

Episcopal Community Services of the Diocese of Pennsylvania

Financial Statements
Year Ended June 30, 2019



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EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

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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, 2019 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BBD, LLP.

**Philadelphia, Pennsylvania
December 18, 2019**

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF FINANCIAL POSITION

June 30, 2019 with comparative totals for 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 795,124	\$ 816,401
Grants receivable	521,811	516,547
Contributions receivable	632,020	1,045,266
Prepaid expenses	372,544	305,880
Land, buildings, building improvements, equipment, and furniture and fixtures, net	2,512,104	2,278,774
Long-term investments	68,572,424	66,997,179
Beneficial interest in charitable remainder trusts	614,000	195,000
Beneficial interest in perpetual trusts	<u>3,486,000</u>	<u>3,560,000</u>
Total assets	<u>\$ 77,506,027</u>	<u>\$ 75,715,047</u>
LIABILITIES		
Line of credit	\$ 150,000	\$ 175,000
Accounts payable and accrued expenses	<u>1,182,804</u>	<u>1,186,443</u>
Total liabilities	<u>1,332,804</u>	<u>1,361,443</u>
NET ASSETS		
Without donor restrictions		
Board designated - endowment	27,508,381	27,207,977
Board designated - other	765,878	756,541
Undesignated	<u>2,424,041</u>	<u>2,149,658</u>
Total	30,698,300	30,114,176
With donor restrictions	<u>45,474,923</u>	<u>44,239,428</u>
Total net assets	<u>76,173,223</u>	<u>74,353,604</u>
Total liabilities and net assets	<u>\$ 77,506,027</u>	<u>\$ 75,715,047</u>

See accompanying notes

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF ACTIVITIES

Year ended June 30, 2019 with comparative totals for 2018

	Without Donor Restrictions			With Donor Restrictions	Totals	
	Undesignated	Board Designated	Total		2019	2018
SUPPORT, REVENUE AND GAINS						
Support						
Contributions	\$ 1,257,708	\$ -	\$ 1,257,708	\$ 212,955	\$ 1,470,663	\$ 1,641,855
Diocese of Pennsylvania	92,886	-	92,886	-	92,886	88,250
Legacies and bequests	159,566	-	159,566	971,180	1,130,746	2,697,509
Federal, state, and local grants	3,534,214	-	3,534,214	-	3,534,214	3,321,173
Foundations	287,850	-	287,850	147,650	435,500	251,856
Fees	67,849	-	67,849	-	67,849	89,845
Other	19,356	-	19,356	-	19,356	21,764
Total support	<u>5,419,429</u>	<u>-</u>	<u>5,419,429</u>	<u>1,331,785</u>	<u>6,751,214</u>	<u>8,112,252</u>
Revenue and gains						
Trust and fiduciary income	133,769	-	133,769	-	133,769	161,517
Investment income	74,121	1,995,599	2,069,720	2,937,061	5,006,781	6,526,597
Change in value of beneficial interest in perpetual trusts	-	-	-	(74,000)	(74,000)	289,000
Total revenue and gains	<u>207,890</u>	<u>1,995,599</u>	<u>2,203,489</u>	<u>2,863,061</u>	<u>5,066,550</u>	<u>6,977,114</u>
Net assets released from restrictions/designations						
Endowment spending policy	2,938,800	(1,201,560)	1,737,240	(1,737,240)	-	-
Other transfers	484,298	(484,298)	-	-	-	-
Expiration of purpose and time restrictions	1,222,111	-	1,222,111	(1,222,111)	-	-
Total net assets released from restrictions/designations	<u>4,645,209</u>	<u>(1,685,858)</u>	<u>2,959,351</u>	<u>(2,959,351)</u>	<u>-</u>	<u>-</u>
Total support, revenue and gains	<u>10,272,528</u>	<u>309,741</u>	<u>10,582,269</u>	<u>1,235,495</u>	<u>11,817,764</u>	<u>15,089,366</u>
EXPENSES						
Program services	7,281,175	-	7,281,175	-	7,281,175	6,939,133
Management and general	1,717,794	-	1,717,794	-	1,717,794	1,666,851
Fundraising	999,176	-	999,176	-	999,176	755,848
Total expenses	<u>9,998,145</u>	<u>-</u>	<u>9,998,145</u>	<u>-</u>	<u>9,998,145</u>	<u>9,361,832</u>
CHANGES IN NET ASSETS	<u>274,383</u>	<u>309,741</u>	<u>584,124</u>	<u>1,235,495</u>	<u>1,819,619</u>	<u>5,727,534</u>
NET ASSETS						
Beginning of year	<u>2,149,658</u>	<u>27,964,518</u>	<u>30,114,176</u>	<u>44,239,428</u>	<u>74,353,604</u>	<u>68,626,070</u>
End of year	<u>\$ 2,424,041</u>	<u>\$ 28,274,259</u>	<u>\$ 30,698,300</u>	<u>\$ 45,474,923</u>	<u>\$ 76,173,223</u>	<u>\$ 74,353,604</u>

