Exceptional Children's Foundation and Affiliates

Consolidated Financial Statements and Supplementary Information

June 30, 2024

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Exceptional Children's Foundation and Affiliates

Index

Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Exceptional Children's Foundation and Affiliates (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2024, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2024, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 20*0, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") is presented for purposes of additional analysis 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 GAAS. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2025 on our consideration of the Organization'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 solely 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 the Organization'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 the Organization's internal control over financial reporting and compliance.

CohnReznick LLP

Los Angeles, California
February 27, 2025

Exceptional Children's Foundation and Affiliates

Consolidated Statement of Financial Position
June 30, 2024

Assets	
Current assets	
Cash and cash equivalents	$ 732,086
Accounts receivable	3,746,007
Pledges receivable	84,830
Inventory	180,975
Prepaid expenses and other current assets	344,449
Total current assets	5,088,347
Investments	12,869,212
Endowment investments	12,635,903
Restricted deposits and funded reserves	335,607
Security deposits	37,674
Fixed assets, net	19,976,601
Operating right-of-use assets	1,405,537
Financing right-of-use assets	127,758
Total assets	$ 52,476,639
Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued expenses	$ 4,059,817
Operating lease liability	149,359
Finance lease liability	40,028
Current portion of long-term debt (HUD)	46,883
Total current liabilities	4,296,087
Long-term liabilities	
Revolving line of credit	6,152,990
Long-term debt, net of current portion (HUD)	456,252
Operating lease liability, net of current portion	1,302,480
Finance lease liability, net of current portion	97,844
Total long-term liabilities	8,009,566
Total liabilities	12,305,653
Net assets:	
Net assets without donor restrictions	
General	10,873,285
Board designated for operations	1,089,458
Board designated endowment	11,245,644
Board designated for existing land and building	14,853,771
Net assets without donor restrictions	38,062,158
Net assets with donor restrictions	2,108,828
Total net assets	40,170,986
Total liabilities and net assets	$ 52,476,639

See accompanying Notes to Consolidated Financial Statements.

Exceptional Children's Foundation and Affiliates

Consolidated Statement of Activities
Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenues			
Public support			
Contributions	$ 1,125,504	$ 439,916	$ 1,565,420
Fundraising events	154,854	-	154,854
Total public support	1,280,358	439,916	1,720,274
Revenues			
Tuition and fees	14,756,998	-	14,756,998
Non-public school revenues	3,865,769	-	3,865,769
Contract sales	1,603,066	-	1,603,066
Department of mental health revenues	2,589,616	-	2,589,616
Rents	1,018,098	-	1,018,098
Merchandise sales	51,066	-	51,066
Net assets released from restrictions	612,189	(612,189)	-
Total revenues	24,496,802	(612,189)	23,884,613
Total public support and revenues	25,777,160	(172,273)	25,604,887
Functional expenses:			
Program services	22,596,611	-	22,596,611
Management and general	3,124,159	-	3,124,159
Fundraising	879,538	-	879,538
Total functional expenses	26,600,308	-	26,600,308
Change in net assets from operations	(823,148)	(172,273)	(995,421)
Interest and dividends, net of fees	5,183	-	5,183
Gain on sale of property	11,500	-	11,500
Other income	51,008	-	51,008
Realized and unrealized gains on investments, net	2,823,838	180,303	3,004,141
Total other income	2,891,529	180,303	3,071,832
Change in net assets	2,068,381	8,030	2,076,411
Net assets, beginning of year	35,993,777	2,100,798	38,094,575
Net assets, end of year	$ 38,062,158	$ 2,108,828	$ 40,170,986

Exceptional Children's Foundation and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2024

