Report of Independent Auditors and Financial Statements with Additional Information for

Episcopal Community Services

June 30, 2011 and 2010

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS 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, 2011 and 2010, 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, 2011 and 2010, 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 26, 2011

EPISCOPAL COMMUNITY SERVICES

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,202,834	$ 1,835,900
Receivables, net	716,770	1,023,381
Prepaid expenses and other current assets	228,500	196,673
Property held for sale or reconveyance	498,149	-
Unconditional promises to give	-	120,000
Total current assets	2,646,253	3,175,954
Deposits and Other Assets	103,405	107,751
Unconditional Promises to Give, net	387,972	425,681
Funds Held by Others	193,743	-
Property and Equipment, net	2,033,868	2,181,693
Total assets	$ 5,365,241	$ 5,891,079
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 776,876	$ 849,062
Accrued payroll	747,986	924,826
Deferred revenue	188,313	92,297
Conditional contribution for property held for sale or reconveyance	97,094	-
Current portion of long-term debt	42,438	134,235
Advances	-	24,143
Total current liabilities	1,852,707	2,024,563
Long-term Debt	505,089	1,136,627
Conditional Contribution	345,000	480,564
Total liabilities	2,702,796	3,641,754
Commitments and Contingencies (Notes 7, 10, and 12)		
Net Assets		
Unrestricted	2,242,998	1,623,980
Temporarily restricted	419,447	625,345
Total net assets	2,662,445	2,249,325
Total liabilities and net assets	$ 5,365,241	$ 5,891,079

EPISCOPAL COMMUNITY SERVICES

STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Grants and contracts	$ 18,230,757	$ -	$ 18,230,757	$ 17,868,158	$ -	$ 17,868,158
Service fees	2,793,215	-	2,793,215	2,774,666	-	2,774,666
Contributions	419,243	1,226	420,469	397,166	69,543	466,709
Other	219,342	-	219,342	312,036	-	312,036
Change in value of charitable remainder trusts	-	(37,709)	(37,709)	-	(9,153)	(9,153)
Net assets released from restrictions	169,415	(169,415)	-	198,020	(198,020)	-
Total revenues, gains, and other support	21,831,972	(205,898)	21,626,074	21,550,046	(137,630)	21,412,416
EXPENSES						
Programs:						
Child development	12,578,483	-	12,578,483	12,277,870	-	12,277,870
Housing and supportive services	2,800,344	-	2,800,344	2,960,456	-	2,960,456
Clinical services	2,650,930	-	2,650,930	2,689,156	-	2,689,156
Nutrition services	853,537	-	853,537	850,927	-	850,927
Total program expenses	18,883,294	-	18,883,294	18,778,409	-	18,778,409
Management and general	2,096,088	-	2,096,088	2,193,212	-	2,193,212
Fundraising and communications	233,572	-	233,572	236,859	-	236,859
Total expenses	21,212,954	-	21,212,954	21,208,480	-	21,208,480
CHANGE IN NET ASSETS	619,018	(205,898)	413,120	341,566	(137,630)	203,936
NET ASSETS						
Beginning of year	1,623,980	625,345	2,249,325	1,282,414	762,975	2,045,389
End of year	$ 2,242,998	$ 419,447	$ 2,662,445	$ 1,623,980	$ 625,345	$ 2,249,325

EPISCOPAL COMMUNITY SERVICES

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011

	Child Development Programs [1]	Housing and Supportive Services Programs [2]	Clinical Services Programs [3]	Nutrition Services	Management and General	Fundraising and Communications	Total
Personnel	$ 9,372,188	$ 1,431,320	$ 1,902,470	$ 316,020	$ 1,337,442	$ 151,612	$ 14,511,052
Other direct costs	1,470,875	584,217	340,326	464,988	384,969	40,535	3,285,910
Occupancy	1,578,726	699,526	341,788	57,203	337,050	41,425	3,055,718
Depreciation	156,694	78,497	66,314	15,176	28,915	-	345,596
Interest	-	6,784	32	150	7,712	-	14,678
Total functional expenses per statement of activities	12,578,483	2,800,344	2,650,930	853,537	2,096,088	233,572	21,212,954
Management and general allocation	1,333,155	246,417	371,357	78,195	(2,040,181)	11,057	-
Total expenses with allocation	$ 13,911,638	$ 3,046,761	$ 3,022,287	$ 931,732	$ 55,907	$ 244,629	$ 21,212,954

[1] **Child Development:** Head Start, Early Head Start, T&TA, Preschool for All

[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

Eliminations of expenses of $986,645 generated from Nutrition Services provided for the Child Development and Housing and Supportive Services programs are reflected in the above balances for those programs.

