
THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.

*Financial Statements
and
Supplementary Information*

Year ended June 30, 2018

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December 6, 2018

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, 2018, 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.

(Continued)

(Continued)

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, 2018, 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

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,686,542
Accounts receivable	24,085
Prepaid expenses	15,574
Refundable sales tax	<u>2,653</u>
	<u>1,728,854</u>

PROPERTY AND EQUIPMENT

Land	80,460
Building and improvements	6,835,312
Furniture, fixtures and equipment	1,261,045
Automobiles	<u>176,357</u>
	8,353,174
Accumulated depreciation	<u>(5,721,597)</u>
	<u>2,631,577</u>
	<u>\$ 4,360,431</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 8,721
Deferred revenue	<u>46,548</u>
	<u>55,269</u>

NET ASSETS

Unrestricted:	
Operating (unappropriated)	677,928
Board designated	980,399
Net investment in property and equipment	<u>2,631,577</u>
	4,289,904
Temporarily restricted	<u>15,258</u>
	<u>4,305,162</u>
	<u>\$ 4,360,431</u>

The accompanying notes are an integral part of this statement.

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
STATEMENT OF ACTIVITY
Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
SUPPORT AND REVENUE			
Contributions	\$ 183,559	\$	\$ 183,559
Grants	9,715	193,896	203,611
United Way allocations	719,701		719,701
Program service fees	532,662		532,662
Investment income	116		116
Miscellaneous income	137		137
Endowment Fund income contribution	33,000		33,000
Fundraising	148,837		148,837
Net assets released from restrictions – satisfaction of usage restrictions	<u>178,643</u>	<u>(178,643)</u>	<u>0</u>
	<u>1,806,370</u>	<u>15,253</u>	<u>1,821,623</u>
EXPENSES			
Program services:			
Infant Toddler	716,170		716,170
Family Support Network	242,664		242,664
After School Program	180,705		180,705
Summer Program	173,315		173,315
Enrichment	<u>356,766</u>		<u>356,766</u>
	1,669,620		1,669,620
Management and general	121,266		121,266
Fundraising	<u>174,956</u>		<u>174,956</u>
	<u>1,965,842</u>		<u>1,965,842</u>
CHANGE IN NET ASSETS	(159,472)	15,253	(144,219)
Net assets at beginning of year	<u>4,449,376</u>	<u>5</u>	<u>4,449,381</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,289,904</u>	<u>\$ 15,258</u>	<u>\$ 4,305,162</u>

The accompanying notes are an integral part of this statement.

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Program Services						Totals
	Infant Toddler	Family Support Network	After School Program	Summer Program	Enrichment	Management and General	
PERSONNEL EXPENSES							
Salaries & educational contract fees	\$ 412,912	\$ 138,430	\$ 111,452	\$ 133,393	\$ 69,887	\$ 62,560	\$ 978,999
Other educational contract fees	48,389	32,783	5,742	5,742	2,871		95,527
Payroll taxes, health and compensation insurance	63,393	7,580	15,677	15,652	11,263	16,167	141,511
TOTAL PERSONNEL EXPENSES	<u>524,694</u>	<u>178,793</u>	<u>132,871</u>	<u>154,787</u>	<u>84,021</u>	<u>78,727</u>	<u>1,216,037</u>
NON-PERSONNEL EXPENSES							
Professional fees and contracts	37,242	10,900	19,564	3,637	178,577	5,603	313,316
Supplies	9,735	8,359	1,055	849	31,443	4,138	56,446
Telephone	1,882	554			250	2,527	5,733
Postage and freight	362	450	60	30	2,010	181	4,770
Rent, maintenance contracts, ground supplies, and miscellaneous occupancy costs	47				3,509	15	3,571
Insurance	3,726	3,784	3,784	3,784	3,784	3,784	26,430
Equipment rental and maintenance	6,067				2,378	196	8,641
Printing, publications and marketing	3,563						36,703
Travel	1,438	11,849	358		1,465	2,768	20,124
Special assistance – Transportation and other	1,443				10,974		12,417
Miscellaneous	678	4,962				314	5,954
Depreciation	125,293	23,013	23,013	10,228	38,355	23,013	255,700
TOTAL NON-PERSONNEL EXPENSES	<u>191,476</u>	<u>63,871</u>	<u>47,834</u>	<u>18,528</u>	<u>272,745</u>	<u>42,539</u>	<u>749,805</u>
TOTAL EXPENSES	<u>\$ 716,170</u>	<u>\$ 242,664</u>	<u>\$ 180,705</u>	<u>\$ 173,315</u>	<u>\$ 356,766</u>	<u>\$ 121,266</u>	<u>\$ 1,965,842</u>

The accompanying notes are an integral part of this statement.

