

Episcopal Children's Services, Inc.

Financial Statements and Supplementary Information

Years Ended June 30, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Episcopal Children's Services, Inc.
Jacksonville, FL

Opinion

We have audited the financial statements of Episcopal Children's Services, Inc., which comprises the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Episcopal Children's Services, Inc. as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Episcopal Children's Services, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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 of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Episcopal Children's Services, Inc.'s ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Episcopal Children's Services, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Episcopal Children's Services, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters - Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance; schedule of source and expenditures of city grant funds and schedule of findings and questioned costs, as required by Title 2. U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Chapter 10.650 Rules of the Auditor General, as well as the Schedule of the Source and Status of Funds as required by the City of Jacksonville Municipal Ordinance Code, Chapter 118.202(e), 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.

FORVIS

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2022, on our consideration of Episcopal Children's Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Episcopal Children's Services, Inc.'s internal control over financial reporting and compliance.

FORVIS, LLP

**Jacksonville, FL
October 26, 2022**

Episcopal Children's Services, Inc.
Statements of Financial Position
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,165,812	\$ 1,677,001
Grants receivable, net	4,349,611	3,689,427
Investments	1,016,763	1,167,912
Prepaid expenses and other current assets	<u>762,773</u>	<u>389,230</u>
Total current assets	7,294,959	6,923,570
Property and equipment, net	7,939,283	8,037,860
Other non-current assets	<u>15,275</u>	<u>16,275</u>
Total assets	<u>\$ 15,249,517</u>	<u>\$ 14,977,705</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 2,695,889	\$ 2,490,423
Accrued expenses	1,810,241	1,610,855
Refundable advances	383,115	307,708
Capital lease, current	<u>28,840</u>	<u>26,645</u>
Total current liabilities	4,918,085	4,435,631
Long-term debt:		
Capital lease, less current	<u>363,780</u>	<u>391,555</u>
Total liabilities	<u>5,281,865</u>	<u>4,827,186</u>
Net assets:		
Without donor restrictions	<u>9,967,652</u>	<u>10,150,519</u>
Total net assets	<u>9,967,652</u>	<u>10,150,519</u>
Total liabilities and net assets	<u>\$ 15,249,517</u>	<u>\$ 14,977,705</u>

See accompanying notes.

Episcopal Children's Services, Inc.
Statements of Activities
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Changes in net assets without donor restrictions:		
Support and revenue:		
Grants and contracts from agencies:		
Federal grants - direct	\$ 39,963,441	\$ 38,880,445
Federal grants - State pass-through	33,032,627	27,452,238
State grants	13,880,101	12,840,302
Kids Hope Alliance	1,341,920	1,403,984
Local counties	287,025	245,094
Contracts with other non-profit agencies	<u>256,879</u>	<u>176,228</u>
Total grants and contracts from agencies	<u>88,761,993</u>	<u>80,998,291</u>
Contributions	<u>316,354</u>	<u>711,382</u>
Revenues:		
In-kind contributions	7,992,288	8,711,966
Program fees	823,391	823,696
Net investment income (loss)	(148,799)	359,549
Miscellaneous	<u>247,688</u>	<u>92,318</u>
Total revenue	<u>8,914,568</u>	<u>9,987,529</u>
Total public support and revenue	<u>97,992,915</u>	<u>91,697,202</u>
Expenses:		
Program service	93,511,611	87,256,230
Management and general	<u>4,664,171</u>	<u>4,372,073</u>
Total expenses	<u>98,175,782</u>	<u>91,628,303</u>
Increase (decrease) in net assets without donor restrictions	<u>(182,867)</u>	<u>68,899</u>
Net assets without donor restrictions, beginning of year	<u>10,150,519</u>	<u>10,081,620</u>
Net assets without donor restrictions, end of year	<u>\$ 9,967,652</u>	<u>\$ 10,150,519</u>

Episcopal Children's Services, Inc.
Statement of Functional Expenses
Year Ended June 30, 2022