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]	Nutrition Services	Management and General	Fundraising and Communications	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, Preschool for All

[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

Eliminations of expenses of $1,051,055 generated from Nutrition Services provided for the Child Development and Housing and Supportive Services programs are reflected in the above balances for those programs.

EPISCOPAL COMMUNITY SERVICES

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES		
Change in net assets	$ 413,120	$ 203,936
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	345,596	232,804
Change in value of charitable remainder trusts	37,709	9,153
Loss on disposal of property and equipment	27,989	-
Accrued interest added to note payable	6,785	6,785
Revocable grant forgiveness	(38,470)	(38,470)
Deferred revenue	96,016	25,047
(Increase) decrease in operating assets:		
Receivables	306,611	111,025
Prepaid expenses and other current assets	(31,827)	(15,123)
Deposits and other assets	4,346	(14,863)
Unconditional promises to give	120,000	116,222
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(72,186)	239,770
Accrued payroll	(176,840)	37,991
Advances	(24,143)	(266,670)
Net cash provided by operating activities	1,014,706	647,607
INVESTING ACTIVITIES		
Purchases of property and equipment	(723,909)	(368,963)
Increase in funds held by others	(193,743)	-
Net cash (used in) investing activities	(917,652)	(368,963)
FINANCING ACTIVITIES		
Repayment of long-term debt	(730,120)	(137,043)
Net cash (used in) financing activities	(730,120)	(137,043)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(633,066)	141,601
CASH AND CASH EQUIVALENTS		
Beginning of year	1,835,900	1,694,299
End of year	$ 1,202,834	$ 1,835,900

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest	$ 14,678	$ 46,393

SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITY

Transfer of property to property held for sale or reconveyance	$ 498,149	$ -

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, 2011 and 2010, no provision for such taxes is required. ECS adopted new provisions of Accounting Standards 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. ECS had no unrecognized tax benefits or liabilities as of June 30, 2011 and 2010. 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 2007 for its federal filings and for years before 2006 for its state filings.

Note 2 – Summary of Significant Accounting Policies

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

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

- Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions, which are contingent upon a specific performance of a future event or a specific passage of time before ECS may spend the funds.
- 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, 2011 and 2010.

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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

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

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, 2011 and 2010, approximately $314,000 and $573,000, 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.

Funds Held by Others: Funds held by others are funds invested at the Rancho Santa Fe Foundation ("RSFF"). Under a custodial agreement, RSFF manages the investment of the funds, which are primarily invested in publicly-traded fixed income and equity funds. RSFF reports the fair value of the amounts due to ECS on a regular basis. ECS did not grant variance power over the investments to RSFF. Distributions can be made from the funds only with written authorization from ECS. The fair value of investments held at RSFF is based on the unit value of ECS' interest in the pools in which it has invested. The unit value is based on the fair value of the underlying assets in the pools. Investment income or loss (including interest and realized gains and losses) is included in unrestricted 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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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, 2011 and 2010 is calculated based on a discounted cash flow model using interest rates of approximately 4 percent and applicable mortality tables.

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, 2011 and 2010.

Property Held for Sale or Reconveyance: Property held for sale or reconveyance is recorded at the lower of its carrying amount or fair value, less cost to sell. Assets classified as "held for sale or reconveyance" are no longer depreciated.

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, 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 26, 2011, which is the date the financial statements were 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, 2011 and 2010, approximately 96 and 98 percent of unconditional promises to give is due from two and three donors respectively.

Grants and Contracts: Included in revenue from grants and contracts is approximately $14,249,000 and $13,837,000 during the years ended June 30, 2011 and 2010, respectively, earned from one federal agency, which represents approximately 78 and 77 percent of total revenues, gains, and other support for each of the years ended June 30, 2011 and 2010, respectively.

