



REPORT OF INDEPENDENT AUDITORS AND  
FINANCIAL STATEMENTS WITH  
SUPPLEMENTARY INFORMATION

**EPISCOPAL COMMUNITY SERVICES**

June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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  
October 29, 2021

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

<b>ASSETS</b>	June 30,	
	2021	2020
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,563,707	\$ 2,045,684
Investments	1,589,130	1,263,829
Receivables, net	1,857,384	1,676,881
Prepaid expenses and other current assets	341,764	575,735
Total current assets	6,351,985	5,562,129
DEPOSITS AND OTHER ASSETS	123,133	144,929
UNCONDITIONAL PROMISES TO GIVE, net	449,549	509,800
PROPERTY AND EQUIPMENT, net	476,594	584,018
Total assets	\$ 7,401,261	\$ 6,800,876
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 879,230	\$ 527,849
Accrued payroll	1,489,819	1,187,508
Refundable deposits	466,762	13,102
Current portion of long-term debt	1,303,223	203,319
Total current liabilities	4,139,034	1,931,778
LONG-TERM DEBT	-	1,238,797
Total liabilities	4,139,034	3,170,575
<b>COMMITMENTS AND CONTINGENCIES (Notes 11 and 13)</b>		
<b>NET ASSETS</b>		
Without donor restrictions	2,584,268	2,942,889
With donor restrictions	677,959	687,412
Total net assets	3,262,227	3,630,301
Total liabilities and net assets	\$ 7,401,261	\$ 6,800,876

# Episcopal Community Services

## Statements of Activities

	Years Ended June 30,					
	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>						
Grants and contracts	\$ 26,417,739	\$ -	\$ 26,417,739	\$ 26,628,948	\$ -	\$ 26,628,948
Service fees	1,247,745	-	1,247,745	1,644,578	-	1,644,578
Contributions	560,764	228,408	789,172	690,786	46,396	737,182
Other	13,543	-	13,543	19,285	-	19,285
Investment income, net of investment expenses	325,302	-	325,302	17,209	-	17,209
Change in value of beneficial interests in charitable remainder trusts	-	(60,250)	(60,250)	-	58,727	58,727
Net assets released from restrictions	177,611	(177,611)	-	19,249	(19,249)	-
<b>Total revenues, gains, and other support</b>	<b>28,742,704</b>	<b>(9,453)</b>	<b>28,733,251</b>	<b>29,020,055</b>	<b>85,874</b>	<b>29,105,929</b>
<b>EXPENSES</b>						
Programs						
Child development	19,261,798	-	19,261,798	19,263,884	-	19,263,884
Clinical services	5,762,809	-	5,762,809	5,949,899	-	5,949,899
Housing and supportive services	689,286	-	689,286	642,463	-	642,463
Nutrition services	520,760	-	520,760	688,441	-	688,441
<b>Total program expenses</b>	<b>26,234,653</b>	<b>-</b>	<b>26,234,653</b>	<b>26,544,687</b>	<b>-</b>	<b>26,544,687</b>
Management and general	2,497,513	-	2,497,513	2,228,153	-	2,228,153
Fundraising and communications	369,159	-	369,159	303,991	-	303,991
<b>Total expenses</b>	<b>29,101,325</b>	<b>-</b>	<b>29,101,325</b>	<b>29,076,831</b>	<b>-</b>	<b>29,076,831</b>
<b>CHANGE IN NET ASSETS</b>	<b>(358,621)</b>	<b>(9,453)</b>	<b>(368,074)</b>	<b>(56,776)</b>	<b>85,874</b>	<b>29,098</b>
<b>NET ASSETS</b>						
Beginning of year	2,942,889	687,412	3,630,301	2,999,665	601,538	3,601,203
End of year	\$ 2,584,268	\$ 677,959	\$ 3,262,227	\$ 2,942,889	\$ 687,412	\$ 3,630,301