	Program services	Management and general	Fundraising	Total expenses
Personnel expenses				
Rehab and administration				
Salaries	$ 13,334,432	$ 1,649,047	$ 499,288	$ 15,482,767
Payroll taxes	1,163,406	129,519	39,615	1,332,540
Employee benefits	1,693,477	99,005	7,350	1,799,831
Total rehab and administration	16,191,315	1,877,571	546,253	18,615,138
Client payroll				
Payroll	748,514	7,874	-	756,388
Employee benefits	124,490	682	-	125,172
Payroll taxes	69,447	802	-	70,249
Total client payroll	942,451	9,358	-	951,809
Total personnel expenses	17,133,766	1,886,929	546,253	19,566,947
Agency support	6,344	-	395	6,739
Depreciation and amortization	682,047	75,200	11,844	769,091
Equipment rental and maintenance	103,428	11,656	2,443	117,527
Events and publications	2,800	-	83,275	86,075
Facility maintenance	691,377	52,118	14,612	758,107
Facility rent	473,754	-	-	473,754
Insurance	342,902	55,953	4,789	403,644
Interest	15,016	347,175	-	362,191
Licenses and fees	179,781	13,375	274	193,430
Miscellaneous	149,712	48,967	10,582	209,261
Office supplies	163,118	56,256	43,772	263,146
Other production costs	188,256	-	-	188,256
Production related	247,507	-	-	247,507
Professional services	390,003	430,246	121,393	941,642
Program supplies	448,123	397	4,936	453,456
Staff mileage	82,882	3,456	1,649	87,987
Staff support services	496,156	63,650	6,177	565,983
Staff training and development	35,223	14,372	1,934	51,529
Telephone	298,839	32,685	18,638	350,162
Transportation and auto	126,799	8,285	-	135,084
Utilities	338,779	23,439	6,572	368,791
Total expenses	$ 22,596,611	$ 3,124,159	$ 879,538	$ 26,600,308

See accompanying Notes to Consolidated Financial Statements.

Exceptional Children's Foundation and Affiliates

Consolidated Statement of Cash Flows
Year Ended June 30, 2024

Cash flows from operating activities	
Changes in net assets	$ 2,076,411
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation and amortization	769,091
Amortization of right-of-use assets	303,537
Unrealized gains on investments	(1,993,145)
Gain on sale of property	(11,500)
(Increase) decrease in assets	
Accounts receivable	(181,741)
Pledges receivable	(52,330)
Inventory	(1,995)
Prepaid expenses and other current assets	(65,990)
Security deposits	44,044
Increase (decrease) in liabilities	
Accounts payable and accrued payables	1,420,934
Accrued legal settlement payable	(1,242,986)
Operating lease liability	(243,987)
Net cash provided by operating activities	820,343
Cash flows from investing activities	
Proceeds from sale of investments	4,131,809
Purchase of investments	(5,142,805)
Purchase of property and equipment	(829,851)
Net cash used in investing activities	(1,840,847)
Cash flows from financing activities	
Net borrowings on revolving line of credit	1,245,000
Financing lease liability payments	(38,924)
Principal payments on long-term debt (HUD)	(155,108)
Net cash provided by financing activities	1,050,968
Net increase in cash and cash equivalents and restricted cash	30,464
Cash and cash equivalents and restricted cash, beginning of year	1,037,229
Cash and cash equivalents and restricted cash, end of year	$ 1,067,693
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	$ 190,609

Note 1 - Nature of Organization

Exceptional Children's Foundation and its affiliates, Valverde, Inc. and ERAS Home II (collectively, "ECF" or "the Organization") are California tax-exempt nonprofit corporations whose mission is to provide the highest quality services for children and adults who are challenged with special needs - 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 14 program sites located throughout Los Angeles County.

ECF programs are as follows:

Kayne ERAS Center
The ECF 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 TK-12 nonpublic Kayne Eras 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, occupational and educational therapy services
- Physical education and recreational services
- Specialized full day classroom programs
- Mental health programs
- Applied Behavioral Analysis program

Early Start
The Early Start program provides early intervention services to developmentally delayed and at-risk 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.

Community Fusion
The Community Fusion program serves adults who have moderate to profound developmental disabilities. Approximately 50% have a high need for assistance with their daily living activities. The full-day Community Fusion program offers participants training in self-help, aiming to increase their vocational, recreational, and social skills. Clients also participate in health and fitness activities, which are specifically geared to aging adults and senior citizens with special needs. Activities include experiences such as trips to the grocery store, community art fairs, the park, and participation in a range of volunteer opportunities.

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 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. Art produced by ECF adult artists is showcased at their studios as well as juried art shows and is also available for purchase at www.artecf.org. Artists receive a 50% commission from sales of their work. 50% goes back to ECF Art Centers to help fund services for ECF artists.

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.
- 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 supports adults along each step of their Pathway to Employment. The Organization 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:

- determining employment preferences, strengths, and transportation
- job search structuring and strategies
- interview preparation and practice
- coordinating services with support network
- 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.

