

**Exceptional Children's Foundation
and Affiliates**

Consolidated Financial Statements
and Single Audit Reports and Schedules

June 30, 2017



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Exceptional Children's Foundation and Affiliates
Culver City, California

We have audited the accompanying consolidated financial statements of Exceptional Children's Foundation and Affiliates (a California nonprofit corporation) (collectively, "ECF"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Exceptional Children's Foundation and Affiliates as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017, on our consideration of ECF'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 ECF's internal control over financial reporting and compliance.



Armanino^{LLP}
Los Angeles, California

December 13, 2017

Exceptional Children's Foundation and Affiliates
Consolidated Statement of Financial Position
June 30, 2017

ASSETS

Current assets	
Cash and cash equivalents	\$ 813,846
Investments, including current appropriation from endowment	2,518,976
Accounts receivable	2,664,966
Pledges receivable, current portion	80,000
Inventory	367,835
Prepaid expenses and other current assets	<u>234,595</u>
Total current assets	<u>6,680,218</u>
Other assets	
Endowment investments, net of current appropriation of \$800,000	13,464,788
Restricted cash	381,900
Pledges receivable, net of current portion	4,900
Restricted deposits and funded reserves	248,232
Security deposits	102,589
Fixed assets, net	23,637,542
New markets note receivable	<u>5,335,875</u>
Total other assets	<u>43,175,826</u>
Total assets	<u>\$ 49,856,044</u>

The accompanying notes are an integral part of these consolidated financial statements.

Exceptional Children's Foundation and Affiliates
Consolidated Statement of Financial Position
June 30, 2017

LIABILITIES AND NET ASSETS

Current liabilities	
Lines of credit	\$ 899,166
Current portion of long-term debt	177,084
Accounts payable and accrued expenses	<u>2,579,245</u>
Total current liabilities	<u>3,655,495</u>
Long-term liabilities	
Long-term debt, net of current portion	1,778,294
New markets notes payable, net of unamortized debt issuance costs	<u>7,435,931</u>
Total long-term liabilities	<u>9,214,225</u>
Total liabilities	<u>12,869,720</u>
Commitment and contingencies (Notes 5 and 13)	
Net assets	
Unrestricted	
General	2,269,645
Board-designated	13,041,021
Designated for existing land and building	<u>19,785,706</u>
Total unrestricted	35,096,372
Temporarily restricted	889,952
Permanently restricted	<u>1,000,000</u>
Total net assets	<u>36,986,324</u>
Total liabilities and net assets	<u>\$ 49,856,044</u>

The accompanying notes are an integral part of these consolidated financial statements.

Exceptional Children's Foundation and Affiliates
Consolidated Statement of Activities
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support				
Public support				
Contributions	\$ 1,361,391	\$ 242,500	\$ -	\$ 1,603,891
Fundraising events, net of direct benefit costs of \$15,931	100,459	10,535	-	110,994
In-kind contributions of food	<u>107,152</u>	<u>-</u>	<u>-</u>	<u>107,152</u>
Total public support	<u>1,569,002</u>	<u>253,035</u>	<u>-</u>	<u>1,822,037</u>
Revenues				
Tuition and fees	19,163,490	-	-	19,163,490
Contract sales	1,733,047	-	-	1,733,047
Rents	755,559	-	-	755,559
Merchandise sales	255,940	-	-	255,940
Miscellaneous	<u>36,497</u>	<u>-</u>	<u>-</u>	<u>36,497</u>
Total revenues	<u>21,944,533</u>	<u>-</u>	<u>-</u>	<u>21,944,533</u>
Total revenues and support	23,513,535	253,035	-	23,766,570
Net assets released from restriction	<u>292,858</u>	<u>(292,858)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>23,806,393</u>	<u>(39,823)</u>	<u>-</u>	<u>23,766,570</u>
Functional expenses				
Program services	23,053,694	-	-	23,053,694
Management and general	2,666,844	-	-	2,666,844
Fundraising	<u>824,598</u>	<u>-</u>	<u>-</u>	<u>824,598</u>
Total functional expenses	<u>26,545,136</u>	<u>-</u>	<u>-</u>	<u>26,545,136</u>
Change in net assets from operations	<u>(2,738,743)</u>	<u>(39,823)</u>	<u>-</u>	<u>(2,778,566)</u>
Investment results				
Interest and dividends, net of fees	292,336	2,154	17,031	311,521
Realized gains on sales of investments	323,493	2,948	23,309	349,750
Unrealized gains on investments	1,254,254	11,430	90,373	1,356,057
Reclassification of investment earnings	<u>-</u>	<u>130,713</u>	<u>(130,713)</u>	<u>-</u>
Total investment results	<u>1,870,083</u>	<u>147,245</u>	<u>-</u>	<u>2,017,328</u>
Change in net assets	(868,660)	107,422	-	(761,238)
Net assets, beginning of year	<u>35,965,032</u>	<u>782,530</u>	<u>1,000,000</u>	<u>37,747,562</u>
Net assets, end of year	<u>\$ 35,096,372</u>	<u>\$ 889,952</u>	<u>\$ 1,000,000</u>	<u>\$ 36,986,324</u>

The accompanying notes are an integral part of these consolidated financial statements.

Exceptional Children's Foundation and Affiliates
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Rehab and administration				
Salaries	\$ 13,097,843	\$ 1,704,285	\$ 549,178	\$ 15,351,306
Payroll taxes	1,026,629	121,632	39,794	1,188,055
Employee benefits	1,617,178	156,048	34,940	1,808,166
Total rehab and administration	<u>15,741,650</u>	<u>1,981,965</u>	<u>623,912</u>	<u>18,347,527</u>
Client payroll				
Payroll	864,565	-	-	864,565
Payroll taxes	66,140	-	-	66,140
Employee benefits	312,004	-	-	312,004
Total client payroll	<u>1,242,709</u>	<u>-</u>	<u>-</u>	<u>1,242,709</u>
Total personnel expenses	16,984,359	1,981,965	623,912	19,590,236
Agency support	4,629	1,821	80	6,530
Depreciation and amortization	799,454	64,344	15,084	878,882
Equipment rental and maintenance	168,637	17,697	4,393	190,727
Events and publications	5,760	1,385	38,434	45,579
Facility maintenance	475,414	24,816	5,730	505,960
Facility rent	447,468	11,108	2,325	460,901
Insurance	194,994	24,931	2,157	222,082
Interest	219,680	41,659	-	261,339
Licenses and fees	100,923	9,189	495	110,607
Miscellaneous	94,364	90,102	41,056	225,522
Office supplies	94,560	42,918	16,061	153,539
Other production costs	354,001	-	-	354,001
Production related	244,358	-	-	244,358
Professional services	558,764	162,368	6,975	728,107
Program supplies	437,504	-	-	437,504
Relocation	-	66,956	-	66,956
Staff mileage	144,362	6,470	510	151,342
Staff support services	360,369	46,773	3,735	410,877
Staff training and development	69,076	16,551	550	86,177
Telephone	249,042	41,784	59,495	350,321
Transportation and auto	736,314	-	-	736,314
Utilities	<u>309,662</u>	<u>14,007</u>	<u>3,606</u>	<u>327,275</u>
	<u>\$ 23,053,694</u>	<u>\$ 2,666,844</u>	<u>\$ 824,598</u>	<u>\$ 26,545,136</u>

The accompanying notes are an integral part of these consolidated financial statements.

Exceptional Children's Foundation and Affiliates
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities	
Change in net assets	\$ (761,238)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	878,882
Amortization of debt issuance costs	23,900
Realized gains on sales of investments	(349,750)
Unrealized gains on investments	(1,356,057)
Changes in operating assets and liabilities	
Accounts receivable	91,915
Pledges receivable	(59,900)
Inventory	(45,758)
Prepaid expenses and other current assets	(64,619)
Security deposits	(70,996)
Accounts payable and accrued expenses	<u>(870,132)</u>
Net cash used in operating activities	<u>(2,583,753)</u>
Cash flows from investing activities	
Transfers from restricted cash	3,490,514
Proceeds from sales of investments	4,253,425
Purchases of investments	(3,555,986)
Withdrawals from restricted deposits and funded reserves	7,896
Payments to and interest earned on restricted deposits and funded reserves	(18,221)
Purchases of fixed assets	<u>(3,108,351)</u>
Net cash provided by investing activities	<u>1,069,277</u>
Cash flows from financing activities	
Net borrowings on lines of credit	439
Principal payments on long-term debt	<u>(168,196)</u>
Net cash used in financing activities	<u>(167,757)</u>
Net decrease in cash and cash equivalents	(1,682,233)
Cash and cash equivalents, beginning of year	<u>2,496,079</u>
Cash and cash equivalents, end of year	<u><u>\$ 813,846</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest (net of \$18,080 of capitalized interest)	\$ 293,719
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The accompanying notes are an integral part of these consolidated financial statements.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

1. NATURE OF OPERATIONS

Exceptional Children's Foundation and its affiliates, Friends of ECF, Valverde, Inc. and ERAS Home II (collectively, "ECF") are California tax-exempt nonprofit corporations whose mission is to provide the highest quality services for children and adults who are challenged with developmental, learning and emotional disabilities empowering them to reach their greatest potential. ECF provides a wide range of programs and services to infants, youths, adults, and their families each year. People served include individuals with learning disabilities, intellectual disabilities, cerebral palsy, epilepsy, autism, and related conditions. ECF has 15 program sites located throughout Los Angeles County.

