
THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.

Financial Statements
and
Supplementary Information
Year Ended June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors
The Centers for Exceptional Children, Inc.

We have audited the accompanying financial statements of The Centers for Exceptional Children, Inc. (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Centers for Exceptional Children, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gray, Callison & Jones, CPA, PC

Winston-Salem, NC
November 3, 2020

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,561,065
Accounts receivable	36,869
Refundable sales tax	2,432
Prepaid expenses	14,350
	1,614,716

PROPERTY AND EQUIPMENT

Land	80,460
Building and improvements	7,194,926
Furniture, fixtures, and equipment	1,298,433
Automobiles	56,145
	8,629,964
Less accumulated depreciation	(6,092,637)
	2,537,327

TOTAL ASSETS	\$ 4,152,043
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 78,596
Deferred revenue	16,601
	95,197

NON-CURRENT LIABILITIES

Note payable	231,600
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NET ASSETS

Without donor restrictions:	
Operating	654,762
Board designated	633,157
Net investment in property and equipment	2,537,327
	3,825,246

TOTAL LIABILITIES AND NET ASSETS	\$ 4,152,043
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See Independent Auditors' Report and Notes to the Financial Statements.

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
STATEMENT OF ACTIVITY
Year Ended June 30, 2020

	<u>Without Restrictions</u>	<u>With Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 225,204	\$ -	\$ 225,204
Grants	-	223,662	223,662
United Way allocations	511,624	-	511,624
Program service fees	400,110	-	400,110
Rent income	342,233	-	342,233
Investment income	10,867	-	10,867
Fundraising	112,371	-	112,371
Gain on sale of fixed assets	2,000	-	2,000
Net assets released from restrictions - satisfaction of usage restrictions	223,662	(223,662)	-
	<u>1,828,071</u>	<u>-</u>	<u>1,828,071</u>
EXPENSES			
Program services:			
Infant Toddler	880,665	-	880,665
Family Support Network	315,983	-	315,983
After School Program	109,623	-	109,623
Summer Program	159,634	-	159,634
Enrichment	248,840	-	248,840
	<u>1,714,745</u>	<u>-</u>	<u>1,714,745</u>
Management and general	147,954	-	147,954
Fundraising	129,654	-	129,654
	<u>1,992,353</u>	<u>-</u>	<u>1,992,353</u>
CHANGE IN NET ASSETS	(164,282)	-	(164,282)
NET ASSETS AT BEGINNING OF YEAR	<u>3,989,528</u>	<u>-</u>	<u>3,989,528</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,825,246</u>	<u>\$ -</u>	<u>\$ 3,825,246</u>

See Independent Auditors' Report and Notes to the Financial Statements.

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	Program Services					Management and General	Fundraising	Totals
	Infant Toddler	Family Support Network	After School Program	Summer Program	Enrichment			
PERSONNEL EXPENSES								
Salaries & educational contract fees	\$ 568,781	\$ 181,020	\$ 57,145	\$ 115,079	\$ 48,036	\$ 68,410	\$ 51,440	\$ 1,089,911
Other educational contract fees	-	33,666	-	-	-	-	-	33,666
Payroll taxes, health and compensation insurance	106,456	10,724	7,071	11,503	7,324	13,627	10,141	166,846
TOTAL PERSONNEL EXPENSES	675,237	225,410	64,216	126,582	55,360	82,037	61,581	1,290,423
NON-PERSONNEL EXPENSES								
Professional fees and contracts	32,596	16,636	18,108	14,288	95,535	17,245	10,535	204,943
Supplies	41,346	13,538	1,218	4,503	37,717	11,322	3,437	113,081
Telephone	2,204	2,886	-	-	-	1,602	555	7,247
Postage and freight	-	617	-	-	-	-	-	617
Rent, maintenance contracts, ground supplies, and miscellaneous occupancy costs	-	-	-	-	816	111	-	927
Insurance	4,031	4,031	4,031	4,031	4,031	4,031	4,031	28,217
Equipment rental and maintenance	-	-	-	-	748	5,449	-	6,197
Printing, publications and marketing	5	671	-	-	-	-	32,785	33,461
Travel	2,718	5,745	-	430	1,431	2,109	4,421	16,854
Special assistance - Transportation and other	-	-	-	-	13,016	-	-	13,016
Miscellaneous	2,480	24,399	-	-	3,437	1,998	61	32,375
Depreciation	120,048	22,050	22,050	9,800	36,749	22,050	12,248	244,995
TOTAL NON-PERSONNEL EXPENSES	205,428	90,573	45,407	33,052	193,480	65,917	68,073	701,930
TOTAL EXPENSES	\$ 880,665	\$ 315,983	\$ 109,623	\$ 159,634	\$ 248,840	\$ 147,954	\$ 129,654	\$ 1,992,353

