Report of Independent Auditors and
Financial Statements with
Additional Information for

Episcopal Community Services

June 30, 2015 and 2014

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Episcopal Community Services

Report on Financial Statements

We have audited the accompanying financial statements of Episcopal Community Services, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the year*s* 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 audit*s*. We conducted our audit*s* in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit*s* 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

MOSS ADAMS LLP

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, 2015 and 2014, 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 26, 2015

EPISCOPAL COMMUNITY SERVICES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	June 30, 2015	June 30, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 891,293	$ 895,808
Investments	1,198,101	1,187,675
Receivables, net	1,307,149	784,914
Prepaid expenses and other current assets	216,846	372,600
Total current assets	3,613,389	3,240,997
Deposits and Other Assets	166,662	166,662
Unconditional Promises to Give, net	475,021	457,207
Property and Equipment, net	1,443,438	1,428,795
Total assets	$ 5,698,510	$ 5,293,661
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 726,480	$ 449,887
Accrued payroll	1,059,637	1,025,760
Deferred revenue	-	7,070
Current portion of long-term debt	30,804	30,532
Total current liabilities	1,816,921	1,513,249
Long-term Debt	404,684	428,704
Conditional Contribution	246,600	271,200
Total liabilities	2,468,205	2,213,153
Commitments and Contingencies (Notes 9, 11, and 14)		
Net Assets		
Unrestricted	2,755,284	2,622,872
Temporarily restricted	475,021	457,636
Total net assets	3,230,305	3,080,508
Total liabilities and net assets	$ 5,698,510	$ 5,293,661

See accompanying notes.

EPISCOPAL COMMUNITY SERVICES
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014

	Years Ended June 30,					
	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Grants and contracts	$ 21,298,296	$ -	$ 21,298,296	$ 19,316,434	$ -	$ 19,316,434
Service fees	2,644,137	-	2,644,137	2,822,570	-	2,822,570
Contributions	386,053	-	386,053	394,321	-	394,321
Other	64,975	-	64,975	182,069	-	182,069
Change in value of beneficial interests in charitable remainder trusts	-	17,814	17,814	-	(20,642)	(20,642)
Net assets released from restrictions	429	(429)	-	34,249	(34,249)	-
Total revenues, gains, and other support	24,393,890	17,385	24,411,275	22,749,643	(54,891)	22,694,752
EXPENSES						
Programs:						
Child development	15,941,647	-	15,941,647	14,917,188	-	14,917,188
Clinical services	3,067,727	-	3,067,727	2,935,093	-	2,935,093
Housing and supportive services	1,780,238	-	1,780,238	1,802,327	-	1,802,327
Nutrition services	688,491	-	688,491	793,847	-	793,847
Total program expenses	21,478,103	-	21,478,103	20,448,455	-	20,448,455
Management and general	2,542,087	-	2,542,087	2,374,600	-	2,374,600
Fundraising and communications	241,288	-	241,288	196,980	-	196,980
Total expenses	24,261,478	-	24,261,478	23,020,035	-	23,020,035
CHANGE IN NET ASSETS	132,412	17,385	149,797	(270,392)	(54,891)	(325,283)
NET ASSETS					-	
Beginning of year	2,622,872	457,636	3,080,508	2,893,264	512,527	3,405,791
End of year	$ 2,755,284	$ 475,021	$ 3,230,305	$ 2,622,872	$ 457,636	$ 3,080,508

See accompanying notes.

