

Episcopal Community Services of the Diocese of Pennsylvania

Financial Statements
Year Ended June 30, 2018



1835 Market Street, 3rd Floor
Philadelphia, PA 19103

215/567-7770 | bbdcpa.com

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

CONTENTS

INDEPENDENT AUDITOR'S REPORT 1

FINANCIAL STATEMENTS

Statement of Financial Position 3

Statement of Activities 4

Statement of Functional Expenses 5

Statement of Cash Flows 6

Notes to Financial Statements 7



INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
Episcopal Community Services of the Diocese of Pennsylvania
Philadelphia, Pennsylvania**

We have audited the accompanying financial statements of Episcopal Community Services of the Diocese of Pennsylvania (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018 and the related statements of activities, functional expenses and cash flows for the year 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 U.S. generally accepted accounting principles; 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. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Community Services of the Diocese of Pennsylvania as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Episcopal Community Services of the Diocese of Pennsylvania's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 6, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BBO, LLP.

**Philadelphia, Pennsylvania
December 20, 2018**

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF FINANCIAL POSITION

June 30, 2018 with comparative totals for 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 816,401	\$ 768,286
Grants receivable	516,547	657,563
Contributions receivable	1,045,266	767,206
Prepaid expenses	305,880	219,844
Land, buildings, building improvements, equipment, and furniture and fixtures, net	2,278,774	2,351,757
Long-term investments	66,997,179	62,501,785
Beneficial interest in charitable remainder trust	195,000	-
Beneficial interest in perpetual trusts	<u>3,560,000</u>	<u>3,056,000</u>
Total assets	<u>\$75,715,047</u>	<u>\$70,322,441</u>
LIABILITIES		
Line of credit	\$ 175,000	\$ 600,000
Accounts payable and accrued expenses	<u>1,186,443</u>	<u>1,096,371</u>
Total liabilities	<u>1,361,443</u>	<u>1,696,371</u>
NET ASSETS		
Unrestricted		
Board designated - endowment	27,207,977	24,592,429
Board designated - other	756,541	611,859
Unrestricted	<u>2,149,658</u>	<u>2,146,047</u>
Total unrestricted	30,114,176	27,350,335
Temporarily restricted	27,990,885	26,001,192
Permanently restricted	<u>16,248,543</u>	<u>15,274,543</u>
Total net assets	<u>74,353,604</u>	<u>68,626,070</u>
Total liabilities and net assets	<u>\$75,715,047</u>	<u>\$70,322,441</u>

See accompanying notes

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF ACTIVITIES

Year ended June 30, 2018 with comparative totals for 2017

	Unrestricted	Board	Total	Temporarily	Permanently	Totals	
		Designated Unrestricted				Unrestricted	Restricted
SUPPORT, REVENUE AND GAINS							
Support							
Contributions	\$ 1,243,841	\$ -	\$ 1,243,841	\$ 143,014	\$ 255,000	\$ 1,641,855	\$ 1,745,044
Diocese of Pennsylvania	88,250	-	88,250	-	-	88,250	88,500
Legacies and bequests	1,305,509	-	1,305,509	962,000	430,000	2,697,509	1,278,932
Federal, state, and local grants	3,321,173	-	3,321,173	-	-	3,321,173	2,820,691
Foundations	178,856	-	178,856	73,000	-	251,856	219,294
Fees	89,845	-	89,845	-	-	89,845	79,111
Other	21,764	-	21,764	-	-	21,764	3,634
Total support	6,249,238	-	6,249,238	1,178,014	685,000	8,112,252	6,235,206
Revenue and gains							
Trust and fiduciary income	161,517	-	161,517	-	-	161,517	146,244
Investment income	68,727	2,579,271	2,647,998	3,878,599	-	6,526,597	7,503,906
Change in value of beneficial interest in perpetual trusts	-	-	-	-	289,000	289,000	126,000
Total revenue and gains	230,244	2,579,271	2,809,515	3,878,599	289,000	6,977,114	7,776,150
Total support, revenue and gains	6,479,482	2,579,271	9,058,753	5,056,613	974,000	15,089,366	14,011,356
Net assets released from restrictions							
Endowment spending policy	2,958,636	(1,140,528)	1,818,108	(1,818,108)	-	-	-
Other transfers	(1,321,487)	1,321,487	-	-	-	-	-
Expiration of purpose and time restrictions	1,248,812	-	1,248,812	(1,248,812)	-	-	-
Total support, revenue and gains	9,365,443	2,760,230	12,125,673	1,989,693	974,000	15,089,366	14,011,356
EXPENSES							
Program services	6,939,133	-	6,939,133	-	-	6,939,133	6,675,166
Management and general	1,666,851	-	1,666,851	-	-	1,666,851	1,661,198
Fundraising	755,848	-	755,848	-	-	755,848	660,301
Total expenses	9,361,832	-	9,361,832	-	-	9,361,832	8,996,665
CHANGES IN NET ASSETS	3,611	2,760,230	2,763,841	1,989,693	974,000	5,727,534	5,014,691
NET ASSETS							
Beginning of year	2,146,047	25,204,288	27,350,335	26,001,192	15,274,543	68,626,070	63,611,379
End of year	\$ 2,149,658	\$ 27,964,518	\$ 30,114,176	\$ 27,990,885	\$ 16,248,543	\$ 74,353,604	\$ 68,626,070