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (144,219)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	255,700
Change in operating assets and liabilities:	
Decrease in accounts receivable	10,352
Increase in prepaid expenses	(821)
Decrease in refundable sales tax	201
Decrease in accounts payable	(62,281)
Decrease in deferred revenue	<u>(68,024)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(9,092)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of property and equipment	<u>(77,288)</u>
NET DECREASE IN CASH	(86,380)
BEGINNING CASH AND CASH EQUIVALENTS	<u>1,772,922</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 1,686,542</u>

The accompanying notes are an integral part of this statement.

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. The Centers for Exceptional Children, Inc. will continue to operate as collaboration between the Winston-Salem/Forsyth County Schools and the United Way, with additional financial support from the community.

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.

Financial Statement Presentation

The Organization prepares its financial statements as prescribed by FASB ASC No. 958 (formerly known as SFAS No. 117, “Financial Statements of Not-for-Profit Organizations”). Under FASB ASC No. 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization did not have any permanently restricted net assets as of or during the year ended June 30, 2018.

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 temporarily-restricted or permanently-restricted support that increases those net asset classes.

When a donor-stipulated time restriction ends or a purpose restriction is accomplished, then the restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

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

Promises to Give/Pledges: Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Conditional promises to give are not included as support until such time as the conditionals are substantially met.

It is the Organization's policy to review pledges receivable annually. If a pledge appears doubtful as to collection, the amount is approved by the Board of Directors and written off.

At June 30, 2018, there were no pledges receivable remaining.

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.

Pledges Receivable

Pledges receivable are recorded at net realizable value. The Organization used the direct write-off method to account for uncollectible balances.

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.

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

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, 2018, the excess of deposit liabilities reported by both institutions over the amounts that would have been covered by federal deposit insurance totaled \$1,565,891. The federal deposit insurance coverage is \$250,000 per institution.

NOTE C: CASH AND CASH EQUIVALENTS

Cash is represented as follows:

Petty cash	\$ 100
Checking and cash investment accounts	<u>1,686,442</u>
	<u>\$ 1,686,542</u>

NOTE D: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available as follows:

Reynolds American – I & T Scholarship Support	\$ 14,258
Walmart – Stepping-Stones	<u>1,000</u>
	<u>\$ 15,258</u>

NOTE E: UNRESTRICTED NET ASSETS

At June 30, 2018, the Organization had unrestricted net assets of \$4,289,904. The Organization has allocated these net assets for future use as follows:

Operating (unappropriated)	\$ 677,928
Board Designated:	
Operation LAMB	\$ 4,962
Friends of the Children’s Center	29,979
Janet Adkerson Benevolence Fund	30,384
Operating Reserve	538,583
Board Discretionary Fund	86,231
Building Fund	<u>290,260</u>
	1,658,327
Net investment in property and equipment	<u>2,631,577</u>
TOTAL UNRESTRICTED ASSETS	<u>\$ 4,289,904</u>

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

NOTE F: 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	\$ 714,557
Allocations from other local United Way organizations	<u>5,144</u>
	<u>\$ 719,701</u>

NOTE G: DONATED EQUIPMENT AND SERVICES

No furniture and equipment with an estimated fair market value greater than \$1,000 were donated by individuals during the year ended June 30, 2018, which is normally reflected in the accompanying financial statements.

The Organization receives certain occupational therapeutic services from Winston-Salem/Forsyth County Schools. These services are now reimbursed by the Organization. There are several hundred volunteers that donate their time to the Organization. The estimated value of these services has not been included in the accompanying financial statements as such values are not readily available.

NOTE H: LEASES

The building occupied by the Organization on Coliseum Drive is subject to a land lease which expires 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 \$1.00.

The Organization is a party to a lease agreement for a copier with GE Capital c/o RICOH USA. Payments are for 60 months at \$204.30 per month and expired February 17, 2018. The lease auto-renewed on a month to month basis.