ECF programs are as follows:

Kayne ERAS Center

The Kayne Eras Center ("KEC") is a large multi-service center serving children and their families each year through its mental health, and special education programs and services. Based in Culver City, California, KEC provides the highest quality educational programs and therapeutic services to meet the needs of students with special learning, emotional and developmental challenges. KEC's K-12 nonpublic school provides special education services to students from school districts throughout greater Los Angeles. KEC also includes on-site and home-based mental health as well as diagnostic and therapeutic services.

Programs and services provided by KEC include:

- Therapeutic creative enrichment programs
- Specialized speech, behavioral and educational therapy services
- Physical education and recreational services
- Specialized full day classroom programs
- Mental health programs

Early Start

The Early Start program provides early intervention services to developmentally delayed children and their families in central Los Angeles and the San Fernando Valley communities of Southern California. Early Start offers center-based and home visit services for infants and toddlers from birth to age three who are developmentally delayed and/or disabled. The program includes a variety of therapies and structured activities designed to help young children develop language, gross and fine motor, cognitive, and social skills.

Development Activity Centers

Developmental Activity Centers in Inglewood and Los Angeles offer adults with moderate to profound developmental disabilities an opportunity to build self-care and social skills, volunteer in the community and enjoy craft activities and recreational outings in a creative learning environment.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

1. NATURE OF OPERATIONS (continued)

Art Centers

With studios in Inglewood, San Pedro, Downtown and South Los Angeles, the Art Center program encourages, assists and supports the maximum personal artistic development for adults with developmental disabilities. The Art Center program is nationally recognized for its leadership in demonstrating that individuals with developmental disabilities can often produce fine art. In addition to providing art instruction, the program markets and sells the artists' work.

Exceptional Packaging Solutions

At work activity sites in Inglewood and Santa Fe Springs, California, adults learn good work habits and appropriate social skills while meeting governmental and private contract requirements for packaging, assembly, and rework. The program provides facility-based vocational training and paid work to improve earning potential and independent functioning of persons with developmental disabilities and to promote transition to community employment settings.

Exceptional Employment Solutions

Adults with developmental disabilities and acquired brain injuries receive community integrated job placement, on the job training, and support services through supported employment. For program participants, this is a much awaited gateway to greater independence. Under the supervision of an ECF job coach, participants are hired by local businesses to perform a variety of tasks including (but not limited to) clerical, janitorial, and food service assignments.

Residential Services

Residential Services provide adults with developmental disabilities the opportunity to live in the community with the level of support each person needs to optimize his or her quality of life. ECF operates six different residential facilities, including group homes and independent living centers for individuals located in Los Angeles, Whittier, and Culver City, California. Four of ECF's residential facilities (the "HUD Projects") are funded by the U.S. Department of Housing and Urban Development ("HUD") to benefit people living with developmental disabilities. Permanent financing for the HUD Projects is provided by HUD under Sections 202 and 811 of the Housing Act of 1959, which regulates the HUD Projects with respect to their rents and operating methods. The HUD Projects also receive HUD Sections 8 and 811 housing assistance and project rental assistance payments. The four HUD Projects are as follows:

Valverde

HUD Project No. 122-EH310-WHH-L8

A 12-bed group home in Los Angeles, California.

Westington

HUD Project No. 122-EH151-WHC-L8

A 13-unit apartment complex in Los Angeles, California.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

1. NATURE OF OPERATIONS (continued)

Whittier Springs

HUD Project No. 122-EH157-WHC-L8

A 13-unit apartment complex in Whittier, California.

ERAS Home II

HUD Project No. 122-HD044-WDD-NP

A 6-bed group home in Culver City, California.

E-Commerce

Exceptional Office and Janitorial Solutions is the e-commerce division of Exceptional Children's Foundation. The website, www.eojsolutions.com, was created with the primary goal to promote the sales of merchandise produced by individuals with disabilities. The website also offers a wide selection of national and private label brands of office, break room and janitorial supplies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income tax status

ECF is comprised of four nonprofit public benefit corporations organized under the laws of California and, as such, are exempt from federal and state income taxes under Internal Revenue Code ("IRC") Section 501(c)(3) and corresponding state provisions.

The federal informational tax returns of Exceptional Children's Foundation, Friends of ECF, Valverde, Inc., and ERAS Home II for tax years ended June 30, 2014, and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the only state tax jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ended June 30, 2013, and subsequent.

Basis of consolidation

The accompanying consolidated financial statements include the accounts of Exceptional Children's Foundation, Friends of ECF, Valverde, Inc., and ERAS Home II. All significant inter-agency transactions and balances have been eliminated in consolidation.

Financial statement presentation

ECF reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

- *Unrestricted net assets, general* - Include contributions, fundraising, fees, sales and other forms of revenue that are not restricted by the donor or grantor as well as expenditures related to the general operations of ECF.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial statement presentation (continued)

- *Unrestricted net assets, board-designated* - Include unrestricted net assets ECF's Board of Directors has segregated to be used for capital improvements, purchases, future projects, and operations.
- *Unrestricted net assets, board-designated* - Include unrestricted net assets designated for land and buildings in use, net of accumulated depreciation and debt secured by the land and building.
- *Temporarily restricted net assets* - Include contributions that are temporarily restricted by the donor or grantor. When the restrictions expire, the net assets of this classification are reclassified to unrestricted net assets. Restricted contributions where restrictions are met in the same reporting period are classified as unrestricted.
- *Permanently restricted net assets* - Include contributions that have been restricted by the donor in perpetuity.

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Cash and cash equivalents

ECF considers all highly-liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents, except for certain money market account balances included in investments (see Note 3).

Cash held-in-trust

ECF maintains bank accounts, segregated from ECF's assets, for cash held-in-trust for clients. At June 30, 2017, the amount of such funds held-in-trust totaled \$10,908. Balances in such accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to the applicable limits.

Restricted cash

ECF has restricted cash totaling \$381,900 which represents remaining proceeds from the new markets notes payable to be used for costs in connection with land and building constructed with the funds (see Note 8).

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are monitored by the Board of Directors' Investment Committee and are stated at fair value. Unrealized gains and losses are recognized aggregately. Realized gains and losses are recognized immediately upon sale and are computed using the specific identification method.

The Board of Directors has limited the use of investments such that investment principal cannot be used unless approved by a vote of 75% of the Board of Directors in attendance in person or telephonically.

Accounts receivable

Accounts receivable are unsecured and ECF is at-risk to the extent such amounts become uncollectible. Management anticipates it will collect 100% of the accounts receivable balance. Thus, no allowance for doubtful accounts has been established as of June 30, 2017.

Pledges receivable

The pledges receivable balance consists of unconditional promises to give monetary assets to ECF. Management anticipates it will collect 100% of the pledges receivable balance; thus, no allowance for potentially uncollectible pledges has been established as of June 30, 2017.

Inventory

Inventory consists of paper products and is stated at cost (first-in, first-out), which approximates fair value.

Fixed assets

Purchases of fixed assets are recorded at cost. Donated items are recorded at estimated fair value when received. Depreciation and amortization on both purchased and donated items are recorded using the straight-line method over the shorter of the estimated useful life of the related asset or, for leasehold improvements, the term of the lease, as follows:

Buildings and improvements	5 - 40 years
Land improvements	40 years
Furniture and fixtures	3 - 7 years
Computer, transportation, and other equipment	5 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate the carrying value of an asset or asset group may not be recoverable, but at least annually. No impairment provision was recorded by ECF during the year ended June 30, 2017.

Debt issuance costs

Debt issuance costs include loan fees, legal costs, and other costs incurred in obtaining financing. Debt issuance costs are recorded as a deduction to the carrying amount of the related debt and amortized over the term of the debt on a straight-line basis.

Endowments

Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Contributions

Contributions consist primarily of donations from foundations, businesses, and the general public. Contributions are recorded when committed to ECF by the donor.

In-kind contributions

In-kind contributions consist of donated school lunches which have been recorded at the fair value at the time of contribution.