**Episcopal Community Services**  
**Statements of Functional Expenses**

	Year Ended June 30, 2021			Total
	Programs	Management and General	Fundraising and Communications	
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
<b>Total expenses</b>	<b><u>\$ 26,234,653</u></b>	<b><u>\$ 2,497,513</u></b>	<b><u>\$ 369,159</u></b>	<b><u>\$ 29,101,325</u></b>
	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
<b>Total expenses</b>	<b><u>\$ 26,544,687</u></b>	<b><u>\$ 2,228,153</u></b>	<b><u>\$ 303,991</u></b>	<b><u>\$ 29,076,831</u></b>

## Episcopal Community Services

### Statements of Cash Flows

	Years Ended June 30,	
	2021	2020
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (368,074)	\$ 29,098
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	233,053	297,775
Change in value of charitable remainder trusts	60,250	(58,727)
Net realized and unrealized (gains) losses, net of fees on investments	(303,420)	13,180
Bad debt expense	300	28,141
(Increase) decrease in operating assets		
Receivables	(180,803)	(227,254)
Prepaid expenses and other current assets	233,971	(162,875)
Deposits and other assets	21,797	43,722
(Decrease) increase in operating liabilities		
Accounts payable and accrued expenses	351,381	(17,096)
Accrued payroll	302,311	455,594
Refundable deposits	453,660	-
Net cash provided by operating activities	<u>804,426</u>	<u>401,558</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(125,629)	(65,905)
Sale of investments	411,588	301,495
Purchases of investments	(433,469)	(39,429)
Net cash (used in) provided by investing activities	<u>(147,510)</u>	<u>196,161</u>
<b>FINANCING ACTIVITIES</b>		
(Decrease) in line of credit	-	(440,211)
Proceeds from issuance of long-term debt	-	2,930,210
Repayment of long-term debt	(138,893)	(1,872,238)
Net cash (used in) provided by financing activities	<u>(138,893)</u>	<u>617,761</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	518,023	1,215,480
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>2,045,684</u>	<u>830,204</u>
End of year	<u>\$ 2,563,707</u>	<u>\$ 2,045,684</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash payments for interest	<u>\$ 10,218</u>	<u>\$ 26,591</u>



## Episcopal Community Services Notes to Financial Statements

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### 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, 2021 and 2020, no provision for such taxes is required. ECS had no unrecognized tax benefits or liabilities as of June 30, 2021 and 2020. 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, 2020, ECS adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* on the modified retrospective basis. The adoption of this standard did not have a material impact on its financial statements.

On July 1, 2020, ECS adopted ASU No. 2018-13, *Disclosure Framework – Changes to Disclosure Requirements for Fair Value Measurement (Topic 820)*, retrospectively. See Note 7 for disclosures.

# Episcopal Community Services

## Notes to Financial Statements

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### 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 \$634,887 and \$687,412 of net assets with donor restrictions at June 30, 2021 and 2020, 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. 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 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 DUI 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.

*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.

## Episcopal Community Services Notes to Financial Statements

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

**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.

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, 2021 and 2020, approximately \$1,883,000 and \$471,000, 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.

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, 2021 and 2020, 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.

**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, 2021 and 2020.

## Episcopal Community Services

### Notes to Financial Statements

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

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

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

**Functional allocation of expenses** – The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. 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.

**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 hours were donated during the year ended June 30, 2020, 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.

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

**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 29, 2021, which is the date the financial statements were available to be issued. See Note 9.

**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, 2021 and 2020, approximately 94 percent and 96 percent, respectively, of unconditional promises to give 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, 2021 and 2020, is approximately \$21,068,000 and \$19,812,000, respectively, earned from Neighborhood House Association (NHA). These amounts represent approximately 73 percent and 68 percent of total revenues, gains, and other support for the years ended June 30, 2021 and 2020, 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, 2021, there have not been any disciplinary actions and no disallowed costs identified by NHA. Included in receivables from grants and contracts is approximately \$1,333,000 and \$1,116,000 due from two and four funding sources at June 30, 2021 and 2020, respectively.

