

Exceptional Children's Foundation and Affiliates

Consolidated Financial Statements
and Single Audit Reports and Schedules

June 30, 2020



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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, 2020, 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, 2020, 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 consolidated financial statements, the Organization has adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* and ASU 2016-18, *Restricted Cash*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 15 to the consolidated financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. 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 4, 2020, 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}
Los Angeles, California

December 4, 2020

Exceptional Children's Foundation and Affiliates
Consolidated Statement of Financial Position
June 30, 2020

ASSETS

Current assets	
Cash and cash equivalents	\$ 2,018,292
Investments	8,021,246
Accounts receivable	3,087,179
Pledges receivable	70,000
Inventory	210,299
Prepaid expenses and other current assets	<u>194,251</u>
Total current assets	<u>13,601,267</u>
Other assets	
Endowment investments, net of 2021 appropriation of \$772,000	7,731,569
Restricted cash	226,864
Restricted deposits and funded reserves	305,427
Security deposits	56,771
Fixed assets, net	21,618,711
New Markets note receivable	<u>5,335,875</u>
Total other assets	<u>35,275,217</u>
Total assets	<u><u>\$ 48,876,484</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, 2020

LIABILITIES AND NET ASSETS

Current liabilities	
Lines of credit	\$ 898,306
Current portion of long-term debt	135,360
Accounts payable and accrued expenses	<u>2,916,258</u>
Total current liabilities	<u>3,949,924</u>
Long-term liabilities	
Long-term debt, net of current portion	969,420
Loan payable - Paycheck Protection Program	3,858,750
New Markets notes payable, net of unamortized debt issuance costs	<u>7,521,406</u>
Total long-term liabilities	<u>12,349,576</u>
Total liabilities	<u>16,299,500</u>
Net assets	
Without donor restrictions	
General	5,380,395
Board-designated endowment	7,265,505
Designated for existing land and building	<u>18,030,810</u>
Total without donor restrictions	30,676,710
With donor restrictions	<u>1,900,274</u>
Total net assets	<u>32,576,984</u>
Total liabilities and net assets	<u><u>\$ 48,876,484</u></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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenues			
Public support			
Contributions	\$ 1,281,323	\$ 336,000	\$ 1,617,323
In-kind contributions of food	<u>80,028</u>	<u>-</u>	<u>80,028</u>
Total public support	<u>1,361,351</u>	<u>336,000</u>	<u>1,697,351</u>
Revenues			
Tuition and fees	22,621,603	-	22,621,603
Contract sales	1,384,776	-	1,384,776
Rents	852,670	-	852,670
Merchandise sales	38,549	-	38,549
Miscellaneous	<u>37,798</u>	<u>-</u>	<u>37,798</u>
Total revenues	<u>24,935,396</u>	<u>-</u>	<u>24,935,396</u>
Total public support and revenues	<u>26,296,747</u>	<u>336,000</u>	<u>26,632,747</u>
Net assets released from restriction	<u>300,886</u>	<u>(300,886)</u>	<u>-</u>
	<u>26,597,633</u>	<u>35,114</u>	<u>26,632,747</u>
Functional expenses			
Program services	24,420,105	-	24,420,105
Management and general	3,030,191	-	3,030,191
Fundraising	<u>823,310</u>	<u>-</u>	<u>823,310</u>
Total functional expenses	<u>28,273,606</u>	<u>-</u>	<u>28,273,606</u>
Change in net assets from operations	<u>(1,675,973)</u>	<u>35,114</u>	<u>(1,640,859)</u>
Investment results			
Interest and dividends, net of fees	303,543	21,986	325,529
Realized and unrealized gains on investments, net	<u>37,791</u>	<u>3,331</u>	<u>41,122</u>
Total investment results	<u>341,334</u>	<u>25,317</u>	<u>366,651</u>
Change in net assets	(1,334,639)	60,431	(1,274,208)
Net assets, beginning of year	<u>32,011,349</u>	<u>1,839,843</u>	<u>33,851,192</u>
Net assets, end of year	<u>\$ 30,676,710</u>	<u>\$ 1,900,274</u>	<u>\$ 32,576,984</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, 2020

	Program Services	Management and General	Fundraising	Total
Personnel expenses				
Rehab and administration				
Salaries	\$ 14,766,555	\$ 1,623,308	\$ 611,710	\$ 17,001,573
Payroll taxes	1,507,701	142,345	48,081	1,698,127
Employee benefits	1,572,552	155,665	3,604	1,731,821
Total rehab and administration	<u>17,846,808</u>	<u>1,921,318</u>	<u>663,395</u>	<u>20,431,521</u>
Client payroll				
Payroll	829,656	4,724	-	834,380
Payroll taxes	81,865	567	-	82,432
Employee benefits	133,023	469	-	133,492
Total client payroll	<u>1,044,544</u>	<u>5,760</u>	<u>-</u>	<u>1,050,304</u>
Total personnel expenses	<u>18,891,352</u>	<u>1,927,078</u>	<u>663,395</u>	<u>21,481,825</u>
Agency support	4,876	939	705	6,520
Depreciation and amortization	897,541	102,338	18,978	1,018,857
Equipment rental and maintenance	103,659	10,885	2,467	117,011
Events and publications	1,274	-	29,941	31,215
Facility maintenance	464,720	36,306	9,634	510,660
Facility rent	266,534	-	-	266,534
Insurance	234,424	42,522	3,068	280,014
Interest	225,176	86,385	-	311,561
Licenses and fees	117,181	7,207	608	124,996
Miscellaneous	167,181	77,918	25,503	270,602
Office supplies	85,971	43,701	20,286	149,958
Other production costs	171,877	394	-	172,271
Production related	283,184	-	-	283,184
Professional services	475,901	159,331	23,673	658,905
Program supplies	413,919	64	3,310	417,293
Staff mileage	151,123	7,034	1,504	159,661
Staff support services	71,977	456,940	-	528,917
Staff training and development	57,456	18,303	1,034	76,793
Telephone	231,479	29,051	13,878	274,408
Transportation and auto	795,766	4,044	-	799,810
Utilities	<u>307,534</u>	<u>19,751</u>	<u>5,326</u>	<u>332,611</u>
	<u>\$ 24,420,105</u>	<u>\$ 3,030,191</u>	<u>\$ 823,310</u>	<u>\$ 28,273,606</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, 2020