Wills and trusts

In the past, ECF has been named as a beneficiary in a substantial number of wills and trusts. These contributions are recorded when estate proceeds become a liability of the estate and ECF has been so notified. Contributions in the form of irrevocable charitable remainder trusts are recognized when the trusts are established and ECF is named irrevocably as a beneficiary.

Functional expenses

ECF allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated accordingly.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of risk

Occasionally ECF's cash balances exceed FDIC-insured limits. ECF has not experienced and does not anticipate any losses related to these balances.

ECF had two major funding sources that comprised 17% and 15% of its revenue and 19% and 23%, respectively, of its accounts receivable at June 30, 2017. Management anticipates this funding will continue at present levels.

Subsequent events

ECF has evaluated events subsequent to June 30, 2017, to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated through December 13, 2017, the date the consolidated financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the consolidated financial statements.

3. INVESTMENTS

ECF reports its investments at fair value among three categories of price inputs available. These categories of inputs are quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3). The following table sets forth by level, within the fair value hierarchy, investments as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 9,360,270	\$ -	\$ -	\$ 9,360,270
Mutual funds	3,271,487	-	-	3,271,487
Fixed income	-	1,315,467	-	1,315,467
Alternatives	-	689,538	-	689,538
Corporate bonds	-	608,437	-	608,437
U.S. government obligations	-	423,429	-	423,429
Money market accounts	258,070	-	-	258,070
U.S. government-agency obligations	-	57,066	-	57,066
	<u>\$12,889,827</u>	<u>\$ 3,093,937</u>	<u>\$ -</u>	<u>\$15,983,764</u>

Investments are reported on the consolidated statement of financial position as follows:

Investments, including current appropriation from endowment	\$ 2,518,976
Endowment investments, net of current appropriation of \$800,000	<u>13,464,788</u>
	<u>\$ 15,983,764</u>

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

3. INVESTMENTS (continued)

Activity in the investments during the year was as follows:

Balance, beginning of year	\$ 14,975,396
Purchases of investments	3,555,986
Proceeds from sales of investments	(4,253,425)
Realized gains on sales of investments	349,750
Unrealized gains on investments	<u>1,356,057</u>
Balance, end of year	<u><u>\$ 15,983,764</u></u>

4. PLEDGES RECEIVABLE

Pledges receivable consist of the following:

Due in less than one year	\$ 80,000
Due in one to five years	<u>4,900</u>
	<u><u>\$ 84,900</u></u>

ECF has not discounted the pledges receivable balance as management has determined the impact is immaterial to the consolidated financial statements.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

5. RESTRICTED DEPOSITS AND FUNDED RESERVES

Restricted deposits and funded reserves are detailed as follows:

<i>Replacement Reserves:</i> The HUD Projects are required to make monthly deposits to replacement reserves totaling \$1,421 per month. In accordance with provisions of the regulatory agreements, the replacement reserves are to be used for the replacement of fixed assets with the prior approval of HUD.	\$ 139,977
<i>Residual Receipts Reserves:</i> The HUD Projects are required to make annual deposits to the extent of their "surplus cash," as defined by HUD. In accordance with provisions of the regulatory agreements with HUD, the residual receipts reserve is to be used for major expenditures of the HUD Projects with the prior approval of HUD. The HUD Projects are reporting no surplus cash as of June 30, 2017; no deposits into the residual receipts reserve are required during the year ending June 30, 2018.	97,327
<i>Tenant Security Deposits:</i> The HUD Projects are required to maintain separate cash accounts for tenants' rental security deposits.	<u>10,928</u>
	<u>\$ 248,232</u>

6. FIXED ASSETS

Fixed assets consist of the following:

Buildings and improvements	\$ 23,402,670
Land and improvements	9,803,266
Furniture and fixtures	3,877,532
Computer equipment	1,788,075
Transportation equipment	878,752
Leasehold improvements	<u>572,564</u>
	40,322,859
Accumulated depreciation and amortization	<u>(16,685,317)</u>
	<u>\$ 23,637,542</u>

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

7. LINES OF CREDIT

ECF has a \$4,000,000 revolving line of credit with Merrill Lynch Private Finance, Inc., with monthly payments of interest-only at the 1-month LIBOR (London InterBank Offered Rate) (1.17% at June 30, 2017) plus 1.25%. This line is secured by ECF's securities, cash and other assets held in a Merrill Lynch Trust Company account and is available for as long as ECF maintains sufficient investments in this account. The line of credit agreement contains various covenants including a requirement to maintain ECF's Merrill Lynch Trust Company account at a sufficient value to cover the outstanding balance. At June 30, 2017, \$899,166 was outstanding on this line and ECF was in compliance with these covenants.

ECF has a \$3,406,000 revolving line of credit agreement with Morgan Stanley, with monthly payments of interest-only at the 1-month LIBOR plus 1.25%. This line is secured by ECF's securities, cash and other assets held in a Morgan Stanley account and is available for as long as ECF maintains sufficient investments in this account. The line of credit agreement contains various covenants including a requirement to maintain ECF's Morgan Stanley account at a sufficient value to cover the outstanding balance. At June 30, 2017, no balance was outstanding on this line and ECF was in compliance with these covenants.

8. NEW MARKETS TAX CREDIT TRANSACTION

Effective January 29, 2016, ECF entered into an IRC Section 45D New Markets Tax Credit ("NMTC") transaction in connection with its new land and building. Elements of the transaction were as follows:

- ECF formed a new California tax-exempt nonprofit corporation, Friends of Exceptional Children's Foundation ("FOECF")
- ECF made a contribution to FOECF totaling \$5,335,875.
- FOECF lent \$5,335,875 to an entity formed by the NMTC Investor Community Development Entity (the "CDE"), as contemplated by IRC Section 45D, with interest-only payments at 1% through January 2023, at which time it will require quarterly payments \$109,565, including interest at 1%, until its final maturity in January 2036.
- The CDE advanced two notes to ECF to operate a "Portion of Business" in the new land and building:
 - Note A in the amount of \$5,335,875, with interest-only payments at 1.4283% through January 2023, at which time it will require quarterly payments \$112,617, including interest at 1.4283%, until its final maturity in January 2036.
 - Note B in the amount of \$2,259,25, with interest-only payments at 1.4283% through January 2023, at which time it will require quarterly payments \$47,680, including interest at 1.4283%, until its final maturity in January 2036.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

8. NEW MARKETS TAX CREDIT TRANSACTION (continued)

- ECF incurred debt issuance costs in connection with Notes A and B. The unamortized portion of the debt issuance costs have been reported on the consolidated statement of financial position as a reduction of the new markets notes payable liability. Amortization totaling \$23,900 was recognized during the year as a component of interest expense.
- At the end of the 7-year tax credit compliance period, ECF anticipates it will recognize a gain of approximately \$2,100,000 as the new markets note receivable and notes payable are terminated.

9. EMPLOYEE BENEFIT PLANS

ECF offers IRC Sections 403(b) and 401(k) individual defined contribution plans for all eligible employees. The 401(k) plan is open to all employees except substitutes and temporary employees. Participants may make salary deferrals to their individual accounts up to the maximum allowable deferral amounts for defined contribution plans. ECF may make discretionary matching contributions to the 401(k) plan for eligible employees. No discretionary contributions were made during or accrued for the year ended June 30, 2017.

The 403(b) plan is a non-ERISA plan designed for highly compensated employees. Participants may make annual contributions up to the maximum allowable deferral amount for defined contribution plans.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

10. LONG-TERM DEBT

Long-term debt is detailed as follows:

Note payable to Morgan Stanley, secured by investments held by Morgan Stanley, payable in monthly installments of \$7,635, including interest at 3.426% through June 2020, at which time principal totaling approximately \$260,000 is due or interest on this note can switch to a variable rate for 3 remaining years or a new fixed rate can be negotiated.	\$ 502,143
Note payable to HUD, secured by a first deed of trust on the Valverde 12-bed group home for the developmentally disabled, with living quarters for the site manager, payable in monthly installments of \$4,501, including interest at 9.25%, through June 2026.	333,616
Note payable to HUD, secured by a first deed of trust on the Westington 13-unit apartment complex for the developmentally disabled, payable in monthly installments of \$5,716, including interest at 9.25%, through March 2024.	343,383
Note payable to HUD, secured by a first deed of trust on the Whittier Springs 13-unit apartment complex for the developmentally disabled, payable in monthly installments of \$5,988, including interest at 9.25%, through May 2024.	371,336
Capital advance from HUD, secured by a first deed of trust on the ERAS Home II 6-bed group home for the developmentally disabled, noninterest-bearing, with no payment due as long as ECF continues to provide housing to the developmentally disabled through September 2037.	404,900
	1,955,378
Current portion	(177,084)
	<u>\$ 1,778,294</u>

The future maturities of the long-term debt are as follows:

<u>Year ending June 30,</u>	
2018	\$ 177,084
2019	189,564
2020	203,056
2021	402,137
2022	147,063
Thereafter	<u>836,474</u>
	<u>\$ 1,955,378</u>

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

10. LONG-TERM DEBT (continued)

The monthly installment payments for the three notes payable to HUD (described above) are withheld by HUD from the monthly Section 8 vouchers payable by HUD to ECF (see Note 13).

