Exceptional Children's Foundation and Affiliates

Consolidated Financial Statements
and Single Audit Reports and Schedules

June 30, 2019

armanino

TABLE OF CONTENTS

TABLE OF CONTENTS

armanino

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, 2019, 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 of America. 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, 2019, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, ECF has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2019, 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 the effectiveness of ECF's 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

Armanino[LLP]
Los Angeles, California

December 3, 2019

Exceptional Children's Foundation and Affiliates
Consolidated Statement of Financial Position
June 30, 2019

ASSETS

Current assets	
Cash and cash equivalents	$ 361,427
Investments	7,957,002
Accounts receivable	2,487,239
Pledges receivable	7,500
Inventory	104,688
Prepaid expenses and other current assets	211,254
Total current assets	11,129,110
Other assets	
Endowment investments	7,633,488
Restricted cash	278,933
Restricted deposits and funded reserves	285,923
Security deposits	53,021
Fixed assets, net	22,446,239
New markets note receivable	5,335,875
Total other assets	36,033,479
Total assets	$ 47,162,589

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, 2019

LIABILITIES AND NET ASSETS

Current liabilities	
Lines of credit	$ 1,767,762
Current portion of long-term debt	228,853
Accounts payable and accrued expenses	2,460,732
Total current liabilities	4,457,347
Long-term liabilities	
Long-term debt, net of current portion	1,361,132
New markets notes payable, net of unamortized debt issuance costs	7,492,918
Total long-term liabilities	8,854,050
Total liabilities	13,311,397
Net assets	
Without donor restrictions	
General	5,995,045
Board-designated	7,220,741
Designated for existing land and building	18,576,963
Total without donor restrictions	31,792,749
With donor restrictions	2,058,443
Total net assets	33,851,192
Total liabilities and net assets	$ 47,162,589

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support			
Public support			
Contributions	$ 1,449,673	$ 411,500	$ 1,861,173
In-kind contributions of food	103,474	-	103,474
Total public support	1,553,147	411,500	1,964,647
Revenues			
Tuition and fees	21,077,906	-	21,077,906
Contract sales	1,594,413	-	1,594,413
Rents	820,579	-	820,579
Merchandise sales	60,858	-	60,858
Miscellaneous	53,914	-	53,914
Total revenues	23,607,670	-	23,607,670
Total revenues and support	25,160,817	411,500	25,572,317
Net assets released from restriction	440,435	(440,435)	-
	25,601,252	(28,935)	25,572,317
Functional expenses			
Program services	24,314,702	-	24,314,702
Management and general	3,026,546	-	3,026,546
Fundraising	865,130	-	865,130
Total functional expenses	28,206,378	-	28,206,378
Change in net assets from operations	(2,605,126)	(28,935)	(2,634,061)
Investment results			
Interest and dividends, net of fees	364,730	27,208	391,938
Realized gains on sales of investments	532,898	46,717	579,615
Unrealized losses on investments	(285,504)	(25,029)	(310,533)
Total investment results	612,124	48,896	661,020
Change in net assets	(1,993,002)	19,961	(1,973,041)
Net assets, beginning of year	33,785,751	2,038,482	35,824,233
Net assets, end of year	$ 31,792,749	$ 2,058,443	$ 33,851,192

Exceptional Children's Foundation and Affiliates
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services	Management and General	Fundraising	Total
Personnel expenses				
Rehab and administration				
Salaries	$ 14,278,051	$ 1,723,389	$ 624,092	$ 16,625,532
Payroll taxes	1,027,521	110,293	38,681	1,176,495
Employee benefits	1,673,243	362,065	38,526	2,073,834
Total rehab and administration	16,978,815	2,195,747	701,299	19,875,861
Client payroll				
Payroll	1,095,941	-	-	1,095,941
Payroll taxes	81,859	-	-	81,859
Employee benefits	184,140	-	-	184,140
Total client payroll	1,361,940	-	-	1,361,940
Total personnel expenses	18,340,755	2,195,747	701,299	21,237,801
Agency support	6,052	1,171	-	7,223
Depreciation and amortization	918,543	81,057	16,743	1,016,343
Equipment rental and maintenance	112,924	9,037	1,684	123,645
Events and publications	4,593	275	12,133	17,001
Facility maintenance	494,574	35,397	9,194	539,165
Facility rent	369,313	-	-	369,313
Insurance	229,926	34,814	3,686	268,426
Interest	231,880	72,492	-	304,372
Licenses and fees	102,737	5,372	554	108,663
Miscellaneous	132,393	56,597	43,447	232,437
Office supplies	92,328	46,120	12,609	151,057
Other production costs	188,068	-	-	188,068
Production related	358,149	-	-	358,149
Professional services	562,818	363,832	30,111	956,761
Program supplies	471,368	-	-	471,368
Staff mileage	137,125	5,110	564	142,799
Staff support services	132,192	35,451	1,561	169,204
Staff training and development	40,664	17,375	4,495	62,534
Telephone	265,845	41,412	21,994	329,251
Transportation and auto	780,501	5,860	-	786,361
Utilities	341,954	19,427	5,056	366,437
	$ 24,314,702	$ 3,026,546	$ 865,130	$ 28,206,378