Note 4 – Unconditional Promises to Give

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

	2011	2010
Due in less than one year - pledge receivable	$ -	$ 120,000
Due in one to five years:		
Charitable remainder trust	$ 14,134	$ -
Less discount to net present value	(4,933)	-
Net due in one to five years	9,201	-
Due in more than five years:		
Charitable remainder trusts	935,824	1,057,041
Less discount to fair value	(557,053)	(631,360)
Net due in more than five years	378,771	425,681
Total long-term portion	$ 387,972	$ 425,681

Note 5 – Fair Value

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 funds held by others and beneficiary interests 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 funds held by others and the beneficiary interests 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:

	2011		
	Beneficiary Interests	**Funds Held by RSFF**	**Total**
Balance, beginning of year	$ 425,681	$ -	$ 425,681
Additions	-	190,016	190,016
Change in value of beneficiary interests	(37,709)	-	(37,709)
Unrealized gains	-	3,727	3,727
Balance, end of year	$ 387,972	$ 193,743	$ 581,715

	2010
	Beneficiary Interests
Balance, beginning of year	$ 434,834
Change in value of beneficiary interests	(9,153)
Balance, end of year	$ 425,681

Unrealized gains are reported in the statement of activities as a component of other income. The change in value of the beneficiary interests and unrealized gains are from Level 3 assets still held as of June 30, 2011.

Note 6 – Property and Equipment

As of June 30, property and equipment consists of:

	2011	2010
Leasehold improvements	$ 2,214,989	$ 1,848,557
Equipment	1,836,298	1,543,171
Buildings and improvements	535,637	1,179,706
Vehicles	85,222	85,221
	4,672,146	4,656,655
Less accumulated depreciation and amortization	(2,761,978)	(2,663,273)
	1,910,168	1,993,382
Land	123,700	188,311
	$ 2,033,868	$ 2,181,693

As of June 30, 2011, property held for sale or reconveyance consists of:

Buildings and improvements	$ 672,868
Land	64,611
	737,479
Less accumulated depreciation and amortization	(239,330)
	$ 498,149

On October 21, 2011, ECS sold a building and land, with a net book value of approximately $199,000 at June 30, 2011, that was used in one of ECS' programs (Julian's) for approximately $389,000 (net of sales costs). A conditional contribution of approximately $97,000 related to this property will be returned to the grantor during the year ended June 30, 2012 (Note 8.)

In February 2011, ECS began the process of returning a building (Desert Vista), with a net book value at June 30, 2011 of $299,000, to the original grantor that was used in an ECS program that is being transitioned to another not-for-profit organization.

Total additions of property and equipment for the child development programs were approximately $570,000 and $206,000 for the years ended June 30, 2011 and 2010, respectively. Of these total additions, $333,000 and $193,000 for the years ended June 30, 2011 and 2010, respectively, were funded by Program Improvement and American Recovery and Reinvestment Act grants.

Note 7 – Debt

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

	2011	2010
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	$ 316,484	$ 309,699
Note payable, Diocese of Los Angeles, unsecured. Annual payments of $25,000; due December 2018; non-interest bearing	175,000	200,000
Note payable, Diocese of San Diego, unsecured. Monthly principal and interest payments of $538; interest of 4.80 percent; due March 2018	36,740	41,307
Note payable, finance company, secured by software. Monthly principal payments of $1,311; non-interest bearing; due November 2011	7,867	23,600
Note payable, finance company, secured by vehicle. Monthly principal and interest payments of $473; interest of 9.19 percent; due September 2013	11,436	15,774
Note payable, bank, paid in full	-	506,667
Note payable, bank, paid in full	-	173,815
	547,527	1,270,862
Less current portion	42,438	134,235
	$ 505,089	$ 1,136,627

Future minimum debt service payments are as follows:

Years ending June 30,	
2012	$ 42,438
2013	35,289
2014	31,669
2015	30,532
2016	30,804
Thereafter	376,795
	$ 547,527

Line of Credit: ECS has a revolving bank line of credit in the amount of $250,000 secured by assets of ECS. No borrowings were outstanding on the line of credit as of June 30, 2011 and 2010. The interest rate on the line is the bank's prime rate plus 2.00 percent (5.25 percent at June 30, 2011).

Note 7 – Debt (Continued)

Total interest expense on debt was approximately $15,000 and $46,000 for the years ended June 30, 2011 and 2010, respectively.

Note 8 – 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 (this property is classified as held for sale or reconveyance as of June 30, 2011; Note 6), and the SDHC funds were used for the San Diego Downtown Safe Haven facility.