	Year Ended June 30, 2015			
	Programs	Management and General	Fundraising and Communications	Total
Personnel	$ 14,823,486	$ 1,865,181	$ 130,156	$ 16,818,823
Other direct costs	3,923,775	404,332	80,581	4,408,688
Occupancy	2,353,310	251,781	30,551	2,635,642
Depreciation	370,747	19,951	-	390,698
Interest	6,785	842	-	7,627
Total expenses	$ 21,478,103	$ 2,542,087	$ 241,288	$ 24,261,478

	Year Ended June 30, 2014			
	Programs	Management and General	Fundraising and Communications	Total
Personnel	$ 14,423,523	$ 1,661,330	$ 92,903	$ 16,177,756
Other direct costs	3,324,063	409,865	77,177	3,811,105
Occupancy	2,302,550	273,495	26,900	2,602,945
Depreciation	398,319	20,583	-	418,902
Interest	-	9,327	-	9,327
Total expenses	$ 20,448,455	$ 2,374,600	$ 196,980	$ 23,020,035

EPISCOPAL COMMUNITY SERVICES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	Years Ended June 30,	
	2015	**2014**
OPERATING ACTIVITIES		
Change in net assets	$ 149,797	$ (325,283)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation	390,698	418,902
Allowance for uncollectible receivables	16,409	-
Change in value of charitable remainder trusts	(17,814)	20,642
Net realized and unrealized gains net of fees on funds held by others	-	(65,023)
Net realized and unrealized losses (gains) net of fees on investments	7,264	(55,646)
Accrued interest added to note payable	6,784	6,784
Conditional contribution forgiveness	(24,600)	(24,600)
Deferred revenue	(7,070)	(23,279)
(Increase) decrease in operating assets:		
Receivables	(538,644)	407,620
Prepaid expenses and other current assets	155,754	(92,513)
Deposits and other assets	-	(8,132)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	276,593	(293,563)
Accrued payroll	33,877	(14,318)
Net cash provided by (used in) operating activities	449,048	(48,409)
INVESTING ACTIVITIES		
Purchases of property and equipment	(405,341)	(105,478)
Purchases of investments	(17,690)	(1,132,029)
Proceeds from sales of funds held by others	-	944,840
Net cash (used in) investing activities	(423,031)	(292,667)
FINANCING ACTIVITIES		
Repayment of long-term debt	(30,532)	(31,670)
Net cash (used in) financing activities	(30,532)	(31,670)
(DECREASE) IN CASH AND CASH EQUIVALENTS	(4,515)	(372,746)
CASH AND CASH EQUIVALENTS		
Beginning of year	895,808	1,268,554
End of year	$ 891,293	$ 895,808

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest	$ 918	$ 2,543

See accompanying notes.

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, 2015 and 2014, no provision for such taxes is required. ECS had no unrecognized tax benefits or liabilities as of June 30, 2015 and 2014. 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 2012 for its federal filings and for years before 2011 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, 2015 and 2014.

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 are recognized when services are provided.

Contributions – 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.

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.

Restricted cash – In accordance with the terms of a contract with a funding agency, funds received for the Head Start program are required to be maintained in a separate bank account. As of June 30, 2015 and 2014, approximately $461,000 and $350,000, 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.

Investments – Investments are reported at fair value. Mutual funds invested in stocks, bonds, and real estate are based on quoted prices in active markets. The Controller, as monitored by the Chief Financial Officer, reviews and evaluates the values provided by Dowling & Yahnke, LLC, investment managers, annually and agrees with the valuation methods used. 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 beneficial interests ECS has received in irrevocable charitable remainder trusts. 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, 2015 and 2014 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 3 percent and life expectancies (based on applicable mortality tables) and other terms, as applicable, for payments to beneficiaries beyond the life expectancies ranging from 6 to 26 years. The unobservable inputs used in the calculations are evaluated and adjusted, as necessary, annually by the Controller, as monitored by the Chief Financial Officer.

Allowance for estimated uncollectible accounts – The allowance for estimated uncollectible accounts is based on past experience and on an analysis of current receivable balances. 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 $16,000 on receivables from client service fees as of June 30, 2015. Management did not consider an allowance necessary as of June 30, 2014.

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 statements 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, 2015, which is the date the financial statements were available to be issued.

Note 3 – Concentrations

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.

Cash and cash equivalents – ECS maintains cash in bank deposit accounts which at times exceed the federally-insured deposit limits. ECS has not experienced any losses in such accounts.