Exceptional Children's Foundation and Affiliates
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities	
Change in net assets	$ (1,973,041)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	1,016,343
Amortization of debt issuance costs	28,488
Realized gains on sales of investments	(579,615)
Unrealized losses on investments	310,533
Gain on disposal of assets	(13,363)
Changes in operating assets and liabilities	
Accounts receivable	(10,870)
Pledges receivable	172,400
Inventory	16,593
Prepaid expenses and other current assets	120,219
Security deposits	(4,999)
Accounts payable and accrued expenses	116,748
Net cash used in operating activities	(800,564)
Cash flows from investing activities	
Transfers from restricted cash	51,672
Proceeds from sales of investments	5,521,825
Purchases of investments	(5,162,796)
Payments to and interest earned on restricted deposits and funded reserves	(19,141)
Purchases of fixed assets	(344,059)
Proceeds from sale of fixed assets	13,363
Net cash provided by investing activities	60,864
Cash flows from financing activities	
Principal payments on long-term debt	(183,081)
Net borrowings on line of credit	867,875
Net cash provided by financing activities	684,794
Net decrease in cash	(54,906)
Cash and cash equivalents, beginning of year	416,333
Cash and cash equivalents, end of year	$ 361,427

Supplemental disclosure of cash flow information

Cash paid during the year for interest	$ 301,017

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. KEC is accredited by the Accrediting Commission for Schools, Western Association of Schools and Colleges (ACS WASC), a world-renowned accrediting association recognized by the U.S. Department of Education. WASC accreditation indicates the school meets the highest standards of academic quality, organizational capacity and educational effectiveness. 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.

1. NATURE OF OPERATIONS (continued)

Development Activity Centers

The Developmental Activity Center in Los Angeles offers 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 Community Connections

Exceptional Community Connections provide clients with opportunities to participate in meaningful community-based services and volunteer activities. Partnerships and collaborative projects are in place with businesses and community service organizations in Inglewood, Culver City and West Los Angeles where clients play a valued role while developing social skills and relationships with individuals and community-based organizations.

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.

1. NATURE OF OPERATIONS (continued)

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.

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.

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, 2016, 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, 2015, and subsequent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 two classes of net assets: without donor restrictions and with donor restrictions.

- *Net assets without donor restrictions* - 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.
- *Net assets without donor restrictions, board-designated* - Include unrestricted net assets ECF's Board of Directors has segregated to be used for capital improvements, purchases, future projects and operations.
- *Net assets without donor restrictions, designated for existing land and building* - Include unrestricted net assets designated for land and buildings in use, net of accumulated depreciation and debt secured by the land and building.
- *Net assets with donor restrictions* - Include contributions that are 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 without donor restrictions.

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash held-in-trust

ECF maintains bank accounts, segregated from ECF's assets, for cash held-in-trust for clients. At June 30, 2019, the amount of such funds held-in-trust totaled $14,878 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 $278,933 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 12).

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, 2019.

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, 2019.

Inventory

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

Leasehold improvements	5 - 40 years
Furniture and fixtures	3 - 7 years
Transportation 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.

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, 2019.

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. Debt issuance costs amortization expense is included in interest expense on the consolidated statement of activities.

Endowment Investments

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Expenses that are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort; occupancy costs and depreciation, which are allocated on a square footage basis.

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 26%, 20%, and 13% of its revenue and 23%, 34%, and 13%, respectively, of its accounts receivable at June 30, 2019. Management anticipates this funding will continue at present levels.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
    a. Amounts and purposes of governing Board designations, appropriations and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
    b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the consolidated statement of financial position date.

d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the consolidated financial statements.

e. Methods used to allocate costs among program and support functions.

f. Underwater endowment funds.

3. Reporting investment return net of external and direct internal investment expenses.

4. Use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied on a retrospective basis during the year ended June 30, 2019 (see Note 9).

Subsequent events

ECF has evaluated events subsequent to June 30, 2019, to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated through December 3, 2019, 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).

3. INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, ECF's assets at fair value as of June 30, 2019:

	Level 1	Level 2	Level 3	Fair Value
Equities	$ 8,411,110	$ -	$ -	$ 8,411,110
Mutual funds	2,970,060	-	-	2,970,060
Fixed income	-	2,070,657	-	2,070,657
Index funds	597,181	-	-	597,181
Corporate bonds	-	630,191	-	630,191
U.S. government obligations	-	764,174	-	764,174
Money market accounts	91,413	-	-	91,413
U.S. government-agency obligations	-	55,704	-	55,704
	$ 12,069,764	$ 3,520,726	$ -	$ 15,590,490

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

Investments	$ 7,957,002
Endowment investments	7,633,488
	$ 15,590,490

Activity in the investments during the year was as follows:

Balance, beginning of year	$ 15,680,437
Purchases of investments	5,162,796
Proceeds from sales of investments	(5,521,825)
Realized gains on sales of investments	579,615
Unrealized losses on investments	(310,533)
Balance, end of year	$ 15,590,490

4. PLEDGES RECEIVABLE

Accounts receivable consisted of the following:

Due in less than one year	$ 7,500

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 $1,547 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.	$ 175,853
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 surplus cash totaling $9,249 as of June 30, 2019; Westington is required to make a deposit into the residual receipts reserve totaling $9,249 during the year ending June 30, 2020.	99,137
Tenant Security Deposits: The HUD Projects are required to maintain separate cash accounts for tenants' rental security deposits.	10,933
	$ 285,923

6. FIXED ASSETS

Fixed assets consisted of the following:

Buildings and improvements	$ 23,430,150
Land improvements	9,803,266
Furniture and fixtures	4,104,833
Computer equipment	1,884,166
Transportation equipment	1,262,934
Leasehold improvements	572,564
Construction-in-progress	9,000
	41,066,913
Accumulated depreciation and amortization	(18,620,674)
	$ 22,446,239

6. FIXED ASSETS (continued)

Changes in accumulated depreciation for the fiscal year ended June 30, 2019, is as follows:

Balance at June 30, 2018	$ 17,638,825
Depreciation expense	1,016,343
Disposal of fixed assets	(34,494)
Balance at June 30, 2019	$ 18,620,674

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) (2.40% at June 30, 2019) 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, 2019, $1,050,295 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 8). 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, 2019, $717,467 was outstanding on this line and ECF was in compliance with these covenants.

8. LONG-TERM DEBT

Long-term debt are 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.	$	349,201
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.		277,547
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.		270,114
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.		288,223
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
		1,589,985
Current portion		(228,853)
	$	1,361,132

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

Year ending June 30,		
2020	$	228,853
2021		384,693
2022		147,746
2023		162,010
2024		163,548
Thereafter		503,135
	$	1,589,985

8. 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 14).

9. EFFECTS OF IMPLEMENTATION OF ASU 2016-14

The following table shows the effects of accounting changes in adopting ASU 2016-14 of the Organization's net assets as of June 30, 2018:

	Unrestricted- Without Donor Restrictions	Temporarily Restricted	Permanently Restricted	With Donor Restrictions	Total
Net assets as previously reported, June 30, 2018	$ 33,785,751	$ 1,038,482	$ 1,000,000	$ -	$ 35,824,233
Reclassification resulting from ASU 2016-14	-	(1,038,482)	(1,000,000)	2,038,482	-
	$ 33,785,751	$ -	$ -	$ 2,038,482	$ 35,824,233

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	Released from Restriction	Balance, June 30, 2019
CEO's employee development fund	$ -	$ 850
The Ahmanson Foundation	-	99,000
Weingart Foundation	(31,250)	118,750
Dale Fukamaki Memorial Fund	-	103,290
PAR Service	-	367,109
U.S. Bank	(7,500)	-
Capital Group Companies Charitable Foundation	(7,500)	-
MUFG Union Bank Foundation	(1,666)	3,333
Early Start Program	(279,059)	11,923
Art Centers	-	20,000
KEC School & School Related Programs	(63,460)	71,441
	(390,435)	795,696
Subject to spending policy and appropriation: Investments in perpetuity (including amounts above original gift amount of $1,000,000), the income from which is expendable to support:		
Operations	(50,000)	1,262,747
	(50,000)	1,262,747
	$ (440,435)	$ 2,058,443

11. ENDOWMENT

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

Interpretation of relevant law

The ECF's Board of Directors has interpreted California Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as allowing the Organization to appropriate for expenditure or accumulate so much of an endowment fund as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. The remaining portion of the donor-restricted endowment fund is classified as with donor restriction until those amounts are appropriated for expenditure in a manner consistent with the standard 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:

11. ENDOWMENT (continued)

Interpretation of relevant law (continued)

(1) The duration and preservation of the fund

(2) The purposes of the organization 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 (loss) and the appreciation (depreciation) 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 that the Organization must hold in perpetuity 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.

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 $1,000,000 principal balance in its donor-restricted endowment assets. ECF appropriated $850,000 to be transferred to operations during the fiscal year ended June 30, 2019.