All of the HUD conditional contribution and $246,000 of the SDHC conditional contribution were considered fully revocable until ten years from the date the facilities were placed into supportive housing program operations. Ten percent of these contributions become 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 each of the years ended June 30, 2011 and June 30, 2010, ECS recognized 10 percent of the HUD and SDHC conditional contributions totaling $38,470. The approximate remaining balances of these contributions are $97,000 (HUD) and $345,000 (SDHC) as of June 30, 2011.

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 7) are secured by a first trust deed on a building and land with a net book value of approximately $390,000 and $411,000 at June 30, 2011 and 2010, respectively. The conditional contribution from HUD is unsecured.

Note 9 – Temporarily Restricted Net Assets

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

	2011	2010
Time restrictions:		
Charitable remainder trusts	$ 387,972	$ 425,681
Pledge receivable	-	120,000
Purpose restrictions - programs	31,475	79,664
	$ 419,447	$ 625,345

For the years ended June 30, 2011 and 2010, temporarily restricted net assets were released for:

Payment received on pledge receivable	$ 120,000	$ 120,000
Women's and Children's programs	43,352	69,455
Desert Vista - Change a Life	6,063	8,263
Emergency Assistance	-	302
	$ 169,415	$ 198,020

Note 10 – 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 $237,000 and $222,000 for the years ended June 30, 2011 and 2010, respectively.

Note 11 – 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 12 – 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 $1,825,000 and $1,748,000 for the years ended June 30, 2011 and 2010, respectively.

Future minimum annual rentals under long-term operating leases at June 30, 2011 are as follows:

Years ending June 30,	
2012	$ 995,441
2013	825,100
2014	489,909
2015	406,522
2016	241,334
Thereafter	153,730
	$ 3,112,036

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 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 13 – Related-party Transactions

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

	2011	2010
Contribution from Episcopal Diocese of San Diego	$ 20,000	$ 27,500
Note payable to Episcopal Diocese of San Diego	36,740	41,307
Note payable to Episcopal Diocese of Los Angeles	175,000	200,000

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 $181,000 and $201,000 as of June 30, 2011 and 2010, respectively.

ADDITIONAL INFORMATION

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS 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 18 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, 2011 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 26, 2011

EPISCOPAL COMMUNITY SERVICES

ADDITIONAL INFORMATION
SCHEDULE OF PROGRAM SERVICES OPERATIONS
YEAR ENDED JUNE 30, 2011

	Child Development Programs [1]	Housing and Supportive Services Programs [2]	Clinical Services Programs [3]	Nutrition Services	Fundraising	Management and General	Eliminations	Total
Revenues, Gains, and Other Support								
Grants and contracts	$ 15,228,789	$ 2,542,981	$ 458,987	$ -	$ -	$ -	$ -	$ 18,230,757
Service fees	-	-	2,778,634	1,001,226	-	-	(986,645)	2,793,215
Contributions and change in value of charitable remainder trusts	110	102,786	2,550	250	272,064	5,000	-	382,760
Other	1,671	184,820	2,100	21,804	354	8,593	-	219,342
Total revenues, gains, and other support	15,230,570	2,830,587	3,242,271	1,023,280	272,418	13,593	(986,645)	21,626,074
Expenses								
Personnel	9,372,188	1,431,320	1,902,470	316,020	151,612	1,337,442	-	14,511,052
Other direct costs	2,389,521	652,216	340,326	464,988	40,535	384,969	(986,645)	3,285,910
Occupancy	1,578,726	699,526	341,788	57,203	41,425	337,050	-	3,055,718
Depreciation	156,694	78,497	66,314	15,176	-	28,915	-	345,596
Interest	-	6,784	32	150	-	7,712	-	14,678
Management and general	1,333,155	246,417	371,357	78,195	11,057	(2,040,181)	-	-
Total expenses	14,830,284	3,114,760	3,022,287	931,732	244,629	55,907	(986,645)	21,212,954
Change in Net Assets	$ 400,286	$ (284,173)	$ 219,984	$ 91,548	$ 27,789	$ (42,314)	$ -	$ 413,120

[1] **Child Development Programs:** Head Start, Early Head Start, T&TA, Preschool for All

[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

Eliminations represent the reversal of revenue and expenses generated from Nutrition Services provided to Child Development and Housing and Supportive Services programs

The surplus shown for the Child Development programs is primarily due to the purchase of property and equipment for which revenue was recognized but no corresponding expense was recorded since the costs were capitalized into property and equipment. Refer to Note 6 for information regarding property and equipment.