



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

EPISCOPAL COMMUNITY SERVICES

June 30, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Episcopal Community Services

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Episcopal Community Services, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Episcopal Community Services as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Episcopal Community Services and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Moss Adams LLP

San Diego, California
October 31, 2022

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Episcopal Community Services
Statements of Financial Position

ASSETS		June 30,	
		<u>2022</u>	<u>2021</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	1,630,516	\$ 2,563,707
Investments		1,589,578	1,589,130
Receivables, net		2,226,798	1,857,384
Prepaid expenses and other current assets		<u>435,621</u>	<u>341,764</u>
Total current assets		5,882,513	6,351,985
DEPOSITS AND OTHER ASSETS			
		126,926	123,133
UNCONDITIONAL PROMISES TO GIVE, net			
		350,834	449,549
PROPERTY AND EQUIPMENT, net			
		<u>541,088</u>	<u>476,594</u>
Total assets	\$	<u><u>6,901,361</u></u>	\$ <u><u>7,401,261</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$	849,578	\$ 879,230
Accrued payroll		1,052,848	1,489,819
Refundable deposits and deferred revenue		670,049	466,762
Current portion of long-term debt		<u>-</u>	<u>1,303,223</u>
Total current liabilities		<u>2,572,475</u>	<u>4,139,034</u>
Total liabilities		<u>2,572,475</u>	<u>4,139,034</u>
COMMITMENTS AND CONTINGENCIES (Note 13)			
NET ASSETS			
Without donor restrictions		3,862,472	2,584,268
With donor restrictions		<u>466,414</u>	<u>677,959</u>
Total net assets		<u>4,328,886</u>	<u>3,262,227</u>
Total liabilities and net assets	\$	<u><u>6,901,361</u></u>	\$ <u><u>7,401,261</u></u>

Episcopal Community Services Statements of Activities

	Years Ended June 30,					
	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Grants and contracts	\$ 27,964,007	\$ -	\$ 27,964,007	\$ 26,417,739	\$ -	\$ 26,417,739
Service fees	2,630,702	-	2,630,702	1,247,745	-	1,247,745
Forgiveness of debt	1,180,000	-	1,180,000	-	-	-
Contributions	993,974	20,000	1,013,974	560,764	228,408	789,172
Other	21,684	-	21,684	13,543	-	13,543
Change in value of beneficial interests in charitable remainder trusts	-	(84,150)	(84,150)	-	(60,250)	(60,250)
Investment (loss) income, net of investment expenses	(192,141)	-	(192,141)	325,302	-	325,302
Net assets released from restrictions	147,395	(147,395)	-	177,611	(177,611)	-
Total revenues, gains, and other support	32,745,621	(211,545)	32,534,076	28,742,704	(9,453)	28,733,251
EXPENSES						
Programs						
Child development	20,019,131	-	20,019,131	19,261,798	-	19,261,798
Clinical services	6,937,213	-	6,937,213	5,762,809	-	5,762,809
Housing and supportive services	769,510	-	769,510	689,286	-	689,286
Nutrition services	506,764	-	506,764	520,760	-	520,760
Total program expenses	28,232,618	-	28,232,618	26,234,653	-	26,234,653
Management and general	2,828,463	-	2,828,463	2,497,513	-	2,497,513
Fundraising and communications	406,336	-	406,336	369,159	-	369,159
Total expenses	31,467,417	-	31,467,417	29,101,325	-	29,101,325
CHANGE IN NET ASSETS	1,278,204	(211,545)	1,066,659	(358,621)	(9,453)	(368,074)
NET ASSETS						
Beginning of year	2,584,268	677,959	3,262,227	2,942,889	687,412	3,630,301
End of year	\$ 3,862,472	\$ 466,414	\$ 4,328,886	\$ 2,584,268	\$ 677,959	\$ 3,262,227

