

**Exceptional Children's Foundation
and Affiliates**

Consolidated Financial Statements
and Single Audit Reports and Schedules

June 30, 2018

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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, 2018, 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, 2018, 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 3, 2018, 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 3, 2018

Exceptional Children's Foundation and Affiliates
Consolidated Statement of Financial Position
June 30, 2018

ASSETS

Current assets	
Cash and cash equivalents	\$ 416,333
Investments	6,842,775
Accounts receivable	2,476,369
Pledges receivable	179,900
Inventory	121,281
Prepaid expenses and other current assets	331,473
Total current assets	<u>10,368,131</u>
Other assets	
Endowment investments	8,837,662
Restricted cash	330,605
Restricted deposits and funded reserves	266,782
Security deposits	48,022
Fixed assets, net	23,118,523
New markets note receivable	5,335,875
Total other assets	<u>37,937,469</u>
Total assets	<u><u>\$ 48,305,600</u></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, 2018

LIABILITIES AND NET ASSETS

Current liabilities	
Lines of credit	\$ 899,887
Current portion of long-term debt	189,868
Accounts payable and accrued expenses	<u>2,343,984</u>
Total current liabilities	<u>3,433,739</u>
Long-term liabilities	
Long-term debt, net of current portion	1,583,198
New markets notes payable, net of unamortized debt issuance costs	<u>7,464,430</u>
Total long-term liabilities	<u>9,047,628</u>
Total liabilities	<u>12,481,367</u>
Commitments and contingencies (Notes 5 and 13)	
Net assets	
Unrestricted	
General	6,980,864
Board-designated	7,573,857
Designated for existing land and building	<u>19,231,030</u>
Total unrestricted	33,785,751
Temporarily restricted	1,038,482
Permanently restricted	<u>1,000,000</u>
Total net assets	<u>35,824,233</u>
Total liabilities and net assets	<u>\$ 48,305,600</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, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support				
Public support				
Contributions	\$ 1,054,373	\$ 440,000	\$ -	\$ 1,494,373
Fundraising events, net of direct benefit costs of \$9,231	103,737	14,077	-	117,814
In-kind contributions of food	<u>108,843</u>	<u>-</u>	<u>-</u>	<u>108,843</u>
Total public support	1,266,953	454,077	-	1,721,030
Tuition and fees	20,591,196	-	-	20,591,196
Contract sales	1,606,381	-	-	1,606,381
Rents	807,686	-	-	807,686
Merchandise sales	224,024	-	-	224,024
Miscellaneous	<u>134,776</u>	<u>-</u>	<u>-</u>	<u>134,776</u>
Total revenues and support	24,631,016	454,077	-	25,085,093
Net assets released from restriction	<u>395,677</u>	<u>(395,677)</u>	<u>-</u>	<u>-</u>
	<u>25,026,693</u>	<u>58,400</u>	<u>-</u>	<u>25,085,093</u>
Functional expenses				
Program services	24,084,168	-	-	24,084,168
Management and general	2,508,880	-	-	2,508,880
Fundraising	<u>909,066</u>	<u>-</u>	<u>-</u>	<u>909,066</u>
Total functional expenses	27,502,114	-	-	27,502,114
Change in net assets from operations	<u>(2,475,421)</u>	<u>58,400</u>	<u>-</u>	<u>(2,417,021)</u>
Investment results				
Interest and dividends, net of fees	392,736	3,083	24,382	420,201
Realized gains on sales of investments	1,251,545	11,405	90,177	1,353,127
Unrealized losses on investments	(479,481)	(4,369)	(34,548)	(518,398)
Reclassification of investment earnings	<u>-</u>	<u>80,011</u>	<u>(80,011)</u>	<u>-</u>
Total investment results	1,164,800	90,130	-	1,254,930
Change in net assets	(1,310,621)	148,530	-	(1,162,091)
Net assets, beginning of year	<u>35,096,372</u>	<u>889,952</u>	<u>1,000,000</u>	<u>36,986,324</u>
Net assets, end of year	<u>\$ 33,785,751</u>	<u>\$ 1,038,482</u>	<u>\$ 1,000,000</u>	<u>\$ 35,824,233</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, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Rehab and administration				
Salaries	\$ 13,642,533	\$ 1,599,552	\$ 652,951	\$ 15,895,036
Payroll taxes	955,804	102,891	42,773	1,101,468
Employee benefits	1,549,789	100,282	43,349	1,693,420
Total rehab and administration	<u>16,148,126</u>	<u>1,802,725</u>	<u>739,073</u>	<u>18,689,924</u>
Client payroll				
Payroll	927,402	-	-	927,402
Payroll taxes	72,940	-	-	72,940
Employee benefits	300,492	-	-	300,492
Total client payroll	<u>1,300,834</u>	<u>-</u>	<u>-</u>	<u>1,300,834</u>
Total personnel expenses	<u>17,448,960</u>	<u>1,802,725</u>	<u>739,073</u>	<u>19,990,758</u>
Agency support	6,029	1,411	1,424	8,864
Bad debt	10,598	-	-	10,598
Depreciation and amortization	933,192	61,253	15,211	1,009,656
Equipment rental and maintenance	141,242	14,190	3,928	159,360
Events and publications	14,702	430	26,684	41,816
Facility maintenance	578,257	26,739	6,966	611,962
Facility rent	347,235	3,531	-	350,766
Insurance	198,357	22,953	2,808	224,118
Interest	215,911	53,038	-	268,949
Licenses and fees	90,110	6,140	544	96,794
Miscellaneous	121,876	76,837	30,374	229,087
Office supplies	105,197	47,899	15,729	168,825
Other production costs	349,149	-	-	349,149
Production related	499,111	-	-	499,111
Professional services	653,551	231,328	1,738	886,617
Program supplies	485,124	-	-	485,124
Staff mileage	138,780	4,318	759	143,857
Staff support services	238,014	63,879	-	301,893
Staff training and development	76,828	24,609	3,024	104,461
Telephone	269,279	46,473	55,937	371,689
Transportation and auto	841,552	3,843	-	845,395
Utilities	321,114	17,284	4,867	343,265
	<u>\$ 24,084,168</u>	<u>\$ 2,508,880</u>	<u>\$ 909,066</u>	<u>\$ 27,502,114</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, 2018

