Exceptional Children's Foundation and Affiliates

Consolidated Financial Statements

June 30, 2021

armanino

TABLE OF CONTENTS

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, 2021, 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. 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, 2021, 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") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Armanino LLP

ArmaninoLLP
Los Angeles, California

February 1, 2022

Exceptional Children's Foundation and Affiliates
Consolidated Statement of Financial Position
June 30, 2021

ASSETS

Current assets	
Cash and cash equivalents	$ 2,563,780
Investments	11,161,159
Accounts receivable	2,777,822
Pledges receivable	189,362
Inventory	164,786
Prepaid expenses and other current assets	218,282
Total current assets	17,075,191
Other assets	
Endowment investments, net of 2022 appropriation of $997,000	9,187,156
Restricted cash	174,343
Restricted deposits and funded reserves	311,218
Security deposits	55,026
Fixed assets, net	20,830,130
New Markets note receivable	5,335,875
Total other assets	35,893,748
Total assets	$ 52,968,939

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, 2021

LIABILITIES AND NET ASSETS

Current liabilities	
Line of credit	$ 898,464
Current portion of long-term debt (HUD)	148,424
Accounts payable and accrued expenses	3,541,098
Total current liabilities	4,587,986
Long-term liabilities	
Long-term debt, net of current portion (HUD)	820,996
Loan payable - Paycheck Protection Program	3,858,750
New Markets notes payable, net of unamortized debt issuance costs	7,549,894
Total long-term liabilities	12,229,640
Total liabilities	16,817,626
Net assets	
Without donor restrictions	
General	7,600,872
Board-designated endowment	8,634,935
Designated for existing land and building	17,425,559
Total without donor restrictions	33,661,366
With donor restrictions	2,489,947
Total net assets	36,151,313
Total liabilities and net assets	$ 52,968,939

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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenues			
Public support			
Contributions	$ 363,493	$ 732,412	$ 1,095,905
Fundraising events	899,814	-	899,814
Less: direct benefit to donor	(289,424)	-	(289,424)
Total public support	973,883	732,412	1,706,295
Tuition and fees	13,636,042	-	13,636,042
NPS revenues	5,654,393	-	5,654,393
DMH revenues	1,832,578	-	1,832,578
Contract sales	1,491,270	-	1,491,270
Rents	855,041	-	855,041
Merchandise sales	24,571	-	24,571
Miscellaneous	123,733	-	123,733
Net assets released from restriction	503,896	(503,896)	-
Total	24,121,524	(503,896)	23,617,628
	25,095,407	228,516	25,323,923
Functional expenses			
Program services	22,492,263	-	22,492,263
Management and general	3,016,655	-	3,016,655
Fundraising	889,695	-	889,695
Total functional expenses	26,398,613	-	26,398,613
Change in net assets from operations	(1,303,206)	228,516	(1,074,690)
Investment results			
Interest and dividends, net of fees	243,467	16,201	259,668
Realized and unrealized gains on investments, net	4,044,395	344,956	4,389,351
Total investment results	4,287,862	361,157	4,649,019
Change in net assets	2,984,656	589,673	3,574,329
Net assets, beginning of year	30,676,710	1,900,274	32,576,984
Net assets, end of year	$ 33,661,366	$ 2,489,947	$ 36,151,313

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, 2021

	Program Services	Management and General	Fundraising	Total
Personnel expenses				
Rehab and administration				
Salaries	$ 14,244,282	$ 1,699,313	$ 572,405	$ 16,516,000
Payroll taxes	1,479,392	157,603	52,464	1,689,459
Employee benefits	1,420,319	117,722	42,541	1,580,582
Total rehab and administration	17,143,993	1,974,638	667,410	19,786,041
Client payroll				
Payroll	669,697	185	-	669,882
Employee benefits	112,107	22	-	112,129
Payroll taxes	61,914	26	-	61,940
Total client payroll	843,718	233	-	843,951
Total personnel expenses	17,987,711	1,974,871	667,410	20,629,992
Depreciation and amortization	890,085	100,926	18,625	1,009,636
Professional services	518,538	253,158	18,863	790,559
Facility maintenance	452,018	34,209	9,156	495,383
Staff support services	21,120	427,243	-	448,363
Events and publications	1,138	206	375,027	376,371
Utilities	293,659	18,814	5,274	317,747
Insurance	239,645	37,655	3,358	280,658
Staff mileage	247,200	23,587	6,878	277,665
Facility rent	267,175	-	-	267,175
Production related	257,253	-	-	257,253
Program supplies	234,084	-	-	234,084
Interest	212,245	12,423	-	224,668
Telephone	190,434	17,637	7,753	215,824
Miscellaneous	127,405	37,311	23,366	188,082
Other production costs	171,055	166	-	171,221
Office supplies	83,829	32,150	38,000	153,979
Licenses and fees	138,766	5,877	515	145,158
Equipment rental and maintenance	99,790	21,339	2,866	123,995
Transportation and auto	36,727	12,051	-	48,778
Staff training and development	17,146	6,083	2,028	25,257
Agency support	5,240	949	-	6,189
Less expenses included with revenues on the statement of activities	-	-	(289,424)	(289,424)
Total less expenses included with revenues on the statement of activities	$ 22,492,263	$ 3,016,655	$ 889,695	$ 26,398,613