See Independent Auditors' Report and Notes to the Financial Statements.

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (164,282)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	244,995
Gain on sale of property and equipment	(2,000)
Change in operating assets and liabilities:	
Decrease in accounts receivable	37,265
Decrease in prepaid expenses	470
Decrease in refundable sales tax	8,901
Increase in accounts payable	16,081
Decrease in deferred revenue	(37,639)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>103,791</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(77,022)
Proceeds on sale of property and equipment	2,000
NET CASH USED BY INVESTING ACTIVITIES	<u>(75,022)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds on note payable	<u>231,600</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	231,600
NET INCREASE IN CASH	260,369
CASH, BEGINNING OF YEAR	<u>1,300,696</u>
CASH, END OF YEAR	<u><u>\$ 1,561,065</u></u>

See Independent Auditors' Report and Notes to the Financial Statements.

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A: ORGANIZATION

The Centers for Exceptional Children, Inc. (“the Organization”) is organized as a nonprofit corporation under the laws of the state of North Carolina. The Organization was formed for the purpose of providing educational and occupational services and physical therapy for children with orthopedic, neurological, and other health impairments-providing them with an opportunity to develop to their fullest capacity physically, mentally, emotionally and socially. Working with parents and other important community resources, the Organization provides aid to each student for an independent, contributing, and fulfilling life according to individual potential. The Organization is tax exempt under section 501(c)(3) of the Internal Revenue Code.

Effective midnight on June 30, 2010, The Special Children’s School, Inc. was merged under the former non-profit status of The Children’s Center for the Physically Disabled, Inc., with the name of the merged entity immediately becoming The Centers for Exceptional Children, Inc. The two schools have similar service programs and a slightly different focus. The Children’s Center works primarily with children who have some physical impairment or medical fragility. The Special Children’s School serves children with more global developmental delays.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

The Organization reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein, are classified and reported as follows:

Net assets without donor restrictions includes net assets available for use in general operations and are not subject to donor restrictions, such as public support and revenues that are not subject to donor-imposed stipulations. All expenses are reported as decreases in net assets without donor restrictions.

Support and Revenue

Donor-imposed restrictions: All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or donor-restricted for specific purposes are reported as net assets with restrictions.

When a donor-stipulated time restriction ends or a purpose restriction is accomplished, then the restricted net assets are reclassified to net assets without restrictions and are reported in the statement of activities as net assets released from restrictions.

Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

The Organization considers cash on deposit, money market funds, and certificates of deposits to be cash equivalents.

Accounts Receivable

Included in accounts receivable are grants not yet received under formally awarded grants. The grants are recorded at their estimated realizable value, and are included in accounts receivable.

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

Fixed Assets

Fixed assets are stated at cost for purchased assets. Donated assets are recorded at their estimated fair market value at the date of the gift. Depreciation has been determined by use of the straight-line method over the estimated lives of the assets ranging from 5 to 10 years for vehicles and equipment and 20 to 40 years for the Organization's building and improvements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentrations of Credit Risk

The Organization has concentrated its credit risk for cash by maintaining certain deposits in various financial institutions, Wells Fargo and Branch Bank & Trust. At June 30, 2020, the excess of deposit liabilities reported by both institutions over the amounts that would have been covered by federal deposit insurance totaled \$1,273,829. The federal deposit insurance coverage is \$250,000 per institution.

