

EXCEPTIONAL CARE FOR CHILDREN, INC.
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT
JUNE 30, 2021 AND 2020

EXCEPTIONAL CARE FOR CHILDREN, INC.
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Independent Auditors' Report

To the Board of Directors
Exceptional Care for Children, Inc.

We have audited the accompanying financial statements of Exceptional Care for Children, Inc. (nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years 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 the 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 audits. We conducted our audits 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 auditors' 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.

To the Board of Directors
Exceptional Care for Children, Inc.

We believe 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 Exceptional Care for Children, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years 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 included in the schedules of revenue and other support and schedules of expenses on pages 26 and 27 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 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.

Belfint, Lyons & Shuman, P.A.

October 4, 2021
Wilmington, Delaware

EXCEPTIONAL CARE FOR CHILDREN, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

ASSETS

	2021	2020
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,217,431	\$ 5,979,397
Investments	12,216,415	7,471,211
Accounts Receivable	2,732,525	2,591,499
Grants Receivable	183,000	58,000
Prepaid Expenses	307,822	339,930
Accrued Interest	25,341	34,249
Inventory	2,521	2,521
TOTAL CURRENT ASSETS	18,685,055	16,476,807
PROPERTY AND EQUIPMENT		
Land and Building	3,727,966	3,724,133
Capital Improvements	7,012,962	6,979,405
Equipment and Furniture	3,631,395	3,507,002
Vehicles	119,640	119,640
Construction in Progress	478,299	85,779
	14,970,262	14,415,959
Less: Accumulated Depreciation	6,696,599	6,150,567
NET PROPERTY AND EQUIPMENT	8,273,663	8,265,392
OTHER ASSETS		
Cash Restricted for Capital Investment	532,503	282,503
Patient Cash Held as Agent	402	402
TOTAL OTHER ASSETS	532,905	282,905
TOTAL ASSETS	\$ 27,491,623	\$ 25,025,104

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 405,550	\$ 353,666
Accrued Vacation	334,940	325,199
Funds Held for Others	402	402
Conditional Contribution - PPP Loan	-	2,005,010
Current Maturities of Notes Payable	<u>60,827</u>	<u>60,979</u>
TOTAL CURRENT LIABILITIES	801,719	2,745,256
LONG-TERM LIABILITIES		
Notes Payable (Net of Current Maturities)	<u>1,564,087</u>	<u>1,618,181</u>
TOTAL LIABILITIES	<u>2,365,806</u>	<u>4,363,437</u>
NET ASSETS		
Without Donor Restrictions	24,343,534	20,279,770
With Donor Restrictions	<u>782,283</u>	<u>381,897</u>
TOTAL NET ASSETS	<u>25,125,817</u>	<u>20,661,667</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 27,491,623</u></u>	<u><u>\$ 25,025,104</u></u>

The accompanying notes are an integral part of the financial statements.

EXCEPTIONAL CARE FOR CHILDREN, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Net Patient Service Revenue	\$ 15,181,537.00	\$ -	\$ 15,181,537
Contribution and Grant Revenue	81,246	321,000	402,246
In-Kind Donations	15,677	-	15,677
CARES Act - Paycheck Protection Program	2,005,010	-	2,005,010
CARES Act - Provider Relief Funds	651,600	-	651,600
CARES Act - Other	112,250	115,941	228,191
Interest Income	6,911	-	6,911
Investment Income, Net of Fees	119,414	-	119,414
Net Realized and Unrealized Gains	616,882	-	616,882
Miscellaneous Revenue	43,008	-	43,008
	18,833,535	436,941	19,270,476
RELEASE OF RESTRICTIONS			
Satisfaction of Purpose Restriction	36,555	(36,555)	-
	18,870,090	400,386	19,270,476
EXPENSES			
Program Services			
Skilled Nursing, Transitional, and Palliative Care	13,226,380	-	13,226,380
Supporting Services			
Management and General	1,394,715	-	1,394,715
Fundraising	185,231	-	185,231
	14,806,326	-	14,806,326
CHANGE IN NET ASSETS			
	4,063,764	400,386	4,464,150
NET ASSETS - Beginning of Year	20,279,770	381,897	20,661,667
NET ASSETS - End of Year	\$ 24,343,534	\$ 782,283	\$ 25,125,817

The accompanying notes are an integral part of the financial statements.

