EPISCOPAL COMMUNITY SERVICES

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

JUNE 30, 2010

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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C O N T E N T S

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
Episcopal Community Services

We have audited the accompanying statements of financial position of Episcopal Community Services ("ECS") as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of ECS' management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ECS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
October 25, 2010

EPISCOPAL COMMUNITY SERVICES

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,835,900	$ 1,694,299
Receivables, net	1,023,381	1,134,406
Unconditional promises to give	120,000	120,000
Prepaid expenses and other current assets	196,673	181,550
Total current assets	3,175,954	3,130,255
Deposits and Other Assets	107,751	92,888
Unconditional Promises to Give, net	425,681	551,056
Property and Equipment, net	2,181,693	2,045,534
Total assets	$ 5,891,079	$ 5,819,733
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 849,062	$ 609,292
Accrued payroll	924,826	886,835
Advances	24,143	290,813
Deferred revenue	92,297	67,250
Current portion of long-term debt	134,235	132,156
Total current liabilities	2,024,563	1,986,346
Long-term Debt	1,136,627	1,268,964
Conditional Contributions	480,564	519,034
Total liabilities	3,641,754	3,774,344
Commitments and Contingencies (Notes 7, 9, and 11)		
Net Assets		
Unrestricted	1,623,980	1,282,414
Temporarily restricted	625,345	762,975
Total net assets	2,249,325	2,045,389
Total liabilities and net assets	$ 5,891,079	$ 5,819,733

EPISCOPAL COMMUNITY SERVICES

STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Grants and contracts	$ 17,868,158	$ -	$ 17,868,158	$ 16,691,579	$ -	$ 16,691,579
Service fees	2,774,666	-	2,774,666	2,590,215	-	2,590,215
Contributions	397,166	69,543	466,709	973,221	98,036	1,071,257
Other	312,036	-	312,036	151,748	-	151,748
Change in value of charitable remainder trusts	-	(9,153)	(9,153)	-	(113,085)	(113,085)
Net assets released from restrictions	198,020	(198,020)	-	149,273	(149,273)	-
Total revenues, gains, and other support	21,550,046	(137,630)	21,412,416	20,556,036	(164,322)	20,391,714
EXPENSES						
Programs:						
Child development	12,277,870	-	12,277,870	11,516,007	-	11,516,007
Housing and supportive services	2,960,456	-	2,960,456	2,555,041	-	2,555,041
Clinical services	2,689,156	-	2,689,156	2,261,997	-	2,261,997
Employment and other programs	850,927	-	850,927	1,033,644	-	1,033,644
Total program expenses	18,778,409	-	18,778,409	17,366,689	-	17,366,689
Management and general	2,193,212	-	2,193,212	2,143,033	-	2,143,033
Fundraising and communications	236,859	-	236,859	272,085	-	272,085
Total expenses	21,208,480	-	21,208,480	19,781,807	-	19,781,807
CHANGE IN NET ASSETS	341,566	(137,630)	203,936	774,229	(164,322)	609,907
NET ASSETS						
Beginning of year	1,282,414	762,975	2,045,389	508,185	927,297	1,435,482
End of year	$ 1,623,980	$ 625,345	$ 2,249,325	$ 1,282,414	$ 762,975	$ 2,045,389

EPISCOPAL COMMUNITY SERVICES

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010

	Child Development Programs (1)	Housing and Supportive Services Programs (2)	Clinical Services Programs (3)	Employment and other Programs (4)	Management and General	Fundraising	Total
Personnel	$ 9,362,422	$ 1,451,590	$ 1,965,954	$ 320,906	$ 1,424,532	$ 132,257	$ 14,657,661
Other direct costs	1,507,687	578,213	357,358	466,924	366,822	65,687	3,342,691
Occupancy	1,330,380	861,356	312,692	53,840	332,748	37,915	2,928,931
Depreciation	77,381	62,512	53,152	9,257	29,502	1,000	232,804
Interest	-	6,785	-	-	39,608	-	46,393
Total functional expenses per statement of activities	12,277,870	2,960,456	2,689,156	850,927	2,193,212	236,859	21,208,480
Management and general allocation	1,396,015	253,708	406,122	82,406	(2,149,613)	11,362	-
Total expenses with allocation	$ 13,673,885	$ 3,214,164	$ 3,095,278	$ 933,333	$ 43,599	$ 248,221	$ 21,208,480