#### Note 4 – Investments

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

	<u>2021</u>	<u>2020</u>
Stock funds	\$ 893,950	\$ 699,642
Bond funds	538,782	426,608
Real estate funds	100,070	81,709
Reinsurance-related securities fund	40,633	39,632
Cash and cash equivalents	<u>15,695</u>	<u>16,238</u>
Total investments	<u>\$ 1,589,130</u>	<u>\$ 1,263,829</u>

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

	<u>2021</u>	<u>2020</u>
Net realized and unrealized gains (losses)	\$ 303,420	\$ (13,180)
Interest and dividends	31,317	39,429
Investment fees	<u>(9,435)</u>	<u>(9,040)</u>
Total investment income, net of investment expenses	<u>\$ 325,302</u>	<u>\$ 17,209</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**

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**Note 5 – Receivables**

As of June 30, receivables consist of:

	<u>2021</u>	<u>2020</u>
Grants and contracts	\$ 1,669,669	\$ 1,616,489
Service fees	89,550	89,550
Other	<u>129,813</u>	<u>2,490</u>
	1,889,032	1,708,529
Less: allowance for doubtful accounts	<u>(31,648)</u>	<u>(31,648)</u>
Total receivables	<u><u>\$ 1,857,384</u></u>	<u><u>\$ 1,676,881</u></u>

**Note 6 – Unconditional Promises to Give**

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

	<u>2021</u>	<u>2020</u>
Due in more than five years		
Beneficial interest in CRTs	\$ 595,808	\$ 616,581
Less: discount to fair value	<u>(146,259)</u>	<u>(106,781)</u>
Total beneficial interest in CRTs	<u>449,549</u>	<u>509,800</u>
Net unconditional promises to give	<u><u>\$ 449,549</u></u>	<u><u>\$ 509,800</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

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### 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.

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

	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 7 – Fair Value Measurements (continued)**

	June 30, 2020			Total
	Level 1	Level 2	Level 3	
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>

**Note 8 – Property and Equipment**

As of June 30, property and equipment consists of:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 2,368,881	\$ 2,243,252
Equipment	866,500	866,500
Vehicles	240,456	240,456
	<u>3,475,837</u>	<u>3,350,208</u>
Less: accumulated depreciation and amortization	<u>(2,999,243)</u>	<u>(2,766,190)</u>
Total	<u>\$ 476,594</u>	<u>\$ 584,018</u>

## Episcopal Community Services

### Notes to Financial Statements

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#### Note 9 – Debt

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

	<u>2021</u>	<u>2020</u>
Note payable, Paul H. Liljestrand Partners LP, unsecured. Bears simple interest of 4.75 percent per annum. Monthly principal and interest payments of \$11,470; due June 2022.	\$ 123,223	\$ 262,116
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 the start of the repayment period; any portion not forgiven is due May 2025.	<u>1,180,000</u>	<u>1,180,000</u>
	1,303,223	1,442,116
Less: current portion	<u>1,303,223</u>	<u>203,319</u>
Total	<u>\$ -</u>	<u>\$ 1,238,797</u>

The note payable to Paul H. Liljestrand Partners LP is due in full in the year ending June 30, 2022. The Bank of the West Paycheck Protection Program Loan was fully forgiven by the United States Small Business Administration during the year ending June 30, 2022. As the loan and accrued interest were forgiven, ECS's policy allows for the full loan amount to be recorded as current as of June 30, 2021.

**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 (3.50 percent at June 30, 2021). There was no outstanding balance as of June 30, 2021 and 2020.

Total interest expense on debt was approximately \$10,000 and \$27,000 for the years ended June 30, 2021 and 2020, respectively.

#### Note 10 – Net Assets with Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Time restrictions		
Charitable remainder trusts	\$ 449,549	\$ 509,800
Purpose restrictions - programs	<u>228,410</u>	<u>177,612</u>
Total	<u>\$ 677,959</u>	<u>\$ 687,412</u>

## Episcopal Community Services Notes to Financial Statements

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### Note 10 – Net Assets with Donor Restrictions (continued)

For the year ended June 30, 2021, a total of approximately \$178,000 was released from net assets with donor restrictions for housing and supportive service programs.