Cash flows from operating activities	
Change in net assets	\$ (1,274,208)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	1,018,857
Amortization of debt issuance costs	28,488
Realized and unrealized gains on investments, net	(41,122)
Loss on disposal of assets	4,708
Changes in operating assets and liabilities	
Accounts receivable	(599,940)
Pledges receivable	(62,500)
Inventory	(105,611)
Prepaid expenses and other current assets	17,003
Security deposits	(3,750)
Accounts payable and accrued expenses	<u>455,526</u>
Net cash used in operating activities	<u>(562,549)</u>
Cash flows from investing activities	
Proceeds from sales of investments	5,445,298
Purchases of investments	(5,566,501)
Purchases of fixed assets	(201,037)
Proceeds from sale of fixed assets	<u>5,000</u>
Net cash used in investing activities	<u>(317,240)</u>
Cash flows from financing activities	
Principal payments on long-term debt	(485,205)
Net payments on line of credit	(869,456)
Borrowings from loan payable (Paycheck Protection Program)	<u>3,858,750</u>
Net cash provided by financing activities	<u>2,504,089</u>
Net increase in cash	1,624,300
Cash, cash equivalents and restricted cash, beginning of year	<u>926,283</u>
Cash, cash equivalents and restricted cash, end of year	<u><u>\$ 2,550,583</u></u>
Cash, cash equivalents and restricted cash consisted of the following:	
Cash and cash equivalents	\$ 2,018,292
Restricted cash	226,864
Restricted deposits and funded reserves	<u>305,427</u>
	<u><u>\$ 2,550,583</u></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, 2020

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$	345,261
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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, 2020

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 barriers 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.

Confronted with the unprecedented COVID health pandemic in March, ECF began shaping a new service environment and setting new standards of service delivery for the safety and benefit of over 5,000 children and adults who rely on us. All of our programs mobilized rapidly and innovatively to respond to the crisis and the specific challenges of our service community. ECF sourced and distributed PPE across our 15 service sites, reconfigured spaces and implemented best-practice health and safety measures, and created new partnerships, platforms and opportunities for client learning.

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

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

1. NATURE OF OPERATIONS (continued)

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

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, Whittier, Downtown and South Los Angeles, the Art Centers 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 a work activity site in Inglewood, 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.

Accelerated Preparation Program

The Accelerated Preparation Program expedites the time it takes adults with lower-than-average work productivity levels to prepare for more advanced employment training by:

- Teaching the work, life and soft skills needed to become employable.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

1. NATURE OF OPERATIONS (continued)

Accelerated Preparation Program (continued)

- Assessing participant strengths and matching training to their interests.
- Providing customized instruction and training materials for each individual.
- Offering work experience that pays minimum wage while providing support and training around work habits, behaviors and skills.

Participants complete the program with a broader set of skills and increased self-motivation to accelerate their transition into Work Readiness classes or the Exceptional Training Academy.

Exceptional Employment Solutions

Exceptional Employment Solutions (EES), supports adults along each step of their Pathway to Employment. ECF staff work to help participants retain and thrive in community based employment offering personalized supports that help each participant find a job that matches their individual abilities and goals including: 1) determining employment preferences, strengths, and transportation, 2) job search structuring and strategies, 3) interview preparation and practice, 4) coordinating services with support network, 5) employment transition coaching and on-site job training.

Individualized Pathways Program

The Individualized Pathways Program provides in-depth transitional plans for adults, particularly young adults, to help them access community resources and gain more training and skill development to enter the job market, or engage in community volunteering.

Work Readiness

Through instruction and group learning, participants develop the skills needed to conduct a job search and maintain employment, including: understanding different job opportunities, completing applications, writing a resume, interviewing, professional grooming and hygiene, workplace communication, and personal development and growth. Participants who have successfully completed the Accelerated Preparation Program or individuals who are currently participating in the Exceptional Training Academy or Exceptional Packaging Solutions may also participate in Work Readiness classes.

Exceptional Training Academy

The Exceptional Training Academy offers vocational training in computer literacy, culinary arts, janitorial services, retail sales and warehouse operations. Upon successful completion of their training, participants will have learned the skills necessary to help them secure meaningful employment with a community employer.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

1. NATURE OF OPERATIONS (continued)

College Classroom Program

In partnership with educational institutions, ECF provides in-class support to adult students, helping them to complete vocational training courses. The Computer Numerical Control (CNC) course, a machinists program teaches participants to set up and operate CNC machines to produce complex precision parts and tools by cutting, grinding, and drilling into various types of metals and plastics.

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.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status (continued)

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, 2017, 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, 2016, 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 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 endowment* - 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 either by purpose or by time. 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.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020, the amount of such funds held-in-trust totaled \$20,708 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 \$532,291 of cash restricted for the following purposes:

- \$226,864 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).
- \$305,427 which is restricted for Replacement Reserve and Residual Receipt Reserves in relation to the HUD projects ECF manages (See Note 5).

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, 2020.

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, 2020.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

Land improvements	40 years
Buildings and leasehold improvements	10 - 40 years
Computer equipment	5 - 7 years
Transportation equipment	5 - 7 years
Furniture and fixtures	3 - 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, 2020.

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.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions consist primarily of donations from foundations, businesses and the general public. Contributions received are reported as net assets with or without donor restrictions, depending upon donor restrictions, if any.

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the donor-imposed barriers have been met and there is no longer a right of return or release. No allowance for doubtful contributions receivable was deemed necessary for the years ended June 30, 2020.

