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**THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.**

Financial Statements  
and  
Supplementary Information  
Year Ended June 30, 2019

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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, 2019, 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, 2019, 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.

Winston-Salem, NC  
February 8, 2020

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.  
STATEMENT OF FINANCIAL POSITION  
June 30, 2019

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 1,300,696
Accounts receivable	74,134
Refundable sales tax	11,333
Prepaid expenses	14,820
	1,400,983
PROPERTY AND EQUIPMENT	
Land	80,460
Building and improvements	7,135,091
Furniture, fixtures, and equipment	1,281,246
Automobiles	176,357
	8,673,154
Less accumulated depreciation	(5,967,854)
	2,705,300
TOTAL ASSETS	\$ 4,106,283

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 62,515
Deferred revenue	54,240
	116,755
NET ASSETS	
Without restrictions:	
Operating	602,250
Board designated	692,866
Net investment in property and equipment	2,694,412
	3,989,528
TOTAL LIABILITIES AND NET ASSETS	\$ 4,106,283

See independent auditors' report

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.  
STATEMENT OF ACTIVITY  
Year Ended June 30, 2019

	<u>Without Restrictions</u>	<u>With Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 171,319	\$ -	\$ 171,319
Grants	-	155,492	155,492
United Way allocations	670,357	-	670,357
Program service fees	515,636	-	515,636
Investment income	1,609	-	1,609
Miscellaneous income	5,429	-	5,429
Endowment Fund income contribution	40,265	-	40,265
Fundraising	115,565	-	115,565
Net assets released from restrictions - satisfaction of usage restrictions	170,750	(170,750)	-
	<u>1,690,930</u>	<u>(15,258)</u>	<u>1,675,672</u>
<b>EXPENSES</b>			
Program services:			
Infant Toddler	787,137	-	787,137
Family Support Network	272,255	-	272,255
After School Program	155,095	-	155,095
Summer Program	164,550	-	164,550
Enrichment	283,800	-	283,800
	<u>1,662,837</u>	<u>-</u>	<u>1,662,837</u>
Management and general	174,181	-	174,181
Fundraising	154,288	-	154,288
	<u>1,991,306</u>	<u>-</u>	<u>1,991,306</u>
CHANGE IN NET ASSETS	(300,376)	(15,258)	(315,634)
NET ASSETS AT BEGINNING OF YEAR	<u>4,289,904</u>	<u>15,258</u>	<u>4,305,162</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,989,528</u>	<u>\$ -</u>	<u>\$ 3,989,528</u>

See independent auditors' report

THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2019

	Program Services					Management and General	Fundraising	Totals
	Infant Toddler	Family Support Network	After School Program	Summer Program	Enrichment			
<b>PERSONNEL EXPENSES</b>								
Salaries & educational contract fees	\$ 507,464	\$ 164,891	\$ 90,815	\$ 114,228	\$ 57,560	\$ 63,111	\$ 48,836	\$ 1,046,905
Other educational contract fees	1,617	33,707	4,449	4,449	2,225	-	-	46,447
Payroll taxes, health and compensation insurance	101,866	13,038	9,932	11,723	7,821	10,564	9,278	164,222
<b>TOTAL PERSONNEL EXPENSES</b>	<b>610,947</b>	<b>211,636</b>	<b>105,196</b>	<b>130,400</b>	<b>67,606</b>	<b>73,675</b>	<b>58,114</b>	<b>1,257,574</b>
<b>NON-PERSONNEL EXPENSES</b>								
Professional fees and contracts	35,243	12,078	19,638	17,773	118,720	42,324	12,021	257,797
Supplies	11,062	13,492	3,210	2,452	35,456	5,346	1,758	72,776
Telephone	1,027	1,321	37	-	136	1,641	480	4,642
Postage and freight	-	155	-	-	50	13	-	218
Rent, maintenance contracts, ground supplies, and miscellaneous occupancy costs	36	-	-	-	1,966	101	-	2,103
Insurance	4,075	4,075	4,075	4,075	4,075	4,075	4,075	28,525
Equipment rental and maintenance	680	-	-	-	3,818	4,686	-	9,184
Printing, publications and marketing	142	574	-	-	-	-	63,807	64,523
Travel	1,253	5,200	606	-	3,447	19,408	1,719	31,633
Special assistance -								
Transportation and other	1,106	-	-	-	11,417	-	-	12,523
Miscellaneous	900	1,561	170	-	170	749	-	3,550
Depreciation	120,666	22,163	22,163	9,850	36,939	22,163	12,314	246,258
<b>TOTAL NON-PERSONNEL EXPENSES</b>	<b>176,190</b>	<b>60,619</b>	<b>49,899</b>	<b>34,150</b>	<b>216,194</b>	<b>100,506</b>	<b>96,174</b>	<b>733,732</b>
<b>TOTAL EXPENSES</b>	<b>\$ 787,137</b>	<b>\$ 272,255</b>	<b>\$ 155,095</b>	<b>\$ 164,550</b>	<b>\$ 283,800</b>	<b>\$ 174,181</b>	<b>\$ 154,288</b>	<b>\$ 1,991,306</b>

See independent auditors' report



THE CENTERS FOR EXCEPTIONAL CHILDREN, INC.  
STATEMENT OF CASH FLOWS  
June 30, 2019

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ (315,634)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	246,258
Change in operating assets and liabilities:	
Increase in accounts receivable	(50,047)
Decrease in prepaid expenses	754
Increase in refundable sales tax	(8,680)
Increase in accounts payable	53,791
Increase in deferred revenue	7,692
NET CASH USED	<u>7,692</u>
BY OPERATING ACTIVITIES	<u>(65,866)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	<u>(319,980)</u>
NET CASH USED BY	
INVESTING ACTIVITIES	<u>(319,980)</u>
 NET DECREASE IN CASH	 (385,846)
 CASH, BEGINNING OF YEAR	 <u>1,686,542</u>
 CASH, END OF YEAR	 <u>\$ 1,300,696</u>

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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 a 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.