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, 2021

Cash flows from operating activities	
Change in net assets	$ 3,574,329
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	1,009,636
Amortization of debt issuance costs	28,488
Realized and unrealized gains on investments, net	(4,389,351)
Gain on disposal of assets	(3,810)
Changes in operating assets and liabilities	
Accounts receivable	309,357
Pledges receivable	(119,362)
Inventory	45,513
Prepaid expenses and other current assets	(52,838)
Security deposits	1,745
Accounts payable and accrued expenses	624,840
Net cash provided by operating activities	1,028,547
Cash flows from investing activities	
Proceeds from sales of investments	7,426,240
Purchases of investments	(7,632,389)
Purchases of fixed assets	(192,248)
Proceeds from sale of fixed assets	3,810
Net cash used in investing activities	(394,587)
Cash flows from financing activities	
Principal payments on long-term debt	(135,360)
Net borrowings on line of credit	158
Net cash used in financing activities	(135,202)
Net increase in cash	498,758
Cash, cash equivalents and restricted cash, beginning of year	2,550,583
Cash, cash equivalents and restricted cash, end of year	$ 3,049,341

Cash, cash equivalents and restricted cash consisted of the following:	
Cash and cash equivalents	$ 2,563,780
Restricted cash	174,343
Restricted deposits and funded reserves	311,218
	$ 3,049,341

Supplemental disclosure of cash flow information

Cash paid during the year for interest	$ 254,200

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

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, 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 ECF's programs mobilized rapidly and innovatively to respond to the crisis and the specific challenges of our service community. ECF reconfigured spaces and implemented best-practice health and safety measures, while creating new partnerships, platforms and opportunities for client learning.

ECF has committed six hundred thousand dollars in capital improvements to their information technology systems to ensure they will be positioned to meet future needs.

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

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.

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.

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 National Housing Act, 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.

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, 2018, 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, 2017, 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 and are collectively known as "ECF". 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.

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 4).

Cash held-in-trust

ECF maintains bank accounts, segregated from ECF's assets, for cash held-in-trust for clients. At June 30, 2021, the amount of such funds held-in-trust totaled $20,807 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 $485,561 of cash restricted for the following purposes:

- $174,343 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 13).
- $311,218 which is restricted for Replacement Reserve and Residual Receipt Reserves in relation to the HUD projects ECF manages (See Note 6).

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, 2021.

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, 2021.

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, 2021.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. ECF adopted ASU 2014-09 with a date of the initial application of July 1, 2020, using the modified retrospective method.

The adoption of ASU 2014-09 did not have a significant impact on ECF's financial position, result of operations, or cash flows. The majority of ECF's revenue arrangements consist of a single performance obligation to transfer promised goods or services. Revenue recognized over time primarily consists of performance obligations that are satisfied within one year or less

Revenue recognition

ECF recognizes revenue from tuition fees, NPS revenues, and DMH revenues during the year in which the related services are provided to its clients. The performance obligation of delivering educational and developmental services is simultaneously received and consumed by the clients; therefore, the revenue is recognized when provided.

ECF recognizes revenue from contract sales when the related janitorial services are provided to the businesses it is contracted with. The performance obligation of providing janitorial services is simultaneously received and consumed by the businesses; therefore, the revenue is recognized when provided.

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, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Wills and trusts

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

Functional expenses

ECF allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Expenses that are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort; occupancy costs and depreciation, which are allocated on a square footage basis.

Concentration of risk

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

ECF’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 four of these Centers accounted for 64% of tuition and fee revenue for the year ended June 30, 2021. Three Regional Centers accounted for 66% of accounts receivable at June 30, 2021.