See accompanying notes

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2018 with comparative totals for 2017

	Program Services						
	<u>SYS</u>	<u>RISE</u>	<u>St. Barnabas Mission</u>	<u>Housing FaSST</u>	<u>OST Programs</u>	<u>CORP Programs</u>	<u>Learning and Evaluation</u>
PERSONNEL EXPENSES							
Salaries	\$ 42,778	\$ 284,542	\$ 1,160,321	\$ 450,511	\$ 1,164,268	\$ 58,757	\$ 114,815
Payroll taxes and employee benefits	13,144	86,510	357,873	148,772	260,590	19,403	34,460
Total personnel expenses	55,922	371,052	1,518,194	599,283	1,424,858	78,160	149,275
OPERATING EXPENSES							
Occupancy	3,252	9,416	144,248	2,870	2,392	656	914
Specific assistance	-	-	56,650	631,957	10,136	7,300	-
Professional fees	504	3,356	16,312	56,765	53,392	693	2,629
Insurance	983	6,540	30,811	10,355	26,761	1,351	2,639
Office expense	3,955	10,222	93,970	19,621	56,804	1,349	2,332
Staff travel and training	2,085	5,014	24,487	11,261	44,991	2,238	4,820
Publicity and printing	1,476	9,816	40,028	15,541	40,164	2,027	3,961
Appeals	368	2,448	9,983	3,876	10,017	1,305	4,675
Gifts in kind	-	-	-	-	-	-	-
Other	23,458	98,401	73,176	37,495	228,546	26,679	43,855
Total expenses before depreciation	92,003	516,265	2,007,859	1,389,024	1,898,061	121,758	215,100
Depreciation	13,638	39,489	108,218	52,633	12,910	2,367	3,834
Total functional expenses	<u>\$ 105,641</u>	<u>\$ 555,754</u>	<u>\$ 2,116,077</u>	<u>\$ 1,441,657</u>	<u>\$ 1,910,971</u>	<u>\$ 124,125</u>	<u>\$ 218,934</u>

<u>Parenting Program</u>	<u>Wellness Services</u>	<u>Volunteer Services</u>	<u>Total Program Services</u>	<u>Supporting Services</u>			<u>Total Expenses</u>	
				<u>Management and General</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>2018</u>	<u>2017</u>
\$ 34,146	\$ 141,425	\$ 30,424	\$ 3,481,987	\$ 952,225	\$ 422,082	\$ 1,374,307	\$ 4,856,294	\$ 4,521,148
<u>11,275</u>	<u>46,493</u>	<u>5,227</u>	<u>983,747</u>	<u>309,487</u>	<u>131,196</u>	<u>440,683</u>	<u>1,424,430</u>	<u>1,205,992</u>
45,421	187,918	35,651	4,465,734	1,261,712	553,278	1,814,990	6,280,724	5,727,140
-	1,444	490	165,682	20,401	3,150	23,551	189,233	158,927
-	-	-	706,043	-	-	-	706,043	594,867
5,503	3,593	359	143,106	93,891	72,563	166,454	309,560	361,215
785	3,251	699	84,175	38,829	9,702	48,531	132,706	128,687
429	3,187	2,103	193,972	24,999	13,752	38,751	232,723	270,023
1,503	2,652	4,212	103,263	23,167	12,948	36,115	139,378	128,066
1,178	4,879	1,050	120,120	19,415	8,605	28,020	148,140	134,168
294	1,217	262	34,445	8,193	23,710	31,903	66,348	34,985
-	-	123,753	123,753	-	-	-	123,753	495,367
<u>11,261</u>	<u>13,356</u>	<u>1,417</u>	<u>557,644</u>	<u>90,689</u>	<u>44,942</u>	<u>135,631</u>	<u>693,275</u>	<u>645,621</u>
66,374	221,497	169,996	6,697,937	1,581,296	742,650	2,323,946	9,021,883	8,679,066
-	6,054	2,053	241,196	85,555	13,198	98,753	339,949	317,599
<u>\$ 66,374</u>	<u>\$ 227,551</u>	<u>\$ 172,049</u>	<u>\$ 6,939,133</u>	<u>\$ 1,666,851</u>	<u>\$ 755,848</u>	<u>\$ 2,422,699</u>	<u>\$ 9,361,832</u>	<u>\$ 8,996,665</u>