(1) **Child Development:** Head Start, Early Head Start, T&TA PA 20, and Region IX

(2) **Housing and Supportive Services:** Friend to Friend, San Diego Safe Havens, Women's and Children's Programs, and Coachella Valley Residential Programs

(3) **Clinical Services:** ACCORD and Para Las Familias

(4) **Employment and Other:** Food Services, Work Center, and Emergency Assistance

Eliminations of expenses of $1,051,055 generated from interagency services are reflected in the above balances.

EPISCOPAL COMMUNITY SERVICES

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2009

	Child Development Programs (1)	Housing and Supportive Services Programs (2)	Clinical Services Programs (3)	Employment and other Programs (4)	Management and General	Fundraising	Total
Personnel	$ 8,661,935	$ 1,294,319	$ 1,634,204	$ 405,197	$ 1,312,173	$ 159,881	$ 13,467,709
Other direct costs	1,432,205	486,414	270,258	537,647	385,747	62,900	3,175,171
Occupancy	1,320,128	702,785	321,005	82,369	366,153	48,305	2,840,745
Depreciation	101,739	64,738	36,530	8,431	33,109	999	245,546
Interest	-	6,785	-	-	45,851	-	52,636
Total functional expenses per statement of activities	11,516,007	2,555,041	2,261,997	1,033,644	2,143,033	272,085	19,781,807
Management and general allocation	1,277,526	331,799	347,952	104,872	(2,089,357)	27,208	-
Total expenses with allocation	$ 12,793,533	$ 2,886,840	$ 2,609,949	$ 1,138,516	$ 53,676	$ 299,293	$ 19,781,807

(1) **Child Development:** Head Start, Early Head Start, T&TA PA 20, and Region IX

(2) **Housing and Supportive Services:** Friend to Friend, San Diego Safe Havens, Women's and Children's Programs, and Coachella Valley Residential Programs

(3) **Clinical Services:** ACCORD and Para Las Familias

(4) **Employment and Other:** Friend to Friend Client Services, Food Services, Work Center, and Emergency Assistance

Eliminations of expenses of $1,069,758 generated from interagency services are reflected in the above balances.

EPISCOPAL COMMUNITY SERVICES

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING ACTIVITIES		
Change in net assets	$ 203,936	$ 609,907
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	232,804	245,546
Change in value of charitable remainder trusts	9,153	113,085
(Gain) on disposal of property and equipment	-	(2,500)
Accrued interest added to note payable	6,785	6,785
Revocable grant forgiveness	(38,470)	(13,871)
(Increase) decrease in operating assets:		
Receivables	111,025	(299,790)
Prepaid expenses and other current assets	(15,123)	143,821
Deposits and other assets	(14,863)	(38,046)
Unconditional promises to give	116,222	113,883
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	239,770	58,080
Accrued payroll	37,991	116,338
Advances	(266,670)	280,865
Deferred revenue	25,047	44,061
Net cash provided by operating activities	647,607	1,378,164
INVESTING ACTIVITIES		
Purchases of property and equipment	(368,963)	(145,240)
Net cash (used in) investing activities	(368,963)	(145,240)
FINANCING ACTIVITIES		
Repayment of long-term debt	(137,043)	(131,780)
Net cash (used in) financing activities	(137,043)	(131,780)
INCREASE IN CASH AND CASH EQUIVALENTS	141,601	1,101,144
CASH AND CASH EQUIVALENTS		
Beginning of year	1,694,299	593,155
End of year	$ 1,835,900	$ 1,694,299

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest	$ 46,393	$ 52,636

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES

Purchase of equipment and vehicle with debt	$ -	$ 75,589

Note 1 – Nature of Organization

Episcopal Community Services ("ECS"), a California not-for-profit public benefit corporation which provides services to the community through programs that address specific social needs, 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 were designed to help break the cycle of poverty by providing preschool children of low-income families with a comprehensive program to meet their emotional, social, health, nutritional, and psychological needs.