Subsequent events

ECF has evaluated events subsequent to June 30, 2021, to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated through February 1, 2022, the date the consolidated financial statements were available to be issued. No other subsequent events have occurred that would have a material impact on the presentation of ECF's financial statements, except as stated below.

On September 2, 2021, ECF finalized the sale of vacant land in Culver City, California for a purchase price of approximately $600,000 to a third party which was received in cash. ECF recognized a $76,000 gain on this sale.

3. LIQUIDITY AND AVAILABILITY

Liquidity of financial assets as of June 30, 2021 is as follows:

Financial assets	
Cash	$ 2,563,780
Investments	11,161,159
Accounts receivable	2,777,822
Pledges receivable	189,362
	16,692,123
Less purpose-restricted amounts unavailable for general expenditures within one year:	
Donor-restricted net assets (Note 11)	(905,976)
Board-designated net assets	8,634,935
	7,728,959
	$ 24,421,082

4. INVESTMENTS

ECF reports its investments at fair value among three categories of price inputs available. These categories of inputs are quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

The following table sets forth by level, within the fair value hierarchy, ECF's assets at fair value as of June 30, 2021:

	Level 1	Level 2	Level 3	Fair Value
Equities	$ 5,841,499	$ -	$ -	$ 5,841,499
Mutual funds	10,784,800	-	-	10,784,800
Corporate bonds	-	1,316,860	-	1,316,860
U.S. government obligations	-	1,874,507	-	1,874,507
Money market accounts	462,334	-	-	462,334
U.S. government-agency obligations	-	68,315	-	68,315
	$ 17,088,633	$ 3,259,682	$ -	$ 20,348,315

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

Investments	$ 11,161,159
Endowment investments, net of 2022 appropriation of $997,000	9,187,156
	$ 20,348,315

4. INVESTMENTS (continued)

Activity in the investments during the year was as follows:

Balance, beginning of year	$ 15,752,815
Purchases of investments	7,632,389
Proceeds from sales of investments	(7,426,240)
Realized and unrealized gains on investments	4,389,351
Balance, end of year	$ 20,348,315

5. PLEDGES RECEIVABLE

Pledges receivable consisted of the following:

Receivable in less than one year	$ 179,362
Receivable in one to five years	10,000
	$ 189,362

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

6. RESTRICTED DEPOSITS AND FUNDED RESERVES

Restricted deposits and funded reserves are detailed as follows:

Replacement Reserves: The HUD Projects are required to make monthly deposits to replacement reserves totaling $1,710 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.	$ 200,487
Residual Receipts Reserves: The HUD Projects are required to make annual deposits to the extent of their "surplus cash," as defined by HUD. In accordance with provisions of the regulatory agreements with HUD, the residual receipts reserve is to be used for major expenditures of the HUD Projects with the prior approval of HUD.	99,795
Tenant Security Deposits: The HUD Projects are required to maintain separate cash accounts for tenants' rental security deposits.	10,936
	$ 311,218

7. FIXED ASSETS

Fixed assets consisted of the following:

Buildings and improvements	$ 23,525,273
Land improvements	9,803,266
Furniture and fixtures	4,120,866
Computer equipment	2,005,205
Transportation equipment	1,311,787
Leasehold improvements	566,964
Construction-in-progress	65,141
	41,398,502
Accumulated depreciation and amortization	(20,568,372)
	$ 20,830,130

Changes in accumulated depreciation for the fiscal year ended June 30, 2021, is as follows:

Balance at June 30, 2020	$ 19,614,345
Depreciation expense	980,829
Disposal of fixed assets	(26,806)
Balance at June 30, 2021	$ 20,568,368

8. 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") (0.087% at June 30, 2021) plus 1.25%. In December 2021, the Foundation increased their line of credit to $9,899,000. 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 remains in effect as long as ECF maintains its investments at Merrill Lynch Private Finance, Inc. 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, 2021, $898,464 was outstanding on this line and ECF was in compliance with these covenants.

9. LONG-TERM DEBT

Long-term debts 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.	$	215,542
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.		165,952
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.		183,026
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
		969,420
Current portion		(148,424)
	$	820,996

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

Year ending June 30,		
2022	$	148,424
2023		162,753
2024		155,108
2025		46,883
2026		51,352
Thereafter		404,900
	$	969,420

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 15).