See accompanying notes

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2019 with comparative totals for 2018

	Program Services						
	<u>SYS</u>	<u>RISE</u>	<u>Mindset</u>	<u>St. Barnabas Mission</u>	<u>Housing</u>	<u>OST Programs</u>	<u>Learning and Evaluation</u>
PERSONNEL EXPENSES							
Salaries	\$ 65,393	\$ 286,782	\$ 242,578	\$ 1,152,342	\$ 337,640	\$ 1,356,229	\$ 143,345
Payroll taxes and employee benefits	17,270	76,872	69,547	306,855	93,632	276,933	41,134
Total personnel expenses	82,663	363,654	312,125	1,459,197	431,272	1,633,162	184,479
OPERATING EXPENSES							
Occupancy	3,378	9,900	2,971	92,054	1,936	1,715	1,330
Specific assistance	1,403	5,612	175	64,106	636,480	15,518	-
Professional fees	-	-	195	4,521	-	50,950	-
Insurance	1,497	6,564	5,552	30,796	7,728	31,040	3,280
Office expense	4,519	10,729	4,892	84,983	16,334	65,722	2,920
Staff travel and training	1,833	7,428	5,306	21,586	8,487	46,931	6,291
Publicity and printing	1,083	4,750	27,922	19,085	5,592	22,462	2,374
Appeals	579	2,539	2,148	10,203	2,990	12,009	3,282
Gifts in kind	-	-	-	-	-	-	-
Other	22,515	51,353	13,828	73,689	28,280	387,204	47,834
Total expenses before depreciation	119,470	462,529	375,114	1,860,220	1,139,099	2,266,713	251,790
Depreciation	12,394	36,325	10,899	102,280	51,340	13,511	4,882
Total functional expenses	<u>\$ 131,864</u>	<u>\$ 498,854</u>	<u>\$ 386,013</u>	<u>\$ 1,962,500</u>	<u>\$ 1,190,439</u>	<u>\$ 2,280,224</u>	<u>\$ 256,672</u>

		<u>Supporting Services</u>			<u>Total Expenses</u>	
<u>Other</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>2019</u>	<u>2018</u>
\$ 282,164	\$ 3,866,473	\$ 987,205	\$ 596,774	\$ 1,583,979	\$ 5,450,452	\$ 4,856,294
<u>76,372</u>	<u>958,615</u>	<u>266,322</u>	<u>171,253</u>	<u>437,575</u>	<u>1,396,190</u>	<u>1,424,430</u>
358,536	4,825,088	1,253,527	768,027	2,021,554	6,846,642	6,280,724
1,993	115,277	19,735	3,715	23,450	138,727	189,233
6,771	730,065	-	-	-	730,065	706,043
12,654	68,320	145,867	65,490	211,357	279,677	309,560
6,458	92,915	35,651	12,998	48,649	141,564	132,706
4,290	194,389	24,910	9,938	34,848	229,237	232,723
11,460	109,322	23,468	14,526	37,994	147,316	139,378
4,673	87,941	16,350	12,584	28,934	116,875	148,140
2,498	36,248	9,831	45,119	54,950	91,198	66,348
101,746	101,746	-	-	-	101,746	123,753
<u>56,217</u>	<u>680,920</u>	<u>116,044</u>	<u>53,149</u>	<u>169,193</u>	<u>850,113</u>	<u>693,275</u>
567,296	7,042,231	1,645,383	985,546	2,630,929	9,673,160	9,021,883
<u>7,313</u>	<u>238,944</u>	<u>72,411</u>	<u>13,630</u>	<u>86,041</u>	<u>324,985</u>	<u>339,949</u>
<u>\$ 574,609</u>	<u>\$ 7,281,175</u>	<u>\$ 1,717,794</u>	<u>\$ 999,176</u>	<u>\$ 2,716,970</u>	<u>\$ 9,998,145</u>	<u>\$ 9,361,832</u>