College Classroom Program
In partnership with educational institutions, the Organization 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. The Organization 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 the Organization'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
12-bed group home in Los Angeles, California

Westington
HUD Project No. 122-EH151-WHC-L8
13-unit apartment complex in Los Angeles, California

Whittier Springs
HUD Project No. 122-EH157-WHC-L8
13-unit apartment complex in Whittier, California

ERAS Home II
HUD Project No. 122-HD044-WDD-NP
6-bed group home in Culver City, California

Note 2 - Summary of significant accounting policies

Income tax status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, as well as Section 23701(d) of the California Revenue and Taxation Code. On an annual basis, the entities analyze the amount of unrelated business taxable income from their various projects and provide for taxes on such income, if any, under Section 511 of the Internal Revenue Code and Section 23731 of the California Revenue and Taxation Code. During the year ended June 30, 2024, the entities had no significant activities subject to these taxes.

Management has analyzed the tax positions taken by the Organization and has concluded that, as of June 30, 2024, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Organization has no unrecognized tax benefits at June 30, 2024. The federal informational tax returns of Exceptional Children's Foundation, Valverde, Inc., and ERAS Home II for tax year ended June 30, 2021, 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 year ended June 30, 2020, and subsequent. The Organization continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Basis of consolidation

The accompanying consolidated financial statements include the accounts of Exceptional Children's Foundation, Valverde, Inc., and ERAS Home II and are collectively known as "ECF". All significant intercompany 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 for operations - These amounts include funds set aside from unrestricted funds by the ECF board for operating purposes in future years. The amount currently designated include $1,089,458 allocated to the budget for the fiscal year ending June 30, 2024, to assist operations.

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, restricted in perpetuity, or restricted by the grantor either by purpose or by time. When the restrictions expire, the net assets of this classification are reclassified to unrestricted net assets.

Use of estimates

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

Cash and cash equivalents

ECF considers all highly-liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents, except for certain money market account balances included in investments (see Note 4).

Cash held-in-trust

ECF maintains bank accounts, segregated from ECF's assets, for cash held-in-trust for clients. At June 30, 2024, the amount of such funds held-in-trust totaled $21,877 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 $335,607 of restricted cash used 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.

Fair value measurements

The Organization values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

Accounts receivable
Accounts receivables 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, 2024. The balance of accounts receivable at July 1, 2023 was $3,564,266.

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, 2024.

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

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

Buildings and 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, 2024.

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.

Adoption of new accounting pronouncements

On July 1, 2023, the Organization adopted Accounting Standards Update ("ASU") No, 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASC 326"), and its related amendments using the prospective method. The new standard changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments, including trade receivables, from an incurred loss model to a current and expected loss model. Under the current and expected loss model, the Organization will recognize credit losses to be incurred over the entire contractual term of the instrument rather than delaying recognition of credit losses until it is probable the loss has been incurred. In accordance with ASC 326, the Organization evaluates certain criteria, including aging and historical write-offs, current economic condition of specific customers and future economic conditions to determine the appropriate allowance for credit losses. The Organization adopted the standard effective July 1, 2023. The Organization evaluated the impact of adoption and noted that there was no material impact on the consolidated financial statements.

Revenue recognition

ECF recognizes revenue from tuition fees, non-public school revenues ("NPS"), and Department of Mental Health ("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.

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 that are distributed via the state's system of Regional Centers. The Organization serves individuals associated with six Regional Centers. Revenues from five of these Centers accounted for 35% of tuition and fee revenue for the year ended June 30, 2024.

Two clients accounted for 32% of total accounts receivable at June 30, 2024.

Note 3 - Liquidity and availability

As part of its liquidity management, ECF maintains enough cash in the operating account in order to fund its operating budget each year. ECF's investment policy structures its remaining financial assets to be available for operations as its general expenditures, liabilities, and other obligations come due.

Total financial assets available within one year consist of the following as of June 30, 2024:

Cash and cash equivalents	$ 732,086
Investments	12,869,212
Accounts receivable	3,746,007
Pledges receivable	84,830
	17,432,135
Less purpose-restricted amounts unavailable for general expenditures within one year:	
Donor-restricted net assets (Note 11)	(717,719)
	$ 16,714,416

At June 30, 2024, ECF had board-designated endowments of $11,245,644. The board intent is to hold in perpetuity however could be undesignated by the board for operation if considered necessary.