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF CASH FLOWS

Year ended June 30, 2018 with comparative totals for 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Changes in net assets</i>	\$ 5,727,534	\$ 5,014,691
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:</i>		
Depreciation	339,949	317,599
Net realized and unrealized gain on investments	(4,837,788)	(6,270,645)
Contribution of beneficial interest in charitable remainder trust	(195,000)	-
Contributions restricted for long-term purposes	(685,000)	-
Change in value of beneficial interest in perpetual trusts	(289,000)	(126,000)
(Increase) decrease in		
Grants receivable	141,016	(217,775)
Contributions receivable	(128,060)	(650,132)
Prepaid expenses	(86,036)	9,978
Increase (decrease) in		
Accounts payable and accrued expenses	90,072	(93,027)
Net cash provided by (used for) operating activities	<u>77,687</u>	<u>(2,015,311)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(8,630,817)	(14,964,843)
Proceeds from the sale of investments	8,973,211	16,786,952
Additions to land, buildings, building improvements, equipment and furniture and fixtures	(266,966)	(139,251)
Net cash provided by investing activities	<u>75,428</u>	<u>1,682,858</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayments) on line of credit	(425,000)	437,000
Collections of contribution restricted for endowment	320,000	-
	<u>(105,000)</u>	<u>437,000</u>
Increase in cash	48,115	104,547
CASH		
Beginning of year	<u>768,286</u>	<u>663,739</u>
End of year	<u>\$ 816,401</u>	<u>\$ 768,286</u>

See accompanying notes

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

(1) NATURE OF OPERATIONS

Episcopal Community Services of the Diocese of Pennsylvania ("**ECS**") is an independent Pennsylvania nonprofit corporation. The mission statement of ECS is, "Episcopal Community Services empowers vulnerable individuals and families by providing high-quality social and educational services that affirm human dignity and promote social justice."

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

ECS reports information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of ECS and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "**net assets released from restrictions.**"

Permanently restricted net assets

Net assets that are subject to donor-imposed restrictions that such assets be maintained indefinitely.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("**GAAP**") requires management to make estimates and assumptions that affect 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of ECS. Unobservable inputs reflect ECS' assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that ECS has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect ECS' own assumptions.

Land, Buildings, Building Improvements, Equipment and Furniture and Fixtures

The Church Foundation (an affiliate of the Episcopal Diocese of Pennsylvania) holds title to the land and building, located at 225 South 3rd Street, Philadelphia, Pennsylvania, in trust for the benefit of ECS, which is entitled to use such premises in perpetuity free of charge. ECS has made building improvements to the premises. The buildings, building improvements, equipment, furniture and fixtures are carried at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	40 years
Building improvements	20 - 40 years
Equipment, furniture and fixtures	3 - 5 years

Assets sold or otherwise retired are removed from the accounts and any gain or loss on disposal is reflected in the statement of activities.

Investments

Investments are stated at fair value which is determined by quoted market prices. Donated investments are recorded as contributions at the fair value at the time of donation.

Income derived from investments is unrestricted unless otherwise stipulated by the donor or law. Temporarily restricted investment income is recorded as temporarily restricted net assets and, when the restriction expires, is transferred to unrestricted net assets.

ECS invests in a professionally-managed portfolio that contains various types of securities (**See Note 4**). Such investments are exposed to market and credit risk. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the near term would materially affect investment balances and the amounts reported in the financial statements.

Contributions

Contributions received, including promises to give, are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets, if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as **"net assets released from restrictions."**

Beneficial Interest in Charitable Remainder Trust

The beneficial interest in charitable remainder trust is reported at the fair value of the related assets less the present value of the payments expected to be made to other beneficiaries. ECS has been named as the remaining beneficiary of an irrevocable charitable remainder trust. The agreement provides for the lead beneficiaries to receive annual distributions until their death, and that, upon their death, ECS is to receive the remainder. The amounts of the remainder and payments to be made to the lead beneficiaries are estimated and have been reduced to present value.