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 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 approximately \$481,000 and \$463,000 for the years ended June 30, 2021 and 2020, 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, 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 \$2,218,000 and \$2,173,000 for the years ended June 30, 2021 and 2020, respectively.

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

Years Ending June 30,	
2022	\$ 2,128,946
2023	1,236,443
2024	824,925
2025	525,130
2026	408,066
Thereafter	<u>406,164</u>
Total	<u><u>\$ 5,529,674</u></u>

# Episcopal Community Services

## Notes to Financial Statements

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

**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.

### Note 14 – Related-Party Transactions

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

	<u>2021</u>	<u>2020</u>
Contribution from Episcopal Diocese of San Diego and affiliates	\$ 35,899	\$ 38,875

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 \$113,000 and \$243,000 as of June 30, 2021 and 2020, respectively.

**Episcopal Community Services**  
**Notes to Financial Statements**

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**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, 2021 and 2020, 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,563,707	\$ 2,045,684
Investments	1,589,130	1,263,829
Receivable, net	1,857,384	1,676,881
Unconditional promises to give, net	<u>449,549</u>	<u>509,800</u>
Total financial assets	6,459,770	5,496,194
Investments held in custodial trust	<u>(449,549)</u>	<u>(509,800)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,010,221</u>	<u>\$ 4,986,394</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).

## **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, 2021, and have issued our report thereon dated October 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  
October 29, 2021

## **Supplementary Information**

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**Episcopal Community Services**  
**Supplementary Information**  
**Schedule of Revenue and Expenses by Activity**  
**Year Ended June 30, 2021**

	State Preschool	Other 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	\$ 197,542	\$ 21,224,206	\$ 699,537	\$ 4,296,454	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,417,739
Service fees	-	-	-	1,247,745	436,094	-	-	-	(436,094)	1,247,745
Contributions and change in value of beneficial interests in CRTs	-	250	8,779	324,538	-	394,714	641	-	-	728,922
Other and investment income, net of investment expenses	-	-	12,774	-	529	-	325,542	-	-	338,845
<b>Total revenue, gains, and other support</b>	<b>197,542</b>	<b>21,224,456</b>	<b>721,090</b>	<b>5,868,737</b>	<b>436,623</b>	<b>394,714</b>	<b>326,183</b>	<b>-</b>	<b>(436,094)</b>	<b>28,733,251</b>
<b>EXPENSES</b>										
Personnel	136,383	15,087,049	387,566	4,011,703	243,340	214,432	1,852,140	-	-	21,932,613
Other direct costs	6,615	2,509,908	97,892	912,491	245,533	140,789	294,358	-	(436,094)	3,771,492
Occupancy	39,439	1,924,905	220,057	698,743	42,007	13,938	337,863	(123,003)	-	3,153,949
Depreciation	-	-	-	-	-	-	-	233,053	-	233,053
Interest	-	-	-	10,218	-	-	-	-	-	10,218
Management and general	15,105	1,704,186	54,771	489,379	50,395	34,416	(2,348,252)	-	-	-
<b>Total expenses</b>	<b>197,542</b>	<b>21,226,048</b>	<b>760,286</b>	<b>6,122,534</b>	<b>581,275</b>	<b>403,575</b>	<b>136,109</b>	<b>110,050</b>	<b>(436,094)</b>	<b>29,101,325</b>
<b>NET ACTIVITY</b>	<b>\$ -</b>	<b>\$ (1,592)</b>	<b>\$ (39,196)</b>	<b>\$ (253,797)</b>	<b>\$ (144,652)</b>	<b>\$ (8,861)</b>	<b>\$ 190,074</b>	<b>\$ (110,050)</b>	<b>\$ -</b>	<b>\$ (368,074)</b>

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

<sup>(2)</sup> Housing and Supportive Services Programs: Uptown Safe Haven

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