Other Programs: ECS also offers programs that assist individuals and families through the often difficult transition from an existence which is dependent on social services, unhealthy relationships, or substance abuse to one of self-sufficiency. ECS offers a full spectrum of services to Southern Californians in transition, including emergency assistance and crisis intervention, drug and alcohol education and support services, domestic violence programs, employment assistance, food, counseling services for the chronically mentally ill, and short-term and long-term housing for the special-needs homeless population.

Income Taxes: As a California not-for-profit public benefit corporation, 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, 2010 and 2009, no provision for such taxes is required. ECS adopted new provisions of Accounting Standard Codification 740-10, *Income Taxes*, related to accounting for uncertain tax positions as of January 1, 2009. No adjustment to net assets was required upon the adoption of the new provisions as ECS had no unrecognized tax benefits or liabilities. ECS has no unrecognized tax benefits or liabilities as of June 30, 2010 and 2009. ECS files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the State of California. ECS is no longer subject to income tax examinations by taxing authorities for years before 2006 for its federal filings and for years before 2005 for its state filings.

Note 2 – Summary of Significant Accounting Policies

FASB Codification: On July 1, 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") became the single authoritative source for nongovernmental generally accepted accounting principles in the United States of America ("GAAP"). The ASC supersedes all previous authoritative generally accepted accounting principles applicable to ECS and is effective for interim and annual periods ended after September 15, 2009.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation: Net assets are classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria:

- Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions, which are contingent upon a specific performance of a future event or a specific passage of time before ECS may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions, requiring that the assets be maintained in perpetuity, primarily for generating investment income to fund current operations. ECS has no permanently restricted net assets at June 30, 2010 and 2009.

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.

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

Support: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are either reported as temporarily or permanently restricted, depending on the nature of the donor's restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with donor restrictions which are met in the same reporting period are reported as unrestricted revenue.

Advances: Advances represent funds received for the Head Start program prior to the new program year.

Deferred Revenue: Fees received prior to performing services under contractual agreements are recorded as deferred revenue.

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

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, 2010 and 2009, approximately $573,000 and $326,000, respectively, of the Head Start program funds were held in a separate bank account. These funds are included in cash in the accompanying statements of financial position.

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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 beneficiary interests ECS has received in irrevocable charitable remainder unitrusts. The trust agreements require the trusts to make periodic payments, as defined, to the grantors or other designated beneficiaries of the trust over the beneficiary's lifetime and, in some cases, after the beneficiary's death. The trusts terminate upon the death of the grantors or completion of the specified benefit periods after their death. Upon termination of the trusts, ECS will receive its share of the remaining trust assets as designated in the trust agreements. The portion of a trust attributable to the fair value of the future benefits to be received by ECS is recorded in the statement of activities as temporarily restricted contributions in the year the trust is established. The fair value of the remainder interests at June 30, 2010 and 2009 is calculated based on a discounted cash flow model using interest rates of approximately 4 percent and applicable mortality tables.

The net present value of the long-term pledge receivable (Note 4) at June 30, 2009 is calculated using an interest rate of 4.3 percent and payment terms specified in the pledge agreement.

Allowance for Estimated Uncollectible Accounts: The allowance for estimated uncollectible accounts is based on past experience and on an analysis of current receivable balances. ECS does not obtain collateral. Accounts deemed uncollectible are written-off against the allowance in the year deemed uncollectible. Management did not consider an allowance necessary as of June 30, 2010 and 2009.

