



Episcopal Children's Services, Inc.

Financial Statements

Years Ended June 30, 2021 and 2020



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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Episcopal Children's Services, Inc., which comprise the statements of financial position as of June 30, 2021, 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 Consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of the risk 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 or 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 Children's Services, Inc. as of June 30, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Episcopal Children's Services Inc. as of June 30, 2020 were audited by other auditors whose report dated September 28, 2020, expressed an unmodified opinion on those statements.



Other Matters

Report on 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2021, 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.

Dixon Hughes Goodman LLP

Jacksonville, FL
October 27, 2021

Episcopal Children's Services, Inc.
 Statements of Financial Position
 June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,677,001	\$ 1,164,656
Grants receivable, net	3,689,427	6,646,958
Investments	1,167,912	1,023,367
Prepaid expenses and other current assets	<u>389,230</u>	<u>298,715</u>
Total current assets	6,923,570	9,133,696
Property and equipment, net	8,037,860	8,547,152
Other non-current assets	<u>16,275</u>	<u>22,419</u>
Total assets	<u>\$ 14,977,705</u>	<u>\$ 17,703,267</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 2,490,423	\$ 5,412,161
Accrued expenses	1,610,855	1,684,359
Deferred revenue and other current liabilities	307,708	81,246
Capital lease, current	<u>26,645</u>	<u>24,616</u>
Total current liabilities	<u>4,435,631</u>	<u>7,202,382</u>
Long-term debt:		
Capital lease, less current	<u>391,555</u>	<u>419,265</u>
Total liabilities	<u>4,827,186</u>	<u>7,621,647</u>
Net assets		
Without donor restrictions	<u>10,150,519</u>	<u>10,081,620</u>
Total net assets	<u>10,150,519</u>	<u>10,081,620</u>
Total liabilities and net assets	<u>\$ 14,977,705</u>	<u>\$ 17,703,267</u>

Episcopal Children's Services, Inc.
 Statements of Activities
 Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Changes in net assets without donor restrictions		
Support and revenue		
Grants and contracts from agencies		
State of Florida	\$ 40,292,540	\$ 37,189,833
Department of Health and Human Services	38,880,445	30,337,795
Kids Hope Alliance	1,403,984	1,366,270
Local counties	245,094	288,485
Contracts with other non-profit agencies	<u>176,228</u>	<u>148,064</u>
Total grants and contracts from agencies	<u>80,998,291</u>	<u>69,330,447</u>
Contributions	<u>711,382</u>	<u>278,277</u>
Revenues		
In-kind contributions	8,711,966	5,999,329
Program fees	823,696	758,637
Net investment income	359,549	29,563
Miscellaneous	<u>92,318</u>	<u>173,844</u>
Total revenue	<u>9,987,529</u>	<u>6,961,373</u>
Total public support and revenue	<u>91,697,202</u>	<u>76,570,097</u>
Expenses		
Program service	90,568,938	75,653,016
Management and general	<u>1,059,365</u>	<u>857,856</u>
Total expenses	<u>91,628,303</u>	<u>76,510,872</u>
Increase in net assets without donor restrictions	68,899	59,225
Net assets without donor restrictions, beginning of year	<u>10,081,620</u>	<u>10,022,395</u>
Net assets without donor restrictions, end of year	<u><u>\$ 10,150,519</u></u>	<u><u>\$ 10,081,620</u></u>

See accompanying notes.

Episcopal Children's Services, Inc.
 Statements of Functional Expenses
 Years Ended June 30, 2021 and 2020