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. 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's funding primarily consists of revenues earned from California's Department of Developmental Services and are distributed via the state's system of Regional Centers. The organization serves individuals associated with six Regional Centers. Revenues from these Centers accounted for 67% of tuition and fee revenue for the year ended June 30, 2020. The Regional Centers accounted for 68% of accounts receivable at June 30, 2020.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In June 2018, the FASB issued ASU 2018-08, *Contributions Received and Made*, which clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. The Organization adopted ASU 2018-08 with a date of the initial application of July 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on the Organization's financial position, results of operations or cash flows. The Organization has evaluated contributions received and has determined that there is no change as a result of the adoption of the standard.

The Organization adopted the Financial Accounting Standards Board Accounting Standards Update ASU 2016-18, *Restricted Cash*. The standard requires (1) that an entity should include its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and cash equivalents. (2) A reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. (3) Changes in restricted cash and restricted cash equivalents that results from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows. (4) An entity with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restriction.

Subsequent events

ECF has evaluated events subsequent to June 30, 2020, to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated through December 4, 2020, 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).

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

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, 2020:

	Level 1	Level 2	Level 3	Fair Value
Equities	\$ 8,720,386	\$ -	\$ -	\$ 8,720,386
Mutual funds	2,909,404	-	-	2,909,404
Fixed income	-	2,087,328	-	2,087,328
Index funds	297,325	-	-	297,325
Corporate bonds	-	589,170	-	589,170
U.S. government obligations	-	745,688	-	745,688
Money market accounts	348,367	-	-	348,367
U.S. government-agency obligations	-	55,147	-	55,147
	<u>\$ 12,275,482</u>	<u>\$ 3,477,333</u>	<u>\$ -</u>	<u>\$ 15,752,815</u>

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

Investments	\$ 8,021,246
Endowment investments, net of 2021 appropriation of \$772,000	<u>7,731,569</u>
	<u>\$ 15,752,815</u>

Activity in the investments during the year was as follows:

Balance, beginning of year	\$ 15,590,490
Purchases of investments	5,295,298
Proceeds from sales of investments	(5,445,298)
Interest and dividend income, net of fees	271,203
Realized and unrealized gains on investments	<u>41,122</u>
Balance, end of year	<u>\$ 15,752,815</u>

4. PLEDGES RECEIVABLE

Accounts receivable consisted of the following:

Receivable in less than one year	\$ 55,000
Receivable in one to five years	<u>15,000</u>
	<u>\$ 70,000</u>

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

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

5. RESTRICTED DEPOSITS AND FUNDED RESERVES

Restricted deposits and funded reserves are detailed as follows:

<i>Replacement Reserves:</i> The HUD Projects are required to make monthly deposits to replacement reserves totaling \$1,602 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.	\$ 194,746
<i>Residual Receipts Reserves:</i> The HUD Projects are required to make annual deposits to the extent of their "surplus cash," as defined by HUD. In accordance with provisions of the regulatory agreements with HUD, the residual receipts reserve is to be used for major expenditures of the HUD Projects with the prior approval of HUD.	99,746
<i>Tenant Security Deposits:</i> The HUD Projects are required to maintain separate cash accounts for tenants' rental security deposits.	<u>10,935</u>
	<u>\$ 305,427</u>

6. FIXED ASSETS

Fixed assets consisted of the following:

Buildings and improvements	\$ 23,521,873
Land improvements	9,803,266
Furniture and fixtures	4,109,681
Computer equipment	1,892,680
Transportation equipment	1,338,592
Leasehold improvements	<u>566,964</u>
	41,233,056
Accumulated depreciation and amortization	<u>(19,614,345)</u>
	<u>\$ 21,618,711</u>

Changes in accumulated depreciation for the fiscal year ended June 30, 2020, is as follows:

Balance at June 30, 2019	\$ 18,620,674
Depreciation expense	1,018,857
Disposal of fixed assets	<u>(25,186)</u>
Balance at June 30, 2020	<u>\$ 19,614,345</u>

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

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 London InterBank Offered Rate ("LIBOR") (0.183% at June 30, 2020) 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, 2020, \$898,306 was outstanding on this line and ECF was in compliance with these covenants.

ECF also has a \$4,472,000 revolving line of credit agreement with Morgan Stanley. The line of credit includes monthly payments of interest-only at the 1-month LIBOR plus 1.25%. 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. ECF did not carry a balance on this line of credit at June 30, 2020 and ECF was in compliance with these covenants.

8. LONG-TERM DEBT

Long-term debt are detailed as follows:

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.	\$ 247,972
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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.	216,615
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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.	235,293
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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
	1,104,780
Current portion	(135,360)
	\$ 969,420

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

8. LONG-TERM DEBT (continued)

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

<u>Year ending June 30,</u>	
2021	\$ 135,360
2022	148,424
2023	162,753
2024	155,108
2025	46,883
Thereafter	<u>456,252</u>
	<u><u>\$ 1,104,780</u></u>

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. LOAN PAYABLE (PAYCHECK PROTECTION PROGRAM)

On April 28, 2020, the Organization received loan proceeds of \$3,858,750 from a promissory note issued by a financial institution under the Paycheck Protection Program ("PPP") established under the Coronavirus Aid, Relief and Economic Security ("CARES") Act and is administered by the U.S. Small Business Administration. The term of the loan is five years and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Organization believes that it will likely qualify for full forgiveness, but there is uncertainty around the standards and operation of the PPP, and no assurance is provided that the Organization will obtain forgiveness in whole or in part.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>Released from Restriction</u>	<u>Balance, June 30, 2020</u>
Subject to expenditure for specified purpose:		
Exceptional Works	\$ -	\$ 367,109
KEC School and related programs	(138,964)	112,477
Developmental	-	103,290
S Mark Taper Center for Exceptional Citizens	-	20,000
Exceptional Employment Solutions	(4,999)	8,334
Art Centers	(20,000)	1,000
Early Start Program	(86,923)	-
	<u>(250,886)</u>	<u>612,210</u>
Subject to passage of time:		
For periods after June 30, 2020	-	50,000
	<u>-</u>	<u>50,000</u>
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)	1,238,064
	<u>(50,000)</u>	<u>1,238,064</u>
	<u>\$ (300,886)</u>	<u>\$ 1,900,274</u>

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.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

11. ENDOWMENT (continued)

Interpretation of relevant law (continued)

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 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.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

11. ENDOWMENT (continued)

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 5% 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 \$150,000 to be transferred to operations during the fiscal year ended June 30, 2020.