NOTE C: NET ASSETS WITH RESTRICTIONS

At June 30, 2020, all net assets with restrictions were expended.

NOTE D: UNRESTRICTED NET ASSETS

At June 30, 2020, the Organization had unrestricted net assets of \$3,825,246. The Organization has allocated these net assets for future use as follows:

Operating (unappropriated)	\$ 654,762
Board Designated:	
Operation LAMB	4,962
Friends of the Children's Center	29,979
Janet Adkerson Benevolence Fund	30,607
Operating Reserve	189,861
Board Discretionary Fund	86,231
Building Fund	291,517
Net investment in property and equipment	<u>2,537,327</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 3,825,246</u>

NOTE E: UNITED WAY

United Way allocations are a significant portion of the Centers' budget and current allocations are represented as follows:

Allocation from Forsyth County United Way	\$ 509,493
Allocations from other local United Way organizations	2,131
	<u>\$ 511,624</u>

NOTE F: LIQUIDITY

The Organization regularly monitors liquidity to meet operating needs and general expenditures within one year. The Organization has various sources of liquid resources at its disposal, which includes cash and cash equivalents and a line of credit.

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

The Organization's financial assets available within one year of the date of the statement of assets, liabilities, and net assets for general expenditures are as follows for the year ended June 30:

Total assets at year end	\$ 4,152,043
Less:	
Prepaid expenses	(14,350)
Property and equipment, net	<u>(2,537,327)</u>
Financial assets available at year end for general expenditures	<u><u>\$ 1,600,366</u></u>

NOTE G: LEASES

The building occupied by the Organization on Coliseum Drive is subject to a land lease which expires on October 11, 2046. The Organization is a joint tenant with the Winston-Salem/Forsyth County Board of Education. Annual rent due to Wake Forest University (lessor) for the property is \$1 through October 10, 2021. Annual rent due to the lessor for the property is \$10 from October 11, 2021 through October 11, 2046.

This lease was originally signed on October 12, 1956 and there have now been four amendments to the original lease. The lease has been amended in 1988, 1991, 2000, and now again in 2021. The third amendment to the lease applies to the fiscal year ending June 30, 2020. The terms of the fourth amendment to the lease apply starting October 11, 2021.

NOTE H: AGENCY ENDOWMENT FUND

The Organization has collected and contributed funds to the Winston-Salem Foundation, Inc. Two trusts agreements have been entered into with the Foundation whereby the Foundation has variance power to direct the use of these funds. Accordingly, assets held within these trusts are not recorded on the accompanying financial statements. The Centers for Exceptional Children, Inc. is entitled to a distribution amount deemed to be income as a result of the principal held in the trust.

The Endowment funds held by the Winston-Salem Foundation are as follows:

The Centers for Exceptional Children Endowment

This endowment was established in April, 2002 under an irrevocable trust agreement originally by The Children's Center for the Physically Disabled, Inc. The purpose of this permanent fund was to provide support for general purposes as provided by the Board of Directors. The fair market value of the fund at June 30, 2020, is as follows:

Principal endowment balance	\$ 1,306,538
Grantable funds	<u>701,911</u>
	<u><u>\$ 2,008,449</u></u>

The Special Children's School – Jacqueline Styers Young Fund

This endowment was established in March, 2000 under an irrevocable trust agreement originally by The Special Children's School, Inc. The purpose of the endowment is to provide a permanent fund, income from which may be used to provide tuition assistance for families with children enrolled in the school. The fair market value of the fund at June 30, 2020, is as follows:

Principal endowment balance	\$ 14,698
Grantable funds	-
	<u><u>\$ 14,698</u></u>

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE I: RELATED PARTY

Effective July 1, 2019 until June 30, 2024, the Center has entered into an operating agreement with the Winston-Salem/Forsyth County Board of Education (WS/FCB). The WS/FCB agrees to lease from the Organization part of both facilities in order to continue operating, administering and controlling a public school for pre-kindergarten and school-age children with disabilities and typically developing pre-kindergarten and kindergarten children. Said lease shall be subject to the terms and provisions of the ground lease (see Note G), and in the event of termination of said ground lease, the lease from the Center to WS/FCB shall terminate. Either party may, at its option, terminate the agreement for any reason by giving written notice of termination not less than 12 months in advance of termination.