	Program Services	Management and General	Total 2021	Total 2020
Salaries	\$28,276,386	\$2,995	\$ 28,279,381	\$ 23,099,946
Employee benefits	3,533,491	325	3,533,816	3,386,922
Payroll taxes	2,047,449	-	2,047,449	1,668,943
Total salaries and related expenses	33,857,326	3,320	33,860,646	28,155,811
Payments to providers	40,665,735	-	40,665,735	34,254,296
Program expenses	11,250,961	24,907	11,275,868	9,104,799
Depreciation	21,361	847,865	869,226	810,841
Occupancy	1,062,006	-	1,062,006	684,615
Office expense	659,172	140,054	799,226	760,541
Food and kitchen supplies	687,385	-	687,385	647,296
Utilities and telephone	508,469	1,975	510,444	492,806
Repairs and maintenance	675,580	41	675,621	456,140
Travel	293,045	35	293,080	365,186
Insurance	337,449	-	337,449	308,749
Professional fees	215,336	2,860	218,196	133,797
Janitorial services	130,287	-	130,287	105,535
Conference and meetings	81,088	5,820	86,908	79,710
Interest	34,587	-	34,587	36,258
Bank charges and fees	9,179	17,463	26,642	23,058
Advertising	1,510	-	1,510	1,417
Miscellaneous expenses	78,462	15,025	93,487	90,017
	\$ 90,568,938	\$ 1,059,365	\$ 91,628,303	\$ 76,510,872

See accompanying notes.

Episcopal Children's Services, Inc.
Statements of Cash Flows
Years Ended June 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Changes in net assets	\$ 68,899	\$ 59,225
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	869,226	810,841
Gain on investments	(339,665)	(9,908)
Loss on disposal of property and equipment	2,009	67,107
Change in grants receivable	2,957,531	(3,926,265)
Change in prepaid expenses and other assets	(84,371)	(175,240)
Change in accounts payable and accrued expenses	(2,995,242)	3,813,801
Change in deferred revenue	226,462	(61,027)
Net cash provided by operating activities	<u>704,849</u>	<u>578,534</u>
Cash flow from investing activities:		
Purchases of property and equipment	(361,943)	(630,516)
Purchases of investments	(198,668)	(258,704)
Proceeds from sale of investments	393,788	84,749
Net cash used in investing activities	<u>(166,823)</u>	<u>(804,471)</u>
Cash flow from financing activities:		
Payment on capital lease obligations	(25,681)	(22,742)
Net cash used in financing activities	<u>(25,681)</u>	<u>(22,742)</u>
Net increase (decrease) in cash	512,345	(248,679)
Cash and cash equivalents, beginning of year	<u>1,164,656</u>	<u>1,413,335</u>
Cash and cash equivalents, end of year	<u>\$ 1,677,001</u>	<u>\$ 1,164,656</u>
Supplemental Disclosures		
Cash paid during the year for:		
Interest	<u>\$ 34,384</u>	<u>\$ 36,258</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. In 2020, the documented number of children served decreased to 27,000 due to a change in the state database, which allows parents to enroll in programs online, and eliminated the need to talk to ECS staff members in many cases. 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. During 2019, ECS adopted the provisions of Accounting Standards Update ("ASU") 2016-14: Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities, which improves the current net asset classification and the related information presented in the financial statements and notes about ECS's liquidity, financial performance, and cash flows. 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). No net assets with donor restrictions as of 2021 year end.

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).

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, 2021 and 2020, the FDIC's standard insurance coverage for our accounts was set at \$250,000.

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 \$100,000 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, contracts, and accounts 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 of uncollectibility is made. At June 30, 2021 and 2020, 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.

Donated materials, long-lived assets, facilities & services

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.

Grant revenue

The Organization 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.

Revenue recognition

As of July 1, 2019, ECS adopted the provisions of FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The ASU was applied retrospectively to all periods presented, with no effect on net assets of previously issued financial statements.

Contributions

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ECS adopted the new standard effective July 1, 2019, the first day of ECS's fiscal year, using the modified retrospective approach. No changes were required to previously reported revenues as a result of the adoption.

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

Recent accounting pronouncements

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

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. The new standard, as amended, is to be applied retrospectively, to annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022.

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>2021</u>	<u>2020</u>
Cash	\$ 1,677,001	\$ 1,164,656
Grants receivable	<u>3,751,827</u>	<u>6,589,747</u>
Total financial assets as of year-end	<u>\$ 5,428,828</u>	<u>\$ 7,754,403</u>
Total financial assets available to meet general expenditures within the next 12 months	<u>\$ 5,428,828</u>	<u>\$ 7,754,403</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.