Property and Equipment: Property and equipment are recorded at cost for purchased assets and fair value at the date of donation for donated assets. Certain property and equipment acquired with grant funds are capitalized and are considered to be owned by the granting agency. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 25 years. It is ECS' 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 statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and 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.

Note 2 – Summary of Significant Accounting Policies (Continued)

Subsequent Events: Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are issued. ECS recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. ECS' 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 25, 2010, which is the date the financial statements are available to be issued.

Note 3 – Concentrations

Cash and Cash Equivalents: ECS maintains its cash and cash equivalents in bank deposit accounts, which exceed federally insured deposit limits. ECS has not experienced any losses in such accounts.

Unconditional Promises to Give: Unconditional promises to give include pledges receivable and charitable remainder trusts, which are exposed to various risks, such as interest rates 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, 2010 and 2009, approximately 98 and 99 percent, respectively, of unconditional promises to give is due from three donors.

Grants and Contracts: Included in revenue from grants and contracts is approximately $13,837,000 and $12,815,000 during the years ended June 30, 2010 and 2009, respectively, earned from one federal agency, which represents approximately 77 and 63 percent of total revenues, gains, and other support for each of the years ended June 30, 2010 and 2009, respectively.

Note 4 – Unconditional Promises to Give

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

	2010	2009
Due in less than one year - pledge receivable	$ 120,000	$ 120,000
Due in one to five years		
Pledge receivable	$ -	$ 120,000
Less discount to net present value	-	(3,778)
Net due in one to five years	-	116,222
Due in more than five years		
Charitable remainder trusts	1,057,041	1,047,825
Less discount to fair value	(631,360)	(612,991)
Net due in more than five years	425,681	434,834
Total long-term portion	$ 425,681	$ 551,056

Note 4 – Unconditional Promises to Give (Continued)

Fair value is 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.

See Note 2 for the valuation methodologies used for beneficiary interests ECS has received in irrevocable charitable remainder unitrusts that are measured at fair value on a recurring basis and recognized in the accompanying statements of financial position. The beneficiary interests ECS has received in irrevocable charitable remainder unitrusts are classified as Level 3 in the fair value hierarchy.

The following table discloses the summary of changes in the fair value of ECS' Level 3 assets for the year ended June 30:

	2010	2009
Balance, beginning of year	$ 434,834	$ 547,919
Change in value	(9,153)	(113,085)
Balance, end of year	$ 425,681	$ 434,834

Note 5 – Property and Equipment

Property and equipment consists of:

	2010	2009
Leasehold improvements	$ 1,848,557	$ 1,585,922
Equipment	1,543,171	1,431,061
Buildings and improvements	1,179,706	1,179,706
Vehicles	85,221	91,003
	4,656,655	4,287,692
Less accumulated depreciation and amortization	(2,663,273)	(2,430,469)
	1,993,382	1,857,223
Land	188,311	188,311
	$ 2,181,693	$ 2,045,534

Note 6 – Debt and Subsequent Event

Long-term debt consists of:

	2010	2009
Note payable, bank, secured by a deed of trust on building. Monthly principal payments of $6,667 plus interest; variable interest of prime plus 1.00 percent (4.25 percent at June 30, 2010); balloon payment of $400,000 due October 2011	$ 506,667	$ 586,667
Note payable of $226,150, San Diego Housing Commission ("SDHC"), secured by deed of trust on land and building. Bears simple interest of 3.00 percent per annum. Principal and interest are due the earlier of November 2051, upon the generation of residual receipts, or upon acceleration of the loan as defined in the agreement	309,699	302,915
Note payable, Diocese of Los Angeles, unsecured. Annual payments of $25,000; due December 2018; non-interest bearing	200,000	225,000
Note payable, bank, secured by a deed of trust on building. Monthly principal and interest payments of $1,433; interest of 7.35 percent; balloon payment of approximately $154,000 due May 2014	173,815	177,887
Note payable, Diocese of San Diego, unsecured. Monthly principal and interest payments of $538; interest of 4.80 percent; due March 2018	41,307	45,661
Note payable, finance company, secured by software. Monthly principal payments of $1,311; non-interest bearing; due November 2011	23,600	39,333
Note payable, finance company, secured by vehicle. Monthly principal and interest payments of $473; interest of 9.19 percent; due September 2013	15,774	23,657
	1,270,862	1,401,120
Less current portion	134,235	132,156
	$ 1,136,627	$ 1,268,964

The notes payable to the bank with balances of $506,667 and $173,815 as of June 30, 2010 were paid in full in August 2010.