Unconditional promises to give – Unconditional promises to give include beneficial interests in charitable remainder trusts 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, 2015 and 2014, approximately 96 and 95 percent, respectively, of unconditional promises to give is due from two trusts.

Grants and contracts – Included in revenue from grants and contracts during the years ended June 30, 2015 and 2014 is approximately $17,887,000 and $16,348,000, respectively, earned from one funding source. These amounts represent approximately 74 percent of total revenues, gains, and other support for each of the years ended June 30, 2015 and 2014. Included in receivables from grants and contracts is approximately $767,000 and $438,000 due from one and four funding source(s) for the years ended June 30, 2015 and 2014, respectively.

Note 4 – Investments

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

	2015	2014
Stock funds	$ 706,497	$ 695,725
Bond funds	413,362	404,572
Real estate funds	67,194	73,718
Cash and cash equivalents	11,048	13,660
Total investments	$ 1,198,101	$ 1,187,675

Note 4 – Investments

Investment income consists of the following for the year ended June 30:

	2015	2014
Net realized and unrealized (losses) gains	$ (7,264)	$ 45,773
Interest and dividends	25,740	9,874
Total investment income	$ 18,476	$ 55,647

Investment income is included in other income on the accompanying statements of activities.

See Note 2 for the valuation methodologies used for investments and beneficial interests in irrevocable charitable remainder trusts (unconditional promises to give) that are measured at fair value on a recurring basis and recognized in the accompanying statements of financial position. The beneficial interests in charitable remainder trusts are classified as Level 3 in the fair value hierarchy.

Note 5 – Receivables

As of June 30, receivables consist of:

Grants and contracts	$ 1,151,699	$ 610,054
Service fees	165,060	165,060
Other	6,799	9,800
	1,323,558	784,914
Less allowance for doubtful accounts	(16,409)	-
Total receivables	$ 1,307,149	$ 784,914

Note 6 – Unconditional Promises to Give

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

Due in more than five years:		
Beneficial interest in charitable remainder trusts	$ 836,559	$ 872,158
Less discount to fair value	(361,538)	(414,951)
Net unconditional promises to give due in more than five years	$ 475,021	$ 457,207

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 table presents the assets carried at fair value on the statement of financial position as of June 30, 2015:

	June 30, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 11,049	$ -	$ -	$ 11,049
Bond funds:				
Domestic	311,094	-	-	311,094
Foreign	102,268	-	-	102,268
Stock funds:				
U.S. Large	347,413	-	-	347,413
U.S. Small-Medium	146,499	-	-	146,499
Foreign	212,584	-	-	212,584
Real estate funds:				
Domestic	38,252	-	-	38,252
Foreign	28,942	-	-	28,942
Subtotal investments	1,198,101	-	-	1,198,101
Beneficial interests in irrevocable charitable remainder interest	-	-	475,021	475,021
Total assets measured at fair value	$ 1,198,101	$ -	$ 475,021	$ 1,673,122

Note 7 – Fair Value Measurements (continued)

The following table presents the assets carried at fair value on the statement of financial position as of June 30, 2014:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 13,660	$ -	$ -	$ 13,660
Bond funds:				
Domestic	301,911	-	-	301,911
Foreign	102,661	-	-	102,661
Stock funds:				
U.S. Large	344,137	-	-	344,137
U.S. Small-Medium	137,947	-	-	137,947
Foreign	213,641	-	-	213,641
Real estate funds:				
Domestic	43,942	-	-	43,942
Foreign	29,776	-	-	29,776
Subtotal investments	1,187,675	-	-	1,187,675
Beneficial interests in irrevocable charitable remainder interest	-	-	457,207	457,207
Total assets measured at fair value	$ 1,187,675	$ -	$ 457,207	$ 1,644,882

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

	2015		
	Beneficial Interests	Funds Held by Others	Total
Balance, July 1, 2014	$ 457,207	$ -	$ 457,207
Sales	-	-	-
Change in value of beneficial interests	17,814	-	17,814
Realized and unrealized gains net of fees	-	-	-
Balance, June 30, 2015	$ 475,021	$ -	$ 475,021

	2014		
	Beneficial Interests	Funds Held by Others	Total
Balance, July 1, 2013	$ 477,849	$ 879,817	$ 1,357,666
Sales	-	(944,840)	(944,840)
Change in value of beneficial interests	(20,642)	-	(20,642)
Realized and unrealized gains net of fees	-	65,023	65,023
Balance, June 30, 2014	$ 457,207	$ -	$ 457,207

Realized and unrealized gains net of fees are reported in the statements of activities as a component of other income. The change in value of the beneficial interests is a separate line in the statements of activities.