Endowment net asset composition by type of fund

Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 1,000,000	\$ 1,000,000
Unexpended endowment earnings	-	238,064	238,064
Board-designated endowment funds	<u>7,265,505</u>	<u>-</u>	<u>7,265,505</u>
	<u><u>\$ 7,265,505</u></u>	<u><u>\$ 1,238,064</u></u>	<u><u>\$ 8,503,569</u></u>

Changes in endowment net assets for the fiscal year ended June 30, 2020, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, beginning of year	<u>\$ 7,220,741</u>	<u>\$ 1,262,747</u>	<u>\$ 8,483,488</u>
Investment return			
Investment income, net of fees	125,719	21,986	147,705
Unrealized gains	<u>19,045</u>	<u>3,331</u>	<u>22,376</u>
Total investment return	144,764	25,317	170,081
Amounts appropriated for expenditures during the year for operational and capital expenses	<u>(100,000)</u>	<u>(50,000)</u>	<u>(150,000)</u>
	<u>44,764</u>	<u>(24,683)</u>	<u>20,081</u>
Balance, end of year	<u><u>\$ 7,265,505</u></u>	<u><u>\$ 1,238,064</u></u>	<u><u>\$ 8,503,569</u></u>

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

11. ENDOWMENT (continued)

Endowment net asset composition by type of fund (continued)

Of the \$8,503,569 endowment balance above, \$772,000 of the endowment has been appropriated and approved by the board for fiscal year 2021 spending. This appropriation has been included within investments on the consolidated statement of financial position.

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").
- 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.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

12. NEW MARKETS TAX CREDIT TRANSACTION (continued)

The new markets notes payable consists of the following as of June 30, 2020:

Note A	\$ 5,335,875
Note B	<u>2,259,125</u>
	7,595,000
Capitalized loan fees	<u>(73,594)</u>
	<u><u>\$ 7,521,406</u></u>

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. 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 \$114,576 for the year ended June 30, 2020.

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, 2020.

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:

<u>Year ending June 30,</u>	
2021	\$ 346,836
2022	324,070
2023	315,945
2024	145,445
2025	<u>21,776</u>
	<u><u>\$ 1,154,072</u></u>

Rent expense, comprised of facilities, equipment, buses and uniforms totaled \$331,329 for the year.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

14. COMMITMENTS AND CONTINGENCIES (continued)

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

Each of the HUD Projects has entered into either a Section 8 Housing Assistance Payments ("HAP") Contract or a Section 811 Project Rental Assistance Contract ("PRAC"). The amount earned under the three HAP contracts totaled \$489,756 for the year. The amount earned under the PRAC contract totaled \$16,974 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.

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.

15. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which includes significant provisions to provide relief and assistance to affected organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders and the ultimate impact of the CARES Act and other governmental initiatives. It is at least reasonably possible that this matter will negatively impact the Organization. However, the financial impact and duration cannot be reasonably estimated at this time.

Exceptional Children's Foundation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2020

15. RISKS AND UNCERTAINTIES (continued)

Across the spectrum of ECF's programs and services, we are finding innovative new ways to connect with our clients and families to ensure their health and empower their ongoing success. We have developed new methods of communication, and provided all of our students and clients the necessary computers, software and supports to ensure service, learning and care continuity.

16. LIQUIDITY AND AVAILABILITY

Liquidity of financial assets as of June 30, 2020 is as follows:

Financial assets	
Cash	\$ 2,018,292
Investments	8,021,246
Accounts receivable	3,087,179
Pledges receivable	<u>70,000</u>
	<u>13,196,717</u>
Less amounts unavailable for general expenditures within one year:	
Donor-restricted net assets (Note 10)	<u>(662,210)</u>
	<u>(662,210)</u>
	<u>\$ 12,534,507</u>

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, 2020, and have issued our report thereon dated December 4, 2020, 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 4, 2020

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Financial Position
June 30, 2020

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
ASSETS							
Cash and cash equivalents	\$ -	\$ 1,882,388	\$ -	\$ 1,882,388	\$ 135,904	\$ -	\$ 2,018,292
Investments, including current appropriation from endowment	-	8,021,246	-	8,021,246	-	-	8,021,246
Accounts receivable	-	3,088,029	-	3,088,029	(850)	-	3,087,179
Pledges receivable	-	70,000	-	70,000	-	-	70,000
Inventory	-	210,299	-	210,299	-	-	210,299
Prepaid expenses and other current assets	-	194,251	-	194,251	-	-	194,251
Endowment investments	-	7,731,569	-	7,731,569	-	-	7,731,569
Restricted cash	226,864	-	-	226,864	-	-	226,864
Restricted deposits and funded reserves	-	305,427	-	305,427	-	-	305,427
Security deposits	-	56,771	-	56,771	-	-	56,771
Fixed assets, net	10,309,537	11,309,174	-	21,618,711	-	-	21,618,711
New Markets note receivable	-	-	-	-	5,335,875	-	5,335,875
Total assets	<u>\$ 10,536,401</u>	<u>\$ 32,869,154</u>	<u>\$ -</u>	<u>\$ 43,405,555</u>	<u>\$ 5,470,929</u>	<u>\$ -</u>	<u>\$ 48,876,484</u>

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Financial Position
June 30, 2020