Note 6 – Debt (Continued)

Future minimum debt service payments, net of scheduled payments on notes paid in full in September 2010, are as follows:

Years ending June 30,		
2011	$	49,638
2012		42,436
2013		35,289
2014		31,670
2015		30,532
Thereafter		400,815
	$	590,380

ECS is in compliance with the financial covenants of its bank debt as of June 30, 2010.

Line of Credit: ECS had a revolving bank line of credit of $200,000 secured by a deed of trust on land and buildings, which expired on September 29, 2010 and was not renewed. No borrowings were outstanding on the line of credit as of June 30, 2010 and 2009. The interest rate on the line was the bank's prime rate plus 1.00 percent (3.25 percent at June 30, 2010).

Total interest expense on debt was approximately $46,000 and $53,000 on debt for the years ended June 30, 2010 and 2009, respectively.

Note 7 – Conditional Contributions

During 1998 and 1999, ECS was awarded two conditional contributions for $138,705 and $394,200 from the United States Department of Housing and Urban Development ("HUD") and the SDHC, respectively. Both contributions were used to purchase or rehabilitate facilities that were placed into service during August 1998 and November 1999, respectively, and are utilized by ECS to provide supportive housing to the homeless. The HUD funds were used for the Julian's Anchorage facility, and the SDHC funds were used for the San Diego Safe Havens facility.

All of the HUD conditional contribution and $246,000 of the SDHC conditional contribution are considered fully revocable until ten years from the date the facilities were placed into supportive housing program operations. 10 percent of these contributions becomes unconditional each year subsequent to the tenth year of operation. The ten-year period of operation for the HUD facilities was completed August 2008 and for the SDHC facilities in November 2009. During the year ended June 30, 2009, ECS recognized 10 percent ($13,871) of the HUD conditional contribution. During the year ended June 30, 2010, ECS recognized 10 percent of the HUD and SDHC conditional contributions ($38,470).

The remaining $148,200 of the conditional contribution from SDHC is considered fully revocable until 55 years from the date of contribution. This contribution will become unconditional in February 2054 provided ECS has used the facility to provide supportive housing to the homeless until that time.

The SDHC conditional contribution and the note payable to SDHC (Note 6) are secured by a first trust deed on a building and land with a net book value of approximately $411,000 and $432,000 at June 30, 2010 and 2009, respectively. The conditional contribution from HUD is unsecured.

Note 8 – Temporarily Restricted Net Assets

Temporarily restricted net assets consists of:

	2010	2009
Time restrictions:		
Charitable remainder trusts	$ 425,681	$ 434,834
Pledge receivable	120,000	236,222
Purpose restrictions - programs	79,664	91,919
	$ 625,345	$ 762,975

For the years ended June 30, 2010 and 2009, temporarily restricted net assets were released for:

	2010	2009
Payment received on pledge receivable	$ 120,000	$ 120,000
Women's and Children's programs	69,455	29,273
Desert Vista - Change a Life	8,263	-
Emergency Assistance	302	-
	$ 198,020	$ 149,273

Note 9 – Employee Benefit Plan

ECS has a 401(k) retirement plan (the "Plan") covering all employees, except Episcopal Clergy, who have completed one year of service and are at least 18 years of age. ECS' contributions to the Plan are determined annually by the Board of Directors. ECS has expensed and accrued matching and profit sharing contributions to the Plan totaling approximately $222,000 and $215,000 for the years ended June 30, 2010 and 2009, respectively.