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets during the year are as follows:

	Released from Restriction	Balance, June 30, 2017	
PAR Services	\$ -	\$ 231,619	
Unappropriated Earnings on Permanent Endowment (see Note 12)	50,000	223,721	
Emma Jane Meyers	-	135,490	
Early Start Program	123,230	93,437	*
Dale Fukamaki Memorial Fund	-	89,213	
William Randolph Hearst Foundation	-	56,250	
Time-restricted (pledge receivable)	-	15,000	
Capital Group Companies Charitable Foundation	-	15,000	
The Sheri & Les Biller Family Foundation	-	10,000	*
Ella Fitzgerald	5,100	9,900	*
The Siragusa Foundation	7,500	7,500	
The Flourish Foundation	3,028	1,972	
CEO's Employee Development Fund	-	850	
Green Foundation	33,500	-	
Disability Communication Fund	25,000	-	
Looking Beyond	20,000	-	
Brotman Foundation	10,000	-	
Drown Foundation	10,000	-	
Developmental - Carrie Estelle Doheny Foundation	3,000	-	
Edison International	2,500	-	
	<u>\$ 292,858</u>	<u>\$ 889,952</u>	

* These balances include pledges receivable with donor purpose restrictions.

12. ENDOWMENT

ECF's endowments include both donor-restricted funds and funds designated by the Board of Directors to function as endowments.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

12. ENDOWMENT (continued)

Interpretation of relevant law

The ECF's Board of Directors has interpreted California Uniform Prudent Management of Institutional Funds Act ("Cal UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ECF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ECF in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, ECF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of ECF and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of ECF
- (7) The investment policies of ECF

Return objectives and risk parameters

ECF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds classified as permanently restricted net assets as well as board-designated funds. Under this policy, as reviewed and monitored by the Investment Committee and approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that do not under-perform the price and yield results of a blended benchmark of broad based equity and fixed income indices. Actual returns in any given year may vary from this amount.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

12. ENDOWMENT (continued)

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, ECF uses the total return methodology in which investment returns are achieved through either capital appreciation (realized and unrealized) or current yield (interest and dividends). ECF has a diversified asset allocation policy that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how investment objectives relate to spending policy

Through the budget process, ECF each year appropriates a stated amount, not to exceed 5% of the average board-designated endowment balance, for operations and capital needs. Additional distributions can be made only with Board approval. ECF understands the current spending policy may reduce its board-designated endowment to the extent spending exceeds earnings in any period. From its donor-restricted endowment, ECF may spend a discretionary portion of its annual current earnings, not to exceed 7% per year on a cumulative basis. In establishing this policy, ECF considers the long-term expected return on its endowment. ECF is required to maintain the initial principal balance (\$1,000,000) of the donor-restricted endowment assets. ECF has appropriated \$800,000 to be transferred to operations during the fiscal year ending June 30, 2017.

Endowment net asset composition by type of fund

Endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	Unrestricted Board - <u>Designated</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 223,721	\$ 1,000,000	\$ 1,223,721
Board-designated endowment funds	<u>13,041,021</u>	<u>-</u>	<u>-</u>	<u>13,041,021</u>
	<u>\$13,041,021</u>	<u>\$ 223,721</u>	<u>\$ 1,000,000</u>	<u>\$14,264,742</u>

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

12. ENDOWMENT (continued)

Endowment net asset composition by type of fund (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Balance, beginning of year	<u>\$12,332,062</u>	<u>\$ 126,476</u>	<u>\$ 1,000,000</u>	<u>\$13,458,538</u>
Investment return				
Investment income	310,289	3,182	25,161	338,632
Investment fees	(100,255)	(1,028)	(8,130)	(109,413)
Net realized and unrealized gains	<u>1,401,925</u>	<u>14,378</u>	<u>113,682</u>	<u>1,529,985</u>
Total investment return	1,611,959	16,532	130,713	1,759,204
Reclassification of investment earnings	-	130,713	(130,713)	-
Amounts appropriated for expenditure during the year for operational and program expenses	<u>(903,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>(953,000)</u>
	<u>708,959</u>	<u>97,245</u>	<u>-</u>	<u>806,204</u>
Balance, end of year	<u><u>\$13,041,021</u></u>	<u><u>\$ 223,721</u></u>	<u><u>\$ 1,000,000</u></u>	<u><u>\$14,264,742</u></u>

13. COMMITMENTS AND CONTINGENCIES

Lease commitments

ECF leases facilities and equipment under several long-term operating lease agreements.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2018	\$ 273,719
2019	144,443
2020	144,443
2021	144,443
2022	144,443
Thereafter	<u>128,388</u>
	<u><u>\$ 979,879</u></u>

Rent expense, comprised of facilities, equipment, buses, and uniforms totaled \$595,465 for the year.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

13. COMMITMENTS AND CONTINGENCIES (continued)

HUD Section 8 Housing Assistance Payments Contracts, Section 811 Project Rental Assistance Contract

Each of the HUD Projects has entered into either a Section 8 Housing Assistance Payments ("HAP") Contract or a Section 811 Project Rental Assistance Contract ("PRAC"). The amount earned under the three HAP contracts totaled \$452,773 for the year. The amount earned under the PRAC contract totaled \$19,470 for the year.

These contracts provide for a maximum annual rent supplement payment by HUD to the HUD Projects. This maximum annual rent supplement payment is subject to adjustment if there is any change in contract rent, number of contract units or family income of the tenant.

Congress has determined not to renew HAP contracts on a long-term basis. Future renewals of terminating HAP contracts will generally be for a period of one to five years and will tend to be at or below comparable market rate rents in the HUD Projects' areas. It cannot be determined what ultimate effect this may have on the HUD Projects' future rental revenue and operations.

Sub-minimum wage standards

The U.S. Fair Labor Standards Act Section 14c authorizes employers to pay wages less than the Federal minimum wage standard for workers whose productive capability is impaired by a physical or developmental disability. Many participants in ECF's Work Activity Programs are paid a "piece rate" using Section 14c subminimum wage rates. Over the last several years, there have been various efforts to reduce or eliminate reliance on subminimum wage for workers with disabilities. If Section 14c were eliminated, these disabled workers would be required to be paid the Federal minimum wage. It is not possible at this time to determine the future effects this would have on these Work Activity Programs serving ECF's disabled workers.

Contingent promissory notes

ECF had a conditional noninterest bearing promissory note payable to the State of California Department of Housing and Community Development ("CA HCD"), secured by the real estate of ERAS Home I. The terms of the note agreement required ECF to provide housing to the developmentally disabled. For as long as ECF complies with the provisions of its regulatory agreement with CA HCD, the remaining principal was amortized at the rate of \$20,000 annually until reduced to \$0 during 2012, at which time the mortgage lien was to be released with no payments of principal or interest required. Management is seeking confirmation of the transfer of clear title to ECF from CA HCD.

Effective July 2005, the City of Culver City, California, transferred ownership of Barman House to ECF, subject to its continued operation as an intermediate care facility/developmentally disabled habilitative through October 2013. ECF recognized Barman House as a temporarily restricted contribution in the amount of \$850,000 at the time of the contribution, and released the restriction on a pro rata basis through October 2013. Management is seeking confirmation of the transfer of clear title to ECF from the City of Culver City.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2017

13. COMMITMENTS AND CONTINGENCIES (continued)

Litigation

ECF is occasionally involved in litigation in the normal course of operations. At this time management is not aware of any material adverse financial consequences resulting from known litigation.

NEW MARKETS TAX CREDIT PORTION OF BUSINESS SCHEDULES



INDEPENDENT AUDITOR'S REPORT ON THE NEW MARKETS TAX CREDIT
PORTION OF BUSINESS SCHEDULES

Board of Directors
Exceptional Children's Foundation and Affiliates
Culver City, California

We have audited the consolidated financial statements of Exceptional Children's Foundation and Affiliates (collectively, "ECF"), as of and for the year ended June 30, 2017, and have issued our report thereon dated December 13, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The New Markets Tax Credit Portion of Business Schedules of ECF are presented for the purpose of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with accounting principles generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Armanino LLP".