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 25,642,144	\$ 3,352,109	\$ 28,994,253
Employee benefits	3,361,130	450,580	3,811,710
Payroll taxes	1,849,141	242,523	2,091,664
	<u>30,852,415</u>	<u>4,045,212</u>	<u>34,897,627</u>
Total salaries and related expenses			
Payments to providers	46,576,870	-	46,576,870
Program expenses	9,683,240	118,224	9,801,464
Depreciation and amortization	889,580	1,132	890,712
Occupancy	1,297,382	-	1,297,382
Office expense	601,716	57,104	658,820
Food and kitchen supplies	1,048,164	-	1,048,164
Utilities and telephone	489,016	54,560	543,576
Repairs and maintenance	833,459	2,227	835,686
Travel	431,870	7,501	439,371
Insurance	300,651	75,099	375,750
Professional fees	130,789	282,433	413,222
Janitorial services	137,623	2,610	140,233
Conference and meetings	122,948	12,074	135,022
Interest	32,980	-	32,980
Bank charges and fees	32,201	454	32,655
Advertising	100	-	100
Miscellaneous expenses	50,607	5,541	56,148
	<u>\$ 93,511,611</u>	<u>\$ 4,664,171</u>	<u>\$ 98,175,782</u>

See accompanying notes.

Episcopal Children's Services, Inc.
Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services	Management and General	Total
Salaries	\$ 25,028,778	\$ 3,250,603	\$ 28,279,381
Employee benefits	3,124,497	409,319	3,533,816
Payroll taxes	1,815,574	231,875	2,047,449
Total salaries and related expenses	29,968,849	3,891,797	33,860,646
Payments to providers	40,665,735	-	40,665,735
Program expenses	11,132,824	143,044	11,275,868
Depreciation and amortization	867,534	1,692	869,226
Occupancy	990,801	71,205	1,062,006
Office expense	771,453	27,773	799,226
Food and kitchen supplies	687,385	-	687,385
Utilities and telephone	485,015	25,429	510,444
Repairs and maintenance	671,691	3,930	675,621
Travel	286,658	6,422	293,080
Insurance	261,556	75,893	337,449
Professional fees	106,265	111,931	218,196
Janitorial services	124,620	5,667	130,287
Conference and meetings	79,713	7,195	86,908
Interest	34,587	-	34,587
Bank charges and fees	26,642	-	26,642
Advertising	1,510	-	1,510
Miscellaneous expenses	93,392	95	93,487
	\$ 87,256,230	\$ 4,372,073	\$ 91,628,303

Episcopal Children's Services, Inc.
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Changes in net assets	\$ (182,867)	\$ 68,899
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	890,712	869,226
Realized and unrealized gain (loss) on investments	167,390	(339,665)
Loss on disposal of property and equipment	(1,658)	2,009
Change in grants receivable	(660,184)	2,957,531
Change in prepaid expenses and other assets	(372,543)	(84,371)
Change in accounts payable and accrued expenses	404,852	(2,995,242)
Change in refundable advances	75,407	226,462
Net cash provided by operating activities	<u>321,109</u>	<u>704,849</u>
Cash flow from investing activities:		
Purchases of property and equipment	(790,477)	(361,943)
Purchases of investments	(121,107)	(198,668)
Proceeds from sale of investments	104,866	393,788
Net cash used in investing activities	<u>(806,718)</u>	<u>(166,823)</u>
Cash flow from financing activities:		
Payment on capital lease obligations	(25,580)	(25,681)
Net cash used in financing activities	<u>(25,580)</u>	<u>(25,681)</u>
Net increase (decrease) in cash	(511,189)	512,345
Cash and cash equivalents, beginning of year	<u>1,677,001</u>	<u>1,164,656</u>
Cash and cash equivalents, end of year	<u>\$ 1,165,812</u>	<u>\$ 1,677,001</u>
Supplemental Disclosures:		
Cash paid during the year for:		
Interest	<u>\$ 32,398</u>	<u>\$ 34,384</u>

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Organization

Founded in 1966, Episcopal Children's Services, Inc. (ECS) provides high quality services to children in fourteen counties in Northeast and Central Florida. Services provided by ECS include: high quality early education programs at twenty seven Head Start/Early Head Start centers, nine Community Partnership childcare centers for Head Start services and home based Early Head Start child care programs and one directly operated Early Learning Center; School Readiness, Child Care Resource and Referral and Voluntary Pre-Kindergarten Administration; the USDA Child Care Food Program to over 1,800 children daily; the Regional Training Institute for child care teachers; social services and partnership in the Jacksonville Early Learning Partnership in Duval County.