Episcopal Community Services Statements of Functional Expenses

	Year Ended June 30, 2022			Total
	Programs	Management and General	Fundraising and Communications	
Personnel	\$ 20,116,929	\$ 2,085,492	\$ 224,910	\$ 22,427,331
Other direct costs	4,448,861	387,351	167,118	5,003,330
Occupancy	3,434,523	354,717	14,308	3,803,548
Depreciation	229,359	738	-	230,097
Interest	2,946	165	-	3,111
Total expenses	\$ 28,232,618	\$ 2,828,463	\$ 406,336	\$ 31,467,417
	Year Ended June 30, 2021			
	Programs	Management and General	Fundraising and Communications	Total
Personnel	\$ 19,858,881	\$ 1,859,300	\$ 214,432	\$ 21,932,613
Other direct costs	3,334,500	296,203	140,789	3,771,492
Occupancy	2,802,097	337,914	13,938	3,153,949
Depreciation	232,475	578	-	233,053
Interest	6,700	3,518	-	10,218
Total expenses	\$ 26,234,653	\$ 2,497,513	\$ 369,159	\$ 29,101,325

Episcopal Community Services

Statements of Cash Flows

	Years Ended June 30,	
	2022	2021
OPERATING ACTIVITIES		
Change in net assets	\$ 1,066,659	\$ (368,074)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	230,097	233,053
Change in value of charitable remainder trusts	84,151	60,250
Forgiveness of debt	(1,180,000)	-
Net realized and unrealized losses (gains), net of fees on investments	237,508	(303,420)
Bad debt expense	-	300
(Increase) decrease in operating assets		
Receivables	(369,414)	(180,803)
Prepaid expenses and other current assets	(93,857)	233,971
Deposits and other assets	(3,793)	21,797
(Decrease) increase in operating liabilities		
Accounts payable and accrued expenses	(27,749)	351,381
Accrued payroll	(436,971)	302,311
Refundable deposits and deferred revenue	201,384	453,660
Net cash (used in) provided by operating activities	<u>(291,985)</u>	<u>804,426</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(294,591)	(125,629)
Sale of investments	14,564	411,588
Purchases of investments	<u>(237,956)</u>	<u>(433,469)</u>
Net cash (used in) investing activities	<u>(517,983)</u>	<u>(147,510)</u>
FINANCING ACTIVITIES		
Repayment of long-term debt	<u>(123,223)</u>	<u>(138,893)</u>
Net cash (used in) financing activities	<u>(123,223)</u>	<u>(138,893)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(933,191)	518,023
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,563,707</u>	<u>2,045,684</u>
End of year	<u>\$ 1,630,516</u>	<u>\$ 2,563,707</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 3,111</u>	<u>\$ 10,218</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 – ECS Head Start and Early Head Start are federal programs that offer high-quality early childhood and family education at no cost to qualifying families. Through these programs, ECS can meet the educational, emotional, social, health, and nutritional needs of children ages 0–5 and their families. In addition to the educational services, ECS programs provide children and their families with health, nutrition, social, and other services that support children’s growth. Also, ECS has a state-funded preschool program in one of its Head Start/Early Head Start locations to better serve the children and their families by extending the duration of the program into the afternoon.

ECS clinical service programs

Central East Regional Recovery Center (“CERRC”) – provides outpatient treatment services to adults with substance use disorders. CERRC can provide specialized services to clients challenged by co-occurring disorders, homelessness, unemployment, and referrals to additional community services.

ACCORD – strives to reduce driving under the influence of alcohol and drugs and the negative impact of this behavior in the lives of program participants, their families, and the community. ACCORD is a California-licensed program for any individuals arrested for or convicted of driving under the influence of alcohol or narcotics.

Para Las Familias (“PLF”) – is an outpatient behavioral and mental health clinic that specializes in providing services to the underserved South Bay communities of San Diego. PLF provides a range of bilingual early childhood mental health services to low-income children 0 to 12 years old.

Housing and supportive services

Uptown Safe Haven – is a residential facility that provides transitional housing and supportive services to chronically homeless single adults with moderate to severe mental health issues. Residents experience supportive communal living in an alcohol- and drug-free environment.