Note 4 - Investments

At June 30, 2024, investments consist of the following:

Mutual funds:	
Foreign large growth	$ 540,613
Small blend	2,421,713
Mid blend	702,696
Large blend	5,794,735
Large growth	3,385,547
Medium value	535,901
Equities:	
Domestic	7,038,775
Fixed income securities:	
US Government bonds	2,750,765
Corporate bonds	1,366,378
Money market funds	967,992
Totals	$ 25,505,115

Note 5 - Fair value measurements

At June 30, 2024, financial assets are carried at fair value and classified in the table below in one of three categories, as described in Note 2:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Foreign large growth	$ 540,613	$ -	$ -	$ 540,613
Small blend	2,421,713	-	-	2,421,713
Mid blend	702,696	-	-	702,696
Large blend	5,794,735	-	-	5,794,735
Large growth	3,385,547	-	-	3,385,547
Medium value	535,901	-	-	535,901
Equities:				
Domestic	7,038,775	-	-	7,038,775
Fixed income securities:				
US Government bonds	-	2,750,765	-	2,750,765
Corporate bonds	-	1,366,378	-	1,366,378
Money market funds	-	967,992	-	967,992
Totals	$ 20,419,980	$ 5,085,135	$ -	$ 25,505,115

Valuations of mutual funds and equities are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Money market funds and fixed income securities are Level 2 instruments. Level 2 instrument valuations are obtained using quoted market prices for similar instruments. For the year ended June 30, 2024, there have been no changes in the valuation methodologies.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There were no changes in the valuation techniques during the current year, and there were no transfers between levels.

Note 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.	$ 224,872
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.	99,757
Tenant Security Deposits: The HUD Projects are required to maintain separate cash accounts for tenants' rental security deposits.	10,978
	$ 335,607

Note 7 - Fixed assets

Fixed assets consisted of the following:

Buildings and improvements	$ 21,453,139
Land and improvements	9,583,266
Furniture and fixtures	4,370,313
Computer equipment	2,600,094
Transportation equipment	1,634,364
Leasehold improvements	1,114,272
Construction-in-progress	69,693
	40,825,141
Less accumulated depreciation	(20,848,540)
Property and equipment, net	$ 19,976,601

Note 8 - Leases

The Organization leases buildings and equipment used in its operations. All contracts that implicitly or explicitly involve property, plant and equipment are evaluated to determine whether they are or contain a lease.

At lease commencement, the Organization recognizes a lease liability, which is measured at the present value of future lease payments, and a corresponding right-of-use asset equal to the lease liability, adjusted for prepaid lease costs, initial direct costs and lease incentive.

The Organization has elected and applies the practical expedient available to lessees to combine non-lease components with their related lease components and account for them as a single combined lease component for all its leases. The Organization remeasures lease liabilities and related right-of-use assets whenever there is a change to the lease term and/or there is a change in the amount of future lease payments, but only when such modification does not qualify to be accounted for as a separate contract.

The Organization determines an appropriate discount rate to apply when determining the present value of the remaining lease payments for purposes of measuring or remeasuring lease liabilities. As the rate implicit in the lease is generally not readily determinable, the Organization estimates its risk-free rate as the discount rate.

For accounting purposes, the Organization's leases commence on the earlier of (i) the date upon which the Organization obtains control of the underlying asset and (ii) the contractual effective date of a lease. Lease commencement for most of the Organization's leases coincides with the contractual effective date. The Organization's leases generally have minimum base terms with renewal options or fixed terms with early termination options. Such renewal and early termination options are exercisable at the option of the Organization and, when exercised, usually provide for rental payments during the extension period at then current market rates or at pre-determined rental amounts.

Leases involving real estate
Leases of buildings and the Organization's corporate headquarters have lease terms that range from one to ten years, which terms have been incorporated into the Organization's measurement of the related right of use assets and lease liabilities. Although most of the Organization's real estate leases include one or more options to renew that can extend the contractual terms from two to five years, those renewal options are exercisable solely at the Organization's discretion and have been excluded from lease term measurements. The Organization's real estate leases generally require reimbursement of real estate taxes, common area maintenance, and insurance.