Basis of accounting

The financial statements of ECS have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of presentation

The financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, Not-for-Profit Entities, Presentation of Financial Statements. Accordingly, the accounts of ECS are reported in the following net asset categories:

Net Assets with Donor Restrictions - The part of net assets of ECS that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). There were no net assets with donor restrictions as of June 30, 2022.

Net Assets without Donor Restrictions - The part of net assets of ECS that is not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

Contributions received with donor restrictions that are met in the same reporting period are reported as increases in net assets without donor restrictions.

Use of estimates

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Accordingly, actual results could differ from those estimates.

Concentration of credit risk arising from cash deposits in excess of insurance limits

ECS maintains most of its cash at one financial institution and the balance is insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2022 and 2021, the FDIC's standard insurance coverage for our accounts was set at \$250,000.

**Episcopal Children's Services
Notes to Financial Statements**

ECS maintains accounts with a single brokerage firm. The account contains cash and securities. Balances are insured up to \$500,000 (with a limit of \$250,000 for cash items) by the Securities Investor Protection Corporation.

Cash and cash equivalents

For purposes of the Statements of Cash Flows, ECS considers all unrestricted highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Receivables

Grants receivable are stated at the amounts management expects to collect from outstanding balances. If amounts become uncollectible, they will be charged to the program when the determination that the receivable is uncollectible is made. At June 30, 2022, there is no allowance for doubtful accounts. At June 30, 2021, the allowance for doubtful accounts was \$2,116.

Investments

Investments are considered to be available-for-sale securities based on management's intent as to when it may decide to sell the securities. Accordingly, ECS investments are stated at fair value and any gain or loss from mark-to-market accounting valuations will be recorded as an unrealized gain or loss in the Statements of Activities. Gains and losses are recorded as of the trade date.

Property and equipment

Expenditures for property, equipment and improvements are capitalized at cost. Equipment expenditures of less than \$5,000 and ordinary repairs and maintenance are charged to expense when incurred. Donated assets are capitalized and recorded at their fair value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of the asset, ranging from 3 to 39 years.

Grant revenue

ECS has grant revenue recognized on the incurrence of allowable costs or based on other terms of the award for fixed price, unit-of-service, and other types of awards. These grants generally require a monthly invoice to be submitted for reimbursement. These grants are awarded to ECS to carry out programs supporting the mission and do not have any performance obligations related to the grantor. These amounts are reported as grants and contracts from agencies in the statements of activities.

In-kind contributions

Donated materials are recorded as contributions at their estimated fair value at the date of donation. Long-lived assets or the use of facilities are recorded as contributions in the period received at fair value. Contributions of services are recorded in the financial statements if the services enhance or create non-financial assets or require specialized skills and are provided by individuals possessing those skills.

Program fees

ECS charges program fees to families receiving benefits through their programs. The services are provided on a daily basis and are generally billed on a monthly basis. There is no variable consideration and contract changes are usually minimal. ECS recognized revenues over time of \$823,391 and \$823,696 for the years ended June 30, 2022 and 2021, respectively.

Income taxes

ECS is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. ECS

Episcopal Children's Services
Notes to Financial Statements

has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2022 or 2021.

Expense allocation

The cost of providing program and management activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ECS uses the direct costing method to allocate costs. Directly identifiable expenses are charged to the programs and supporting services. Expenses related to more than one function are charged to programs and support on the basis of periodic time. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of ECS.

Reclassifications

Certain amounts from the 2021 financial statements have been reclassified to conform to the 2022 financial statement presentation.

Recent accounting pronouncements

In September 2020, the FASB issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The standard requires nonprofit organizations to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. ECS has adopted this standard on a retrospective basis as of July 1, 2020.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires that a lease liability and related right-of-use asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and changes in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. In 2019, the FASB delayed the effective date for nonpublic entities to fiscal years beginning after December 15, 2021. Early adoption is permitted. ECS is currently evaluating the magnitude and other potential impacts on its financial statements.