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF CASH FLOWS

Year ended June 30, 2019 with comparative totals for 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Changes in net assets</i>	\$ 1,819,619	\$ 5,727,534
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:</i>		
Depreciation	324,985	339,949
Net realized and unrealized gain on investments	(3,300,950)	(4,837,788)
Contribution of beneficial interest in charitable remainder trust	(432,000)	(195,000)
Contributions restricted for long-term purposes	(211,244)	(685,000)
Change in value of charitable remainder trusts	13,000	-
Change in value of beneficial interest in perpetual trusts	74,000	(289,000)
(Increase) decrease in		
Grants receivable	(5,264)	141,016
Contributions receivable	263,246	(128,060)
Prepaid expenses	(66,664)	(86,036)
Increase (decrease) in		
Accounts payable and accrued expenses	(3,639)	90,072
Net cash provided by (used for) operating activities	<u>(1,524,911)</u>	<u>77,687</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(15,407,415)	(8,630,817)
Proceeds from the sale of investments	17,133,120	8,973,211
Additions to land, buildings, building improvements, equipment and furniture and fixtures	(558,315)	(266,966)
Net cash provided by investing activities	<u>1,167,390</u>	<u>75,428</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayments) on line of credit	(25,000)	(425,000)
Collections of contribution restricted for endowment	361,244	320,000
Net cash provided by (used for) financing activities	<u>336,244</u>	<u>(105,000)</u>
Change in cash	(21,277)	48,115
CASH		
Beginning of year	<u>816,401</u>	<u>768,286</u>
End of year	<u>\$ 795,124</u>	<u>\$ 816,401</u>

See accompanying notes

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(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 classes of net assets:

Without donor restrictions

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

With donor restrictions

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions that require the net assets to be maintained indefinitely while permitting ECS to expend the income generated in accordance with the provisions of the contribution.

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, 2019

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 in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities. Investment income is recorded as earned.

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 net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions, 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 net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as "net assets released from restrictions."

Beneficial Interest in Charitable Remainder Trusts

The beneficial interest in charitable remainder trusts 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 two irrevocable charitable remainder trusts. The agreements provide 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, 2019

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 net assets with donor restrictions 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.

Functional Allocation of Expenses

The costs of providing various program and supporting services have been presented on a functional basis in the statements of activities and functional expenses. Expenses directly attributable to a specific functional area are reported as expenses of that functional area. Expenses not directly attributable to a specific functional area are allocated. Significant expenses that are allocated include salaries and benefits which are allocated based on estimates of time and effort.

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 2020. Contributions receivable are expected to be collected through 2021 (**See Note 3**).

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, 2018, from which the summarized information was derived.

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Accounting Pronouncements Adopted

On August 18, 2016, the Financial Accounting Standards Board ("**FASB**") issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. ECS has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of ECS' financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (**Note 11**).

Reclassifications

Certain items in the 2018 comparative information have been reclassified in order to conform to the 2019 presentation.

