool Initiative

⁽²⁾ Housing and Supportive Services Programs: Uptown Safe Haven

⁽³⁾ Clinical Services Programs: ACCORD, Para Las Familias and Central East 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.