Cash flows from operating activities	
Change in net assets	\$ (1,162,091)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	1,009,656
Amortization of debt issuance costs	28,499
Realized gains on sales of investments	(1,353,127)
Unrealized losses on investments	518,398
Gain on disposal of assets	(17,607)
Changes in operating assets and liabilities	
Accounts receivable	188,597
Pledges receivable	(95,000)
Inventory	246,554
Prepaid expenses and other current assets	(96,878)
Security deposits	54,567
Accounts payable and accrued expenses	<u>(234,542)</u>
Net cash used in operating activities	<u>(912,974)</u>
Cash flows from investing activities	
Transfers from restricted cash	51,295
Proceeds from sales of investments	7,466,287
Purchases of investments	(6,328,231)
Payments to and interest earned on restricted deposits and funded reserves	(18,548)
Purchases of fixed assets	<u>(473,030)</u>
Net cash provided by investing activities	<u>697,773</u>
Cash flows from financing activities	
Principal payments on long-term debt	<u>(182,312)</u>
Net cash used in financing activities	<u>(182,312)</u>
Net decrease in cash and cash equivalents	(397,513)
Cash and cash equivalents, beginning of year	<u>813,846</u>
Cash and cash equivalents, end of year	<u><u>\$ 416,333</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 298,277
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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, 2018

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, 2018

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, 2018

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. As of February 2018, the Organization has discontinued its e-commerce operations.

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, 2015, 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, 2014, 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, 2018

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 consolidated 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, 2018, the amount of such funds held-in-trust totaled \$11,231 and is included in cash and cash equivalents in the accompanying consolidated statement of financial position. 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 \$330,605 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, 2018

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, 2018.

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, 2018.

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
Leasehold improvements	5 - 10 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, 2018

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, 2018.

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, 2018

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 three major funding sources that comprised 24%, 21%, and 12% of its revenue and 20%, 32%, and 13%, respectively, of its accounts receivable at June 30, 2018. Management anticipates this funding will continue at present levels.

Subsequent events

ECF has evaluated events subsequent to June 30, 2018, to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated through December 3, 2018, 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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equities	\$ 8,592,699	\$ -	\$ -	\$ 8,592,699
Mutual funds	3,029,085	-	-	3,029,085
Fixed income	-	1,818,080	-	1,818,080
Alternatives	-	630,064	-	630,064
Corporate bonds	-	660,970	-	660,970
U.S. government obligations	-	619,738	-	619,738
Money market accounts	278,390	-	-	278,390
U.S. government-agency obligations	-	51,411	-	51,411
	<u>\$ 11,900,174</u>	<u>\$ 3,780,263</u>	<u>\$ -</u>	<u>\$ 15,680,437</u>

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

Investments	\$ 6,842,775
Endowment investments	<u>8,837,662</u>
	<u>\$ 15,680,437</u>

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

3. INVESTMENTS (continued)

Activity in the investments during the year was as follows:

Balance, beginning of year	\$ 15,983,764
Purchases of investments	6,328,231
Proceeds from sales of investments	(7,466,287)
Realized gains on sales of investments	1,353,127
Unrealized losses on investments	<u>(518,398)</u>
Balance, end of year	<u><u>\$ 15,680,437</u></u>

4. PLEDGES RECEIVABLE

Pledges receivable consist of the following:

Due in less than one year	<u>\$ 179,900</u>
	<u><u>\$ 179,900</u></u>

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

5. RESTRICTED DEPOSITS AND FUNDED RESERVES

Restricted deposits and funded reserves are detailed as follows:

Replacement Reserves: The HUD Projects are required to make monthly deposits to replacement reserves totaling \$1,495 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.

\$ 157,624

Residual Receipts Reserves: 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, 2018; no deposits into the residual receipts reserve are required during the year ending June 30, 2019.

98,228

Tenant Security Deposits: The HUD Projects are required to maintain separate cash accounts for tenants' rental security deposits.

10,930

\$ 266,782

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

6. FIXED ASSETS

Fixed assets consist of the following:

Buildings and improvements	\$ 23,427,150
Land and improvements	9,803,266
Furniture and fixtures	4,004,883
Computer equipment	1,797,339
Transportation equipment	1,152,146
Leasehold improvements	<u>572,564</u>
	40,757,348
Accumulated depreciation and amortization	<u>(17,638,825)</u>
	<u><u>\$ 23,118,523</u></u>

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) (2.07% at June 30, 2018) 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, 2018, \$899,887 was outstanding on this line and ECF was in compliance with these covenants.