Note 10 – Union Contract

A substantial portion of ECS' labor force is subject to a collective bargaining agreement for the period beginning July 1, 2009 through June 30, 2012.

Note 11 – Commitments and Contingencies

ECS occupies facilities in various locations under month-to-month and long-term operating leases with terms extending through October 2016. Rental expense under operating leases was approximately $1,748,000 and $1,759,000 for the years ended June 30, 2010 and 2009, respectively.

Note 11 – Commitments and Contingencies (Continued)

Future minimum annual rentals under long-term operating leases at June 30, 2010 are as follows:

Years ending June 30,		
2011	$	1,077,108
2012		739,349
2013		625,868
2014		310,076
2015		236,513
Thereafter		378,399
	$	3,367,313

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 within 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 and investigations arising in the ordinary course of business. Management and ECS' legal counsel are unable to determine the likelihood of unfavorable outcomes, if any.

Note 12 – Related-party Transactions

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

	2010	2009
Contribution from Episcopal Diocese of San Diego	$ 27,500	$ 20,000
Note payable to Episcopal Diocese of San Diego	41,307	45,661
Note payable to Episcopal Diocese of Los Angeles	200,000	225,000

Also, ECS has a beneficial interest in a charitable remainder trust in which a member of the Board of Directors is a trustee. ECS' beneficial interest is valued at approximately $201,000 and $171,000 as of June 30, 2010 and 2009, respectively.

ADDITIONAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON THE ADDITIONAL INFORMATION

Board of Directors
Episcopal Community Services

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on page 17 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2010 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moss Adams LLP

San Diego, California
October 25, 2010

EPISCOPAL COMMUNITY SERVICES

ADDITIONAL INFORMATION
SCHEDULE OF PROGRAM SERVICES OPERATIONS
YEAR ENDED JUNE 30, 2010

	Child Development Programs [1]	Housing and Supportive Services Programs [2]	Clinical Services Programs [3]	Employment and Other Programs [4]	Fundraising	Management and General	Eliminations	Total
Revenues, Gains, and Other Support								
Grants and contracts	$ 14,723,887	$ 2,681,352	$ 462,919	$ -	$ -	$ -	$ -	$ 17,868,158
Service fees	-	-	2,763,644	1,062,077	-	-	(1,051,055)	2,774,666
Contributions and change in value of charitable remainder trusts	1,400	126,052	-	16,352	313,752	-	-	457,556
Other	1,105	161,683	145,331	-	196	3,721	-	312,036
Total revenues, gains, and other support	14,726,392	2,969,087	3,371,894	1,078,429	313,948	3,721	(1,051,055)	21,412,416
Expenses								
Personnel	9,362,422	1,451,590	1,965,954	320,906	132,257	1,424,532	-	14,657,661
Other direct costs	2,490,933	646,022	357,358	466,924	65,687	366,822	(1,051,055)	3,342,691
Occupancy	1,330,380	861,356	312,692	53,840	37,915	332,748	-	2,928,931
Depreciation	77,381	62,512	53,152	9,257	1,000	29,502	-	232,804
Interest	-	6,785	-	-	-	39,608	-	46,393
Management and general	1,396,015	253,708	406,122	82,406	11,362	(2,149,613)	-	-
Total expenses	14,657,131	3,281,973	3,095,278	933,333	248,221	43,599	(1,051,055)	21,208,480
Change in Net Assets	$ 69,261	$ (312,886)	$ 276,616	$ 145,096	$ 65,727	$ (39,878)	$ -	$ 203,936

[1] **Child Development Programs:** Head Start, Early Head Start, T&TA PA20, and Region IX

[2] **Housing and Supportive Services Programs:** Friend to Friend, San Diego Safe Havens, Women's and Children's Programs, and Coachella Valley Residential Programs

[3] **Clinical Services Programs:** ACCORD and Para Las Familias

[4] **Employment and Other Programs:** Food Services, Work Center, and Emergency Assistance

Eliminations represent the reversal of revenue and expenses generated from interagency services.