Episcopal Community Services of the Diocese of Pennsylvania

Financial Statements
Year Ended June 30, 2017

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CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Episcopal Community Services of the Diocese of Pennsylvania (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Community Services of the Diocese of Pennsylvania as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Prior Period Adjustment

As discussed in Note 3 to the financial statements, during the current year management determined that Episcopal Community Services of the Diocese of Pennsylvania's beneficial interest in perpetual trusts was understated in prior years. Accordingly, the beneficial interest in perpetual trusts has been restated in the 2016 summarized comparative information now presented, and an adjustment has been made to permanently restricted net assets as of July 1, 2015 to correct the error. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Episcopal Community Services of the Diocese of Pennsylvania's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived

BBD, LLP.

Philadelphia, Pennsylvania
December 6, 2017

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF FINANCIAL POSITION

June 30, 2017 with comparative totals for 2016

	2017	2016
ASSETS		
Cash	$ 768,286	$ 663,739
Grants receivable	657,563	439,788
Contributions receivable	767,206	117,074
Prepaid expenses	219,844	229,822
Land, buildings, building improvements, equipment, and furniture and fixtures, net	2,351,757	2,530,105
Long-term investments	62,501,785	58,053,249
Beneficial interest in perpetual trusts	3,056,000	2,930,000
Total assets	$ 70,322,441	$ 64,963,777
LIABILITIES		
Line of credit	$ 600,000	$ 163,000
Accounts payable and accrued expenses	1,096,371	1,189,398
Total liabilities	1,696,371	1,352,398
NET ASSETS		
Unrestricted		
Designated for long-term investments	25,204,288	23,063,814
Other unrestricted	2,146,047	2,480,634
Total unrestricted	27,350,335	25,544,448
Temporarily restricted	26,001,192	22,918,388
Permanently restricted	15,274,543	15,148,543
Total net assets	68,626,070	63,611,379
Total liabilities and net assets	$ 70,322,441	$ 64,963,777

See accompanying notes

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF ACTIVITIES

Year ended June 30, 2017 with comparative totals for 2016

	Unrestricted	Board Designated Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2017	Totals 2016
SUPPORT, REVENUE AND GAINS							
Support							
Contributions	$ 1,584,288	$ -	$ 1,584,288	$ 160,756	$ -	$ 1,745,044	$ 1,596,861
Diocese of Pennsylvania	88,500	-	88,500	-	-	88,500	84,859
Legacies and bequests	547,168	-	547,168	731,764	-	1,278,932	115,969
Federal, state, and local grants	2,820,691	-	2,820,691	-	-	2,820,691	3,054,512
Foundations	183,294	-	183,294	36,000	-	219,294	440,175
Fees	79,111	-	79,111	-	-	79,111	239,237
Other	3,634	-	3,634	-	-	3,634	68,958
Total support	5,306,686	-	5,306,686	928,520	-	6,235,206	5,600,571
Revenue and gains							
Trust and fiduciary income	146,244	-	146,244	-	-	146,244	175,085
Investment income	15,880	2,858,151	2,874,031	4,629,875	-	7,503,906	191,465
Change in value of beneficial interest in perpetual trusts	-	-	-	-	126,000	126,000	(236,000)
Total revenue and gains	162,124	2,858,151	3,020,275	4,629,875	126,000	7,776,150	130,550
Total support, revenue and gains	5,468,810	2,858,151	8,326,961	5,558,395	126,000	14,011,356	5,731,121
Net assets released from restrictions							
Endowment spending policy	2,925,000	(1,082,280)	1,842,720	(1,842,720)	-	-	-
Other transfers	(364,603)	364,603	-	-	-	-	-
Expiration of purpose and time restrictions	632,871	-	632,871	(632,871)	-	-	-
Total support, revenue and gains	8,662,078	2,140,474	10,802,552	3,082,804	126,000	14,011,356	5,731,121
EXPENSES							
Program services	6,675,166	-	6,675,166	-	-	6,675,166	7,424,945
Management and general	1,661,198	-	1,661,198	-	-	1,661,198	1,538,322
Fundraising	660,301	-	660,301	-	-	660,301	480,676
Total expenses	8,996,665	-	8,996,665	-	-	8,996,665	9,443,943
CHANGES IN NET ASSETS	(334,587)	2,140,474	1,805,887	3,082,804	126,000	5,014,691	(3,712,822)
NET ASSETS							
Beginning of year	2,480,634	23,063,814	25,544,448	22,918,388	15,148,543	63,611,379	67,324,201
End of year	$ 2,146,047	$ 25,204,288	$ 27,350,335	$ 26,001,192	$ 15,274,543	$ 68,626,070	$ 63,611,379

See accompanying notes

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2017 with comparative totals for 2016