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Beneficial Interest in Perpetual Trusts

ECS is the beneficiary of perpetual trust agreements which are held by third parties. Because ECS will receive a perpetual stream of income from the trusts, an estimate of the present value of estimated future cash flows has been recorded as an asset on the statements of financial position using Level 3 valuation inputs. ECS' beneficial interest in these trust agreements is shown as permanently restricted net assets in the financial statements and its impact on the statement of activities is shown on the line **"change in value of beneficial interest in perpetual trusts."**

Federal, State, and Local Grants

Federal, state, and local grants are recorded as revenue as the services are performed. Grants receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with governmental agencies having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial. ECS does not charge interest on outstanding balances.

Permanently Restricted Endowments

Investment income and investment gains earned on permanently restricted net assets are recorded as temporarily restricted net assets. Investment losses on the investments of a permanently restricted endowment fund reduce temporarily restricted net assets. When there are no temporarily restricted net assets related to a specific permanently restricted endowment fund and the fair value of the investments related to such an endowment declines to below its original historic-dollar-value, that endowment item is technically "underwater." Investment losses on underwater endowments are recorded as unrestricted. Future investment gains are recorded as unrestricted until the endowment investment balance is restored to its historic-dollar-value.

Functional Allocation of Expenses

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

Income Tax Status

ECS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to ECS' tax-exempt purpose is subject to taxation as unrelated business income. In addition, ECS qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

GAAP requires entities to evaluate, measure, recognize and disclose any uncertain income tax positions taken on their tax returns. GAAP prescribes a minimum threshold that a tax position is required to meet in order to be recognized in the financial statements. ECS believes that it had no uncertain tax positions as defined in GAAP.

Concentrations of Credit Risk

Financial instruments which potentially subject ECS to concentrations of credit risk are cash, grants receivable and contributions receivable. ECS maintains its cash at various financial institutions. At times, such deposits may exceed federally-insured limits. Grants receivable are from various government agencies and are expected to be collected in 2019. Contributions receivable are expected to be collected through 2021 (**See Note 3**).

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Summarized Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with ECS' financial statements for the year ended June 30, 2017, from which the summarized information was derived.

(3) CONTRIBUTIONS RECEIVABLE

Contributions receivable, which consist primarily of bequests, are expected to be collected as follows:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 433,266	\$767,206
One to five years	<u>620,000</u>	<u>-</u>
	1,053,266	767,206
Less discount	<u>(8,000)</u>	<u>-</u>
	<u>\$1,045,266</u>	<u>\$767,206</u>

(4) INVESTMENTS

The fair value of ECS' investments at June 30, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 945,973	\$ 923,934
Exchange traded and mutual funds		
Equity	22,064,477	21,747,512
Fixed income	15,998,365	14,033,135
Common stocks	<u>27,988,364</u>	<u>25,797,204</u>
	<u>\$66,997,179</u>	<u>\$62,501,785</u>

Investments are measured at fair value using Level 1 valuation inputs.

Investment income was comprised of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 1,878,027	\$ 1,414,600
Net realized and unrealized gain	4,837,788	6,270,645
Investment management fees	<u>(189,218)</u>	<u>(181,339)</u>
	<u>\$ 6,526,597</u>	<u>\$ 7,503,906</u>

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

(5) LAND, BUILDINGS, BUILDING IMPROVEMENTS, EQUIPMENT, AND FURNITURE AND FIXTURES

As of June 30, 2018 and 2017, land, buildings, building improvements, equipment, and furniture and fixtures consist of:

	<u>2018</u>	<u>2017</u>
Land	\$ 40,000	\$ 40,000
Buildings 2,375,476		2,383,891
Building improvements	2,394,952	2,367,857
Equipment, and furniture and fixtures	<u>2,407,070</u>	<u>2,175,614</u>
	7,225,913	6,958,947
Less accumulated depreciation	<u>(4,947,139)</u>	<u>(4,607,190)</u>
	<u>\$ 2,278,774</u>	<u>\$ 2,351,757</u>

(6) RETIREMENT PLAN

ECS has a 401(k) defined contribution pension plan that covers all eligible employees. Eligibility requirements include having attained the age of 21 years and having completed 1,000 hours of service in a 12-month period. Employees may contribute up to 75% of their compensation. ECS matches up to a maximum of 3% of the employee's compensation. ECS' decision whether to match and the amount of the match is discretionary. Employees become 20% vested in the employer's contribution after 2 years but less than 3 years of service and become 100% vested after 3 years of service. One year of service is equivalent to 1,000 hours of service at any time during a plan year.