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
LIABILITIES AND NET ASSETS							
Lines of credit	\$ -	\$ 898,306	\$ -	\$ 898,306	\$ -	\$ -	\$ 898,306
Intercompany ECF/FOECF	-	99,730	-	99,730	(99,730)	-	-
Intercompany NMTC/Legacy	1,504,257	(1,504,257)	-	-	-	-	-
Accounts payable and accrued expenses	-	2,916,258	-	2,916,258	-	-	2,916,258
Loan payable - Paycheck Protection Program	-	3,858,750	-	3,858,750	-	-	3,858,750
Long-term debt	-	1,104,780	-	1,104,780	-	-	1,104,780
New Markets notes payable, net of unamortized debt issuance costs	<u>7,521,406</u>	<u>-</u>	<u>-</u>	<u>7,521,406</u>	<u>-</u>	<u>-</u>	<u>7,521,406</u>
Total liabilities	9,025,663	7,373,567	-	16,399,230	(99,730)	-	16,299,500
Net assets	<u>1,510,738</u>	<u>25,495,587</u>	<u>-</u>	<u>27,006,325</u>	<u>5,570,659</u>	<u>-</u>	<u>32,576,984</u>
Total liabilities and net assets	<u>\$ 10,536,401</u>	<u>\$ 32,869,154</u>	<u>\$ -</u>	<u>\$ 43,405,555</u>	<u>\$ 5,470,929</u>	<u>\$ -</u>	<u>\$ 48,876,484</u>

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Activities
For The Year Ended June 30, 2020

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
Revenues and support							
Public support							
Contributions	\$ 48,600	\$ 1,568,723	\$ -	\$ 1,617,323	\$ -	\$ -	\$ 1,617,323
In-kind contributions of food	-	80,028	-	80,028	-	-	80,028
Total public support	<u>48,600</u>	<u>1,648,751</u>	<u>-</u>	<u>1,697,351</u>	<u>-</u>	<u>-</u>	<u>1,697,351</u>
Revenues							
Tuition and fees	3,656,447	18,965,156	-	22,621,603	-	-	22,621,603
Contract sales	1,372,741	12,035	-	1,384,776	-	-	1,384,776
Rents	41,696	810,974	-	852,670	-	-	852,670
Merchandise sales	773	37,776	-	38,549	-	-	38,549
Miscellaneous	<u>56</u>	<u>37,742</u>	<u>-</u>	<u>37,798</u>	<u>-</u>	<u>-</u>	<u>37,798</u>
Total revenues	<u>5,071,713</u>	<u>19,863,683</u>	<u>-</u>	<u>24,935,396</u>	<u>-</u>	<u>-</u>	<u>24,935,396</u>
Total revenues and support	<u>5,120,313</u>	<u>21,512,434</u>	<u>-</u>	<u>26,632,747</u>	<u>-</u>	<u>-</u>	<u>26,632,747</u>

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Activities
For The Year Ended June 30, 2020

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
Functional expenses							
Program services	5,144,806	19,275,299	-	24,420,105	-	-	24,420,105
Management and general	673,922	2,356,224	-	3,030,146	45	-	3,030,191
Fundraising	-	823,310	-	823,310	-	-	823,310
Total functional expenses	<u>5,818,728</u>	<u>22,454,833</u>	<u>-</u>	<u>28,273,561</u>	<u>45</u>	<u>-</u>	<u>28,273,606</u>
Change in net assets from operations	<u>(698,415)</u>	<u>(942,399)</u>	<u>-</u>	<u>(1,640,814)</u>	<u>(45)</u>	<u>-</u>	<u>(1,640,859)</u>
Investment results							
Interest and dividends, net of fees	-	272,150	-	272,150	53,379	-	325,529
Realized and unrealized gains on investments, net	<u>-</u>	<u>41,122</u>	<u>-</u>	<u>41,122</u>	<u>-</u>	<u>-</u>	<u>41,122</u>
Total investment results	<u>-</u>	<u>313,272</u>	<u>-</u>	<u>313,272</u>	<u>53,379</u>	<u>-</u>	<u>366,651</u>
Change in net assets	<u>\$ (698,415)</u>	<u>\$ (629,127)</u>	<u>\$ -</u>	<u>\$ (1,327,542)</u>	<u>\$ 53,334</u>	<u>\$ -</u>	<u>\$ (1,274,208)</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, 2020, 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 4, 2020.

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.

A handwritten signature in black ink that reads "Armanino LLP". The signature is fluid and cursive, with the letters "Armanino" written in a larger, more prominent script than the "LLP" which is smaller and more compact.

Armanino^{LLP}
Los Angeles, California

December 4, 2020

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, 2020. 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, 2020.

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, 2020, and have issued our report thereon dated December 4, 2020, 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 4, 2020



An independent firm
associated with Moore
Global Network Limited

Exceptional Children's Foundation and Affiliates
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

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	\$ 277,547
Westington - FHA Project No. 122-EH151-WHC-L8	14.157	270,114
Whittier Springs - FHA Project No. 122-EH157-WHC-L8	14.157	288,223
Total Supportive Housing for the Elderly (and Disabled) - Direct Loans		<u>835,884</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	16,974
Total Supportive Housing for Persons with Disabilities		<u>421,874</u>
Section 8 New Construction and Substantial Rehabilitation		
Valverde - Section 8 Project No. CA16-T831-049	14.182	169,795
Westington - Section 8 Project No. CA16-T811-003	14.182	157,113
Whittier Springs - Section 8 Project No. CA16-T811-009	14.182	162,848
Total Section 8 New Construction and Substantial Rehabilitation		<u>489,756</u>
 Total U.S. Department of Housing and Development		 <u>1,747,514</u>
U.S. Department of Agriculture		
Passed through California State Department of Education		
 Total Expenditures of Federal Awards		 <u>\$ 1,747,514</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, 2020

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, 2020. 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, 2019, balances.

The loan balances reported on the June 30, 2020, consolidated statement of financial position are as follows:

Valverde, Inc.	\$ 247,972
Westington	216,615
Whittier Springs	235,293
ERAS House II	<u>404,900</u>
	<u><u>\$ 1,104,780</u></u>

Exceptional Children's Foundation and Affiliates
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

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?	No

Exceptional Children's Foundation and Affiliates
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

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, 2020

There were no prior year findings.