Episcopal Children's Services
Notes to Financial Statements

2. Liquidity and Availability of Funds

ECS's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,165,812	\$ 1,677,001
Grants receivable	4,349,611	3,689,427
Investments	<u>1,016,763</u>	<u>1,167,912</u>
Total financial assets as of year-end	6,532,186	6,534,340
Those unavailable for general expenditures within one year:		
Refundable advances	<u>383,115</u>	<u>307,708</u>
Total financial assets available to meet general expenditures within the next 12 months	<u>\$ 6,149,071</u>	<u>\$ 6,226,632</u>

As part of ECS's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. ECS has a line of credit with a \$1,000,000 limit that it could draw upon, as necessary.

3. Investments

Investments are comprised of the following at June 30:

	<u>2022</u>		
	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>	<u>Fair Value</u>
Equity securities	\$ 24,362	\$ 19,077	\$ 43,439
Exchange traded funds	<u>833,974</u>	<u>139,350</u>	<u>973,324</u>
Totals	<u>\$ 858,336</u>	<u>\$ 158,427</u>	<u>\$ 1,016,763</u>
	<u>2021</u>		
	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>	<u>Fair Value</u>
Equity securities	\$ 24,362	\$ 22,160	\$ 46,522
Exchange traded funds	<u>800,648</u>	<u>320,742</u>	<u>1,121,390</u>
Totals	<u>\$ 825,010</u>	<u>\$ 342,902</u>	<u>\$ 1,167,912</u>

4. Fair Value Measurements

ECS investments are reported at fair value in the accompanying Statements of Financial Position. The methods used to measure fair value may produce an amount that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although ECS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

	2022			
	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Equity securities	\$ 43,439	\$ 43,439	\$ -	\$ -
Exchange traded funds	<u>973,324</u>	<u>973,324</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,016,763</u>	<u>\$ 1,016,763</u>	<u>\$ -</u>	<u>\$ -</u>
	2021			
	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Equity securities	\$ 46,522	\$ 46,522	\$ -	\$ -
Exchange traded funds	<u>1,121,390</u>	<u>1,121,390</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,167,912</u>	<u>\$ 1,167,912</u>	<u>\$ -</u>	<u>\$ -</u>

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. ECS uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, ECS measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

Level 1 fair value measurements

The fair values of equity securities and exchange traded funds are based on the closing price reported in the active market where the individual securities are traded, when available.

There were no changes during the years ended June 30, 2022 and 2021 to the valuation techniques used to measure fair values on a recurring basis.

5. Property and Equipment

Major classes of property and equipment and their estimated useful lives are as follows at June 30:

	<u>Useful Life in Years</u>	<u>2022</u>	<u>2021</u>
Land and improvements		\$ 825,389	\$ 718,827
Buildings and improvements	5 – 39	8,192,505	7,740,999
Furniture and equipment	3 – 10	5,261,553	5,134,385
Vehicles	5 – 7	<u>481,218</u>	<u>485,218</u>
		14,760,665	14,079,429
Accumulated depreciation		<u>(6,821,382)</u>	<u>(6,041,569)</u>
Net property and equipment		<u>\$ 7,939,283</u>	<u>\$ 8,037,860</u>

Depreciation expense for the years ending June 30, 2022 and 2021 was \$889,648 and \$869,226, respectively.

6. Debt

In February 2019, ECS obtained a \$600,000 line of credit with a bank. Interest accrues at 1.62% above the Secured Overnight Financing Rate (SOFR) for the applicable interest period. In June 2022, ECS and the bank amended the line of credit agreement to allow for up to \$1,000,000 of borrowings. Interest period is the period commencing on the 7th day of each month and ending on the numerically corresponding date one month later. The line of credit is secured by deposits held with the lender. The line of credit has a maturity date of February 24, 2024. As of June 30, 2022 and 2021, no amounts were outstanding.

7. Capital Lease

On March 25, 2011, ECS entered into a 20-year lease agreement with KQC Investors, LLC (the “KQC”) in which ECS will lease a Head Start Early Childhood Expansion building to serve about 40 children. The lease took effect when ECS took possession of the property on January 1, 2011, at which time ECS recorded the lease as a capitalized lease obligation. The cost of the building was \$590,208. The corresponding debt will be recorded and amortized over the life of the lease at the implicit interest rate of the lease, which is approximately 7.9% payable in monthly installments of \$4,917. At the end of the lease, ECS may purchase the property for any unpaid amounts under the lease.