Lease expense for the copier was \$2,452 for the year ended June 30, 2018.

NOTE I: 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 CENTERS FOR EXCEPTIONAL CHILDREN, INC.
 NOTES TO FINANCIAL STATEMENTS

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, 2018 is as follows:

Principal endowment balance	\$ 1,380,642
Grantable funds	<u>617,732</u>
	<u>\$ 1,998,374</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, 2018 is as follows:

Principal endowment balance	\$ 15,568
Grantable funds	<u>0</u>
	<u>\$ 15,568</u>

NOTE J: RELATED PARTY

Effective July 1, 2012 until June 30, 2018, 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 H), and in the event of termination of said ground lease, the lease from the Center to WS/FCB shall terminate. In exchange for this lease WS/FCB agrees to pay for routine maintenance, but not necessarily limited to grounds, HVAC, plumbing, electrical, carpentry, floor care, playground, equipment, printing and driveway maintenance. A new agreement has not been finalized as of the date of these statements.

NOTE K: RETIREMENT PLAN

Effective July 1, 2014, the Company implemented a 401(k) profit sharing plan that covers eligible employees. Contributions to the plan are made by employee salary deferrals, employee rollover contributions, employer matching contributions and employer profit sharing contributions. Employer profit sharing contributions are discretionary. The Plan was terminated in the year ended June 30, 2016 with no employer matching contributions.

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

NOTE L: SUBSEQUENT EVENTS

As of December 6, 2018, the date these financial statements were available for issuance, there were no known factors that have an effect on the accompanying statements.

SUPPLEMENTARY INFORMATION

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.
 SCHEDULE OF REVENUE AND EXPENSES COMPARED WITH BUDGET
 Year Ended June 30, 2018

	Total Amounts		
	Actual	Budget	Over (Under) Budget
PUBLIC SUPPORT AND REVENUE			
Contributions	\$ 183,559	\$ 126,500	\$ 57,059
Grants	203,611	196,000	7,611
Program service fees	532,662	521,380	11,282
United Way allocations	719,701	775,000	(55,299)
Investment income	116		116
Miscellaneous income	137		137
Endowment income contribution	33,000	33,000	0
Fundraising	<u>148,837</u>	<u>135,000</u>	<u>13,837</u>
TOTAL SUPPORT AND REVENUE	<u>1,821,623</u>	<u>1,786,880</u>	<u>34,743</u>
 EXPENSES			
Personnel:			
Salaries and educational contract fees	978,999	1,061,758	(82,759)
Other educational contract fees	95,527	122,838	(27,311)
Payroll taxes, health and compensation insurance	<u>141,511</u>	<u>127,252</u>	<u>14,259</u>
TOTAL PERSONNEL	<u>1,216,037</u>	<u>1,311,848</u>	<u>(95,811)</u>
 Non-personnel:			
Professional fees and contracts	313,316	303,395	9,921
Supplies	56,446	101,817	(45,371)
Telephone	5,733	8,507	(2,774)
Postage and freight	4,770	2,316	2,454
Rent, maintenance contracts, ground supplies and miscellaneous occupancy costs	3,571	3,641	(70)
Insurance	26,430	26,999	(569)
Equipment rental and maintenance	8,641	16,500	(7,859)
Printing, publications and marketing	36,703	66,800	(30,097)
Travel	20,124	40,930	(20,806)
Special Assistance-transportation and other	12,417	14,700	(2,283)
Miscellaneous	5,954	7,816	(1,862)
Depreciation	<u>255,700</u>	<u>0</u>	<u>255,700</u>
TOTAL NON-PERSONNEL	<u>749,805</u>	<u>593,421</u>	<u>156,384</u>
	<u>1,965,842</u>	<u>1,905,269</u>	<u>60,573</u>
SUPPORT AND REVENUE OVER (UNDER) EXPENSES	(144,219)	(118,389)	(25,830)
 Purchase of equipment (for budget only)	<u> </u>	<u>(29,000)</u>	<u>29,000</u>
SUPPORT AND REVENUE OVER (UNDER) EXPENSES	<u>\$ (144,219)</u>	<u>\$ (147,389)</u>	<u>\$ 3,170</u>

See auditors' report.