ECF has a \$4,472,000 revolving line of credit agreement with Morgan Stanley which includes a variable and fixed component. The variable component includes monthly payments of interest-only at the 1-month LIBOR plus 1.25%. The fixed component includes a note payable included in long term debt (Note 10). The 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, 2018, only the fixed component included in long term debt 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.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

8. NEW MARKETS TAX CREDIT TRANSACTION (continued)

- 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 \$2,259,125, 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.
- 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, 2018.

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, 2018

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.	\$ 426,999
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.	304,518
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.	304,956
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.	331,693
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
	1,773,066
Current portion	(189,868)
	<u>\$ 1,583,198</u>

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

<u>Year ending June 30,</u>	
2019	\$ 189,868
2020	203,631
2021	402,770
2022	147,754
2023	162,018
Thereafter	<u>667,025</u>
	<u>\$ 1,773,066</u>

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

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:

	<u>Released from Restriction</u>	<u>Balance, June 30, 2018</u>	
PAR Services	\$ -	\$ 367,109	
Unappropriated Earnings on Permanent Endowment (see Note 12)	50,000	263,851	
Early Start Program	134,955	275,982	*
Dale Fukamaki Memorial Fund	-	103,290	
William Randolph Hearst Foundation	56,250	-	
Time-restricted (pledge receivable)	15,000	-	
Capital Group Companies Charitable Foundation	15,000	7,500	
The Sheri & Les Biller Family Foundation	10,000	-	
Ella Fitzgerald	5,000	4,900	*
The Siragusa Foundation	7,500	7,500	
The Flourish Foundation	1,972	-	
CEO's Employee Development Fund	-	850	
U.S. Bank	-	7,500	
S. Mark Taper Foundation	<u>100,000</u>	<u>-</u>	
	<u>\$ 395,677</u>	<u>\$ 1,038,482</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, 2018

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, 2018

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 \$1,503,911 to be transferred to operations during the fiscal year ending June 30, 2018.

Endowment net asset composition by type of fund

Endowment net asset composition by type of fund as of June 30, 2018, is as follows:

	Unrestricted Board - Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 263,851	\$ 1,000,000	\$ 1,263,851
Board-designated endowment funds	<u>7,573,811</u>	<u>-</u>	<u>-</u>	<u>7,573,811</u>
	<u>\$ 7,573,811</u>	<u>\$ 263,851</u>	<u>\$ 1,000,000</u>	<u>\$ 8,837,662</u>

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

12. ENDOWMENT (continued)

Endowment net asset composition by type of fund (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, beginning of year	\$13,041,021	\$ 223,721	\$ 1,000,000	\$14,264,742
Investment return				
Investment income	406,820	4,172	32,989	443,981
Investment fees	(106,144)	(1,089)	(8,607)	(115,840)
Realized gains	1,112,073	11,405	90,177	1,213,655
Unrealized losses	<u>(426,048)</u>	<u>(4,369)</u>	<u>(34,548)</u>	<u>(464,965)</u>
Total investment return	986,701	10,119	80,011	1,076,831
Reclassification of investment earnings	-	80,011	(80,011)	-
Transfer to general unrestricted	(5,000,000)	-	-	(5,000,000)
Amounts appropriated for expenditures during the year for operational and capital expenses	<u>(1,453,911)</u>	<u>(50,000)</u>	<u>-</u>	<u>(1,503,911)</u>
	<u>(5,467,210)</u>	<u>40,130</u>	<u>-</u>	<u>(5,427,080)</u>
Balance, end of year	<u>\$ 7,573,811</u>	<u>\$ 263,851</u>	<u>\$ 1,000,000</u>	<u>\$ 8,837,662</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>	
2019	\$ 202,297
2020	199,883
2021	204,490
2022	209,234
2023	214,121
Thereafter	<u>46,342</u>
	<u>\$ 1,076,367</u>

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

13. COMMITMENTS AND CONTINGENCIES (continued)

Lease commitments (continued)

Rent expense, comprised of facilities, equipment, buses, and uniforms totaled \$435,132 for the year.

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 \$477,345 for the year. The amount earned under the PRAC contract totaled \$17,784 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 authorized 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 sub-minimum wage rates. Over the last several years, there have been various efforts to reduce or eliminate reliance on sub-minimum wage for workers with disabilities. If Section 14c were eliminated, these disabled workers would be required to be paid the Federal minimum wage. Beginning August 2016, concurrent with ECF's redesigned work program, the majority of clients began receiving minimum wages for work performed. The future impact of transferring the remaining clients to minimum wage rates is currently being studied.

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.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

13. COMMITMENTS AND CONTINGENCIES (continued)

Contingent promissory notes (continued)

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. During the year ended June 30, 2018, management received confirmation of the transfer of clear title to ECF from the City of Culver City.