10. 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. At June 30, 2021, $3,858,750 was outstanding as Loan Payable - Paycheck Protection Program and $45,019 of interest was accrued under accounts payable and accrued expenses on the accompanying statement of financial position.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	Released from Restriction	Balance, June 30, 2021
Subject to expenditure for specified purpose:		
Exceptional Works	$ (38,333)	$ 433,776
KEC School and related programs	(253,312)	64,715
Developmental	-	103,290
S Mark Taper Center for Exceptional Citizens	(20,000)	-
Exceptional Employment Solutions	(18,334)	-
Art Centers	(1,000)	2,112
Early Start Program	(72,917)	302,083
	(403,896)	905,976
Subject to passage of time	(50,000)	34,750
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	(50,000)	1,549,221
	$ (503,896)	$ 2,489,947

12. ENDOWMENT

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

12. ENDOWMENT (continued)

Interpretation of relevant law

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

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

(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.

12. ENDOWMENT (continued)

Strategies employed for achieving objectives

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

Spending policy and how investment objectives relate to spending policy

Through the budget process, ECF each year appropriates a stated amount, not to exceed 5% of the average Board-designated endowment balance, for operations and capital needs. Additional distributions can be made only with Board approval. ECF understands the current spending policy may reduce its Board-designated endowment to the extent spending exceeds earnings in any period. From its donor-restricted endowment, ECF may spend a discretionary portion of its annual current earnings, not to exceed 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 $750,000 to be transferred to operations during the fiscal year ended June 30, 2021.

Endowment net asset composition by type of fund

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 1,000,000	$ 1,000,000
Unexpended endowment earnings	-	549,221	549,221
Board-designated endowment funds	8,634,935	-	8,634,935
	$ 8,634,935	$ 1,549,221	$ 10,184,156

12. ENDOWMENT (continued)

Endowment net asset composition by type of fund (continued)

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

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, beginning of year	$ 7,265,505	$ 1,238,064	$ 8,503,569
Investment return			
Investment income, net of fees	95,074	16,201	111,275
Unrealized gains	2,024,356	344,956	2,369,312
Total investment return	2,119,430	361,157	2,480,587
Amounts appropriated for expenditures during the year for operational and capital expenses	(750,000)	(50,000)	(800,000)
	1,369,430	311,157	1,680,587
Balance, end of year	$ 8,634,935	$ 1,549,221	$ 10,184,156

Of the $10,184,156 endowment balance above, $997,000 of the endowment has been appropriated and approved by the board for fiscal year 2022 spending. This appropriation has been included within investments on the consolidated statement of financial position.

13. 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:

13. NEW MARKETS TAX CREDIT TRANSACTION (continued)

- Note A in the amount of $5,335,875, with interest-only payments at 1.4283% through January 2023, at which time it will require quarterly payments $112,617, including interest at 1.4283%, until its final maturity in January 2036.
- Note B in the amount of $2,259,125, with interest-only payments at 1.4283% through January 2023, at which time it will require quarterly payments $47,680, including interest at 1.4283%, until its final maturity in January 2036.

- ECF incurred debt issuance costs in connection with Notes A and B. The unamortized portion of the debt issuance costs have been reported on the consolidated statement of financial position as a reduction of the New Markets notes payable liability. Amortization totaling $28,488 was recognized during the year as a component of interest expense.
- At the end of the 7-year tax credit compliance period, ECF anticipates it will recognize a gain of approximately $2,100,000 as the new markets note receivable and notes payable are terminated.

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

Note A	$ 5,335,875
Note B	2,259,125
	7,595,000
Debt issuance costs	(45,106)
	$ 7,549,894

14. 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 $119,717 for the year ended June 30, 2021.

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, 2021.

15. COMMITMENTS AND CONTINGENCIES

Lease commitments

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

15. COMMITMENTS AND CONTINGENCIES (continued)

Lease commitments (continued)

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

Year ending June 30,		
2022	$	326,716
2023		318,316
2024		144,740
2025		21,776
	$	811,548

Rent expense, comprised of facilities, equipment, buses and uniforms totaled $329,118 for the year.

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

Each of the HUD Projects has entered into either a Section 8 Housing Assistance Payments ("HAP") Contract or a Section 811 Project Rental Assistance Contract ("PRAC"). The amount earned under the three HAP contracts totaled $496,143 for the year. The amount earned under the PRAC contract totaled $17,064 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.

16. 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.