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 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, 2020, and have issued our report thereon dated December 4, 2020, 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.

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

Armanino^{LLP}
Los Angeles, California

December 4, 2020



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Exceptional Children's Foundation and Affiliates
Consolidated Statements of Financial Position - HUD Projects
June 30, 2020

	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	\$ 5,799	\$ 1,643	\$ 6,464	\$ 319	\$ 14,225
1135 Accounts receivable - HUD	<u>1,639</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,639</u>
Total current assets	<u>7,438</u>	<u>1,643</u>	<u>6,464</u>	<u>319</u>	<u>15,864</u>
Deposits held in trust, funded					
1191 Tenant deposits held in trust	<u>-</u>	<u>5,678</u>	<u>3,693</u>	<u>1,564</u>	<u>10,935</u>
Restricted deposits and funded					
1320 Replacement reserve	40,704	67,191	69,956	16,895	194,746
1340 Residual receipts reserve	<u>-</u>	<u>96,721</u>	<u>3,025</u>	<u>-</u>	<u>99,746</u>
Total deposits	<u>40,704</u>	<u>163,912</u>	<u>72,981</u>	<u>16,895</u>	<u>294,492</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>66,089</u>	<u>2,714</u>	<u>166,701</u>
Total fixed assets	826,717	838,287	888,258	409,156	2,962,418
1495 Accumulated depreciation	<u>(620,553)</u>	<u>(691,535)</u>	<u>(693,252)</u>	<u>(65,481)</u>	<u>(2,070,821)</u>
Net fixed assets	<u>206,164</u>	<u>146,752</u>	<u>195,006</u>	<u>343,675</u>	<u>891,597</u>
Total assets	<u>\$ 254,306</u>	<u>\$ 317,985</u>	<u>\$ 278,144</u>	<u>\$ 362,453</u>	<u>\$ 1,212,888</u>

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Financial Position - HUD Projects
June 30, 2020

	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	\$ 13,358	\$ 12,283	\$ 9,390	\$ 400	\$ 35,431
2131 Accrued interest	1,911	1,670	1,814	-	5,395
2170 Current portion of mortgage payable	<u>32,430</u>	<u>50,663</u>	<u>52,267</u>	<u>-</u>	<u>135,360</u>
Total current liabilities	<u>47,699</u>	<u>64,616</u>	<u>63,471</u>	<u>400</u>	<u>176,186</u>
Deposit liabilities					
2191 Tenant deposits held in trust (contra)	<u>-</u>	<u>4,234</u>	<u>2,796</u>	<u>1,564</u>	<u>8,594</u>
Long-term liabilities					
2305 Accounts payable - sponsor	541,321	803,061	476,531	157,870	1,978,783
2320 Mortgage payable, net of current portion	<u>215,542</u>	<u>165,952</u>	<u>183,026</u>	<u>404,900</u>	<u>969,420</u>
Total long-term liabilities	<u>756,863</u>	<u>969,013</u>	<u>659,557</u>	<u>562,770</u>	<u>2,948,203</u>
Total Liabilities	<u>804,562</u>	<u>1,037,863</u>	<u>725,824</u>	<u>564,734</u>	<u>3,132,983</u>
Net assets					
3131 Net assets (deficit) without donor restrictions	<u>(550,256)</u>	<u>(719,878)</u>	<u>(447,680)</u>	<u>(202,281)</u>	<u>(1,920,095)</u>
Total liabilities and net assets (deficit)	<u>\$ 254,306</u>	<u>\$ 317,985</u>	<u>\$ 278,144</u>	<u>\$ 362,453</u>	<u>\$ 1,212,888</u>

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Activities - HUD Projects
For the Year Ended June 30, 2020

	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	\$ 49,755	\$ 71,937	\$ 48,400	\$ 27,594	\$ 197,686
5121 Tenant assistance payments	169,795	157,113	162,848	16,974	506,730
5190 Rent income - manager unit	<u>18,296</u>	<u>19,088</u>	<u>17,604</u>	<u>-</u>	<u>54,988</u>
Gross potential rent	237,846	248,138	228,852	44,568	759,404
Vacancies					
5220 Apartments	<u>(6,122)</u>	<u>-</u>	<u>-</u>	<u>(7,428)</u>	<u>(13,550)</u>
Net rental revenue	<u>231,724</u>	<u>248,138</u>	<u>228,852</u>	<u>37,140</u>	<u>745,854</u>
Financial revenue					
5410 Interest income - project operations	-	3	-	-	3
5430 Interest income - residual receipts	-	607	2	-	609
5440 Interest income - replacement reserve	<u>19</u>	<u>32</u>	<u>34</u>	<u>-</u>	<u>85</u>
Total financial revenue	<u>19</u>	<u>642</u>	<u>36</u>	<u>-</u>	<u>697</u>
Other revenue					
5990 Miscellaneous revenue	<u>-</u>	<u>-</u>	<u>5</u>	<u>-</u>	<u>5</u>
Total revenue	<u>231,743</u>	<u>248,780</u>	<u>228,893</u>	<u>37,140</u>	<u>746,556</u>

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Activities - HUD Projects
For the Year Ended June 30, 2020