	Program Services					
	SYS	**RISE**	**St. Barnabas Mission**	**Housing FaSST**	**OST Programs**	**CORP Programs**
PERSONNEL EXPENSES						
Salaries	$ 98,939	$ 323,761	$ 1,078,156	$ 399,262	$ 990,008	$ 58,972
Payroll taxes and employee benefits	27,621	88,397	293,796	117,115	201,586	17,672
Total personnel expenses	126,560	412,158	1,371,952	516,377	1,191,594	76,644
OPERATING EXPENSES						
Occupancy	4,988	12,049	100,812	955	2,007	1,152
Specific assistance	-	-	53,628	531,750	100	9,389
Professional fees	1,100	3,599	11,984	55,467	37,229	970
Insurance	2,346	7,676	29,660	9,465	23,473	1,398
Office expense	4,372	13,002	111,154	10,411	53,974	29,601
Staff travel and training	1,912	7,966	24,074	11,009	25,779	1,818
Publicity and printing	2,912	9,529	31,733	11,751	29,138	1,736
Appeals	522	1,485	5,129	2,159	4,399	345
Gifts in kind	-	-	-	-	-	-
Other	31,943	92,973	97,923	35,576	191,267	3,407
Total expenses before depreciation	176,655	560,437	1,838,049	1,184,920	1,558,960	126,460
Depreciation	18,064	43,640	98,917	20,149	1,175	1,841
Total functional expenses	$ 194,719	$ 604,077	$ 1,936,966	$ 1,205,069	$ 1,560,135	$ 128,301

					Supporting Services				
Learning and Evaluation	Parenting Program	Wellness Services	Volunteer Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total Expenses 2017	Total Expenses 2016
$ 76,391	$ 33,196	$ 165,178	$ 30,095	$ 3,253,958	$ 885,434	$ 381,756	$ 1,267,190	$ 4,521,148	$ 5,109,803
22,894	8,504	48,781	4,914	831,280	260,276	114,436	374,712	1,205,992	1,477,099
99,285	41,700	213,959	35,009	4,085,238	1,145,710	496,192	1,641,902	5,727,140	6,586,902
1,162	-	2,260	452	125,837	30,386	2,704	33,090	158,927	158,193
-	-	-	-	594,867	-	-	-	594,867	592,918
44,717	6,219	3,236	335	164,856	148,117	48,242	196,359	361,215	322,672
1,811	787	3,916	713	81,245	38,392	9,050	47,442	128,687	137,648
1,766	506	5,367	2,489	232,642	28,395	8,986	37,381	270,023	283,282
1,871	1,082	4,641	5,333	85,485	29,328	13,253	42,581	128,066	85,289
2,248	977	4,862	886	95,772	26,061	12,335	38,396	134,168	171,507
1,767	283	723	332	17,144	4,525	13,316	17,841	34,985	43,338
-	-	-	495,367	495,367	-	-	-	495,367	140,028
9,538	13,734	20,736	1,800	498,897	100,234	46,490	146,724	645,621	587,986
164,165	65,288	259,700	542,716	6,477,350	1,551,148	650,568	2,201,716	8,679,066	9,109,763
4,209	-	8,184	1,637	197,816	110,050	9,733	119,783	317,599	334,180
$ 168,374	$ 65,288	$ 267,884	$ 544,353	$ 6,675,166	$ 1,661,198	$ 660,301	$ 2,321,499	$ 8,996,665	$ 9,443,943

EPISCOPAL COMMUNITY SERVICES OF THE DIOCESE OF PENNSYLVANIA

STATEMENT OF CASH FLOWS

Year ended June 30, 2017 with comparative totals for 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 5,014,691	$ (3,712,822)
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:		
Depreciation	317,599	334,180
Net realized and unrealized (gain) loss on investments	(6,270,645)	829,346
Change in value of beneficial interest in perpetual trusts	(126,000)	236,000
(Increase) decrease in		
Grants receivable	(217,775)	63,746
Contributions receivable	(650,132)	131,622
Prepaid expenses	9,978	84,156
Increase (decrease) in		
Accounts payable and accrued expenses	(93,027)	360,850
Net cash used for operating activities	(2,015,311)	(1,672,922)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(14,964,843)	(2,045,127)
Proceeds from the sale of investments	16,786,952	4,048,639
Additions to land, buildings, building improvements, equipment and furniture and fixtures	(139,251)	(447,933)
Net cash provided by investing activities	1,682,858	1,555,579
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayments) on line of credit	437,000	(334,000)
Change in cash	104,547	(451,343)
CASH		
Beginning of year	663,739	1,115,082
End of year	$ 768,286	$ 663,739

See accompanying notes

(1) NATURE OF OPERATIONS

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

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

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

Unrestricted net assets

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

Temporarily restricted net assets

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

Permanently restricted net assets

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

Estimates

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

Fair Value Measurements of Assets and Liabilities

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

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

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

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

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

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

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

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

Investments

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

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

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

Contributions

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

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

Beneficial Interest in Perpetual Trusts

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

Federal, State, and Local Grants

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

Permanently Restricted Endowments

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

Functional Allocation of Expenses

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

Income Tax Status

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

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

Concentrations of Credit Risk

Financial instruments which potentially subject ECS to concentrations of credit risk are cash, grants receivable and contributions receivable. ECS maintains its cash at various financial institutions. At times, such deposits may exceed federally-insured limits. Grants receivable are from various government agencies and are expected to be collected in 2018. Contributions receivable are expected to be collected in 2018.