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

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, 2021, and have issued our report thereon dated February 1, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

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

Armanino LLP

Armanino LLP
Los Angeles, California

February 1, 2022

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Financial Position
June 30, 2021

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
ASSETS							
Cash and cash equivalents	$ -	$ 2,374,566	$ -	$ 2,374,566	$ 189,214	$ -	$ 2,563,780
Investments, including current appropriation from endowment	-	11,161,159	-	11,161,159	-	-	11,161,159
Accounts receivable	-	2,778,672	-	2,778,672	(850)	-	2,777,822
Pledges receivable	-	189,362	-	189,362	-	-	189,362
Inventory	-	164,786	-	164,786	-	-	164,786
Prepaid expenses and other current assets	-	218,282	-	218,282	-	-	218,282
Endowment investments	-	9,187,156	-	9,187,156	-	-	9,187,156
Restricted cash	174,342	1	-	174,343	-	-	174,343
Restricted deposits and funded reserves	-	311,218	-	311,218	-	-	311,218
Security deposits	-	55,026	-	55,026	-	-	55,026
Fixed assets, net	10,088,144	10,741,986	-	20,830,130	-	-	20,830,130
New Markets note receivable	-	-	-	-	5,335,875	-	5,335,875
Total assets	$ 10,262,486	$ 37,182,214	$ -	$ 47,444,700	$ 5,524,239	$ -	$ 52,968,939

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Financial Position
June 30, 2021

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
LIABILITIES AND NET ASSETS							
Line of credit	$ -	$ 898,464	$ -	$ 898,464	$ -	$ -	$ 898,464
Intercompany ECF/FOECF	-	99,730	-	99,730	(99,730)	-	-
Intercompany NMTC/Legacy	1,223,368	(1,223,368)	-	-	-	-	-
Accounts payable and accrued expenses	-	3,541,098	-	3,541,098	-	-	3,541,098
Loan payable - Paycheck Protection Program	-	3,858,750	-	3,858,750	-	-	3,858,750
Long-term debt	-	969,420	-	969,420	-	-	969,420
New Markets notes payable, net of unamortized debt issuance costs	7,549,894	-	-	7,549,894	-	-	7,549,894
Total liabilities	8,773,262	8,144,094	-	16,917,356	(99,730)	-	16,817,626
Net assets	1,489,224	29,038,120	-	30,527,344	5,623,969	-	36,151,313
Total liabilities and net assets	$ 10,262,486	$ 37,182,214	$ -	$ 47,444,700	$ 5,524,239	$ -	$ 52,968,939

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Activities
For The Year Ended June 30, 2021

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
Revenues and support							
Public support							
Contributions	$ 115,000	$ 980,905	$ -	$ 1,095,905	$ -	$ -	$ 1,095,905
Fundraising events	-	899,814	-	899,814	-	-	899,814
Less: direct benefit to donor	-	(289,424)	-	(289,424)	-	-	(289,424)
Total public support	115,000	1,591,295	-	1,706,295	-	-	1,706,295
Revenues							
Tuition and fees	3,631,247	10,004,795	-	13,636,042	-	-	13,636,042
NPS Revenues	-	5,654,393	-	5,654,393	-	-	5,654,393
DMH revenues	-	1,832,578	-	1,832,578	-	-	1,832,578
Contract sales	1,491,270	-	-	1,491,270	-	-	1,491,270
Rents	42,000	813,041	-	855,041	-	-	855,041
Merchandise sales	147	24,424	-	24,571	-	-	24,571
Miscellaneous	1	123,732	-	123,733	-	-	123,733
Total revenues	5,164,665	18,452,963	-	23,617,628	-	-	23,617,628
Total revenues and support	5,279,665	20,044,258	-	25,323,923	-	-	25,323,923

Exceptional Children's Foundation and Affiliates
Consolidating Statement of Activities
For The Year Ended June 30, 2021

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
Functional expenses							
Program services	4,541,495	17,950,768	-	22,492,263	-	-	22,492,263
Management and general	759,684	2,256,902	-	3,016,586	69	-	3,016,655
Fundraising	-	889,695	-	889,695	-	-	889,695
Total functional expenses	5,301,179	21,097,365	-	26,398,544	69	-	26,398,613
Change in net assets from operations	(21,514)	(1,053,107)	-	(1,074,621)	(69)	-	(1,074,690)
Investment results							
Interest and dividends, net of fees	-	206,289	-	206,289	53,379	-	259,668
Realized and unrealized gains on investments, net	-	4,389,351	-	4,389,351	-	-	4,389,351
Total investment results	-	4,595,640	-	4,595,640	53,379	-	4,649,019
Change in net assets	$ (21,514)	$ 3,542,533	$ -	$ 3,521,019	$ 53,310	$ -	$ 3,574,329