Nutrition services – Nutrition service programs provide over 190,000 high quality, balanced meals and snacks annually to the children enrolled in the ECS Head Start and Early Head Start Programs and adults served at the ECS Uptown Save Haven program.

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, 2022 and 2021, no provision for such taxes is required. ECS had no unrecognized tax benefits or liabilities as of June 30, 2022 and 2021. ECS files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the state of California.

Episcopal Community Services

Notes to Financial Statements

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, 2021, ECS adopted Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*, using the retrospective method. The adoption of this standard did not have a material impact on its financial statements.

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.

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 CERRC program, revenue is recognized to the extent that eligible costs are incurred, up to the total units served multiplied by the applicable rate per unit. Funds received in advance of services performed are accounted for as refundable deposits until the conditions are met to record the revenue or they are returned to the respective granting agency.

Service fees – Revenue from service fees includes income from ECS's ACCORD program wherein participants of the program pay a fee to attend court ordered driving under the influence classes. Classes can range from 6 weeks up to 18 months. ECS considers the classroom instruction the performance obligation under their contracts with participants. The performance obligation is delivered over time and invoiced in an initial one-time deposit and monthly thereafter. The deposit is invoiced due to set-up costs associated with the initiation of the program for the participant. Since value is transferred to the participant equal to the amount invoiced, ECS has elected to use the "right-to-invoice" practical expedient and, therefore, records revenue when invoices are issued.

Episcopal Community Services Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 revenue without donor restrictions. 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 considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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, 2022 and 2021, \$1,085,178 and \$1,882,872, 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.

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

Episcopal Community Services

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 statements 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, 2022 and 2021, 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 2.65 and 1.25 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.

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 \$31,648 on receivables from client service fees as of June 30, 2022 and 2021.

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, or in the case of leasehold improvements, the lesser of the expected lease term or 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. 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 ECS. ECS reviews the cost allocation basis periodically to determine appropriateness of the basis being used for shared costs to ensure the basis is reasonable.

Episcopal Community Services Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 127,178 hours were donated during the year ended June 30, 2022, in compliance with federal rules and regulations. As a result of the ongoing pandemic, no hours were donated during the year ended June 30, 2021. The services do not meet the criteria for recognition under Financial Accounting Standards Board (FASB) Accounting Standards Codification 958-605-50-1, and accordingly no amounts were recognized during the year.

Recently issued accounting standards – 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 October 31, 2022, which is the date the financial statements were available to be issued. See Note 12.

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.

Episcopal Community Services

Notes to Financial Statements

Note 3 – Concentrations (continued)

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, 2022 and 2021, approximately 98 percent and 94 percent, respectively, 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, 2022 and 2021, is approximately \$21,395,000 and \$21,068,000, respectively, earned from Neighborhood House Association (“NHA”). These amounts represent approximately 66 percent and 73 percent of total revenues, gains, and other support for the years ended June 30, 2022 and 2021, 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, 2022, there have not been any disciplinary actions and no disallowed costs identified by NHA. Included in receivables from grants and contracts is approximately \$1,362,000 and \$1,333,000 due from two and four funding sources at June 30, 2022 and 2021, respectively.

Note 4 – Investments

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

	2022	2021
Stock funds	\$ 904,049	\$ 893,950
Bond funds	556,487	538,782
Real estate funds	100,322	100,070
Reinsurance-related securities fund	14,843	40,633
Cash and cash equivalents	13,877	15,695
Total investments	\$ 1,589,578	\$ 1,589,130

Episcopal Community Services Notes to Financial Statements

Note 4 – Investments (continued)

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

	2022	2021
Net realized and unrealized (losses) gains	\$ (225,891)	\$ 303,420
Interest and dividends	44,954	31,317
Investment fees	(11,204)	(9,435)
Total investment (loss) income, net of expenses	\$ (192,141)	\$ 325,302

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:

	2022	2021
Grants and contracts	\$ 1,818,859	\$ 1,669,669
Service fees	91,301	89,550
Other	348,286	129,813
	2,258,446	1,889,032
Less: allowance for doubtful accounts	(31,648)	(31,648)
Total receivables, net	\$ 2,226,798	\$ 1,857,384

Episcopal Community Services

Notes to Financial Statements

Note 6 – Unconditional Promises to Give

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

	2022	2021
Due in more than five years		
Beneficial interest in CRTs	\$ 509,360	\$ 595,808
Less: discount to fair value	(158,526)	(146,259)
	<u>350,834</u>	<u>449,549</u>
Total beneficial interest in CRTs		
	<u>\$ 350,834</u>	<u>\$ 449,549</u>
Net unconditional promises to give		

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:

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Stock funds				
U.S. large	\$ 513,804	\$ -	\$ -	\$ 513,804
U.S. small-medium	128,006	-	-	128,006
Foreign	262,239	-	-	262,239
Bond funds				
Domestic	441,892	-	-	441,892
Foreign	114,595	-	-	114,595
Real estate funds				
Domestic	61,321	-	-	61,321
Foreign	39,001	-	-	39,001
Reinsurance-related securities fund	14,843	-	-	14,843
Cash and cash equivalents	13,877	-	-	13,877
Subtotal investments	1,589,578	-	-	1,589,578
Beneficial interests in CRTs	-	-	350,834	350,834
Total assets measured at fair value	<u>\$ 1,589,578</u>	<u>\$ -</u>	<u>\$ 350,834</u>	<u>\$ 1,940,412</u>
	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Stock funds				
U.S. large	\$ 516,277	\$ -	\$ -	\$ 516,277
U.S. small-medium	122,530	-	-	122,530
Foreign	255,143	-	-	255,143
Bond funds				
Domestic	428,267	-	-	428,267
Foreign	110,515	-	-	110,515
Real estate funds				
Domestic	60,349	-	-	60,349
Foreign	39,721	-	-	39,721
Reinsurance-related securities fund	40,633	-	-	40,633
Cash and cash equivalents	15,695	-	-	15,695
Subtotal investments	1,589,130	-	-	1,589,130
Beneficial interests in CRTs	-	-	449,549	449,549
Total assets measured at fair value	<u>\$ 1,589,130</u>	<u>\$ -</u>	<u>\$ 449,549</u>	<u>\$ 2,038,679</u>

Episcopal Community Services

Notes to Financial Statements

Note 8 – Property and Equipment

As of June 30, property and equipment consists of:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 2,440,993	\$ 2,368,881
Equipment	866,500	866,500
Vehicles	<u>462,935</u>	<u>240,456</u>
	3,770,428	3,475,837
Less: accumulated depreciation and amortization	<u>(3,229,340)</u>	<u>(2,999,243)</u>
Total	<u>\$ 541,088</u>	<u>\$ 476,594</u>

Note 9 – Debt

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

	<u>2022</u>	<u>2021</u>
Note payable, Paul H. Liljestrand Partners LP, paid in full	\$ -	\$ 123,223
Note payable, Bank of the West Paycheck Protection Program, fully forgiven	<u>-</u>	<u>1,180,000</u>
	-	1,303,223
Less: current portion	<u>-</u>	<u>1,303,223</u>
Total	<u>\$ -</u>	<u>\$ -</u>

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 (5.35 percent at June 30, 2022). There was no outstanding balance as of June 30, 2022 and 2021.

Total interest expense on debt was \$3,111 and \$10,218 for the years ended June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>
Time restrictions		
Charitable remainder trusts	\$ 350,834	\$ 449,549
Purpose restrictions – programs	<u>115,580</u>	<u>228,410</u>
 Total	 <u>\$ 466,414</u>	 <u>\$ 677,959</u>

For the year ended June 30, 2022, a total of \$132,830 was released from net assets with donor restrictions for housing and supportive service programs.

For the year ended June 30, 2021, a total of \$177,611 was released from net assets with donor restrictions 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 3 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 \$492,160 and \$481,300 for the years ended June 30, 2022 and 2021, respectively.