3. Investments

Investments are comprised of the following at June 30:

	<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>
	<u>2020</u>		
	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>	<u>Fair Value</u>
Equity securities	\$ 24,362	\$ 3,287	\$ 27,649
Exchange traded funds	<u>895,956</u>	<u>99,762</u>	<u>995,718</u>
Totals	<u>\$ 920,318</u>	<u>\$ 103,049</u>	<u>\$ 1,023,367</u>

Episcopal Children’s Services
Notes to Financial Statements

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 19,884	\$ 19,655
Realized and unrealized gain on investments	<u>339,665</u>	<u>9,908</u>
Totals	<u>\$ 359,549</u>	<u>\$ 29,563</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 assumption to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

	<u>2021</u>			
	<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>\$ 1,167,912</u>	<u>\$ 1,167,912</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>2020</u>			
	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Equity securities	\$ 27,649	\$ 27,649	\$ -	\$ -
Exchange traded funds	<u>995,718</u>	<u>995,718</u>	-	-
	<u>\$ 1,023,367</u>	<u>\$ 1,023,367</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 common stocks, certain corporate bonds, and U.S. government securities are based on the closing price reported in the active market where the individual securities are traded, when available.

Investments measured at fair value using Net Asset Value (NAV) per share practical expedient have not been categorized in a fair value hierarchy.

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>2021</u>	<u>2020</u>
Land and improvements		\$ 718,827	\$ 718,827
Buildings and improvements	5 – 39	7,740,999	7,480,936
Furniture and equipment	3 – 10	5,134,385	5,112,709
Vehicles	5 – 7	<u>485,218</u>	<u>458,937</u>
		14,079,429	13,771,409
Accumulated depreciation		<u>(6,041,569)</u>	<u>(5,224,257)</u>
Net property and equipment		<u>\$ 8,037,860</u>	<u>\$ 8,547,152</u>

Depreciation expense for the years ending June 30, 2021 and 2020 was \$869,226 and \$810,842, respectively.

6. 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>2021</u>	<u>2020</u>
Capitalized debt obligation as of June 30:	<u>\$ 418,200</u>	<u>\$ 443,881</u>

Episcopal Children's Services
Notes to Financial Statements

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

2022	\$	59,000
2023		59,000
2024		59,000
2025		59,000
2026		59,000
Thereafter		<u>324,498</u>
		619,498
Amount representing interest		(188,533)
Present value of minimum lease payments		
Current portion		(26,645)
Capitalized lease costs		<u>(12,765)</u>
Long-term portion		<u>\$ 391,555</u>

Amortization expense of capitalized lease costs for the years ending June 30, 2021 and 2020 was \$1,824.

7. 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. Though some of the leases are renewable annually, the presented commitments represent ECS's current intentions to renew those leases.

At June 30, 2021, commitments, including contractual escalations under these leases were as follows:

2022	\$	220,639
2023		74,736
2024		68,179
2025		59,000
2026		<u>59,000</u>
		<u>\$ 481,554</u>

Lease expense for the years ending June 30, 2021 and 2020 was \$1,062,006 and \$717,176, respectively.

8. 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 \$710,000 and \$620,000 for June 30, 2021 and 2020, respectively.

9. City of Jacksonville Grant

	<u>2021</u>	<u>2020</u>
Kid’s Hope Alliance	<u>\$ 1,403,984</u>	<u>\$ 1,366,270</u>
Earned portion of the Grant	<u>\$ 1,403,984</u>	<u>\$ 1,366,270</u>
Expenses, salaries, fringe benefits, materials, supplies, travel, and other	<u>\$ 1,403,984</u>	<u>\$ 1,366,270</u>

The City of Jacksonville Grant is a reimbursement for services rendered. ECS requests reimbursement by submitting monthly expense reports accompanied by supporting documentation.

10. 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.