Armanino^{LLP}
Los Angeles, California

December 13, 2017

Exceptional Children's Foundation and Affiliates
Consolidating Statements of Financial Position
June 30, 2017

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
ASSETS							
Cash and cash equivalents	\$ -	\$ 738,031	\$ -	\$ 738,031	\$ 75,815	\$ -	\$ 813,846
Investments, including current appropriation from endowment	-	2,518,976	-	2,518,976	-	-	2,518,976
Accounts receivable	-	2,665,816	-	2,665,816	(850)	-	2,664,966
Pledges receivable	-	84,900	-	84,900	-	-	84,900
Inventory	-	367,835	-	367,835	-	-	367,835
Prepaid expenses and other current assets	-	234,595	-	234,595	-	-	234,595
Endowment investments, net	-	13,464,788	-	13,464,788	-	-	13,464,788
Restricted cash	381,900	-	-	381,900	-	-	381,900
Restricted deposits and funded reserves	-	248,232	-	248,232	-	-	248,232
Security deposits	-	102,589	-	102,589	-	-	102,589
Fixed assets, net	10,879,613	12,757,929	-	23,637,542	-	-	23,637,542
New markets note receivable	-	-	-	-	5,335,875	-	5,335,875
Total assets	<u>\$ 11,261,513</u>	<u>\$ 33,183,691</u>	<u>\$ -</u>	<u>\$ 44,445,204</u>	<u>\$ 5,410,840</u>	<u>\$ -</u>	<u>\$ 49,856,044</u>

Exceptional Children's Foundation and Affiliates
Consolidating Statements of Financial Position
June 30, 2017

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
LIABILITIES AND NET ASSETS (DEFICIT)							
Lines of credit	\$ -	\$ 899,166	\$ -	\$ 899,166	\$ -	\$ -	\$ 899,166
Accounts payable and accrued expenses	-	2,579,245	-	2,579,245	-	-	2,579,245
Long-term debt	-	1,955,378	-	1,955,378	-	-	1,955,378
New markets notes payable, net of unamortized debt issuance costs	<u>7,435,931</u>	<u>-</u>	<u>-</u>	<u>7,435,931</u>	<u>-</u>	<u>-</u>	<u>7,435,931</u>
Total liabilities	<u>7,435,931</u>	<u>5,433,789</u>	<u>-</u>	<u>12,869,720</u>	<u>-</u>	<u>-</u>	<u>12,869,720</u>
Net assets	<u>3,825,582</u>	<u>27,749,902</u>	<u>-</u>	<u>31,575,484</u>	<u>5,410,840</u>	<u>-</u>	<u>36,986,324</u>
Total liabilities and net assets	<u>\$ 11,261,513</u>	<u>\$ 33,183,691</u>	<u>\$ -</u>	<u>\$ 44,445,204</u>	<u>\$ 5,410,840</u>	<u>\$ -</u>	<u>\$ 49,856,044</u>

Exceptional Children's Foundation and Affiliates
Consolidating Statements of Activities
For the Year Ended June 30, 2017

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
Revenues and support							
Public support							
Contributions	\$ 20,100	\$ 1,583,791	\$ -	\$ 1,603,891	\$ -	\$ -	\$ 1,603,891
Fundraising events, net of direct benefit costs of \$15,931	-	110,994	-	110,994	-	-	110,994
In-kind contributions of food	-	107,152	-	107,152	-	-	107,152
Total public support	<u>20,100</u>	<u>1,801,937</u>	<u>-</u>	<u>1,822,037</u>	<u>-</u>	<u>-</u>	<u>1,822,037</u>
Revenues							
Tuition and fees	2,845,068	16,318,422	-	19,163,490	-	-	19,163,490
Contract sales	1,494,581	238,466	-	1,733,047	-	-	1,733,047
Rents	29,879	725,680	-	755,559	-	-	755,559
Merchandise sales	224,303	31,637	-	255,940	-	-	255,940
Miscellaneous	<u>2,591</u>	<u>33,906</u>	<u>-</u>	<u>36,497</u>	<u>-</u>	<u>-</u>	<u>36,497</u>
Total revenues	<u>4,596,422</u>	<u>17,348,111</u>	<u>-</u>	<u>21,944,533</u>	<u>-</u>	<u>-</u>	<u>21,944,533</u>
Total revenues and support	<u>4,616,522</u>	<u>19,150,048</u>	<u>-</u>	<u>23,766,570</u>	<u>-</u>	<u>-</u>	<u>23,766,570</u>

Exceptional Children's Foundation and Affiliates
Consolidating Statements of Activities
For the Year Ended June 30, 2017

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
Functional expenses							
Program services	5,302,222	17,751,472	-	23,053,694	-	-	23,053,694
Management and general	584,380	2,081,395	-	2,665,775	1,069	-	2,666,844
Fundraising	<u>-</u>	<u>824,598</u>	<u>-</u>	<u>824,598</u>	<u>-</u>	<u>-</u>	<u>824,598</u>
Total functional expenses	<u>5,886,602</u>	<u>20,657,465</u>	<u>-</u>	<u>26,544,067</u>	<u>1,069</u>	<u>-</u>	<u>26,545,136</u>
Change in net assets from operations	<u>(1,270,080)</u>	<u>(1,507,417)</u>	<u>-</u>	<u>(2,777,497)</u>	<u>(1,069)</u>	<u>-</u>	<u>(2,778,566)</u>
Investment results							
Interest and dividends, net of fees	-	258,141	-	258,141	53,380	-	311,521
Realized gains on sales of investments	-	349,750	-	349,750	-	-	349,750
Unrealized gains on investments	<u>-</u>	<u>1,356,057</u>	<u>-</u>	<u>1,356,057</u>	<u>-</u>	<u>-</u>	<u>1,356,057</u>
Total investment results	<u>-</u>	<u>1,963,948</u>	<u>-</u>	<u>1,963,948</u>	<u>53,380</u>	<u>-</u>	<u>2,017,328</u>
Change in net assets	<u>\$ (1,270,080)</u>	<u>\$ 456,531</u>	<u>\$ -</u>	<u>\$ (813,549)</u>	<u>\$ 52,311</u>	<u>\$ -</u>	<u>\$ (761,238)</u>

SINGLE AUDIT REPORTS AND SCHEDULES

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
Exceptional Children's Foundation and Affiliates
Culver City, California

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 consolidated financial statements of Exceptional Children's Foundation and Affiliates (a California nonprofit corporation) ("ECF"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered ECF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ECF's internal control. Accordingly, we do not express an opinion on the effectiveness of ECF'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 ECF's consolidated 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 determination of financial statement amounts. 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 ECF's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ECF's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Armanino LLP". The script is cursive and fluid, with the letters "Armanino" written in a single continuous stroke and "LLP" in a slightly more distinct, though still cursive, style.

Armanino^{LLP}
Los Angeles, California

December 13, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM,
INTERNAL CONTROL OVER COMPLIANCE, AND ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Exceptional Children's Foundation and Affiliates
Culver City, California

Report on Compliance for Each Major Federal Program

We have audited Exceptional Children's Foundation and Affiliates (a California nonprofit corporation) ("ECF")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of ECF's major federal programs for the year ended June 30, 2017. ECF's major federal programs 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of ECF's major federal programs 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* (the "Uniform Guidance"). 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 occurred. An audit includes examining, on a test basis, evidence about ECF'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. However, our audit does not provide a legal determination of ECF's compliance.

Opinion on Each Major Federal Program

In our opinion, ECF complied, in all material respects, with the types of 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, 2017.

Report on Internal Control Over Compliance

Management of ECF 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 ECF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 ECF'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 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 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 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged 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. However, material weaknesses may exist that have not been identified.

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. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited ECF's consolidated financial statements as of and for the year ended June 30, 2017, and have issued our report thereon dated December 13, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Armanino^{LLP}
Los Angeles, California

December 13, 2017

Exceptional Children's Foundation and Affiliates
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>		
U.S. Department of Housing and Development		
Supportive Housing for the Elderly (and Disabled) - Direct Loans		
Valverde - FHA Project No. 122-EH310-WHH-L8	14.157	\$ 357,826
Westington - FHA Project No. 122-EH151-WHC-L8	14.157	378,428
Whittier Springs - FHA Project No. 122-EH157-WHC-L8	14.157	407,489
Total Supportive Housing for the Elderly (and Disabled) - Direct Loans		<u>1,143,743</u>
Supportive Housing for Persons with Disabilities		
Section 811		
ERAS Home II - FHA Project No. 122-HD044-WDD-NP Section 811 Capital Advance	14.181	404,900
ERAS Home II - FHA Project No. 122-HD044-WDD-NP Section 811 Project Rental Assistance Contract	14.181	19,470
Total Supportive Housing for Persons with Disabilities		<u>424,370</u>
Section 8 New Construction and Substantial Rehabilitation		
Valverde - Section 8 Project No. CA16-T831-049	14.182	158,274
Westington - Section 8 Project No. CA16-T811-003	14.182	139,265
Whittier Springs - Section 8 Project No. CA16-T811-009	14.182	155,234
Total Section 8 New Construction and Substantial Rehabilitation		<u>452,773</u>
 Total U.S. Department of Housing and Development		 <u>2,020,886</u>
 Total Expenditures of Federal Awards		 <u>\$ 2,020,886</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Exceptional Children's Foundation and Affiliates
Notes to Schedule of Expenditures of Federal Awards
June 30, 2017

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Exceptional Children's Foundation and Affiliates ("ECF") under programs of the federal government for the year ended June 30, 2017. 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). Because the Schedule presents only a selected portion of the operations of ECF, it is not intended to and does not present the financial position, changes in net assets, or cash flows of ECF.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COSTS

ECF does not use the 10% de minimis cost rate.