11. ENDOWMENT (continued)

Endowment net asset composition by type of fund

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 1,000,000	$ 1,000,000
Unexpended endowment earnings	-	262,747	262,747
Board-designated endowment funds	7,220,741	-	7,220,741
	$ 7,220,741	$ 1,262,747	$ 8,483,488

Changes in endowment net assets for the fiscal year ended June 30, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, beginning of year	$ 7,573,811	$ 1,263,851	$ 8,837,662
Investment return			
Investment income, net of fees	163,050	27,208	190,258
Realized gains	279,960	46,717	326,677
Unrealized losses	(149,991)	(25,029)	(175,020)
Total investment return	293,019	48,896	341,915
Pending transfer from line of credit	153,911	-	153,911
Amounts appropriated for expenditures during the year for operational and capital expenses	(800,000)	(50,000)	(850,000)
	(353,070)	(1,104)	(354,174)
Balance, end of year	$ 7,220,741	$ 1,262,747	$ 8,483,488

12. 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").

12. NEW MARKETS TAX CREDIT TRANSACTION (continued)

- 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 $2,259,125, 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 $28,488 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.

The new markets notes payable consists of the following as of June 30, 2019:

Note A	$ 5,335,875
Note B	2,259,125
	7,595,000
Capitalized loan fees	(102,082)
	$ 7,492,918

13. 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 substitute teachers and temporary employees. Participants may make salary deferrals to their individual accounts up to the maximum allowable deferral amounts for defined contribution plans. ECF matches at its discretion up to 1% of the eligible employee salary. Employer contributions to the plan totaled $106,567 for the year ended June 30, 2019.

13. EMPLOYEE BENEFIT PLANS (continued)

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. ECF may make discretionary matching contributions to the 403(b) plan for eligible employees. No discretionary contributions were made during or accrued for the year ended June 30, 2019.

14. 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:

Year ending June 30,	
2020	$ 251,696
2021	225,222
2022	229,966
2023	210,215
2024	34,338
	$ 951,437

Rent expense, comprised of facilities, equipment, buses and uniforms totaled $441,514 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 $476,968 for the year. The amount earned under the PRAC contract totaled $17,766 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.

14. COMMITMENTS AND CONTINGENCIES (continued)

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 note

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.

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.

15. LIQUIDITY AND AVAILABILITY

Liquidity of financial assets as of June 30, 2019 is as follows:

Cash and cash equivalents	$ 361,427
Investments	7,957,002
Accounts receivable	2,487,239
Pledges receivable	7,500
	$ 10,813,168

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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, 2019, and have issued our report thereon dated December 3, 2019, 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.

Armanino LLP

Armanino LLP
Los Angeles, California

December 3, 2019

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Financial Position
June 30, 2019

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
ASSETS							
Cash and cash equivalents	$ -	$ 278,882	$ -	$ 278,882	$ 82,545	$ -	$ 361,427
Investments, including current appropriation from endowment	-	7,957,002	-	7,957,002	-	-	7,957,002
Accounts receivable	-	2,488,089	-	2,488,089	(850)	-	2,487,239
Pledges receivable	-	7,500	-	7,500	-	-	7,500
Inventory	-	104,688	-	104,688	-	-	104,688
Prepaid expenses and other current assets	-	211,254	-	211,254	-	-	211,254
Endowment investments	-	7,633,488	-	7,633,488	-	-	7,633,488
Restricted cash	278,933	-	-	278,933	-	-	278,933
Restricted deposits and funded reserves	-	285,923	-	285,923	-	-	285,923
Security deposits	-	53,021	-	53,021	-	-	53,021
Fixed assets, net	10,510,400	11,935,839	-	22,446,239	-	-	22,446,239
New markets note receivable	-	-	-	-	5,335,875	-	5,335,875
Total assets	$ 10,789,333	$ 30,955,686	$ -	$ 41,745,019	$ 5,417,570	$ -	$ 47,162,589

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Financial Position
June 30, 2019

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
LIABILITIES AND NET ASSETS							
Lines of credit	$ -	$ 1,767,762	$ -	$ 1,767,762	$ -	$ -	$ 1,767,762
Intercompany ECF/FOECF	-	99,755	-	99,755	(99,755)	-	-
Intercompany NMTC/Legacy	1,087,262	(1,087,262)	-	-	-	-	-
Accounts payable and accrued expenses	-	2,460,732	-	2,460,732	-	-	2,460,732
Long-term debt	-	1,589,985	-	1,589,985	-	-	1,589,985
New markets notes payable, net of unamortized debt issuance costs	7,492,918	-	-	7,492,918	-	-	7,492,918
Total liabilities	8,580,180	4,830,972	-	13,411,152	(99,755)	-	13,311,397
Net assets	2,209,153	26,124,714	-	28,333,867	5,517,325	-	33,851,192
Total liabilities and net assets	$ 10,789,333	$ 30,955,686	$ -	$ 41,745,019	$ 5,417,570	$ -	$ 47,162,589