11. Risk and Uncertainties

In March 2020, the World Health Organization declared the outbreak and spread of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak has had far reaching and unpredictable impacts on the global economy, supply chains, financial markets, and global business operations of a variety of industries. Governments have taken substantial action to contain the spread of the virus including mandating social distancing, suspension of certain gatherings, and shuttering of certain nonessential businesses.

The COVID-19 pandemic has disrupted the operational and financial performance of ECS and there is significant uncertainty in the nature and degree of its continued effects on ECS over time. The extent to which it will impact ECS going forward will depend on a variety of factors including the duration and continued spread of the outbreak, impact on ECS’s employees and vendors, as well as governmental, regulatory, and private sector responses. Further, the pandemic may have a significant impact on management’s accounting estimates and assumptions.

12. Subsequent Events

Subsequent events have been evaluated through October 27, 2021, which is the date the financial statements were available to be issued.



Supplementary Information

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, 2021. 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 the Organization.

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. (a non-profit organization)
 Schedule of Expenditures of Federal Awards and State Financial Assistance
 Year Ended June 30, 2021

Federal Grants / Pass - Through Grantor Program Title	Period	CFDA / Pass - Through CSFA Number	Grantor Number	Award Amount	Federal Awards Expenditures	State Financial Assistance Expenditures
Federal Awards:						
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:						
Head Start Grant - 04CH10107-06	10/1/19 - 9/30/20	93-600		\$ 7,214,748	\$ 2,348,162	\$ -
Head Start Grant - 04CH011656-01	10/1/20 - 9/30/21	93-600		6,803,182	5,046,247	-
Head Start Grant - 04CH010379-05	11/1/19 - 10/31/20	93-600		3,827,861	1,594,037	-
Head Start Grant - 04CH010379-06	11/1/20 - 10/31/21	93-600		3,593,712	2,261,308	-
Head Start Grant - 04CH010364-05	6/1/20 - 5/31/21	93-600		16,789,631	15,712,365	-
Head Start Grant - 04CH011992-01	6/1/21 - 5/31/22	93-600		15,916,482	981,340	-
Early Head Start Grant - 04CH011163-02	4/1/20 - 3/31/21	93-600		5,571,538	4,502,376	-
Early Head Start Grant - 04CH011163-03	4/1/21 - 3/31/22	93-600		5,363,563	1,199,721	-
Head Start Grant - 04CH011646-01	8/1/20 - 7/31/21	93-600		6,380,770	5,031,853	-
				4,422,027	255,281	-
					38,932,690	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THRU STATE OF FLORIDA, DEPARTMENT OF CHILDREN AND FAMILY SERVICES, FLORIDA PARTNERSHIP FOR SCHOOL READINESS				29,398,464	25,851,444	-
Early Learning Coalition of North Florida	7/1/20 - 6/30/21	93-575				
U.S. DEPARTMENT OF AGRICULTURE PASS THRU STATE OF FLORIDA, DEPARTMENT OF HEALTH						
Child Care Food Program	10/1/19 - 9/30/20	10-558	S-583		173,165	-
Child Care Food Program	10/1/20 - 9/30/21	10-558	S-583		839,002	-
					1,012,167	-
State Financial Assistance:						
STATE OF FLORIDA AGENCY FOR WORKFORCE INNOVATION						
Early Learning Coalition of North Florida	7/1/20 - 6/30/21	75.007	SV000	14,941,421	-	12,840,302
						12,840,302
					\$ 65,796,301	\$ 12,840,302

Episcopal Children's Services, Inc.
 Schedule of Source and Expenditures of City Grant Funds
 For the Year Ended June 30, 2021

	City FY 2020 - 2021 Grant #1 8739-15	City FY 2019 - 2020 Grant #2 8739-15
CITY OF JACKSONVILLE PUBLIC SERVICE GRANT FOR FISCAL YEAR 2021-2020		
Amount of award	\$ 1,014,146	\$ 1,352,194
Actual funds received from city in last audit period	-	(958,255)
Actual amount received this period	(993,506)	(390,375)
Amount remaining to be distributed	<u>\$ 20,640</u>	<u>\$ 3,564</u>