4. LOAN BALANCES

The federal awards reported on the Schedule are the July 1, 2016, balances.

The loan balances reported on the June 30, 2017, consolidated statement of financial position are as follows:

Valverde, Inc.	\$ 333,616
Westington	343,383
Whittier Springs	371,336
ERAS Home II	<u>404,900</u>
	<u><u>\$ 1,453,235</u></u>

Exceptional Children's Foundation and Affiliates
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of Housing and Urban Development Supportive Housing for the Elderly (and Disabled) - Direct Loans	14.157
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Exceptional Children's Foundation and Affiliates
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS

There were no prior year findings.

SECTION V - CORRECTIVE ACTION PLAN

There is no corrective action plan required.

SUPPORTING SCHEDULES REQUIRED BY HUD



INDEPENDENT AUDITOR'S REPORT ON SUPPORTING SCHEDULES REQUIRED
BY THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
OFFICE OF THE INSPECTOR GENERAL

Board of Directors
Exceptional Children's Foundation and Affiliates
Culver City, California

We have audited the accompanying consolidated financial statements of Exceptional Children's Foundation and Affiliates (a California nonprofit corporation)(HUD Projects #122-EH310-WHH-L8, #122-EH151-WHC-L8, #122-EH157-WHC-L8 and #122-HD044-WDD-NP) (collectively, the "ECF HUD Projects"), as of and for the year ended June 30, 2017, and have issued our report thereon dated December 13, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The supporting schedules are presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development ("HUD") Real Estate Assessment Center for Summary of Financial Reporting and Auditing Guidance for HUD Multifamily Program Participants and Independent Auditors, and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Armanino LLP".

Armanino^{LLP}
Los Angeles, California

December 13, 2017

Exceptional Children's Foundation and Affiliates
Statements of Financial Position - HUD Projects
June 30, 2017

	Valverde HUD Project No. 122-EH310- <u>WHH-L8</u>	Westington HUD Project No. 122-EH151- <u>WHC-L8</u>	Whittier Springs HUD Project No. 122-EH157- <u>WHC-L8</u>	ERAS Home II HUD Project No. 122-HD044- <u>WDD-NP</u>	<u>Total</u>
ASSETS					
Current assets					
1120 Cash - operations	\$ 9,822	\$ 2,270	\$ 10,160	\$ 399	\$ 22,651
1135 Accounts receivable - HUD	<u>-</u>	<u>1,934</u>	<u>722</u>	<u>-</u>	<u>2,656</u>
Total current assets	<u>9,822</u>	<u>4,204</u>	<u>10,882</u>	<u>399</u>	<u>25,307</u>
Deposits held in trust, funded					
1191 Tenant deposits held in trust	<u>-</u>	<u>5,671</u>	<u>3,693</u>	<u>1,564</u>	<u>10,928</u>
Restricted deposits and funded					
1320 Replacement reserve	24,343	50,813	53,506	11,315	139,977
1340 Residual receipts reserve	<u>-</u>	<u>94,310</u>	<u>3,017</u>	<u>-</u>	<u>97,327</u>
Total deposits	<u>24,343</u>	<u>145,123</u>	<u>56,523</u>	<u>11,315</u>	<u>237,304</u>
Fixed assets					
1410 Land	190,233	154,184	254,637	297,547	896,601
1420 Building and improvements	584,423	615,376	556,822	108,895	1,865,516
1460 Furnishings	<u>52,061</u>	<u>68,727</u>	<u>72,274</u>	<u>2,714</u>	<u>195,776</u>
Total fixed assets	826,717	838,287	883,733	409,156	2,957,893
1495 Accumulated depreciation	<u>(548,875)</u>	<u>(631,271)</u>	<u>(631,561)</u>	<u>(56,722)</u>	<u>(1,868,429)</u>
Net fixed assets	<u>277,842</u>	<u>207,016</u>	<u>252,172</u>	<u>352,434</u>	<u>1,089,464</u>
Total assets	<u>\$ 312,007</u>	<u>\$ 362,014</u>	<u>\$ 323,270</u>	<u>\$ 365,712</u>	<u>\$ 1,363,003</u>

Exceptional Children's Foundation and Affiliates
Statements of Financial Position - HUD Projects
June 30, 2017

	Valverde HUD Project No. 122-EH310- <u>WHH-L8</u>	Westington HUD Project No. 122-EH151- <u>WHC-L8</u>	Whittier Springs HUD Project No. 122-EH157- <u>WHC-L8</u>	ERAS Home II HUD Project No. 122-HD044- <u>WDD-NP</u>	<u>Total</u>
LIABILITIES AND NET ASSETS (DEFICIT)					
Current liabilities					
2110 Accounts payable	\$ 8,573	\$ 8,384	\$ 12,611	\$ 399	\$ 29,967
2131 Accrued interest	2,572	2,647	2,862	-	8,081
2170 Current portion of mortgage payable	24,162	38,427	39,135	-	101,724
2210 Prepaid rents	<u>-</u>	<u>1,150</u>	<u>2,420</u>	<u>-</u>	<u>3,570</u>
Total current liabilities	<u>35,307</u>	<u>50,608</u>	<u>57,028</u>	<u>399</u>	<u>143,342</u>
Deposit liabilities					
2191 Tenant deposits held in trust (contra)	<u>-</u>	<u>2,879</u>	<u>3,598</u>	<u>1,564</u>	<u>8,041</u>
Long-term liabilities					
2305 Accounts payable - sponsor	368,950	556,770	423,891	99,549	1,449,160
2320 Mortgage payable, net of current portion	<u>309,454</u>	<u>304,956</u>	<u>332,201</u>	<u>404,900</u>	<u>1,351,511</u>
Total long-term liabilities	<u>678,404</u>	<u>861,726</u>	<u>756,092</u>	<u>504,449</u>	<u>2,800,671</u>
Total Liabilities	<u>713,711</u>	<u>915,213</u>	<u>816,718</u>	<u>506,412</u>	<u>2,952,054</u>
Net assets					
3131 Unrestricted net assets (deficit)	<u>(401,704)</u>	<u>(553,199)</u>	<u>(493,448)</u>	<u>(140,700)</u>	<u>(1,589,051)</u>
Total liabilities and net assets (deficit)	<u>\$ 312,007</u>	<u>\$ 362,014</u>	<u>\$ 323,270</u>	<u>\$ 365,712</u>	<u>\$ 1,363,003</u>

Exceptional Children's Foundation and Affiliates
Statements of Activities - HUD Projects
For the Year Ended June 30, 2017

	Valverde HUD Project No. 122-EH310- <u>WHH-L8</u>	Westington HUD Project No. 122-EH151- <u>WHC-L8</u>	Whittier Springs HUD Project No. 122-EH157- <u>WHC-L8</u>	ERAS Home II HUD Project No. 122-HD044- <u>WDD-NP</u>	<u>Total</u>
REVENUE					
Rental revenue					
5120 Tenant rent payments	\$ 49,391	\$ 59,161	\$ 43,870	\$ 25,098	\$ 177,520
5121 Tenant assistance payments	158,274	139,265	155,234	19,470	472,243
5190 Rent income - manager unit	<u>17,303</u>	<u>16,536</u>	<u>16,592</u>	<u>-</u>	<u>50,431</u>
Gross potential rent	224,968	214,962	215,696	44,568	700,194
Vacancies					
5220 Apartments	<u>(36,239)</u>	<u>-</u>	<u>(3,941)</u>	<u>(7,428)</u>	<u>(47,608)</u>
Net rental revenue	<u>188,729</u>	<u>214,962</u>	<u>211,755</u>	<u>37,140</u>	<u>652,586</u>
Financial revenue					
5410 Interest income - project operations	-	3	-	-	3
5430 Interest income - residual receipts	-	891	3	-	894
5440 Interest income - replacement reserve	<u>16</u>	<u>23</u>	<u>26</u>	<u>-</u>	<u>65</u>
Total financial revenue	<u>16</u>	<u>917</u>	<u>29</u>	<u>-</u>	<u>962</u>
Other revenue					
5990 Miscellaneous revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,754</u>	<u>5,754</u>
Total revenue	<u>188,745</u>	<u>215,879</u>	<u>211,784</u>	<u>42,894</u>	<u>659,302</u>