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, 2018, and have issued our report thereon dated December 3, 2018, 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 3, 2018

Exceptional Children's Foundation and Affiliates
Consolidating Statements of Financial Position
June 30, 2018

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
ASSETS							
Cash and cash equivalents	\$ -	\$ 387,163	\$ -	\$ 387,163	\$ 29,170	\$ -	\$ 416,333
Investments, including current appropriation from endowment	-	6,842,775	-	6,842,775	-	-	6,842,775
Accounts receivable	-	2,477,219	-	2,477,219	(850)	-	2,476,369
Pledges receivable	-	179,900	-	179,900	-	-	179,900
Inventory	-	121,281	-	121,281	-	-	121,281
Prepaid expenses and other current assets	-	331,473	-	331,473	-	-	331,473
Endowment investments, net	-	8,837,662	-	8,837,662	-	-	8,837,662
Restricted cash	330,605	-	-	330,605	-	-	330,605
Restricted deposits and funded reserves	-	266,782	-	266,782	-	-	266,782
Security deposits	-	48,022	-	48,022	-	-	48,022
Fixed assets, net	10,698,849	12,419,674	-	23,118,523	-	-	23,118,523
New markets note receivable	-	-	-	-	5,335,875	-	5,335,875
Total assets	<u>\$ 11,029,454</u>	<u>\$ 31,911,951</u>	<u>\$ -</u>	<u>\$ 42,941,405</u>	<u>\$ 5,364,195</u>	<u>\$ -</u>	<u>\$ 48,305,600</u>

Exceptional Children's Foundation and Affiliates
Consolidating Statements of Financial Position
June 30, 2018

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
LIABILITIES AND NET ASSETS							
Lines of credit	\$ -	\$ 899,887	\$ -	\$ 899,887	\$ -	\$ -	\$ 899,887
Accounts payable and accrued expenses	-	2,343,984	-	2,343,984	-	-	2,343,984
Long-term debt	-	1,773,066	-	1,773,066	-	-	1,773,066
New markets notes payable, net of unamortized debt issuance costs	<u>7,464,430</u>	<u>-</u>	<u>-</u>	<u>7,464,430</u>	<u>-</u>	<u>-</u>	<u>7,464,430</u>
Total liabilities	<u>7,464,430</u>	<u>5,016,937</u>	<u>-</u>	<u>12,481,367</u>	<u>-</u>	<u>-</u>	<u>12,481,367</u>
Net assets	<u>3,565,024</u>	<u>26,895,014</u>	<u>-</u>	<u>30,460,038</u>	<u>5,364,195</u>	<u>-</u>	<u>35,824,233</u>
Total liabilities and net assets	<u>\$ 11,029,454</u>	<u>\$ 31,911,951</u>	<u>\$ -</u>	<u>\$ 42,941,405</u>	<u>\$ 5,364,195</u>	<u>\$ -</u>	<u>\$ 48,305,600</u>

Exceptional Children's Foundation and Affiliates
Consolidating Statements of Activities
For the Year Ended June 30, 2018

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
Revenues and support							
Public support							
Contributions	\$ 37,800	\$ 1,456,573	\$ -	\$ 1,494,373	\$ -	\$ -	\$ 1,494,373
Fundraising events, net of direct benefit costs of \$9,231	-	117,814	-	117,814	-	-	117,814
In-kind contributions of food	-	108,843	-	108,843	-	-	108,843
Total public support	<u>37,800</u>	<u>1,683,230</u>	<u>-</u>	<u>1,721,030</u>	<u>-</u>	<u>-</u>	<u>1,721,030</u>
Revenues							
Tuition and fees	3,337,745	17,253,451	-	20,591,196	-	-	20,591,196
Contract sales	1,408,664	197,717	-	1,606,381	-	-	1,606,381
Rents	38,440	769,246	-	807,686	-	-	807,686
Merchandise sales	166,104	57,920	-	224,024	-	-	224,024
Miscellaneous	81,840	52,936	-	134,776	-	-	134,776
Total revenues	<u>5,032,793</u>	<u>18,331,270</u>	<u>-</u>	<u>23,364,063</u>	<u>-</u>	<u>-</u>	<u>23,364,063</u>
Total revenues and support	<u>5,070,593</u>	<u>20,014,500</u>	<u>-</u>	<u>25,085,093</u>	<u>-</u>	<u>-</u>	<u>25,085,093</u>

Exceptional Children's Foundation and Affiliates
Consolidating Statements of Activities
For the Year Ended June 30, 2018

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
Functional expenses							
Program services	5,861,487	18,222,681	-	24,084,168	-	-	24,084,168
Management and general	573,414	1,935,222	-	2,508,636	244	-	2,508,880
Fundraising	-	909,066	-	909,066	-	-	909,066
Total functional expenses	<u>6,434,901</u>	<u>21,066,969</u>	<u>-</u>	<u>27,501,870</u>	<u>244</u>	<u>-</u>	<u>27,502,114</u>
Change in net assets from operations	<u>(1,364,308)</u>	<u>(1,052,469)</u>	<u>-</u>	<u>(2,416,777)</u>	<u>(244)</u>	<u>-</u>	<u>(2,417,021)</u>
Investment results							
Interest and dividends, net of fees	-	366,822	-	366,822	53,379	-	420,201
Realized gains on sales of investments	-	1,353,127	-	1,353,127	-	-	1,353,127
Unrealized gains on investments	-	(518,398)	-	(518,398)	-	-	(518,398)
Total investment results	<u>-</u>	<u>1,201,551</u>	<u>-</u>	<u>1,201,551</u>	<u>53,379</u>	<u>-</u>	<u>1,254,930</u>
Change in net assets	<u>\$ (1,364,308)</u>	<u>\$ 149,082</u>	<u>\$ -</u>	<u>\$ (1,215,226)</u>	<u>\$ 53,135</u>	<u>\$ -</u>	<u>\$ (1,162,091)</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, 2018, 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 3, 2018.