Summarized Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with ECS’ financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Reclassifications

Certain items in the 2016 summarized comparative information have been reclassified in order to conform to the 2017 presentation.

(3) PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2017, ECS determined that its beneficial interest in perpetual trusts was understated in prior years. As a result, ECS increased its beneficial interest in perpetual trusts and increased its permanently restricted net assets by $1,480,000 at June 30, 2015. There was no change in the value of beneficial interest in perpetual trusts for the year ended June 30, 2016 as a result of this adjustment.

(4) INVESTMENTS

The fair value of ECS' investments at June 30, 2017 and 2016 is summarized as follows:

	2017	2016
Cash equivalents and accrued income	$ 923,934	$ 2,715,246
Bond mutual funds	14,033,135	15,244,625
Common stock mutual funds	21,747,512	15,183,108
Common stock exchange traded funds	-	1,556,069
Marketable equity securities	25,797,204	23,354,201
	$62,501,785	$58,053,249

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

Investment income was comprised of the following:

	2017	2016
Interest and dividends	$ 1,414,600	$ 1,257,036
Net realized and unrealized gain (loss)	6,270,645	(829,346)
Investment management fees	(181,339)	(236,225)
	$ 7,503,906	$ 191,465

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

As of June 30, 2017 and 2016, land, buildings, building improvements, equipment, and furniture and fixtures consist of:

	2017	2016
Land	$ 40,000	$ 40,000
Buildings	2,375,476	2,369,476
Building improvements	2,367,857	2,367,857
Equipment, and furniture and fixtures	2,175,614	2,042,363
	6,958,947	6,819,696
Less accumulated depreciation	(4,607,190)	(4,289,591)
	$ 2,351,757	$ 2,530,105

(6) RETIREMENT PLANS

Defined Contribution Pension Plan

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

Clergy Retirement Plan

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

Total pension expense for both plans was $94,941 and $109,458 for the years ended June 30, 2017 and 2016, respectively.

(7) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

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

	Balance June 30, 2015	Additions	Releases	Balance June 30, 2016
Endowment appreciation	$23,392,809	$ 64,208	$(1,749,000)	$21,708,017
Center for innovation and impact	200,000	-	(100,129)	99,871
Emergency and special needs	15,000	15,000	(15,000)	15,000
St. Barnabas Mission	20,000	35,000	(20,000)	35,000
Youth center and SYS	415,000	97,500	(415,000)	97,500
Future programs	650,000	-	(150,000)	500,000
Community outreach program	-	214,500	-	214,500
Other	32,000	158,500	(32,000)	158,500
Available for future periods	117,000	40,000	(67,000)	90,000
	$24,841,809	$ 624,708	$(2,548,129)	$22,918,388

(8) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following:

	2017	2016
Endowments	$12,218,543	$12,218,543
Beneficial interest in perpetual trusts	3,056,000	2,930,000
	$15,274,543	$15,148,543

(9) ENDOWMENT FUNDS

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

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

The spending policy calculates the amount of money annually distributed from the permanently restricted endowment fund to support various programs. The current spending policy is to distribute an amount equal to 5.14% of a moving 13 quarter average of the fair value of the endowment fund.

Changes in the endowment assets for the years ended June 30, 2017 and 2016 are as follows:

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

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2015	$24,860,929	$23,392,809	$12,218,543	$60,472,281
Contributions	63,421	-	-	63,421
Investment income	42,135	64,208	-	106,343
Endowment spending policy	(883,200)	(1,749,000)	-	(2,632,200)
Other transfers	(1,167,000)	-	-	(1,167,000)
Balance at June 30, 2016	$22,916,285	$21,708,017	$12,218,543	$56,842,845

(10) LINE OF CREDIT

ECS has a $2,000,000 bank credit line which bears interest at the Wall Street Prime Rate, plus 1/4% and expires in May 2018. Advances under this credit line are not collateralized. Advances on this bank credit line were $600,000 and $163,000 at June 30, 2017 and 2016, respectively.

(11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 6, 2017, the date on which the financial statements were available to be issued. No material subsequent events have occurred that require recognition or disclosure in the financial statements.