The land upon which the building was built was purchased by ECS with unrestricted funds for \$101,569. KQC obtained independent bank financing for the cost of construction. At the closing of KQC's loan, ECS conveyed the land and an existing building to KQC, which will become part of the property leased to ECS. The land is currently recorded at a cost of \$101,569 on ECS's financial statements.

	<u>2022</u>	<u>2021</u>
Capitalized debt obligation as of June 30:	<u>\$ 392,620</u>	<u>\$ 418,200</u>

Episcopal Children’s Services
Notes to Financial Statements

Capitalized debt obligation maturities are as follows as of June 30:

2023	\$	59,000
2024		59,000
2025		59,000
2026		59,000
2027		59,000
Thereafter		<u>268,115</u>
		563,115
Amount representing interest		(170,495)
Present value of minimum lease payments:		
Current portion		<u>(28,840)</u>
Long-term portion	\$	<u>363,780</u>

Amortization expense of capitalized lease costs for the years ending June 30, 2022 and 2021 was \$1,064 and \$1,824, respectively.

8. In-Kind Contributions

ECS recognized in-kind contributions within the statement of activities for the years ended June 30, 2022 and 2021, as follows:

	<u>2022</u>	<u>2021</u>
Rental and donated space	\$ 888,252	\$ 771,255
Volunteer and intern services	6,218,027	6,553,785
Professional services	<u>886,009</u>	<u>1,386,926</u>
Total in-kind contributions	<u>\$ 7,992,288</u>	<u>\$ 8,711,966</u>

Rental and donated space is recorded based on the appraised value of the space. Volunteer and intern services are recorded based on a standard hourly rate unless the volunteer is operating in their professional role. Professional services are recorded based on the competitive market rate for the professional services contributed.

All of the in-kind contributions received by ECS were used in administering the programs.

9. Operating Leases

ECS has various operating leases principally for property and some office equipment, some of which requires the payment of a share of property taxes, insurance, and normal maintenance costs. ECS uses the terms of the lease contract to record the leases. The presented commitments include extension and renewal periods where ECS has the ability and intention to renew.

**Episcopal Children’s Services
Notes to Financial Statements**

At June 30, 2022, commitments, including contractual escalations under these leases were as follows:

2023	\$	880,639
2024		762,497
2025		702,234
2026		663,284
2027		643,640
Thereafter		<u>2,220,567</u>
	\$	<u>5,872,861</u>

Lease expense for the years ending June 30, 2022 and 2021 was \$1,297,382 and \$1,062,006, respectively.

10. Pension Expense

ECS has an annuity plan (Sec. 403(b)) with OneAmerica under which employees are eligible to participate upon hired. ECS matches the employee's contributions dollar-for-dollar, up to 5% of their annual salary after one year of service and worked at least 1000 hours. Upon completion of five years of service, employees become 100% vested in employer contributions.

Each year ECS may make a base contribution into an annuity account for all eligible employees. The base contribution will be a percentage of each employee's salary and is based on job classification and seniority. To be eligible, employees will have met the requirements to participate in the annuity plan, have one year of service and are still employed on the last day of the plan year (December 31).

Pension expense was approximately \$788,000 and \$710,000 for the years ended June 30, 2022 and 2021, respectively.

11. City of Jacksonville Grant

The City of Jacksonville Grant is a reimbursement for services rendered supporting the Kid's Hope Alliance program. ECS requests reimbursement by submitting monthly expense reports accompanied by supporting documentation. Revenue and expenses for the grant totaled \$1,341,920 and \$1,403,984 for the years ended June 30, 2022 and 2021, respectively.

12. Current Vulnerability Due to Certain Concentration

ECS operates in a heavily regulated environment. Its operations 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, legislature, 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, to comply with a change.

13. Relocation Expenses

In 2022, ECS relocated its headquarters to a new office in Jacksonville, Florida. Relocation expenses incurred were approximately \$150,000 and are considered by management to be a one-time expense. These expenses are included in management and general expense in the statements of activities and are included in office expense in the statement of functional expenses for fiscal year 2022.

14. Subsequent Events

Subsequent events have been evaluated through October 26, 2022, which is the date the financial statements were available to be issued.