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Activities
For The Year Ended June 30, 2019

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
Revenues and support							
Public support							
Contributions	$ 45,000	$ 1,816,173	$ -	$ 1,861,173	$ -	$ -	$ 1,861,173
In-kind contributions of food	-	103,474	-	103,474	-	-	103,474
Total public support	45,000	1,919,647	-	1,964,647	-	-	1,964,647
Revenues							
Tuition and fees	3,257,090	17,820,816	-	21,077,906	-	-	21,077,906
Contract sales	1,467,276	127,137	-	1,594,413	-	-	1,594,413
Rents	39,918	780,661	-	820,579	-	-	820,579
Merchandise sales	1,145	59,713	-	60,858	-	-	60,858
Miscellaneous	4,590	49,324	-	53,914	-	-	53,914
Total revenues	4,770,019	18,837,651	-	23,607,670	-	-	23,607,670
Total revenues and support	4,815,019	20,757,298	-	25,572,317	-	-	25,572,317

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Activities
For The Year Ended June 30, 2019

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
Functional expenses							
Program services	5,393,222	18,921,480	-	24,314,702	-	-	24,314,702
Management and general	777,668	2,248,849	-	3,026,517	29	-	3,026,546
Fundraising	-	865,130	-	865,130	-	-	865,130
Total functional expenses	6,170,890	22,035,459	-	28,206,349	29	-	28,206,378
Change in net assets from operations	(1,355,871)	(1,278,161)	-	(2,634,032)	(29)	-	(2,634,061)
Investment results							
Interest and dividends, net of fees	-	338,559	-	338,559	53,379	-	391,938
Realized gains on sales of investments	-	579,615	-	579,615	-	-	579,615
Unrealized gains on investments	-	(310,533)	-	(310,533)	-	-	(310,533)
Total investment results	-	607,641	-	607,641	53,379	-	661,020
Change in net assets	$ (1,355,871)	$ (670,520)	$ -	$ (2,026,391)	$ 53,350	$ -	$ (1,973,041)

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, 2019, 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, 2019.

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 consolidated 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.

Armanino LLP

Armanino[LLP]
Los Angeles, California

December 3, 2019

armanino

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, 2019. 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, 2019.

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, 2019, and have issued our report thereon dated December 3, 2019, 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

Armanino LLP
Los Angeles, California

December 3, 2019

Exceptional Children's Foundation and Affiliates
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Total Federal Expenditures
Expenditures of Federal Awards		
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	$ 304,518
Westington - FHA Project No. 122-EH151-WHC-L8	14.157	304,956
Whittier Springs - FHA Project No. 122-EH157-WHC-L8	14.157	331,693
Total Supportive Housing for the Elderly (and Disabled) - Direct Loans		941,167
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	17,766
Total Supportive Housing for Persons with Disabilities		422,666
Section 8 New Construction and Substantial Rehabilitation		
Valverde - Section 8 Project No. CA16-T831-049	14.182	168,908
Westington - Section 8 Project No. CA16-T811-003	14.182	146,619
Whittier Springs - Section 8 Project No. CA16-T811-009	14.182	161,441
Total Section 8 New Construction and Substantial Rehabilitation		476,968
Total U.S. Department of Housing and Development		1,840,801
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		43,586
Total Expenditures of Federal Awards		$ 1,884,387

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, 2019

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, 2019. 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, 2018, balances.

The loan balances reported on the June 30, 2019, consolidated statement of financial position are as follows:

Valverde, Inc.	$ 277,547
Westington	270,114
Whittier Springs	288,223
ERAS House II	404,900
	$ 1,240,784

Exceptional Children's Foundation and Affiliates
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

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:	

Name of Federal Program or Cluster	CFDA Number
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, 2019

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, 2019

There were no prior year findings.

SUPPORTING SCHEDULES REQUIRED BY HUD

armanino

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 Project # #122-EH310-WHH-L8, #122-EH151-WHC-L8, #122-EH157-WHC-L8 and #122-HD044-WDD-NP) (collectively, "ECF HUD Projects"), which comprise the consolidated statement of financial position as of June 30, 2019, and have issued our report thereon dated December 3, 2019, 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 required by HUD are presented for the purposes of additional analysis as required by the Consolidated Audit Guide for Audits of HUD Programs issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General 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.