Note 12 – Union Contract

A substantial portion of ECS’s labor force is subject to a collective bargaining agreement. A tentative agreement was ratified on September 30, 2022. The term of the two-year agreement is for the period of July 1, 2022 to June 30, 2024. The previous agreement expired on June 30, 2022.

Note 13 – Commitments, Contingencies, and Uncertainties

Leases – 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 \$2,271,000 and \$2,218,000 for the years ended June 30, 2022 and 2021, 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,		
2023	\$	2,319,285
2024		1,212,797
2025		964,716
2026		792,468
2027 and beyond		<u>560,195</u>
Total	\$	<u>5,849,461</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>2022</u>	<u>2021</u>
Contributions from Episcopal Diocese of San Diego and affiliates	\$ 41,139	\$ 35,899

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 \$155,740 and \$112,600 as of June 30, 2022 and 2021, 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, 2022 and 2021, 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:

	2022	2021
Cash and cash equivalents	\$ 1,630,516	\$ 2,563,707
Investments	1,589,578	1,589,130
Receivables, net	2,226,798	1,857,384
Unconditional promises to give, net	350,834	449,549
Total financial assets	5,797,726	6,459,770
Investments held in custodial trust	(350,834)	(449,549)
Financial assets available to meet cash needs for general expenditures within one year	\$ 5,446,892	\$ 6,010,221

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

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, 2022, and have issued our report thereon dated October 31, 2022, 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, 2022

**Episcopal Community Services
Schedule of Revenue and Expenses by Activity
Year Ended June 30, 2022**

	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 ⁽⁴⁾	Capital Fund Activity	Eliminations	Total
REVENUE, GAINS, AND OTHER SUPPORT										
Grants and contracts	\$ 769,005	\$ 21,794,704	\$ 667,767	\$ 4,732,531	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,964,007
Service fees	-	-	-	2,630,702	672,036	-	-	-	(672,036)	2,630,702
Forgiveness of debt	-	-	-	-	-	-	1,180,000	-	-	1,180,000
Contributions and change in value of beneficial interests in CRTs	-	815	10,292	65,467	-	853,250	-	-	-	929,824
Other and investment (loss) income, net of investment expenses	-	203	21,369	88	58	-	(192,175)	-	-	(170,457)
Total revenue, gains, and other support	769,005	21,795,722	699,428	7,428,788	672,094	853,250	987,825	-	(672,036)	32,534,076
EXPENSES										
Personnel	527,887	14,186,676	433,379	4,700,791	268,196	224,910	2,085,492	-	-	22,427,331
Other direct costs	52,040	3,484,029	114,381	1,412,911	285,826	166,706	381,952	(222,479)	(672,036)	5,003,330
Occupancy	126,362	2,392,453	213,202	725,246	49,373	14,308	354,717	(72,113)	-	3,803,548
Depreciation	-	-	-	-	-	-	-	230,097	-	230,097
Interest	-	-	-	2,946	-	-	165	-	-	3,111
Management and general	62,716	1,731,228	59,542	617,487	57,793	39,505	(2,568,271)	-	-	-
Total expenses	769,005	21,794,386	820,504	7,459,381	661,188	445,429	254,055	(64,495)	(672,036)	31,467,417
NET ACTIVITY	\$ -	\$ 1,336	\$ (121,076)	\$ (30,593)	\$ 10,906	\$ 407,821	\$ 733,770	\$ 64,495	\$ -	\$ 1,066,659

⁽¹⁾ Other Child Development Programs: Head Start, Early Head Start, Training and Technical Assistance, 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

⁽⁴⁾ The Paycheck Protection Program loan received in May 2020 for \$1,180,000 was fully forgiven on September 15, 2021.

Eliminations represent the reversal of revenue and expenses generated from Nutrition Services provided to Child Development and Housing and Supportive Services programs. Para Las Familias Clinical Services provided to Head Start students.