Supplementary Information

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal award activity of Episcopal Children's Services, Inc. under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the requirements described in Chapter 10.650, Rules of the Auditor General. Because the Schedule presents only a selected portion of the operations of Episcopal Children's Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Episcopal Children's Services, Inc.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C – Indirect Cost Rate

Episcopal Children's Services, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Episcopal Children's Services, Inc.
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2022

Federal Grants / Pass - Through Grantor Program Title	Period	CFDA / ALN CSFA Number	Pass-Through Grantor Number	Award Amount	Federal Awards Expenditures	State Financial Assistance Expenditures
Federal Awards:						
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:						
Head Start Grant - 04CH011856-02	10/1/21 - 9/30/22	93-600		\$ 6,803,182	\$ 4,934,530	\$ -
Head Start Grant - 04CH011856-01	10/1/20 - 9/30/21	93-600		6,803,182	1,756,935	-
Head Start Grant - 04CH012126-01	11/1/21 - 10/31/22	93-600		3,593,712	2,497,233	-
Head Start Grant - 04CH010379-06	11/1/20 - 10/31/21	93-600		3,593,712	1,332,404	-
Head Start Grant - 04CH011992-02	6/1/22 - 5/31/23	93-600		15,916,482	1,013,122	-
Head Start Grant - 04CH011992-01	6/1/21 - 5/31/22	93-600		15,916,482	14,935,142	-
Early Head Start Grant - 04CH011163-04	4/1/22 - 3/31/23	93-600		5,363,563	1,251,125	-
Early Head Start Grant - 04CH011163-03	4/1/21 - 3/31/22	93-600		5,363,563	4,163,842	-
Head Start Grant - 04CH011646-02	8/1/21 - 7/31/22	93-600		5,382,500	5,120,740	-
Head Start Grant - 04CH011646-01	8/1/20 - 7/31/21	93-600		6,380,770	972,842	-
COVID Grant - 04HE000658-01	4/1/21 - 3/31/23	93-600		4,422,027	2,313,069	-
					<u>40,290,984</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THRU STATE OF FLORIDA, DEPARTMENT OF CHILDREN AND FAMILY SERVICES, FLORIDA PARTNERSHIP FOR SCHOOL READINESS:						
Early Learning Coalition of North Florida	7/1/21 - 6/30/22	93-575	SR000	64,123,715	30,913,346	-
U.S. DEPARTMENT OF AGRICULTURE PASS THRU STATE OF FLORIDA, DEPARTMENT OF HEALTH:						
Child Care Food Program	10/1/21 - 9/30/22	10-558	S-583		1,079,267	-
Child Care Food Program	10/1/20 - 9/30/21	10-558	S-583		366,995	-
					<u>1,446,262</u>	<u>-</u>
State Financial Assistance:						
STATE OF FLORIDA AGENCY FOR WORKFORCE INNOVATION:						
Early Learning Coalition of North Florida	7/1/21 - 6/30/22	75-007	SV000	14,811,046	-	13,880,101
					<u>-</u>	<u>13,880,101</u>
					<u>\$ 72,650,592</u>	<u>\$ 13,880,101</u>

See independent auditor's report on the supplementary information.

Episcopal Children's Services, Inc.
 Schedule of Source and Expenditures of City Grant Funds
 Year Ended June 30, 2022

	City FY 2021 - 2022 Grant #2 8739-15	City FY 2020 - 2021 Grant #1 8739-15
CITY OF JACKSONVILLE PUBLIC SERVICE GRANT FOR FISCAL YEAR 2021-2022:		
Amount of award	\$ 1,352,194	\$ 1,014,146
Actual funds received from city in last audit period	-	-
Actual amount received this period	(1,341,920)	(993,506)
Amount remaining to be distributed	<u>\$ 10,274</u>	<u>\$ 20,640</u>

Item	Budgeted	Actual 7/1/2021 6/30/2022	Remaining Balance
Salaries and benefits	\$ 876,685	\$ 874,998	\$ 1,687
Payroll taxes & benefits	176,468	175,465	1,003
Programmatic supplies & assistance	94,980	92,199	2,781
Insurance	11,000	10,535	465
Capital outlays	9,213	9,213	-
Rental & maintenance contracts	23,310	23,161	149
Professional envelopment	6,295	7,194	(899)
Office expenses	21,000	19,935	1,065
Special contracts & consultants	807	807	-
Other operating expenses	11,242	11,172	70
Indirect costs	121,194	117,241	3,953
Total	<u>\$ 1,352,194</u>	<u>\$ 1,341,920</u>	<u>\$ 10,274</u>