Armanino LLP

Armanino LLP
Los Angeles, California

December 3, 2019

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Financial Position - HUD Projects
June 30, 2019

		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	$ 1,577	$ 673	$ 2,622	$ 323	$ 5,195
1130	Tenant/member accounts receivable	-	39	-	-	39
1135	Accounts receivable - HUD	1,639	28,512	-	-	30,151
	Total current assets	3,216	29,224	2,622	323	35,385
	Deposits held in trust, funded					
1191	Tenant deposits held in trust	-	5,676	3,693	1,564	10,933
	Restricted deposits and funded					
1320	Replacement reserve	35,039	61,519	64,260	15,035	175,853
1340	Residual receipts reserve	-	96,114	3,023	-	99,137
	Total deposits	35,039	157,633	67,283	15,035	274,990
	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	52,061	68,727	72,274	2,714	195,776
	Total fixed assets	826,717	838,287	883,733	409,156	2,957,893
1495	Accumulated depreciation	(598,295)	(671,447)	(672,820)	(62,637)	(2,005,199)
	Net fixed assets	228,422	166,840	210,913	346,519	952,694
	Total assets	$ 266,677	$ 359,373	$ 284,511	$ 363,441	$ 1,274,002

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Financial Position - HUD Projects
June 30, 2019

		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
	LIABILITIES AND NET ASSETS					
Current liabilities						
2110	Accounts payable	$ 5,084	$ 7,837	$ 14,471	$ 400	$ 27,792
2131	Accrued interest	2,139	6,246	2,222	-	10,607
2170	Current portion of mortgage payable	29,575	52,870	47,157	-	129,602
	Total current liabilities	36,798	66,953	63,850	400	168,001
Deposit liabilities						
2191	Tenant deposits held in trust (contra)	-	4,234	2,796	1,564	8,594
Long-term liabilities						
2305	Accounts payable - sponsor	475,647	762,062	447,089	130,618	1,815,416
2320	Mortgage payable, net of current portion	247,972	217,244	241,066	404,900	1,111,182
	Total long-term liabilities	723,619	979,306	688,155	535,518	2,926,598
	Total Liabilities	760,417	1,050,493	754,801	537,482	3,103,193
Net assets						
3131	Net assets (deficit) without donor restrictions	(493,740)	(691,120)	(470,290)	(174,041)	(1,829,191)
	Total liabilities and net assets (deficit)	$ 266,677	$ 359,373	$ 284,511	$ 363,441	$ 1,274,002

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Activities - HUD Projects
For the Year Ended June 30, 2019

		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	$ 45,942	$ 62,241	$ 43,543	$ 26,802	$ 178,528
5121	Tenant assistance payments	168,908	146,619	161,441	17,766	494,734
5190	Rent income - manager unit	17,904	17,405	17,082	-	52,391
	Gross potential rent	232,754	226,265	222,066	44,568	725,653
Vacancies						
5220	Apartments	-	(3,856)	(413)	(7,428)	(11,697)
	Net rental revenue	232,754	222,409	221,653	37,140	713,956
Financial revenue						
5410	Interest income - project operations	-	3	1	-	4
5430	Interest income - residual receipts	-	906	3	-	909
5440	Interest income - replacement reserve	16	29	30	-	75
	Total financial revenue	16	938	34	-	988
Other revenue						
5990	Miscellaneous revenue	81	-	101	-	182
	Total revenue	232,851	223,347	221,788	37,140	715,126

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Activities - HUD Projects
For the Year Ended June 30, 2019

		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	$ 86,107	$ 34,155	$ 33,877	$ 14,152	$ 168,291
6311	Office expenses	-	-	88	-	88
6320	Management fee	14,606	14,830	15,959	3,600	48,995
6330	Manager salaries	10,628	38,397	10,648	7,124	66,797
6331	Administrative rent-free unit	17,904	17,405	17,082	-	52,391
6350	Audit expense	6,600	6,600	6,600	3,275	23,075
6351	Bookkeeping	827	853	423	173	2,276
6390	Miscellaneous administrative expense	923	3,103	932	3,173	8,131
	Total administrative expenses	137,595	115,343	85,609	31,497	370,044
Utilities						
6450	Electricity	10,810	7,023	2,513	4,933	25,279
6451	Water	18,102	8,861	8,559	2,153	37,675
6452	Gas	2,664	4,151	403	915	8,133
	Total utilities	31,576	20,035	11,475	8,001	71,087
Operating and maintenance expenses						
6510	Payroll	4,315	30,793	8,647	-	43,755
6515	Supplies	2,134	3,115	4,764	-	10,013
6520	Contracts	19,704	17,981	15,039	2,290	55,014
6525	Garbage and trash removal	10,748	15,022	3,491	-	29,261
6546	Heating and cooling repairs	-	153	-	-	153
6590	Miscellaneous operating and maintenance expense	-	139	-	3,747	3,886
	Total operating and maintenance expenses	36,901	67,203	31,941	6,037	142,082
Taxes and insurance						
6710	Real estate taxes	1,023	1,834	4,419	7,848	15,124
6711	Payroll taxes	7,836	7,902	4,010	1,632	21,380
6720	Property and liability insurance	2,174	4,211	2,515	990	9,890
6722	Workers' compensation	4,142	5,552	1,080	136	10,910
6723	Health insurance and other employee benefits	9,531	8,113	4,946	2,043	24,633
	Total taxes and insurance	24,706	27,612	16,970	12,649	81,937