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 "A", "L", and "P" being particularly prominent.

Armanino^{LLP}
Los Angeles, California

December 3, 2018

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, 2018. 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, 2018.

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, 2018, and have issued our report thereon dated December 3, 2018, 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 3, 2018

Exceptional Children's Foundation and Affiliates
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

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	\$ 333,616
Westington - FHA Project No. 122-EH151-WHC-L8	14.157	343,383
Whittier Springs - FHA Project No. 122-EH157-WHC-L8	14.157	371,336
Total Supportive Housing for the Elderly (and Disabled) - Direct Loans		<u>1,048,335</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	17,784
Total Supportive Housing for Persons with Disabilities		<u>422,684</u>
Section 8 New Construction and Substantial Rehabilitation		
Valverde - Section 8 Project No. CA16-T831-049	14.182	166,922
Westington - Section 8 Project No. CA16-T811-003	14.182	152,114
Whittier Springs - Section 8 Project No. CA16-T811-009	14.182	158,309
Total Section 8 New Construction and Substantial Rehabilitation		<u>477,345</u>
Total U.S. Department of Housing and Development		<u>1,948,364</u>
U.S. Department of Agriculture		
Passed through California State Department of Education		
Child & Adult Care Food Program (CNIPS 05244-CACFP-19-NP-IC)	10.558	43,586
Total U.S. Department of Agriculture		<u>43,586</u>
Total Expenditures of Federal Awards		<u>\$ 1,991,950</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, 2018

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, 2018. 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, 2017, balances.

The loan balances reported on the June 30, 2018, consolidated statement of financial position are as follows:

Valverde, Inc.	\$ 304,518
Westington	304,956
Whittier Springs	331,693
ERAS Home II	<u>404,900</u>
	<u><u>\$ 1,346,067</u></u>

Exceptional Children's Foundation and Affiliates
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

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, 2018

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.

Exceptional Children's Foundation and Affiliates
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018

There were no prior year findings.

Exceptional Children's Foundation and Affiliates
Corrective Action Plan
For the Year Ended June 30, 2018

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, 2018, and have issued our report thereon dated December 3, 2018, 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 3, 2018

Exceptional Children's Foundation and Affiliates
Statements of Financial Position - HUD Projects
June 30, 2018

	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
ASSETS					
Current assets					
1120 Cash - operations	\$ 7,387	\$ 680	\$ 2,865	\$ 474	\$ 11,406
Total current assets	<u>7,387</u>	<u>680</u>	<u>2,865</u>	<u>474</u>	<u>11,406</u>
Deposits held in trust, funded					
1191 Tenant deposits held in trust	<u>-</u>	<u>5,673</u>	<u>3,693</u>	<u>1,564</u>	<u>10,930</u>
Restricted deposits and funded					
1320 Replacement reserve	29,593	56,066	58,790	13,175	157,624
1340 Residual receipts reserve	<u>-</u>	<u>95,208</u>	<u>3,020</u>	<u>-</u>	<u>98,228</u>
Total deposits	<u>29,593</u>	<u>151,274</u>	<u>61,810</u>	<u>13,175</u>	<u>255,852</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
1440 Building equipment (portable)	9,387	13,503	10,710	-	33,600
1460 Furnishings	<u>42,674</u>	<u>55,224</u>	<u>61,564</u>	<u>2,714</u>	<u>162,176</u>
Total fixed assets	826,717	838,287	883,733	409,156	2,957,893
1495 Accumulated depreciation	<u>(575,634)</u>	<u>(651,359)</u>	<u>(652,840)</u>	<u>(60,022)</u>	<u>(1,939,855)</u>
Net fixed assets	<u>251,083</u>	<u>186,928</u>	<u>230,893</u>	<u>349,134</u>	<u>1,018,038</u>
Total assets	<u>\$ 288,063</u>	<u>\$ 344,555</u>	<u>\$ 299,261</u>	<u>\$ 364,347</u>	<u>\$ 1,296,226</u>

Exceptional Children's Foundation and Affiliates
Statements of Financial Position - HUD Projects
June 30, 2018

	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					
Current liabilities					
2110 Accounts payable	\$ 6,287	\$ 11,306	\$ 13,966	\$ 503	\$ 32,062
2131 Accrued interest	2,347	2,351	2,554	-	7,252
2170 Current portion of mortgage payable	<u>26,971</u>	<u>42,137</u>	<u>42,962</u>	<u>-</u>	<u>112,070</u>
Total current liabilities	<u>35,605</u>	<u>55,794</u>	<u>59,482</u>	<u>503</u>	<u>151,384</u>
Deposit liabilities					
2191 Tenant deposits held in trust (contra)	<u>-</u>	<u>3,911</u>	<u>2,586</u>	<u>1,564</u>	<u>8,061</u>
Long-term liabilities					
2305 Accounts payable - sponsor	421,227	660,006	446,518	107,762	1,635,513
2320 Mortgage payable, net of current portion	<u>277,547</u>	<u>262,819</u>	<u>288,731</u>	<u>404,900</u>	<u>1,233,997</u>
Total long-term liabilities	<u>698,774</u>	<u>922,825</u>	<u>735,249</u>	<u>512,662</u>	<u>2,869,510</u>
Total Liabilities	<u>734,379</u>	<u>982,530</u>	<u>797,317</u>	<u>514,729</u>	<u>3,028,955</u>
Net assets					
3131 Unrestricted net assets (deficit)	<u>(446,316)</u>	<u>(637,975)</u>	<u>(498,056)</u>	<u>(150,382)</u>	<u>(1,732,729)</u>
Total liabilities and net assets (deficit)	<u>\$ 288,063</u>	<u>\$ 344,555</u>	<u>\$ 299,261</u>	<u>\$ 364,347</u>	<u>\$ 1,296,226</u>