Note 8 – Property and Equipment

As of June 30, property and equipment consists of:

	2015	2014
Leasehold improvements	$ 2,005,396	$ 1,918,490
Equipment	1,100,660	930,764
Buildings and improvements	666,226	650,655
Vehicles	257,571	182,677
	4,029,853	3,682,586
Less accumulated depreciation and amortization	(2,710,115)	(2,377,491)
	1,319,738	1,305,095
Land	123,700	123,700
Total	$ 1,443,438	$ 1,428,795

Note 9 – Debt

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

	2015	2014
Note payable of $226,150, San Diego Housing Commission ("SDHC"), secured by deed of trust on land and building. Bears simple interest of 3 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.	$ 344,372	$ 337,588
Note payable, Diocese of Los Angeles, unsecured. Annual payments of $25,000; due December 2018; non-interest bearing	75,000	100,000
Note payable, Diocese of San Diego, unsecured. Monthly principal and interest payments of $538; interest of 4.8 percent; due March 2018	16,116	21,648
	435,488	459,236
Less current portion	30,804	30,532
Total	$ 404,684	$ 428,704

Note 9 – Debt (continued)

Future minimum debt service payments are as follows:

Years ending June 30,		
2016	$	30,804
2017		31,088
2018		29,224
2019		-
2020		-
Thereafter		344,372
Total	$	435,488

Line of credit – ECS has a revolving bank line of credit in the amount of $250,000 secured by assets of ECS. No balance was outstanding on the line of credit as of June 30, 2015 and 2014. The interest rate on the line is the bank's prime rate plus 0.250 percent (3.25 percent at June 30, 2015).

Total interest expense on debt was approximately $7,600 and $9,300 for the years ended June 30, 2015 and 2014, respectively.

Note 10 – Conditional Contributions

During 1999, ECS was awarded a conditional contribution of $394,200 from the San Diego Housing Commission ("SDHC"). The contribution was used to purchase or rehabilitate facilities that were placed into service during November 1999, and are utilized by ECS to provide supportive housing to the homeless. The SDHC funds were used for the San Diego Downtown Safe Haven facility.

Of the total SDHC conditional contribution, $246,000 was 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 SDHC facilities was completed in November 2009. During each of the years ended June 30, 2015 and 2014, ECS recognized ten percent of the SDHC conditional contribution totaling $24,600. 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 remaining SDHC conditional contribution at June 30, 2015 and 2014 is $246,600 and $271,200, respectively.

The SDHC conditional contribution and a note payable to SDHC (Note 9) are secured by a first trust deed on a building and land with a net book value of approximately $370,000 and $400,000 at June 30, 2015 and 2014, respectively.

Note 11 – Temporarily Restricted Net Assets

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

	2015	2014
Time restrictions:		
Charitable remainder trusts	$ 475,021	$ 457,207
Purpose restrictions - programs	-	429
Total	$ 475,021	$ 457,636

For the year ended June 30, 2015, a total of approximately $430 was released from temporarily restricted net assets and was comprised of $240 released for program administration and $190 released for Head Start.

For the year ended June 30, 2014, a total of approximately $34,300 was released from temporarily restricted net assets and was comprised of $30,500 released for the Emergency Assistance Program, $3,400 released for housing and supportive services, $330 released for program administration, and $65 released for Head Start.