Exceptional Children's Foundation and Affiliates
Statements of Activities - HUD Projects
For the Year Ended June 30, 2017

	Valverde HUD Project No. 122-EH310- WHH-L8	Westington HUD Project No. 122-EH151- WHC-L8	Whittier Springs HUD Project No. 122-EH157- WHC-L8	ERAS Home II HUD Project No. 122-HD044- WDD-NP	Total
EXPENSES					
Administrative expenses					
6310 Office salaries	\$ 74,932	\$ 93,957	\$ 66,700	\$ 26,587	\$ 262,176
6311 Office expenses	627	362	327	362	1,678
6320 Management fee	12,550	16,312	15,277	3,600	47,739
6331 Administrative rent-free unit	17,303	16,536	16,592	-	50,431
6350 Audit expense	6,400	6,553	6,400	3,275	22,628
6351 Bookkeeping	506	630	457	187	1,780
6390 Miscellaneous administrative expense	<u>1,362</u>	<u>2,093</u>	<u>1,553</u>	<u>1,272</u>	<u>6,280</u>
Total administrative expenses	<u>113,680</u>	<u>136,443</u>	<u>107,306</u>	<u>35,283</u>	<u>392,712</u>
Utilities					
6450 Electricity	15,062	5,896	4,745	4,174	29,877
6451 Water	7,701	4,182	8,186	2,450	22,519
6452 Gas	<u>1,933</u>	<u>3,945</u>	<u>599</u>	<u>1,004</u>	<u>7,481</u>
Total utilities	<u>24,696</u>	<u>14,023</u>	<u>13,530</u>	<u>7,628</u>	<u>59,877</u>
Operating and maintenance expenses					
6510 Payroll	19,884	17,463	18,036	64	55,447
6520 Contracts	3,782	4,529	782	684	9,777
6525 Garbage and trash removal	<u>7,978</u>	<u>6,478</u>	<u>2,550</u>	<u>-</u>	<u>17,006</u>
Total operating and maintenance expenses	<u>31,644</u>	<u>28,470</u>	<u>21,368</u>	<u>748</u>	<u>82,230</u>
Taxes and insurance					
6710 Real estate taxes	1,160	1,517	4,482	260	7,419
6711 Payroll taxes	5,965	7,425	5,293	2,254	20,937
6720 Property and liability insurance	1,728	3,157	2,161	1,607	8,653
6722 Workers' compensation	5,715	8,242	4,110	1,019	19,086
6723 Health insurance and other employee benefits	<u>4,708</u>	<u>5,368</u>	<u>2,850</u>	<u>1,053</u>	<u>13,979</u>
Total taxes and insurance	<u>19,276</u>	<u>25,709</u>	<u>18,896</u>	<u>6,193</u>	<u>70,074</u>

Exceptional Children's Foundation and Affiliates
Statements of Activities - HUD Projects
For the Year Ended June 30, 2017

	Valverde HUD Project No. 122-EH310- <u>WHH-L8</u>	Westington HUD Project No. 122-EH151- <u>WHC-L8</u>	Whittier Springs HUD Project No. 122-EH157- <u>WHC-L8</u>	ERAS Home II HUD Project No. 122-HD044- <u>WDD-NP</u>	<u>Total</u>
EXPENSES (CONTINUED)					
Financial					
6820 Interest on mortgages payable	<u>\$ 34,133</u>	<u>\$ 33,273</u>	<u>\$ 35,420</u>	<u>\$ -</u>	<u>\$ 102,826</u>
Depreciation					
6600 Depreciation expense	<u>24,863</u>	<u>17,709</u>	<u>20,420</u>	<u>3,291</u>	<u>66,283</u>
Total expenses	<u>248,292</u>	<u>255,627</u>	<u>216,940</u>	<u>53,143</u>	<u>774,002</u>
Change in unrestricted net assets	(59,547)	(39,748)	(5,156)	(10,249)	(114,700)
Unrestricted net assets (deficit), beginning of year	<u>(342,157)</u>	<u>(513,451)</u>	<u>(488,292)</u>	<u>(130,451)</u>	<u>(1,474,351)</u>
Unrestricted net assets (deficit), end of year	<u><u>\$ (401,704)</u></u>	<u><u>\$ (553,199)</u></u>	<u><u>\$ (493,448)</u></u>	<u><u>\$ (140,700)</u></u>	<u><u>\$ (1,589,051)</u></u>

Exceptional Children's Foundation and Affiliates
Statements of Cash Flows - HUD Projects
For the Year Ended June 30, 2017

	Valverde HUD Project No. 122- EH310- WHH-L8	Westington HUD Project No. 122- EH151- WHC-L8	Whittier Springs HUD Project No. 122-EH157- WHC-L8	ERAS Home II HUD Project No. 122-HD044- WDD-NP	Total
Cash flows from operating activities					
Rental receipts	\$ 181,278	\$ 196,697	\$ 195,075	\$ 37,140	\$ 610,190
Interest receipts	16	917	29	-	962
Other operating receipts	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,754</u>	<u>5,754</u>
Total receipts	181,294	197,614	195,104	42,894	616,906
Disbursements					
Administrative	(8,895)	(15,286)	(11,388)	(5,097)	(40,666)
Management fee	(12,155)	(15,781)	(15,125)	(3,600)	(46,661)
Utilities	(22,831)	(18,076)	(13,396)	(8,627)	(62,930)
Salaries and wages	(94,816)	(111,420)	(84,736)	(26,651)	(317,623)
Operating and maintenance	(11,401)	(11,535)	(5,270)	(684)	(28,890)
Real estate taxes	(1,160)	(1,517)	(4,482)	(260)	(7,419)
Property insurance	(1,728)	(3,157)	(2,161)	(1,607)	(8,653)
Miscellaneous taxes and insurance	(16,408)	(21,035)	(12,253)	(4,326)	(54,022)
Interest on mortgage payable	(37,064)	(33,543)	(35,699)	-	(106,306)
Deposits held in trust, net	<u>-</u>	<u>529</u>	<u>231</u>	<u>-</u>	<u>760</u>
Total disbursements	<u>(206,458)</u>	<u>(230,821)</u>	<u>(184,279)</u>	<u>(50,852)</u>	<u>(672,410)</u>
Net cash provided by (used in) operating activities	<u>(25,164)</u>	<u>(33,207)</u>	<u>10,825</u>	<u>(7,958)</u>	<u>(55,504)</u>
Cash flows from investing activities					
Acquisition of fixed assets	(7,895)	(3,624)	-	-	(11,519)
Deposits to and interest earned on replacement reserves	(5,159)	(5,159)	(5,146)	(1,860)	(17,324)
Withdrawals from replacement reserves	7,896	-	-	-	7,896
Deposits to and interest earned on residual receipts reserves	<u>-</u>	<u>(891)</u>	<u>(3)</u>	<u>-</u>	<u>(894)</u>
Net cash used in investing activities	<u>(5,158)</u>	<u>(9,674)</u>	<u>(5,149)</u>	<u>(1,860)</u>	<u>(21,841)</u>
Cash flows from financing activities					
Principal payments on mortgage payable	(24,210)	(35,045)	(36,153)	-	(95,408)
Net advances from sponsor	<u>62,950</u>	<u>69,763</u>	<u>26,002</u>	<u>8,939</u>	<u>167,654</u>
Net cash provided by (used in) financing activities	<u>38,740</u>	<u>34,718</u>	<u>(10,151)</u>	<u>8,939</u>	<u>72,246</u>
Net increase (decrease) in cash	8,418	(8,163)	(4,475)	(879)	(5,099)
Cash, beginning of year	<u>1,404</u>	<u>10,433</u>	<u>14,635</u>	<u>1,278</u>	<u>27,750</u>
Cash, end of year	<u>\$ 9,822</u>	<u>\$ 2,270</u>	<u>\$ 10,160</u>	<u>\$ 399</u>	<u>\$ 22,651</u>

Exceptional Children's Foundation and Affiliates
Statements of Cash Flows - HUD Projects
For the Year Ended June 30, 2017