Exceptional Children's Foundation and Affiliates
Statements of Activities - HUD Projects
For the Year Ended June 30, 2018

	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
REVENUE					
Rental revenue					
5120 Tenant rent payments	\$ 44,092	\$ 49,138	\$ 43,699	\$ 26,784	\$ 163,713
5121 Tenant assistance payments	166,922	152,114	158,309	17,784	495,129
5190 Rent income - manager unit	<u>17,585</u>	<u>16,772</u>	<u>16,834</u>	<u>-</u>	<u>51,191</u>
Gross potential rent	228,599	218,024	218,842	44,568	710,033
Vacancies					
5220 Apartments	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,428)</u>	<u>(7,428)</u>
Net rental revenue	<u>228,599</u>	<u>218,024</u>	<u>218,842</u>	<u>37,140</u>	<u>702,605</u>
Financial revenue					
5410 Interest income - project operations	-	3	-	-	3
5430 Interest income - residual receipts	-	898	3	-	901
5440 Interest income - replacement reserve	<u>14</u>	<u>25</u>	<u>28</u>	<u>-</u>	<u>67</u>
Total financial revenue	<u>14</u>	<u>926</u>	<u>31</u>	<u>-</u>	<u>971</u>
Other revenue					
5990 Miscellaneous revenue	<u>6,348</u>	<u>5,294</u>	<u>1,182</u>	<u>-</u>	<u>12,824</u>
Total revenue	<u>234,961</u>	<u>224,244</u>	<u>220,055</u>	<u>37,140</u>	<u>716,400</u>

Exceptional Children's Foundation and Affiliates
Statements of Activities - HUD Projects
For the Year Ended June 30, 2018

	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	\$ 51,551	\$ 38,621	\$ 36,442	\$ 18,261	\$ 144,875
6311 Office expenses	-	-	258	-	258
6320 Management fee	14,447	16,739	15,634	3,600	50,420
6330 Manager salaries	41,820	37,720	21,647	3,500	104,687
6331 Administrative rent-free unit	17,585	16,772	16,834	-	51,191
6350 Audit expense	6,600	6,600	6,600	3,275	23,075
6351 Bookkeeping	575	608	406	128	1,717
6390 Miscellaneous administrative expense	<u>586</u>	<u>2,171</u>	<u>462</u>	<u>422</u>	<u>3,641</u>
Total administrative expenses	<u>133,164</u>	<u>119,231</u>	<u>98,283</u>	<u>29,186</u>	<u>379,864</u>
Utilities					
6450 Electricity	6,052	7,009	4,232	4,237	21,530
6451 Water	19,514	3,763	9,764	2,396	35,437
6452 Gas	<u>1,804</u>	<u>3,685</u>	<u>543</u>	<u>836</u>	<u>6,868</u>
Total utilities	<u>27,370</u>	<u>14,457</u>	<u>14,539</u>	<u>7,469</u>	<u>63,835</u>
Operating and maintenance expenses					
6510 Payroll	6,973	31,338	10,400	-	48,711
6515 Supplies	2,279	1,668	4,658	-	8,605
6520 Contracts	19,931	23,502	21,394	633	65,460
6525 Garbage and trash removal	6,877	10,235	2,551	-	19,663
6546 Heating and cooling repairs	3,000	2,800	-	-	5,800
6590 Miscellaneous operating and maintenance expense	<u>677</u>	<u>27,286</u>	<u>-</u>	<u>-</u>	<u>27,963</u>
Total operating and maintenance expenses	<u>39,737</u>	<u>96,829</u>	<u>39,003</u>	<u>633</u>	<u>176,202</u>
Taxes and insurance					
6710 Real estate taxes	1,200	1,764	4,156	1,928	9,048
6711 Payroll taxes	8,083	8,196	5,561	1,793	23,633
6720 Property and liability insurance	1,936	3,564	2,304	896	8,700
6722 Workers' compensation	5,794	8,580	3,952	210	18,536
6723 Health insurance and other employee benefits	<u>6,337</u>	<u>6,446</u>	<u>3,683</u>	<u>1,407</u>	<u>17,873</u>
Total taxes and insurance	<u>23,350</u>	<u>28,550</u>	<u>19,656</u>	<u>6,234</u>	<u>77,790</u>

Exceptional Children's Foundation and Affiliates
Statements of Activities - HUD Projects
For the Year Ended June 30, 2018