Item	Budgeted	Actual 10/1/2020 6/30/2021	Remaining Balance
Salaries and benefits	\$ 650,394	\$ 642,179	\$ 8,215
Payroll taxes & benefits	126,749	123,504	3,245
Programmatic supplies & assistance	47,278	45,514	1,764
Insurance	17,010	16,979	31
Rental & maintenance contracts	25,350	25,236	114
Professional development	18,800	15,930	2,870
Office expenses	16,251	15,998	253
Special contracts & consultants	1,275	1,275	-
Other operating expenses	5,850	4,830	1,020
Indirect costs	105,189	102,061	3,128
Total	<u>\$ 1,014,146</u>	<u>\$ 993,506</u>	<u>\$ 20,640</u>

See independent auditor's report on the supplementary information.

Section I - Summary of Independent Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? Yes ___ / No __X__

Significant deficiency(ies) identified that are not
 considered to be material weaknesses? Yes ___ / No __X__

Noncompliance material to financial statements noted? Yes ___ / No __X__

Federal Awards

Internal control over the major program:
 Material weakness(es) identified? Yes ___ / No __X__

Significant deficiency(ies) that are not considered to be
 material weaknesses? Yes ___ / No __X__

Type of auditors' report issued on compliance for the
 major programs: Unmodified

Any audit findings disclosed that are required to be
 reported in accordance with 2 CFR section 200.516(a)? Yes ___ / No __X__

Identification of federal major programs:

CFDA Number	Name of Federal Program or Cluster
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between type A
 and type B programs: \$2,179,532

Auditee qualified as low-risk auditee? Yes __X__ / No ___

Identification of state major programs:

CFSA Number	Name of State Project
75.007	Voluntary Pre-kindergarten Education Program

Section II - Financial Statement Findings

There were no financial statement findings reported during the June 30, 2022 audit.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported during the June 30, 2022 audit.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Episcopal Children's Services, Inc.
Jacksonville, FL

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Episcopal Children's Services, Inc., which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Episcopal Children's Services, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the effectiveness of Episcopal Children's Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Episcopal Children's Services, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Episcopal Children's Services, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Episcopal Children's Services, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Episcopal Children's Services, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS, LLP

**Jacksonville, FL
October 26, 2022**

Independent Auditor's Report on Compliance for Each Major Program and Major State Project and on Internal Control Over Compliance Required by the Uniform Guidance and Chapter 10.650, *Rules of the Auditor General*

Board of Directors
Episcopal Children's Services, Inc.
Jacksonville, FL

Report on Compliance for Each Major Federal Program and Major State Project

Opinion on Each Major Federal Program and State Project

We have audited Episcopal Children's Services, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement and described in the Department of Financial Services State Projects Compliance Supplement that could have a direct and material effect on each of Episcopal Children's Services, Inc.'s major federal programs and state projects for the year ended June 30, 2022. Episcopal Children's Services, Inc.'s major federal programs and major state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Episcopal Children's Services, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program and State Project

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and Rules of the Auditor General Chapter 10.650, Florida Single Audit Act Audits Nonprofit and For-Profit Organizations. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Episcopal Children's Services, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program and state project. Our audit does not provide a legal determination of Episcopal Children's Services, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Episcopal Children's Services, Inc.'s federal programs and state projects.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Episcopal Children's Services, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Episcopal Children's Services, Inc.'s compliance with the requirements of each major federal program and state project as a whole. In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, the Uniform Guidance, and *Rules of the Auditor General Chapter 10.650, Florida Single Audit Act Audits Nonprofit and For-Profit Organizations*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Episcopal Children's Services, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Episcopal Children's Services, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and *Rules of the Auditor General Chapter 10.650, Florida Single Audit Act Audits of Nonprofit and For-Profit Organizations*, but not for the purpose of expressing an opinion on the effectiveness of Episcopal Children's Services, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program and state project on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program and state project will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program and state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Rules of the Auditor General Chapter 10.650, Florida Single Audit Act Audits of Nonprofit and For-Profit Organizations. Accordingly, this report is not suitable for any other purpose.

FORVIS,LLP

**Jacksonville, FL
October 26, 2022**