(3) CONTRIBUTIONS RECEIVABLE

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

	<u>2019</u>	<u>2018</u>
Less than one year	\$633,020	\$ 433,266
One to five years	<u>10,000</u>	<u>620,000</u>
	643,020	1,053,266
Less allowance	<u>(11,000)</u>	<u>(8,000)</u>
	<u>\$632,020</u>	<u>\$1,045,266</u>

(4) INVESTMENTS

The fair value of ECS' investments at June 30, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 955,654	\$ 945,973
Exchange traded and mutual funds		
Equity	20,810,966	22,064,477
Fixed income	15,941,964	14,682,402
Real assets	1,823,490	1,315,963
Marketable equity securities	28,540,350	27,988,354
Limited partnership	<u>500,000</u>	<u>-</u>
	<u>\$68,572,424</u>	<u>\$66,997,179</u>

Investments, with the exception of ECS' investment in a limited partnership, are measured at fair value using Level 1 valuation inputs. The limited partnership is measured using the equity method and has not been classified in the fair value hierarchy.

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Investment income was comprised of the following at June 30,:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 1,905,204	\$ 1,878,027
Net realized and unrealized gain	3,300,950	4,837,788
Less investment management fees	<u>(199,903)</u>	<u>(189,218)</u>
	<u>\$ 5,006,781</u>	<u>\$ 6,526,597</u>

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

As of June 30, 2019 and 2018, land, buildings, building improvements, equipment, and furniture and fixtures consist of:

	<u>2019</u>	<u>2018</u>
Land	\$ 40,000	\$ 40,000
Buildings	2,842,865	2,383,891
Building improvements	2,401,836	2,394,952
Equipment, and furniture and fixtures	<u>2,499,527</u>	<u>2,407,070</u>
	7,784,228	7,225,913
Less accumulated depreciation	<u>(5,272,124)</u>	<u>(4,947,139)</u>
	<u>\$ 2,512,104</u>	<u>\$ 2,278,774</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.

All Episcopal clergy employed by ECS are enrolled in The Church Pension Fund as required by national and diocesan canons.

Total pension expense was \$106,822 and \$89,716 for the years ended June 30, 2019 and 2018, respectively.

(7) NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions designated by the Board of Trustees are as follows:

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance</u> <u>June 30, 2019</u>
Board designated endowment	\$27,207,977	\$1,981,805	\$(1,681,401)	\$27,508,381
Board designated – other	<u>756,541</u>	<u>13,794</u>	<u>(4,457)</u>	<u>765,878</u>
	<u>\$27,964,518</u>	<u>\$1,995,599</u>	<u>\$(1,685,858)</u>	<u>\$28,274,259</u>

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(8) NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at year end:

	<u>Beginning Balance</u>	<u>Additions (Subtractions)</u>	<u>Investment Income</u>	<u>Releases</u>	<u>Ending Balance</u>
Subject to expenditure for specific purposes or periods					
St. Barnabas Mission	\$ 59,997	\$ 77,150	\$ -	\$ (39,997)	\$ 97,150
Youth Center and SYS	20,000	-	-	(20,000)	-
Future programs	190,792	-	11,741	(202,533)	-
Community outreach program	142,589	-	11,043	(40,000)	113,632
RISE & Mindset	-	160,000	-	-	160,000
Other	86,000	54,360	-	(86,000)	54,360
For future periods	<u>1,068,257</u>	<u>829,031</u>	<u>-</u>	<u>(833,581)</u>	<u>1,063,707</u>
	<u>1,567,635</u>	<u>1,120,541</u>	<u>22,784</u>	<u>(1,222,111)</u>	<u>1,488,849</u>
Net assets to be maintained indefinitely					
Endowment funds					
General	435,040	211,244	34,334	(32,520)	648,098
Prosperity Model	41,025	-	2,899	(4,680)	39,244
ASH	6,568,556	-	490,875	(262,320)	6,797,111
21 st Century	4,130,432	-	309,097	(173,280)	4,266,249
Mercer	12,691,682	-	934,935	(582,300)	13,044,317
House of Rest	7,670,664	-	575,212	(334,380)	7,911,496
Burd	<u>7,574,394</u>	<u>-</u>	<u>566,925</u>	<u>(347,760)</u>	<u>7,793,559</u>
	<u>39,111,793</u>	<u>211,244</u>	<u>2,914,277</u>	<u>(1,737,240)</u>	<u>40,500,074</u>
Beneficial interest in perpetual trusts	<u>3,560,000</u>	<u>(74,000)</u>	<u>-</u>	<u>-</u>	<u>3,486,000</u>
	<u>\$44,239,428</u>	<u>\$1,257,785</u>	<u>\$2,937,061</u>	<u>\$(2,959,351)</u>	<u>\$45,474,923</u>