Note 12 – Employee Benefit Plan

ECS has a 401(k) retirement plan (the “Plan”) covering all employees 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 $342,000 and $309,000 for the years ended June 30, 2015 and 2014, respectively.

Note 13 – Union Contract

A substantial portion of ECS’ labor force is subject to a collective bargaining agreement which expired on June 30, 2015. ECS is operating under an extension on this agreement while negotiating a new agreement which management anticipates may be completed by November 30, 2015. ECS could be exposed to increases in hourly rates and benefits under the new agreement.

Note 14 – Commitments and Contingencies

ECS occupies facilities in various locations under month-to-month and long-term operating leases with terms extending through December 2023. Rental expense under operating leases was approximately $1,663,000 and $1,601,000 for the years ended June 30, 2015 and 2014, respectively.

Note 14 – Commitments and Contingencies (continued)

Future minimum annual rentals under long-term operating leases at June 30, 2015 are as follows:

Years ending June 30,		
2016	$	1,679,067
2017		1,178,452
2018		958,598
2019		680,342
2020		527,401
Thereafter		1,941,906
Total	$	6,965,766

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 15 – Related-party Transactions

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

		2015		2014
Note payable to Episcopal Diocese of Los Angeles	$	75,000	$	100,000
Note payable to Episcopal Diocese of San Diego		16,116		21,648
Contribution from Episcopal Diocese of San Diego		20,500		20,000

ECS also has a beneficial interest in a charitable remainder trust for which a member of the Board of Directors is a trustee. ECS' beneficial interest is valued at approximately $234,000 and $238,000 as of June 30, 2015 and 2014, 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

We have audited the financial statements of Episcopal Community Services as of and for the year ended June 30, 2015, and have issued our report thereon dated October 26, 2015, 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 26, 2015

EPISCOPAL COMMUNITY SERVICES
ADDITIONAL INFORMATION
SCHEDULE OF REVENUE AND EXPENSES BY ACTIVITY
YEAR ENDED JUNE 30, 2015

	Child Development Programs [1]	Housing and Supportive Services Programs [2]	Clinical Services Programs [3]	Nutrition Services	Fundraising and Communications	Management and General	Capital Fund Activity	Eliminations	Total
Revenue, Gains, and Other Support									
Grants and contracts	$ 18,802,965	$ 1,746,479	$899,200	$ -	$ -	$ -	$ -	$ (150,348)	$ 21,298,296
Service fees	-	-	2,628,522	963,734	-	-	-	(948,119)	2,644,137
Contributions and change in value of beneficial interests in CRTs	99	28,785	3,500	2,750	368,733	-	-	-	403,867
Other	199	43,173	2,791	36	-	18,776	-	-	64,975
Total revenue, gains, and other support	18,803,263	1,818,437	3,534,013	966,520	368,733	18,776	-	(1,098,467)	24,411,275
Expenses									
Personnel	11,185,218	1,258,298	2,221,041	309,277	130,156	1,865,181	-	(150,348)	16,818,823
Other direct costs	3,844,598	233,582	383,577	485,030	80,581	404,332	(74,893)	(948,119)	4,408,688
Occupancy	1,989,972	248,423	404,758	34,395	30,551	257,991	(330,448)	-	2,635,642
Depreciation	-	-	-	-	-	-	390,698	-	390,698
Interest	-	6,785	-	-	-	842	-	-	7,627
Management and general	1,900,011	189,746	376,347	44,708	15,052	(2,525,864)	-	-	-
Total expenses	18,919,799	1,936,834	3,385,723	873,410	256,340	2,482	(14,643)	(1,098,467)	24,261,478
Net Activity	$ (116,536)	$ (118,397)	$ 148,290	$ 93,110	$ 112,393	$ 16,294	$ 14,643	$ -	$ 149,797

[1] **Child Development Programs:** Head Start, Early Head Start, T&TA, and Quality Preschool Initiative

[2] **Housing and Supportive Services Programs:** Friend to Friend and San Diego Safe Havens

[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
Revenue and Expenses shown are based on the accounting methods prescribed by the program grants and contracts.