	Valverde HUD Project No. 122- EH310- WHH-L8	Westington HUD Project No. 122- EH151- WHC-L8	Whittier Springs HUD Project No. 122-EH157- WHC-L8	ERAS Home II HUD Project No. 122-HD044- WDD-NP	Total
Reconciliation of change in unrestricted net assets to net cash provided by (used in) operating activities					
Change in total net assets from operations	\$ (59,547)	\$ (39,748)	\$ (5,156)	\$ (10,249)	\$ (114,700)
Adjustments to reconcile net profit to net cash provided by (used in) operating activities					
Depreciation expense	24,863	17,709	20,420	3,291	66,283
Decrease (increase) in accounts receivable - HUD	9,852	(1,934)	1	-	7,919
Increase (decrease) in accounts payable	2,599	(9,698)	(4,303)	(1,000)	(12,402)
Increase (decrease) in accrued interest payable	(2,931)	(270)	(279)	-	(3,480)
Increase (decrease) in prepaid rent	-	205	(89)	-	116
Increase (decrease) in tenant deposits held in trust	-	529	231	-	760
Net cash provided by (used in) operating activities	<u>\$ (25,164)</u>	<u>\$ (33,207)</u>	<u>\$ 10,825</u>	<u>\$ (7,958)</u>	<u>\$ (55,504)</u>

Exceptional Children's Foundation and Affiliates
Schedules of Replacement Reserves and
Residual Receipts Reserves - HUD Projects
June 30, 2017

	Valverde HUD Project No. 122- EH310- WHH-L8	Westington HUD Project No. 122- EH151- WHC-L8	Whittier Springs HUD Project No. 122-EH157- WHC-L8	ERAS Home II HUD Project No. 122-HD044- WDD-NP	Total
<u>Schedule of Replacement Reserves</u>					
Balance, beginning of year	\$ 27,080	\$ 45,654	\$ 48,360	\$ 9,455	\$ 130,549
Valverde (\$428 x 11)	4,708	-	-	-	4,708
Valverde (\$435 x 1)	435	-	-	-	435
Westington (\$427 x 10)	-	4,270	-	-	4,270
Westington (\$433 x 2)	-	866	-	-	866
Whittier Springs (\$420 x 2)	-	-	840	-	840
Whittier Springs (\$428 x 10)	-	-	4,280	-	4,280
ERAS Home II (\$155 x 12)	-	-	-	1,860	1,860
Approved withdrawals	(7,896)	-	-	-	(7,896)
Interest income, net of account fees	<u>16</u>	<u>23</u>	<u>26</u>	<u>-</u>	<u>65</u>
Balance, end of year	<u>\$ 24,343</u>	<u>\$ 50,813</u>	<u>\$ 53,506</u>	<u>\$ 11,315</u>	<u>\$ 139,977</u>

Schedule of Residual Receipts Reserves

Balance, beginning of year	\$ -	\$ 93,419	\$ 3,014	\$ -	\$ 96,433
Interest income	<u>-</u>	<u>891</u>	<u>3</u>	<u>-</u>	<u>894</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 94,310</u>	<u>\$ 3,017</u>	<u>\$ -</u>	<u>\$ 97,327</u>

Exceptional Children's Foundation and Affiliates
Consolidated Computations of Surplus Cash (Deficit)- HUD Projects
For the Year Ended June 30, 2017

	Valverde HUD Project No. 122-EH310- WHH-L8	Westington HUD Project No. 122-EH151- WHC-L8	Whittier Springs HUD Project No. 122-EH157- WHC-L8	ERAS Home II HUD Project No. 122-HD044- WDD-NP
Cash				
1110 Petty cash	\$ -	\$ 150	\$ 150	\$ -
1120 Cash in bank	9,822	2,120	10,010	399
1135 Accounts receivable - HUD	-	1,934	722	-
	<u>-</u>	<u>5,671</u>	<u>3,693</u>	<u>1,564</u>
Total cash	<u>9,822</u>	<u>9,875</u>	<u>14,575</u>	<u>1,963</u>
Current obligations				
2110 Accounts payable	8,573	8,384	12,611	399
2131 Accrued interest	2,572	2,647	2,862	-
2210 Prepaid rents	-	1,150	2,420	-
2191 Tenant deposits held in trust (contra)	<u>-</u>	<u>2,879</u>	<u>3,598</u>	<u>1,564</u>
Total current obligations	<u>11,145</u>	<u>15,060</u>	<u>21,491</u>	<u>1,963</u>
Surplus cash (deficiency)	<u>\$ (1,323)</u>	<u>\$ (5,185)</u>	<u>\$ (6,916)</u>	<u>\$ -</u>
Payments due to residual receipts reserve	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Exceptional Children's Foundation and Affiliates
Schedules of Changes in Fixed Asset Accounts - HUD Projects
For the Year Ended June 30, 2017

		Balance, <u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	Balance, <u>June 30, 2017</u>
<u>Valverde HUD Project No. 122-EH310-WHH-L8</u>					
1410	Land improvements	\$ 190,233	\$ -	\$ -	\$ 190,233
1420	Buildings and improvements	576,528	7,895	-	584,423
1440	Building equipment (portable)	9,387	-	-	9,387
1460	Furnishings	42,674	-	-	42,674
		<u>818,822</u>	<u>7,895</u>	<u>-</u>	<u>826,717</u>
1495	Accumulated depreciation	<u>(524,012)</u>	<u>(24,863)</u>	<u>-</u>	<u>(548,875)</u>
		<u>\$ 294,810</u>	<u>\$ (16,968)</u>	<u>\$ -</u>	<u>\$ 277,842</u>

Westington HUD Project No. 122-EH151-WHC-L8

1410	Land improvements	\$ 154,184	\$ -	\$ -	\$ 154,184
1420	Buildings and improvements	615,376	-	-	615,376
1440	Building equipment (portable)	13,503	-	-	13,503
1460	Furnishings	51,600	3,624	-	55,224
		<u>834,663</u>	<u>3,624</u>	<u>-</u>	<u>838,287</u>
1495	Accumulated depreciation	<u>(613,562)</u>	<u>(17,709)</u>	<u>-</u>	<u>(631,271)</u>
		<u>\$ 221,101</u>	<u>\$ (14,085)</u>	<u>\$ -</u>	<u>\$ 207,016</u>

Whittier Springs HUD Project No. 122-EH157-WHC-L8

1410	Land improvements	\$ 254,637	\$ -	\$ -	\$ 254,637
1420	Buildings and improvements	556,822	-	-	556,822
1440	Building equipment (portable)	10,710	-	-	10,710
1460	Furnishings	61,564	-	-	61,564
		<u>883,733</u>	<u>-</u>	<u>-</u>	<u>883,733</u>
1495	Accumulated depreciation	<u>(611,141)</u>	<u>(20,420)</u>	<u>-</u>	<u>(631,561)</u>
		<u>\$ 272,592</u>	<u>\$ (20,420)</u>	<u>\$ -</u>	<u>\$ 252,172</u>

Exceptional Children's Foundation and Affiliates
Schedules of Changes in Fixed Asset Accounts - HUD Projects
For the Year Ended June 30, 2017

		Balance, <u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	Balance, <u>June 30, 2017</u>
<u>ERAS Home II HUD Project No. 122-HD044-WDD-NP</u>					
1410	Land improvements	\$ 297,547	\$ -	\$ -	\$ 297,547
1420	Buildings and improvements	108,895	-	-	108,895
1440	Building equipment (portable)	-	-	-	-
1460	Furnishings	<u>2,714</u>	<u>-</u>	<u>-</u>	<u>2,714</u>
		<u>409,156</u>	<u>-</u>	<u>-</u>	<u>409,156</u>
1495	Accumulated depreciation	<u>(53,431)</u>	<u>(3,291)</u>	<u>-</u>	<u>(56,722)</u>
		<u>\$ 355,725</u>	<u>\$ (3,291)</u>	<u>\$ -</u>	<u>\$ 352,434</u>

Exceptional Children's Foundation and Affiliates
Certification of Project Owner
For the Year Ended June 30, 2017

We hereby certify that we have examined the accompanying basic consolidated financial statements and supplemental data of Exceptional Children's Foundation and Affiliates as of and for the year ended June 30, 2017, and to the best of our knowledge and belief, the same are accurate and complete.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

Leslie Abell, Board Chair
December 13, 2017

Scott D. Bowling, Psy.D, President and CEO
December 13, 2017

Exceptional Children's Foundation and Affiliates
Management Agent's Certification
For the Year Ended June 30, 2017

I hereby certify that I have examined the accompanying basic consolidated financial statements and supplemental data of Exceptional Children's Foundation and Affiliates as of and for the year ended June 30, 2017, and to the best of our knowledge and belief, the same are accurate and complete.

Exceptional Children's Foundation and Affiliates
(Management Agent) EIN 95-1862084

Scott D. Bowling, Psy.D, President and CEO
December 13, 2017