General Endowment – The general endowment fund has a historical dollar value of \$641,244, with the income available for the operations of the organization.

Prosperity Model Endowment – The prosperity model endowment fund has a historical dollar value of \$40,000, with the income available for the development and execution of ECS' "Path to Prosperity" initiative.

ASH Endowment – The All Saint's Hospital endowment fund has a historical dollar value of \$1,592,308, with the income available to support programs designated to serve the health needs of the inner city poor.

21st Century Endowment – The 21st Century endowment fund has a historical dollar value of \$2,600,110, with the income available for initiatives that support the following areas: 1) St. Barnabas Mission, 2) after school and summer camp programs and 3) other initiatives in the ministry assisting persons affected by welfare changes.

Mercer Endowment – This endowment fund has a historical dollar value of \$2,734,314, with the income available for the purpose of providing services to the elderly of the Greater Philadelphia area.

House of Rest Endowment – This endowment fund has a historical dollar value of \$4,820,194, with the income available for services provided to the elderly.

Burd Endowment – This endowment fund has a historical dollar value of \$471,617, with the income available for services to be provided to families with young children that are at risk of dissolution as a result of poverty, homelessness, drug abuse or other problems that jeopardize the integrity of the family structure.

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(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 4.50% of a moving 13 quarter average of the fair value of the endowment fund.

Changes in the endowment assets for the years ended June 30, 2019 and 2018 are as follows:

	<u>Board Designated</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at June 30, 2018	\$27,207,977	\$39,111,793	\$66,319,770
Contributions	-	211,244	211,244
Investment income, net	1,981,805	2,914,277	4,896,082
Endowment spending policy distribution	(1,201,560)	(1,737,240)	(2,938,800)
Other transfers	<u>(479,841)</u>	<u>-</u>	<u>(479,841)</u>
Balance at June 30, 2019	<u>\$27,508,381</u>	<u>\$40,500,074</u>	<u>\$68,008,455</u>

	<u>Board Designated</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at June 30, 2017	\$24,592,429	\$36,624,632	\$61,217,061
Contributions	823,472	470,000	1,293,472
Investment income, net	2,566,225	3,835,269	6,401,494
Endowment spending policy distribution	(1,140,528)	(1,818,108)	(2,958,636)
Other transfers	<u>366,379</u>	<u>-</u>	<u>366,379</u>
Balance at June 30, 2018	<u>\$27,207,977</u>	<u>\$39,111,793</u>	<u>\$66,319,770</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 2020. Advances under this credit line are not collateralized. Advances on this bank credit line were \$150,000 and \$175,000 at June 30, 2019 and 2018, respectively.

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

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June 30, 2019

(11) LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects ECS' financial assets as of the statement of financial position date, which has been reduced by financial assets not available within one year.

Cash	\$ 795,124
Grants receivable	521,811
Contributions receivable	632,020
Investments	<u>68,572,424</u>
Total financial assets	70,521,379
Less: financial assets not available for general operations within one year	
Restricted by donor for specific purposes	(260,142)
Restricted by donor to be maintained indefinitely	(40,500,074)
Board designated funds	(28,274,259)
Gift annuity assets	(275,714)
Add: FY 2020 Endowment spending policy distribution available for general operations	<u>2,681,719</u>
Total financial assets available within one year	<u>\$ 3,892,909</u>

Liquidity Management

ECS regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. ECS has various sources of liquidity at its disposal, including cash, money market funds and a line of credit.

(12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 18, 2019, 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.