	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	\$ 91,033	\$ 39,735	\$ 36,192	\$ 15,698	\$ 182,658
6311 Office expenses	78	3,084	1,126	471	4,759
6320 Management fee	14,645	21,167	16,477	3,600	55,889
6330 Manager salaries	10,792	44,190	10,792	7,195	72,969
6331 Administrative rent-free unit	18,296	19,088	17,604	-	54,988
6350 Audit expense	6,600	6,600	6,600	3,275	23,075
6351 Bookkeeping	2,070	3,023	1,065	438	6,596
6390 Miscellaneous administrative expense	616	2,875	5,118	481	9,090
Total administrative expenses	<u>144,130</u>	<u>139,762</u>	<u>94,974</u>	<u>31,158</u>	<u>410,024</u>
Utilities					
6450 Electricity	12,246	6,799	2,955	4,477	26,477
6451 Water	16,030	3,321	11,431	2,038	32,820
6452 Gas	2,766	4,284	347	962	8,359
Total utilities	<u>31,042</u>	<u>14,404</u>	<u>14,733</u>	<u>7,477</u>	<u>67,656</u>
Operating and maintenance expenses					
6510 Payroll	4,630	27,571	8,019	-	40,220
6515 Supplies	-	300	-	-	300
6520 Contracts	24,312	17,628	25,650	11,379	78,969
6525 Garbage and trash removal	13,330	10,315	2,706	-	26,351
6546 Heating and cooling repairs	75	-	-	-	75
6590 Miscellaneous operating and maintenance expense	166	-	-	55	221
Total operating and maintenance expenses	<u>42,513</u>	<u>55,814</u>	<u>36,375</u>	<u>11,434</u>	<u>146,136</u>
Taxes and insurance					
6710 Real estate taxes	1,079	1,491	4,559	8,145	15,274
6711 Payroll taxes	9,833	10,606	4,995	2,103	27,537
6720 Property and liability insurance	2,388	4,920	2,506	1,120	10,934
6722 Workers' compensation	3,669	5,237	938	130	9,974
6723 Health insurance and other employee benefits	7,135	5,815	3,549	1,407	17,906
Total taxes and insurance	<u>24,104</u>	<u>28,069</u>	<u>16,547</u>	<u>12,905</u>	<u>81,625</u>

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Activities - HUD Projects
For the Year Ended June 30, 2020

	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>\$ 24,212</u>	<u>\$ 22,424</u>	<u>\$ 24,287</u>	<u>\$ -</u>	<u>\$ 70,923</u>
Depreciation					
6600 Depreciation expense	<u>22,258</u>	<u>20,088</u>	<u>20,432</u>	<u>2,844</u>	<u>65,622</u>
Total expenses	<u>288,259</u>	<u>280,561</u>	<u>207,348</u>	<u>65,818</u>	<u>841,986</u>
Change in unrestricted net assets	(56,516)	(31,781)	21,545	(28,678)	(95,430)
Net assets (deficit) without donor restrictions, beginning of year	<u>(493,740)</u>	<u>(691,120)</u>	<u>(470,290)</u>	<u>(174,041)</u>	<u>(1,829,191)</u>
Net assets (deficit) without donor restrictions, end of year	<u><u>\$ (550,256)</u></u>	<u><u>\$ (722,901)</u></u>	<u><u>\$ (448,745)</u></u>	<u><u>\$ (202,719)</u></u>	<u><u>\$ (1,924,621)</u></u>
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.	<u>\$ 29,575</u>	<u>\$ 53,499</u>	<u>\$ 52,930</u>	<u>\$ -</u>	<u>\$ 136,004</u>
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	<u>\$ 5,646</u>	<u>\$ 5,640</u>	<u>\$ 5,662</u>	<u>\$ 1,860</u>	<u>\$ 18,808</u>

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Cash Flows - HUD Projects
For the Year Ended June 30, 2020

	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	\$ 213,428	\$ 257,601	\$ 211,248	\$ 37,140	\$ 719,417
Interest receipts	19	642	36	-	697
Other operating receipts	-	-	5	-	5
Total receipts	<u>213,447</u>	<u>258,243</u>	<u>211,289</u>	<u>37,140</u>	<u>720,119</u>
Disbursements					
Administrative	(9,364)	(12,559)	(12,672)	(4,227)	(38,822)
Management fee	(12,876)	(17,671)	(21,701)	(3,600)	(55,848)
Utilities	(24,794)	(14,404)	(14,733)	(7,477)	(61,408)
Salaries and wages	(106,455)	(111,496)	(55,003)	(22,893)	(295,847)
Operating and maintenance	(37,626)	(27,293)	(28,385)	(11,434)	(104,738)
Real estate taxes	(1,079)	(1,491)	(4,559)	(8,145)	(15,274)
Property insurance	(2,388)	(4,920)	(2,506)	(1,120)	(10,934)
Miscellaneous taxes and insurance	(20,637)	(21,658)	(9,482)	(3,640)	(55,417)
Interest on mortgage payable	(24,440)	(27,000)	(24,695)	-	(76,135)
Deposits held in trust, net	-	(2)	-	-	(2)
Total disbursements	<u>(239,659)</u>	<u>(238,494)</u>	<u>(173,736)</u>	<u>(62,536)</u>	<u>(714,425)</u>
Net cash provided by (used in) operating activities	<u>(26,212)</u>	<u>19,749</u>	<u>37,553</u>	<u>(25,396)</u>	<u>5,694</u>
Cash flows from investing activities					
Acquisition of fixed assets	-	-	(4,525)	-	(4,525)
Deposits to and interest earned on replacement reserves	(5,665)	(5,672)	(5,696)	(1,860)	(18,893)
Deposits to and interest earned on residual receipts reserves	-	(607)	(2)	-	(609)
Net cash used in investing activities	<u>(5,665)</u>	<u>(6,279)</u>	<u>(10,223)</u>	<u>(1,860)</u>	<u>(24,027)</u>
Cash flows from financing activities					
Principal payments on mortgage payable	(29,575)	(53,499)	(52,930)	-	(136,004)
Net advances from sponsor	<u>65,674</u>	<u>40,999</u>	<u>29,442</u>	<u>27,252</u>	<u>163,367</u>
Net cash provided by (used in) financing activities	<u>36,099</u>	<u>(12,500)</u>	<u>(23,488)</u>	<u>27,252</u>	<u>27,363</u>
Net increase (decrease) in cash	4,222	970	3,842	(4)	9,030
Cash, beginning of year	<u>1,577</u>	<u>673</u>	<u>2,622</u>	<u>323</u>	<u>5,195</u>
Cash, end of year	<u>\$ 5,799</u>	<u>\$ 1,643</u>	<u>\$ 6,464</u>	<u>\$ 319</u>	<u>\$ 14,225</u>