Total pension expense was \$89,716 and \$94,941 for the years ended June 30, 2018 and 2017, respectively.

(7) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance</u> <u>June 30, 2018</u>
Endowment appreciation	\$24,406,089	\$3,835,269	\$(1,818,108)	\$26,423,250
St. Barnabas Mission	77,264	55,000	(72,267)	59,997
Youth center and SYS	30,000	20,000	(30,000)	20,000
Future programs	469,527	32,797	(311,532)	190,792
Community outreach program	183,456	10,533	(51,400)	142,589
Other	58,950	86,000	(58,950)	86,000
Available for future periods	<u>775,906</u>	<u>1,017,014</u>	<u>(724,663)</u>	<u>1,068,257</u>
	<u>\$26,001,192</u>	<u>\$5,056,613</u>	<u>\$(3,066,920)</u>	<u>\$27,990,885</u>

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance</u> <u>June 30, 2017</u>
Endowment appreciation	\$21,708,017	\$4,540,792	\$(1,842,720)	\$24,406,089
Center for innovation and impact	99,871	-	(99,871)	-
Emergency and special needs	15,000	-	(15,000)	-
St. Barnabas Mission	35,000	77,264	(35,000)	77,264
Youth center and SYS	97,500	30,000	(97,500)	30,000
Future programs	500,000	69,527	(100,000)	469,527
Community outreach program	214,500	30,956	(62,000)	183,456
Other	158,500	58,950	(158,500)	58,950
Available for future periods	<u>90,000</u>	<u>750,906</u>	<u>(65,000)</u>	<u>775,906</u>
	<u>\$22,918,388</u>	<u>\$5,558,395</u>	<u>\$(2,475,591)</u>	<u>\$26,001,192</u>

(8) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following:

	<u>2018</u>	<u>2017</u>
Endowments	\$12,688,543	\$12,218,543
Beneficial interest in perpetual trusts	<u>3,560,000</u>	<u>3,056,000</u>
	<u>\$16,248,543</u>	<u>\$15,274,543</u>

(9) ENDOWMENT FUNDS

An accounting standard was issued which provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the uniform Prudent Management of Institutional Funds Act ("*UPMIFA*"). ECS is not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. The standard also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

ECS has adopted an investment policy for all investments to produce a predictable level of funds to meet the ECS' organizational objectives while achieving a maximum total return for the assets at a level consistent with prudent management. Under this policy, as approved by the Board, the assets are invested in a manner that is intended to produce returns that exceed the spending policy, while assuming a moderate level of investment risk. Actual returns may vary from the intended results. To satisfy its long-term rate of return objectives, ECS relies on a total return strategy in which investment returns are achieved through both capital appreciation and yield. ECS targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The spending policy calculates the amount of money annually distributed from the permanently restricted endowment fund to support various programs. The current spending policy is to distribute an amount equal to 4.87% of a moving 13 quarter average of the fair value of the endowment fund.

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Changes in the endowment assets for the years ended June 30, 2018 and 2017 are as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at June 30, 2017	\$24,592,429	\$24,406,089	\$12,218,543	\$61,217,061
Contributions	823,472	-	470,000	1,293,472
Investment income	2,566,225	3,835,269	-	6,401,494
Endowment spending policy	(1,140,528)	(1,818,108)	-	(2,958,636)
Other transfers	366,379	-	-	366,379
Balance at June 30, 2018	<u>\$27,207,977</u>	<u>\$26,423,250</u>	<u>\$12,688,543</u>	<u>\$66,319,770</u>

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at June 30, 2016	\$22,916,285	\$21,708,017	\$12,218,543	\$56,842,845
Contributions	38,285	-	-	38,285
Investment income	2,840,139	4,540,792	-	7,380,931
Endowment spending policy	(1,082,280)	(1,842,720)	-	(2,925,000)
Other transfers	(120,000)	-	-	(120,000)
Balance at June 30, 2017	<u>\$24,592,429</u>	<u>\$24,406,089</u>	<u>\$12,218,543</u>	<u>\$61,217,061</u>

(10) LINE OF CREDIT

ECS has a \$2,000,000 bank credit line which bears interest at the Wall Street Prime Rate, plus 1/4% and expires in May 2019. Advances under this credit line are not collateralized. Advances on this bank credit line were \$175,000 and \$600,000 at June 30, 2018 and 2017, respectively.

(11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 20, 2018, the date on which the financial statements were available to be issued. No material subsequent events have occurred that require recognition or disclosure in the financial statements.