	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>\$ 29,193</u>	<u>\$ 29,865</u>	<u>\$ 31,903</u>	<u>\$ -</u>	<u>\$ 90,961</u>
Depreciation					
6600 Depreciation expense	<u>26,759</u>	<u>20,088</u>	<u>21,279</u>	<u>3,300</u>	<u>71,426</u>
Total expenses	<u>279,573</u>	<u>309,020</u>	<u>224,663</u>	<u>46,822</u>	<u>860,078</u>
Change in unrestricted net assets	(44,612)	(84,776)	(4,608)	(9,682)	(143,678)
Unrestricted net assets (deficit), beginning of year	<u>(401,704)</u>	<u>(553,199)</u>	<u>(493,448)</u>	<u>(140,700)</u>	<u>(1,589,051)</u>
Unrestricted net assets (deficit), end of year	<u><u>\$ (446,316)</u></u>	<u><u>\$ (637,975)</u></u>	<u><u>\$ (498,056)</u></u>	<u><u>\$ (150,382)</u></u>	<u><u>\$ (1,732,729)</u></u>

Exceptional Children's Foundation and Affiliates
Statements of Cash Flows - HUD Projects
For the Year Ended June 30, 2018

	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	\$ 211,014	\$ 202,036	\$ 200,310	\$ 37,140	\$ 650,500
Interest receipts	14	926	31	-	971
Other operating receipts	<u>6,348</u>	<u>5,294</u>	<u>1,182</u>	<u>-</u>	<u>12,824</u>
Total receipts	217,376	208,256	201,523	37,140	664,295
Disbursements					
Administrative	(7,761)	(9,379)	(7,726)	(3,825)	(28,691)
Management fee	(11,974)	(15,079)	(15,634)	(3,600)	(46,287)
Utilities	(32,822)	(14,457)	(14,539)	(7,469)	(69,287)
Salaries and wages	(100,344)	(107,679)	(68,489)	(21,761)	(298,273)
Operating and maintenance	(32,071)	(64,229)	(27,248)	(529)	(124,077)
Real estate taxes	(1,200)	(1,764)	(4,156)	(1,928)	(9,048)
Property insurance	(1,936)	(3,564)	(2,304)	(896)	(8,700)
Miscellaneous taxes and insurance	(20,214)	(23,222)	(13,196)	(3,410)	(60,042)
Interest on mortgage payable	(29,418)	(30,161)	(32,211)	-	(91,790)
Deposits held in trust, net	<u>-</u>	<u>1,030</u>	<u>(1,012)</u>	<u>-</u>	<u>18</u>
Total disbursements	<u>(237,740)</u>	<u>(268,504)</u>	<u>(186,515)</u>	<u>(43,418)</u>	<u>(736,177)</u>
Net cash provided by (used in) operating activities	<u>(20,364)</u>	<u>(60,248)</u>	<u>15,008</u>	<u>(6,278)</u>	<u>(71,882)</u>
Cash flows from investing activities					
Deposits to and interest earned on replacement reserves	(5,250)	(5,253)	(5,284)	(1,860)	(17,647)
Deposits to and interest earned on residual receipts reserves	<u>-</u>	<u>(898)</u>	<u>(3)</u>	<u>-</u>	<u>(901)</u>
Net cash used in investing activities	<u>(5,250)</u>	<u>(6,151)</u>	<u>(5,287)</u>	<u>(1,860)</u>	<u>(18,548)</u>
Cash flows from financing activities					
Principal payments on mortgage payable	(29,098)	(38,427)	(39,643)	-	(107,168)
Net advances from sponsor	<u>52,277</u>	<u>103,236</u>	<u>22,627</u>	<u>8,213</u>	<u>186,353</u>
Net cash provided by (used in) financing activities	<u>23,179</u>	<u>64,809</u>	<u>(17,016)</u>	<u>8,213</u>	<u>79,185</u>
Net increase (decrease) in cash	(2,435)	(1,590)	(7,295)	75	(11,245)
Cash, beginning of year	<u>9,822</u>	<u>2,270</u>	<u>10,160</u>	<u>399</u>	<u>22,651</u>
Cash, end of year	<u>\$ 7,387</u>	<u>\$ 680</u>	<u>\$ 2,865</u>	<u>\$ 474</u>	<u>\$ 11,406</u>

Exceptional Children's Foundation and Affiliates
Statements of Cash Flows - HUD Projects
For the Year Ended June 30, 2018

	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	\$ (44,612)	\$ (84,776)	\$ (4,608)	\$ (9,682)	\$ (143,678)
Adjustments to reconcile net profit to net cash provided by (used in) operating activities					
Depreciation expense	26,759	20,088	21,279	3,300	71,426
Decrease (increase) in accounts receivable - HUD	-	1,934	722	-	2,656
Increase (decrease) in accounts payable	(2,286)	2,922	1,355	104	2,095
Increase (decrease) in accrued interest payable	(225)	(296)	(308)	-	(829)
Increase (decrease) in prepaid rent	-	(1,150)	(2,420)	-	(3,570)
Increase (decrease) in tenant deposits held in trust, net	-	1,030	(1,012)	-	18
Net cash provided by (used in) operating activities	<u>\$ (20,364)</u>	<u>\$ (60,248)</u>	<u>\$ 15,008</u>	<u>\$ (6,278)</u>	<u>\$ (71,882)</u>