Rental payments on these leases typically provide for fixed minimum payments that increase over the lease term at predetermined amounts. Certain leases of real estate provide for rental increases based on the Consumer Price Index, which are included in Organization's measurement of lease payments based on the rate or index in effect at lease commencement and are therefore included in the measurement of the lease liabilities.

Leases involving equipment
Equipment leases have lease terms that generally range from less than one year to five years and generally do not have renewal options. Rental payments on these leases typically provide for fixed payments that increase over the lease term at predetermined amounts, are included in the measurement of lease payments, and are therefore included in the measurement of lease liabilities. Certain of the Organization's leases involving equipment have purchase options. When those options are reasonably certain of being exercised, the Organization reflects such purchase options when measuring the lease term and lease payments for those leases.

Weighted average remaining lease term and weighted average discount rate for the Organization's leases as of June 30, 2024:

	Operating Leases	Finance Leases
Weighted average remaining term (in years)	8.4	3.3
Weighted average discount rate	3.78%	2.77%

Lease expense for lease payments is recognized on a straight-line basis over the lease term. Amortization expense over the operating right-of-use asset for the year ended June 30, 2024 was $303,537 and is recorded in the facility rent line item on the consolidated statement of functional expenses.

Lease commitments
ECF leases facilities and equipment under several long-term operating and financing lease agreements. The scheduled minimum lease payments under the lease terms are as follows, for the year ended June 30:

	Operating lease	Financing lease	Total
2025	$ 200,840	$ 43,248	$ 244,088
2026	183,714	43,248	226,962
2027	188,502	43,248	231,750
2028	193,440	19,032	212,472
2029	198,522	-	198,522
Thereafter	795,123	-	795,123
Total lease payments	1,760,141	148,776	1,908,917
Less: Interest	(308,302)	(10,904)	(319,206)
Total lease liabilities	$ 1,451,839	$ 137,872	$ 1,589,711

Rent expense, comprised of facilities, equipment, buses and uniforms totaled $527,727 for the year.

Note 9 - Revolving line 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 one-month Secured Overnight Financing Rate (5.6% at June 30, 2024) plus 0.75%. In December 2020, the Organization increased their revolving line of credit to $9,900,000. This revolving 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 revolving line of credit agreement remains in effect as long as ECF maintains its investments at Merrill Lynch Private Finance, Inc. The revolving 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, 2024, $6,152,990 was outstanding on this revolving line of credit and ECF was in compliance with these covenants.

Note 10 - Debt

Long-term debts are detailed as follows:

Notes 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. Accrued interest as of June 30, 2024 was $757.	$ 98,235
Capital advance from HUD, secured by a first deed of trust on the ERAS Home II six-bed group home for the developmentally disabled, non interest bearing, with no payment due as long as ECF continues to provide housing to the developmentally disabled through September 2037.	404,900
Total debt	503,135
Current portion	(46,883)
Long-term portion	$ 456,252

The future maturities of the long-term debt are as follows, for the year ending:

2025	$ 46,883
2026	51,352
2027	-
2028	-
2029	-
Thereafter	404,900
	$ 503,135

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).

Note 11 - Net assets with donor restrictions

Net assets with donor restrictions consisted of the following:

	Released from restriction	Balance June 30,2024
Subject to expenditure for specified purpose:		
Exceptional Works	$ 36,458	$ 393,139
Developmental	-	103,290
KEC School and related programs	314,167	66,595
Early Start Program	80,682	135,151
Art Centers	10,350	19,544
	441,657	717,719
Subject to passage of time	-	850
Endowment appropriation	170,532	-
Endowment (including original perpetual gift amount of $1,000,000)	-	1,390,259
	$ 612,189	$ 2,108,828

Note 12 - Endowment

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

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

The remaining portion of the donor-restricted endowment fund is classified as with donor restriction until those amounts are appropriated for expenditure in a manner consistent with the standard prudence prescribed by UPMIFA.

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

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

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

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

Spending policy and how investment objectives relate to spending policy
Through the budget process, ECF each year appropriates a stated amount, not to exceed 5% of the average investment 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.

Spending policy and how investment objectives relate to spending policy
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.