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.

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

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.

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, 2019, 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: CASH AND CASH EQUIVALENTS

Cash is represented as follows:

Checking and cash investment accounts	<u>\$ 1,300,696</u>
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NOTE D: NET ASSETS WITH RESTRICTIONS

At June 30, 2019, all net assets with restrictions were expended.

NOTE E: UNRESTRICTED NET ASSETS

At June 30, 2019, the Organization had unrestricted net assets of \$3,989,528. The Organization has allocated these net assets for future use as follows:

Operating (unappropriated)	\$ 602,250
Board Designated:	
Operation LAMB	4,962
Friends of the Children's Center	29,979
Janet Adkerson Benevolence Fund	30,485
Operating Reserve	249,692
Board Discretionary Fund	86,231
Building Fund	291,517
Net investment in property and equipment	<u>2,694,412</u>
TOTAL UNRESTRICTED ASSETS	<u>\$ 3,989,528</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	\$ 666,593
Allocations from other local United Way organizations	<u>3,764</u>
	<u><u>\$ 670,357</u></u>

NOTE G: DONATED EQUIPMENT

Furniture and equipment with an estimated fair market value of \$4,950 was donated by individuals during the year ended June 30, 2019, which is reflected in the accompanying financial statements.

NOTE H: 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 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 December 31:

Total assets at year end	\$ 4,106,283
Less:	
Prepaid expenses	(14,820)
Property and equipment, net	<u>(2,705,300)</u>
Financial assets available at year end for general expenditures	<u><u>\$ 1,386,163</u></u>

NOTE I: LEASES

The building occupied by the Organization on Coliseum Drive is subject to a thirty year land lease which expires October 21, 2021. On August 28, 2018 the lease agreement was amended to extend the lease by twenty five years, now expiring 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 \$10.

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

NOTE J: 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, 2019 is as follows:

Principal endowment balance	\$ 1,391,221
Grantable funds	665,675
	\$ 2,056,896

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, 2019 is as follows:

Principal endowment balance	\$ 15,668
Grantable funds	-
	\$ 15,668

NOTE K: RELATED PARTY

Effective July 1, 2012 until June 30, 2019, 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 prekindergarten and Kindergarten children. Said lease shall be subject to the terms and provisions of the ground lease (see Note I), 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, HV AC, plumbing, electrical, carpentry, floor care, playground, equipment, printing and driveway maintenance. A new agreement has been entered into effective July 1, 2019 through June 30, 2024.

NOTE L: SUBSEQUENT EVENTS

As of February 8, 2020, 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, 2019

	Total Amounts		
	Actual	Budget	Over (Under) Budget
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 171,319	\$ 211,700	(40,381)
Grants	155,492	191,300	(35,808)
United Way allocations	670,357	667,628	2,729
Program service fees	515,636	504,999	10,637
Investment income	1,609	11,385	(9,776)
Miscellaneous income	5,429	-	5,429
Endowment Fund income contribution	40,265	33,000	7,265
Fundraising	115,565	118,880	(3,315)
<b>TOTAL SUPPORT AND REVENUE</b>	<u>1,675,672</u>	<u>1,738,892</u>	<u>(63,220)</u>
<b>PERSONNEL EXPENSES</b>			
Salaries & educational contract fees	1,046,905	1,015,906	30,999
Other educational contract fees	46,447	165,000	(118,553)
Payroll taxes, health and compensation insurance	164,222	63,000	101,222
<b>TOTAL PERSONNEL EXPENSES</b>	<u>1,257,574</u>	<u>1,243,906</u>	<u>13,668</u>
<b>NON-PERSONNEL EXPENSES</b>			
Professional fees and contracts	257,797	160,000	97,797
Supplies	72,776	70,000	2,776
Telephone	4,642	8,500	(3,858)
Postage and freight	218	-	218
Rent, maintenance contracts, ground supplies, and miscellaneous occupancy costs	2,103	-	2,103
Insurance	28,525	33,500	(4,975)
Equipment rental and maintenance	9,184	10,000	(816)
Printing, publications and marketing	64,523	65,000	(477)
Travel	31,633	7,000	24,633
Special assistance - Transportation and other	12,523	18,000	(5,477)
Miscellaneous	3,550	8,000	(4,450)
Depreciation	246,258	-	246,258
<b>TOTAL NON-PERSONNEL EXPENSES</b>	<u>733,732</u>	<u>380,000</u>	<u>353,732</u>
<b>TOTAL EXPENSES</b>	<u>1,991,306</u>	<u>1,623,906</u>	<u>367,400</u>
<b>SUPPORT AND REVENUE OVER (UNDER) EXPENSES</b>	(315,634)	114,986	(430,620)
Purchase of equipment (for budget only)	-	(15,000)	-
<b>SUPPORT AND REVENUE OVER (UNDER) EXPENSES</b>	<u>\$ (315,634)</u>	<u>\$ 99,986</u>	<u>\$ (430,620)</u>