Rent of \$85,558 a quarter is due from WS/FCB to the Center. This rental payment is subject to market adjustments yearly on or before February 1st of each year.

Rent of \$342,233 was received by the Center in connection with this lease during the year ended June 30, 2020

NOTE J: PAYCHECK PROTECTION PROGRAM (PPP) NOTE PAYABLE

In March of 2020, the Center had to shut it's doors to all children due to the COVID-19 pandemic. In May of 2020, the Center applied for and received a PPP loan for the purpose of retaining all employees throughout the pandemic. The amount of \$231,600 was drawn on the loan during the year ended June 30, 2020. The loan is to be paid back in equal monthly installments beginning in December of 2020 and ending in December of 2022, at an interest rate of 1%. Part or all of this loan may be forgiven if the Small Business Administration (SBA) determines that the proceeds were used for their intended purpose.

As it is at the discretion of the Small Business Administration what portion of the loan to ultimately forgive. Information is not readily available to accurately estimate a current portion of long-term debt at June 30, 2020. As such, no current portion of this debt agreement is being recognized.

NOTE K: SUBSEQUENT EVENTS

Management assessed possible subsequent events as of the date these financial statements were available for issuance. The following subsequent events are necessary for disclosure:

In March of 2020, the Center closed it's doors due to the COVID-19 pandemic. In August of 2020, they reopened and continued operations with certain additional safety protocols in place.

SUPPLEMENTARY INFORMATION

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
SCHEDULE OF REVENUE AND EXPENSES COMPARED WITH BUDGET
Year Ended June 30, 2020

	Total Amounts		
	Actual	Budget	Over (Under) Budget
SUPPORT AND REVENUE			
Contributions	\$ 225,204	\$ 214,050	11,154
Grants	223,662	151,039	72,623
United Way allocations	511,624	601,292	(89,668)
Program service fees	400,110	495,000	(94,890)
Investment income	10,867	14,000	(3,133)
Rent income	342,233	342,233	-
Endowment Fund income contribution	-	33,000	(33,000)
Gain on sale of fixed assets	2,000	-	2,000
Fundraising	112,371	125,000	(12,629)
TOTAL SUPPORT AND REVENUE	1,828,071	1,975,614	(147,543)
PERSONNEL EXPENSES			
Salaries & educational contract fees	1,089,911	1,094,654	(4,743)
Other educational contract fees	33,666	-	33,666
Payroll taxes, health and compensation insurance	166,846	77,809	89,037
TOTAL PERSONNEL EXPENSES	1,290,423	1,172,463	117,960
NON-PERSONNEL EXPENSES			
Professional fees and contracts	204,943	225,000	(20,057)
Supplies	113,081	67,500	45,581
Telephone	7,247	8,100	(853)
Postage and freight	617	-	617
Rent, maintenance contracts, ground supplies, and miscellaneous occupancy costs	927	-	927
Insurance	28,217	36,500	(8,283)
Equipment rental and maintenance	6,197	10,200	(4,003)
Printing, publications and marketing	33,461	62,500	(29,039)
Travel	16,854	15,000	1,854
Special assistance - Transportation and other	13,016	-	13,016
Miscellaneous	32,375	5,000	27,375
Depreciation	244,995	-	244,995
TOTAL NON-PERSONNEL EXPENSES	701,930	429,800	272,130
TOTAL EXPENSES	1,992,353	1,602,263	390,090
SUPPORT AND REVENUE OVER (UNDER) EXPENSES	(164,282)	373,351	(537,633)
Purchase of equipment (for budget only)	-	(16,500)	-
SUPPORT AND REVENUE OVER (UNDER) EXPENSES	\$ (164,282)	\$ 356,851	\$ (537,633)

See Independent Auditors' Report on Supplementary Information.