Exceptional Children's Foundation and Affiliates
Consolidated Statements of Cash Flows - HUD Projects
For the Year Ended June 30, 2020

	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	\$ (56,516)	\$ (31,781)	\$ 21,545	\$ (28,678)	\$ (95,430)
Adjustments to reconcile change in net assets (deficit) without donor restrictions to net cash provided by (used in) operating activities					
Depreciation expense	22,258	20,088	20,432	2,844	65,622
Decrease (increase) in tenant accounts receivable	-	39	-	-	39
Decrease (increase) in accounts receivable - HUD	-	28,512	-	-	28,512
Increase (decrease) in accounts payable	8,274	4,446	(5,081)	-	7,639
Increase (decrease) in accrued interest payable	(228)	(4,576)	(408)	-	(5,212)
Increase (decrease) in tenant deposits held in trust, net	-	(2)	-	-	(2)
Net cash provided by (used in) operating activities	<u>\$ (26,212)</u>	<u>\$ 16,726</u>	<u>\$ 36,488</u>	<u>\$ (25,834)</u>	<u>\$ 1,168</u>

Exceptional Children's Foundation and Affiliates
Schedules of Replacement Reserves and
Residual Receipts Reserves - HUD Projects
For the Year Ended June 30, 2020

	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	\$ 35,039	\$ 61,519	\$ 64,260	\$ 15,035	\$ 175,853
Valverde (\$469 x 11)	5,159	-	-	-	5,159
Valverde (\$487 x 1)	487	-	-	-	487
Westington (\$467 x 10)	-	4,670	-	-	4,670
Westington (\$485 x 2)	-	970	-	-	970
Whittier Springs (\$456 x 2)	-	-	912	-	912
Whittier Springs (\$475 x 10)	-	-	4,750	-	4,750
ERAS Home II (\$155 x 12)	-	-	-	1,860	1,860
Interest income, net of account fees	<u>19</u>	<u>32</u>	<u>34</u>	<u>-</u>	<u>85</u>
Balance, end of year	<u><u>\$ 40,704</u></u>	<u><u>\$ 67,191</u></u>	<u><u>\$ 69,956</u></u>	<u><u>\$ 16,895</u></u>	<u><u>\$ 194,746</u></u>
<u>Schedule of Residual Receipts Reserves</u>					
Balance, beginning of year	\$ -	\$ 96,114	\$ 3,023	\$ -	\$ 99,137
Interest income, net of account fees	<u>-</u>	<u>607</u>	<u>2</u>	<u>-</u>	<u>609</u>
Balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ 96,721</u></u>	<u><u>\$ 3,025</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 99,746</u></u>

Exceptional Children's Foundation and Affiliates
Computations of Surplus Cash (Deficit)- HUD Projects
June 30, 2020

	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>
Cash				
1110 Petty cash	\$ -	\$ 150	\$ 150	\$ -
1120 Cash in bank	5,799	1,493	6,314	319
1135 Accounts receivable - HUD	1,639	-	-	-
1191 Tenant deposits held in trust	<u>-</u>	<u>5,678</u>	<u>3,693</u>	<u>1,564</u>
Total cash	<u>7,438</u>	<u>7,321</u>	<u>10,157</u>	<u>1,883</u>
Current obligations				
2110 Accounts payable	13,358	12,283	9,390	400
2131 Accrued interest	1,911	1,670	1,814	-
2191 Tenant deposits held in trust (contra)	<u>-</u>	<u>4,234</u>	<u>2,796</u>	<u>1,564</u>
Total current obligations	<u>15,269</u>	<u>18,187</u>	<u>14,000</u>	<u>1,964</u>
Surplus cash (deficiency)	<u>\$ (7,831)</u>	<u>\$ (10,866)</u>	<u>\$ (3,843)</u>	<u>\$ (81)</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, 2020

		Balance, <u>July 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	Balance, <u>June 30, 2020</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>-</u>	<u>-</u>	<u>52,061</u>
		826,717	-	-	826,717
1495	Accumulated depreciation	<u>(598,295)</u>	<u>(22,258)</u>	<u>-</u>	<u>(620,553)</u>
		<u>\$ 228,422</u>	<u>\$ (22,258)</u>	<u>\$ -</u>	<u>\$ 206,164</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>-</u>	<u>-</u>	<u>68,727</u>
		838,287	-	-	838,287
1495	Accumulated depreciation	<u>(671,447)</u>	<u>(20,088)</u>	<u>-</u>	<u>(691,535)</u>
		<u>\$ 166,840</u>	<u>\$ (20,088)</u>	<u>\$ -</u>	<u>\$ 146,752</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>4,525</u>	<u>-</u>	<u>76,799</u>
		883,733	4,525	-	888,258
1495	Accumulated depreciation	<u>(672,820)</u>	<u>(20,432)</u>	<u>-</u>	<u>(693,252)</u>
		<u>\$ 210,913</u>	<u>\$ (15,907)</u>	<u>\$ -</u>	<u>\$ 195,006</u>

Exceptional Children's Foundation and Affiliates
Schedules of Changes in Fixed Asset Accounts - HUD Projects
For the Year Ended June 30, 2020

		Balance, <u>July 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	Balance, <u>June 30, 2020</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
1460	Furnishings	<u>2,714</u>	<u>-</u>	<u>-</u>	<u>2,714</u>
		409,156	-	-	409,156
1495	Accumulated depreciation	<u>(62,637)</u>	<u>(2,844)</u>	<u>-</u>	<u>(65,481)</u>
		<u>\$ 346,519</u>	<u>\$ (2,844)</u>	<u>\$ -</u>	<u>\$ 343,675</u>

Exceptional Children's Foundation and Affiliates
Certification of Project Owner
For the Year Ended June 30, 2020

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, 2020, 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 4, 2020

Scott D. Bowling, Psy.D, President and CEO
December 4, 2020

Exceptional Children's Foundation and Affiliates
Management Agent's Certification
For the Year Ended June 30, 2020

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, 2020, 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 4, 2020