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Activities - HUD Projects
For the Year Ended June 30, 2019

		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 (CONTINUED)					
Financial						
6820	Interest on mortgages payable	$ 26,836	$ 26,211	$ 28,047	$ -	$ 81,094
Depreciation						
6600	Depreciation expense	22,661	20,088	19,980	2,615	65,344
	Total expenses	280,275	276,492	194,022	60,799	811,588
	Change in unrestricted net assets	(47,424)	(53,145)	27,766	(23,659)	(96,462)
	Net assets (deficit) without donor restrictions, beginning of year	(446,316)	(637,975)	(498,056)	(150,382)	(1,732,729)
	Net assets (deficit) without donor restrictions, end of year	$ (493,740)	$ (691,120)	$ (470,290)	$ (174,041)	$(1,829,191)

Other S1000-010	Total first mortgage (or bond) principal payments required during the audit period (usually 12 months). This applies to all direct loans, HUD-held and HUD insured first mortgages.	$ 112,578
Other S1000-020	The total of all monthly reserve for replacement deposits (usually 12 months) required during the audit period even if deposits have been temporarily waived or suspended	$ 18,154

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Cash Flows - HUD Projects
For the Year Ended June 30, 2019

	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	$ 213,211	$ 176,453	$ 204,571	$ 37,140	$ 631,375
Interest receipts	16	938	34	-	988
Other operating receipts	81	-	101	-	182
Total receipts	213,308	177,391	204,706	37,140	632,545
Disbursements					
Administrative	(8,350)	(10,556)	(8,228)	(6,621)	(33,755)
Management fee	(12,858)	(15,889)	(13,530)	(3,600)	(45,877)
Utilities	(31,576)	(20,035)	(11,946)	(8,001)	(71,558)
Salaries and wages	(101,050)	(103,345)	(53,172)	(25,023)	(278,843)
Operating and maintenance	(35,537)	(38,820)	(24,562)	(2,393)	(105,059)
Real estate taxes	(1,023)	(1,834)	(4,419)	(7,848)	(15,124)
Property insurance	(2,174)	(4,211)	(2,515)	(990)	(9,890)
Miscellaneous taxes and insurance	(21,509)	(21,567)	(10,036)	(3,811)	(56,923)
Interest on mortgage payable	(27,044)	(22,316)	(28,379)	-	(77,739)
Deposits held in trust, net	-	320	210	-	530
Total disbursements	(241,121)	(238,253)	(156,577)	(58,287)	(694,238)
Net cash provided by (used in) operating activities	(27,813)	(60,862)	48,129	(21,147)	(61,693)
Cash flows from investing activities					
Deposits to and interest earned on replacement reserves	(5,446)	(5,453)	(5,470)	(1,860)	(18,229)
Deposits to and interest earned on residual receipts reserves	-	(906)	(3)	-	(909)
Net cash used in investing activities	(5,446)	(6,359)	(5,473)	(1,860)	(19,138)
Cash flows from financing activities					
Principal payments on mortgage payable	(26,971)	(34,842)	(43,470)	-	(105,283)
Net advances from sponsor	54,420	102,056	571	22,856	179,903
Net cash provided by (used in) financing activities	27,449	67,214	(42,899)	22,856	74,620
Net increase (decrease) in cash	(5,810)	(7)	(243)	(151)	(6,211)
Cash, beginning of year	7,387	680	2,865	474	11,406
Cash, end of year	$ 1,577	$ 673	$ 2,622	$ 323	$ 5,195

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Cash Flows - HUD Projects
For the Year Ended June 30, 2019

	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 net assets (deficit) without donor restrictions to net cash provided by (used in) operating activities					
Change in net assets (deficit) without donor restrictions from operations	$ (47,424)	$ (53,145)	$ 27,766	$ (23,659)	$ (96,462)
Adjustments to reconcile change in net assets (deficit) without donor restrictions to net cash provided by (used in) operating activities					
Depreciation expense	22,661	20,088	19,980	2,615	65,344
Decrease (increase) in tenant accounts receivable	-	(39)	-	-	(39)
Decrease (increase) in accounts receivable - HUD	(1,639)	(28,512)	-	-	(30,151)
Increase (decrease) in accounts payable	(1,203)	(3,469)	505	(103)	(4,270)
Increase (decrease) in accrued interest payable	(208)	3,895	(332)	-	3,355
Increase (decrease) in tenant deposits held in trust, net	-	320	210	-	530
Net cash provided by (used in) operating activities	$ (27,813)	$ (60,862)	$ 48,129	$ (21,147)	$ (61,693)