Item	Budgeted	Actual 10/1/2019 6/30/2020	Actual 7/1/2020 9/30/2020	Total Actual	Remaining Balance
Salaries and benefits	\$ 812,496	\$ 610,210	\$ 200,264	\$ 810,474	\$ 2,022
Payroll taxes & benefits	163,851	123,845	38,374	162,219	1,632
Programmatic supplies & assistance	147,614	49,139	97,354	146,493	1,121
Insurance	6,050	5,947	2,911	8,858	(2,808)
Rental & maintenance contracts	17,988	17,334	4,792	22,126	(4,138)
Professional development	41,846	5,520	32,600	38,120	3,726
Office expense	24,449	17,025	6,623	23,648	801
Special contracts & consultants	2,125	-	-	-	2,125
Other operating expenses	14,280	10,019	5,179	15,198	(918)
Indirect costs	121,494	119,216	2,278	121,494	-
Total	<u>\$ 1,352,193</u>	<u>\$ 958,255</u>	<u>\$ 390,375</u>	<u>\$ 1,348,630</u>	<u>\$ 3,563</u>

Episcopal Children's Services, Inc.
 Schedule of Source and Expenditures of City Grant Funds
 For the Year Ended June 30, 2021

(Continued)

Item	Budgeted	Actual 10/1/2020 6/30/2021	Total Actual	Remaining Balance
Salaries and benefits	\$ 650,394	\$ 642,179	\$ 642,179	\$ 8,215
Payroll taxes & benefits	126,749	123,504	123,504	3,245
Programmatic supplies & assistance	47,278	45,514	45,514	1,764
Insurance	17,010	16,979	16,979	31
Rental & maintenance contracts	25,350	25,236	25,236	114
Professional development	18,800	15,930	15,930	2,870
Office expense	16,251	15,999	15,999	252
Special contracts & consultants	1,275	1,275	1,275	-
Other operating expenses	5,850	4,830	4,830	1,020
Indirect costs	105,189	102,060	102,060	3,129
Total	\$ 1,014,146	\$ 993,506	\$ 993,506	\$ 20,640

Episcopal Children's Services, Inc.
 Schedule of Findings and Questioned Costs
 Federal Programs and State Projects
 For the year ended June 30, 2021

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
93.600	Head Start and Early Head Start

Dollar threshold used to distinguish between type A and type B programs: \$750,000

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

Episcopal Children's Services, Inc.
Schedule of Findings and Questioned Costs
Federal Programs and State Projects
For the year ended June 30, 2021

Section II - Financial Statement Findings

There were no financial statement findings reported during the June 30, 2021 audit.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported during the June 30, 2021 audit.



Independent Auditors' 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*

The 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 financial position as of June 30, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2021.

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 ECS'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.



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*.

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 ECS's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ECS's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Jacksonville, FL
October 27, 2021



Independent Auditors' 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*

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

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

We have audited Episcopal Children's Services, Inc.'s compliance with the types of compliance requirements described 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, 2021. 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.

Management's Responsibility

Management is responsible for compliance with the Federal and State statutes, regulations, and the terms and conditions of its Federal awards and State projects applicable to its Federal programs and State projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Episcopal Children's Services, Inc.'s major federal programs and major state projects based on our audit of the types of compliance requirements referred to above. 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; and 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), *Rules of the Auditor General* Chapter 10.650 *Florida Single Audit Acts Audits Nonprofit and For-Profit Organizations*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program and major state project occurred. An audit includes examining, on a test basis, evidence about Episcopal Children's Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program and State project. However, our audit does not provide a legal determination of Episcopal Children's Services, Inc.'s compliance.



Opinion on Each Major Federal Program

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 for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of Episcopal Children's Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Episcopal Children's Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program and State project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and State project 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 Nonprofit and For-Profit Organizations*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Episcopal Children's Services, Inc.'s 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 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 charges with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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 Nonprofit and For-Profit Organizations*. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Jacksonville, FL
October 27, 2021