Endowment net asset composition by type of fund as of June 30, 2024, 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	-	390,259	390,259
Board-designated endowment funds	11,245,644	-	11,245,644
	$ 11,245,644	$ 1,390,259	$ 12,635,903

Changes in endowment net assets for the fiscal year ended June 30, 2024, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, beginning of year	$ 9,767,085	$ 1,380,488	$ 11,147,573
Investment return			
Investment income, net of fees	195,734	23,091	218,825
Realized and unrealized losses	1,112,293	157,212	1,269,505
Total investment return	1,308,027	180,303	1,488,330
Designated by the board	170,532	-	170,532
Release of appropriated earnings	-	(170,532)	(170,532)
	1,478,559	9,771	1,488,330
Balance, end of year	$ 11,245,644	$ 1,390,259	$ 12,635,903

Of the $12,635,903 endowment balance above, the Board of Directors has voted to use the 5% spending rate towards of ECF operations in the fiscal year ending June 30, 2024.

Note 13 - Employee benefit plan

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 $122,435 for the year ended June 30, 2024.

The 403(b) plan is a non-BRISA 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, 2024.

Note 14 - Commitments and contingencies

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 $508,270 for the year. The amount earned under the PRAC contract totaled $18,552 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.

Note 15 - Subsequent events

The Organization has evaluated events and transactions for potential recognition or disclosure through February 27, 2025, the date the consolidated financial statements were available to be issued.

Supplementary Information - Uniform Guidance

Exceptional Children's Foundation and Affiliates

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal Grantor Pass-through Grantor Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Pass-through Entity	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development					
Supportive Housing for the Elderly (and Disabled) - Direct Loans					
Valverde - FHA Project No.122-EH310-WHH-L8	14.157			$ -	$ 140,990
Westington - FHA Project No.122-EH151-WHC-L8	14.157			-	49,482
Whittier Springs - FHA Project No.122-EH157-WHC-L8	14.157			-	62,871
Total Supportive Housing for the Elderly (and Disabled) - Direct Loans				-	253,343
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			-	18,552
Total Supportive Housing for Persons with Disabilities				-	423,452
Section 8 New Construction and Substantial Rehabilitation					
Valverde - Section 8 Project No. CA16-T831-049	14.182			-	190,619
Westington - Section 8 Project No. CA16-T811-003	14.182			-	160,476
Whittier Springs - Section 8 Project No. CA16-T811-009	14.182			-	157,175
Total Section 8 New Construction and Substantial Rehabilitation				-	508,270
Total U.S Department of Housing and Urban Development				-	1,185,065
U.S Department of Agriculture					
Child & Adult Care Food Program	10.558	CNIPS 05244-CACFP-19-NP-IC	California State Department of Education	-	30,210
Total U.S. Department of Agriculture				-	30,210
Total Expenditures of Federal Awards				$ -	$ **1,215,276**

See Notes to Schedule of Expenditures of Federal Awards.

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"). 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* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of ECF, it is 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 are limited as to reimbursement. The Organization has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. Pass-through entity identifying numbers are presented where available and applicable.

3. Loan balances

The federal awards reported on the Schedule for Supportive Housing for the Elderly (and Disabled) - Direct Loans (ALN 14.157) are the July 1, 2023, balances. The loan balances reported on the June 30, 2024, consolidated statement of financial position are as follows:

Valverde, Inc.	$ 98,235
ERAS House II	404,900
	$ 503,135

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 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 (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2024, 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 February 27, 2025.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting ("internal control") as a basis for designing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 consolidated financial statements. 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*.

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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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Los Angeles, California
February 27, 2025

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance 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

Opinion on Each Major Federal Program

We have audited Exceptional Children's Foundation and Affiliates (collectively, the "Organization") compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget ("OMB") Compliance Supplement that could have a direct and material effect on the Organization's major federal programs for the year ended June 30, 2024. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the 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, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States ("Government Auditing Standards"); 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 ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

CohnReznick LLP

Los Angeles, California
February 27, 2025

Exceptional Children's Foundation and Affiliates

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section I - Summary of Auditor's Results

Consolidated *financial Statements*

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance to GAAP:	Unmodified opinion
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to consolidated financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No

Identification of major federal programs:

Federal Assistance Listing Number	Name of Federal Program
14.182	U.S. Department of Housing and Urban Development: Section 8 New Construction and Substantial Rehabilitation

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

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