Exceptional Children's Foundation and Affiliates
Schedules of Replacement Reserves and
Residual Receipts Reserves - HUD Projects
For the Year Ended June 30, 2019

	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
Schedule of Replacement Reserves					
Balance, beginning of year	$ 29,593	$ 56,066	$ 58,790	$ 13,175	$ 157,624
Valverde ($451 x 11)	4,961	-	-	-	4,961
Valverde ($469 x 1)	469	-	-	-	469
Westington ($449 x 10)	-	4,490	-	-	4,490
Westington ($467 x 2)	-	934	-	-	934
Whittier Springs ($440 x 2)	-	-	880	-	880
Whittier Springs ($456 x 10)	-	-	4,560	-	4,560
ERAS Home II ($155 x 12)	-	-	-	1,860	1,860
Interest income, net of account fees	16	29	30	-	75
Balance, end of year	$ 35,039	$ 61,519	$ 64,260	$ 15,035	$ 175,853
Schedule of Residual Receipts Reserves					
Balance, beginning of year	$ -	$ 95,208	$ 3,020	$ -	$ 98,228
Interest income, net of account fees	-	906	3	-	909
Balance, end of year	$ -	$ 96,114	$ 3,023	$ -	$ 99,137

Exceptional Children's Foundation and Affiliates
Computations of Surplus Cash (Deficit)- HUD Projects
June 30, 2019

		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	1,577	523	2,472	323
1135	Accounts receivable - HUD	1,639	28,512	-	-
1191	Tenant deposits held in trust	-	5,676	3,693	1,564
	Total cash	3,216	34,861	6,315	1,887
Current obligations					
S1300-060	Delinquent mortgage principal payments	-	7,295	-	-
2110	Accounts payable	5,084	7,837	14,471	400
2131	Accrued interest	2,139	6,246	2,222	-
2191	Tenant deposits held in trust (contra)	-	4,234	2,796	1,564
	Total current obligations	7,223	25,612	19,489	1,964
	Surplus cash (deficiency)	$ (4,007)	$ 9,249	$ (13,174)	$ (77)
	Payments due to residual receipts reserve	$ -	$ 9,249	$ -	$ -

Exceptional Children's Foundation and Affiliates
Schedules of Changes in Fixed Asset Accounts - HUD Projects
For the Year Ended June 30, 2019

		Balance, July 1, 2018	Additions	Disposals	Balance, June 30, 2019
Valverde HUD Project No. 122-EH310-WHH-L8					
1410	Land improvements	$ 190,233	$ -	$ -	$ 190,233
1420	Buildings and improvements	584,423	-	-	584,423
1460	Furnishings	52,061	-	-	52,061
		826,717	-	-	826,717
1495	Accumulated depreciation	(575,634)	(22,661)	-	(598,295)
		$ 251,083	$ (22,661)	$ -	$ 228,422
Westington HUD Project No. 122-EH151-WHC-L8					
1410	Land improvements	$ 154,184	$ -	$ -	$ 154,184
1420	Buildings and improvements	615,376	-	-	615,376
1460	Furnishings	68,727	-	-	68,727
		838,287	-	-	838,287
1495	Accumulated depreciation	(651,359)	(20,088)	-	(671,447)
		$ 186,928	$ (20,088)	$ -	$ 166,840
Whittier Springs HUD Project No. 122-EH157-WHC-L8					
1410	Land improvements	$ 254,637	$ -	$ -	$ 254,637
1420	Buildings and improvements	556,822	-	-	556,822
1460	Furnishings	72,274	-	-	72,274
		883,733	-	-	883,733
1495	Accumulated depreciation	(652,840)	(19,980)	-	(672,820)
		$ 230,893	$ (19,980)	$ -	$ 210,913

Exceptional Children's Foundation and Affiliates
Schedules of Changes in Fixed Asset Accounts - HUD Projects
For the Year Ended June 30, 2019

		Balance, July 1, 2018	Additions	Disposals	Balance, June 30, 2019
ERAS Home II HUD Project No. 122-HD044-WDD-NP					
1410	Land improvements	$ 297,547	$ -	$ -	$ 297,547
1420	Buildings and improvements	108,895	-	-	108,895
1460	Furnishings	2,714	-	-	2,714
		409,156	-	-	409,156
1495	Accumulated depreciation	(60,022)	(2,615)	-	(62,637)
		$ 349,134	$ (2,615)	$ -	$ 346,519

Exceptional Children's Foundation and Affiliates
Certification of Project Owner
For the Year Ended June 30, 2019

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, 2019, 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, 2019

____

Scott D. Bowling, Psy.D, President and CEO
December 3, 2019

Exceptional Children's Foundation and Affiliates
Management Agent's Certification
For the Year Ended June 30, 2019

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, 2019, 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, 2019