Exceptional Children's Foundation and Affiliates
Schedules of Replacement Reserves and
Residual Receipts Reserves - HUD Projects
June 30, 2018

	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	\$ 24,343	\$ 50,813	\$ 53,506	\$ 11,315	\$ 139,977
Valverde (\$435 x 11)	4,785	-	-	-	4,785
Valverde (\$451 x 1)	451	-	-	-	451
Westington (\$433 x 10)	-	4,330	-	-	4,330
Westington (\$449 x 2)	-	898	-	-	898
Whittier Springs (\$428 x 2)	-	-	856	-	856
Whittier Springs (\$440 x 10)	-	-	4,400	-	4,400
ERAS Home II (\$155 x 12)	-	-	-	1,860	1,860
Interest income, net of account fees	<u>14</u>	<u>25</u>	<u>28</u>	<u>-</u>	<u>67</u>
Balance, end of year	<u>\$ 29,593</u>	<u>\$ 56,066</u>	<u>\$ 58,790</u>	<u>\$ 13,175</u>	<u>\$ 157,624</u>
<u>Schedule of Residual Receipts Reserves</u>					
Balance, beginning of year	\$ -	\$ 94,310	\$ 3,017	\$ -	\$ 97,327
Interest income, net of account fees	<u>-</u>	<u>898</u>	<u>3</u>	<u>-</u>	<u>901</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 95,208</u>	<u>\$ 3,020</u>	<u>\$ -</u>	<u>\$ 98,228</u>

Exceptional Children's Foundation and Affiliates
Consolidated Consolidated Computations of Surplus Cash (Deficit)- HUD Projects
For the Year Ended June 30, 2018

		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	7,387	530	2,715	474
		<u>-</u>	<u>5,673</u>	<u>3,693</u>	<u>1,564</u>
	Total cash	<u>7,387</u>	<u>6,353</u>	<u>6,558</u>	<u>2,038</u>
Current obligations					
2110	Accounts payable	6,287	11,306	13,966	503
2131	Accrued interest	2,347	2,351	2,554	-
2191	Tenant deposits held in trust (contra)	<u>-</u>	<u>3,911</u>	<u>2,586</u>	<u>1,564</u>
	Total current obligations	<u>8,634</u>	<u>17,568</u>	<u>19,106</u>	<u>2,067</u>
	Surplus cash (deficiency)	<u>\$ (1,247)</u>	<u>\$ (11,215)</u>	<u>\$ (12,548)</u>	<u>\$ (29)</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, 2018

		Balance, <u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	Balance, <u>June 30, 2018</u>
<u>Valverde HUD Project No. 122-EH310-WHH-L8</u>					
1410	Land improvements	\$ 190,233	\$ -	\$ -	\$ 190,233
1420	Buildings and improvements	584,423	-	-	584,423
1460	Furnishings	<u>52,061</u>	-	-	<u>52,061</u>
		<u>826,717</u>	-	-	<u>826,717</u>
1495	Accumulated depreciation	<u>(548,875)</u>	<u>(26,759)</u>	-	<u>(575,634)</u>
		<u>\$ 277,842</u>	<u>\$ (26,759)</u>	<u>\$ -</u>	<u>\$ 251,083</u>
<u>Westington HUD Project No. 122-EH151-WHC-L8</u>					
1410	Land improvements	\$ 154,184	\$ -	\$ -	\$ 154,184
1420	Buildings and improvements	615,376	-	-	615,376
1460	Furnishings	<u>68,727</u>	-	-	<u>68,727</u>
		<u>838,287</u>	-	-	<u>838,287</u>
1495	Accumulated depreciation	<u>(631,271)</u>	<u>(20,088)</u>	-	<u>(651,359)</u>
		<u>\$ 207,016</u>	<u>\$ (20,088)</u>	<u>\$ -</u>	<u>\$ 186,928</u>
<u>Whittier Springs HUD Project No. 122-EH157-WHC-L8</u>					
1410	Land improvements	\$ 254,637	\$ -	\$ -	\$ 254,637
1420	Buildings and improvements	556,822	-	-	556,822
1460	Furnishings	<u>72,274</u>	-	-	<u>72,274</u>
		<u>883,733</u>	-	-	<u>883,733</u>
1495	Accumulated depreciation	<u>(631,561)</u>	<u>(21,279)</u>	-	<u>(652,840)</u>
		<u>\$ 252,172</u>	<u>\$ (21,279)</u>	<u>\$ -</u>	<u>\$ 230,893</u>

Exceptional Children's Foundation and Affiliates
Schedules of Changes in Fixed Asset Accounts - HUD Projects
For the Year Ended June 30, 2018

		Balance, <u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	Balance, <u>June 30, 2018</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>(56,722)</u>	<u>(3,300)</u>	<u>-</u>	<u>(60,022)</u>
		<u>\$ 352,434</u>	<u>\$ (3,300)</u>	<u>\$ -</u>	<u>\$ 349,134</u>

Exceptional Children's Foundation and Affiliates
Certification of Project Owner
For the Year Ended June 30, 2018

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, 2018, 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 3, 2018

Scott D. Bowling, Psy.D, President and CEO
December 3, 2018

Exceptional Children's Foundation and Affiliates
Management Agent's Certification
For the Year Ended June 30, 2018

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, 2018, 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 3, 2018