EXCEPTIONAL CARE FOR CHILDREN, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Net Patient Service Revenue	\$ 14,787,653	\$ -	\$ 14,787,653
Contribution and Grant Revenue	178,844	301,897	480,741
In-Kind Donations	31,359	-	31,359
Interest Income	9,542	-	9,542
Investment Income, Net of Fees	135,380	-	135,380
Net Realized and Unrealized Gains	95,886	-	95,886
Miscellaneous Revenue	83,854	-	83,854
	<u>15,322,518</u>	<u>301,897</u>	<u>15,624,415</u>
RELEASE OF RESTRICTIONS			
Satisfaction of Purpose Restriction	89,334	(89,334)	-
	<u>15,411,852</u>	<u>212,563</u>	<u>15,624,415</u>
EXPENSES			
Program Services			
Skilled Nursing, Transitional, and Palliative Care	12,759,134	-	12,759,134
Supporting Services			
Management and General	1,265,879	-	1,265,879
Fundraising	202,589	-	202,589
	<u>14,227,602</u>	<u>-</u>	<u>14,227,602</u>
	<u>1,184,250</u>	<u>212,563</u>	<u>1,396,813</u>
CHANGE IN NET ASSETS			
NET ASSETS - Beginning of Year	<u>19,095,520</u>	<u>169,334</u>	<u>19,264,854</u>
NET ASSETS - End of Year	<u>\$ 20,279,770</u>	<u>\$ 381,897</u>	<u>\$ 20,661,667</u>

The accompanying notes are an integral part of the financial statements.

EXCEPTIONAL CARE FOR CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

	2021			
	Program	Supporting Services		
	Skilled Nursing, Transitional, and Palliative Care	Management and General	Fundraising	Total
COMPENSATION AND RELATED EXPENSES				
Payroll Expense	\$ 8,108,963	\$ 781,042	\$ 135,666	\$ 9,025,671
Payroll Taxes	545,360	52,528	9,124	607,012
Employee Benefits	1,490,508	143,563	24,937	1,659,008
TOTAL COMPENSATION AND RELATED EXPENSES	10,144,831	977,133	169,727	11,291,691
EXPENSES				
Administrative Supplies and Expenses	-	26,005	-	26,005
Advertising	287	-	-	287
Bad Debt	-	77,673	-	77,673
Depreciation	498,060	47,972	-	546,032
Food	255,460	-	-	255,460
Fundraising	-	-	15,504	15,504
Insurance	398,691	38,401	-	437,092
Interest	80,567	7,760	-	88,327
Janitorial Services	85,035	8,190	-	93,225
Medical Supplies and Services	1,131,167	-	-	1,131,167
Miscellaneous	41,177	3,965	-	45,142
Processing Fees	20,915	2,015	-	22,930
Professional Development	49,192	4,738	-	53,930
Professional Fees	118,381	162,246	-	280,627
Repairs and Maintenance	156,759	15,099	-	171,858
Small Equipment	13,012	1,253	-	14,265
Taxes and Licenses	2,153	207	-	2,360
Telephone	19,295	1,859	-	21,154
Therapeutic Enrichment	1,697	-	-	1,697
Utilities	209,701	20,199	-	229,900
TOTAL EXPENSES	\$ 13,226,380	\$ 1,394,715	\$ 185,231	\$ 14,806,326

The accompanying notes are an integral part of the financial statements.

EXCEPTIONAL CARE FOR CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	2020			
	Program Services	Supporting Services		
	Skilled Nursing, Transitional, and Palliative Care	Management and General	Fundraising	Total
COMPENSATION AND RELATED EXPENSES				
Payroll Expense	\$ 7,786,950	\$ 758,193	\$ 118,276	\$ 8,663,419
Payroll Taxes	542,361	52,808	8,238	603,407
Employee Benefits	1,510,540	147,077	22,944	1,680,561
TOTAL COMPENSATION AND RELATED EXPENSES	9,839,851	958,078	149,458	10,947,387
EXPENSES				
Administrative Supplies and Expenses	-	29,095	-	29,095
Advertising	1,395	-	1,670	3,065
Depreciation	511,595	49,813	-	561,408
Food	214,298	-	-	214,298
Fundraising	-	-	51,461	51,461
Insurance	385,720	37,556	-	423,276
Interest	79,689	7,759	-	87,448
Janitorial Services	77,064	7,504	-	84,568
Medical Supplies and Services	1,024,024	-	-	1,024,024
Miscellaneous	41,466	4,038	-	45,504
Processing Fees	28,503	2,775	-	31,278
Professional Development	62,220	6,058	-	68,278
Professional Fees	100,605	125,466	-	226,071
Repairs and Maintenance	159,215	15,502	-	174,717
Small Equipment	14,181	1,381	-	15,562
Taxes and Licenses	1,314	128	-	1,442
Telephone	21,419	2,086	-	23,505
Therapeutic Enrichment	5,140	-	-	5,140
Utilities	191,435	18,640	-	210,075
TOTAL EXPENSES	\$ 12,759,134	\$ 1,265,879	\$ 202,589	\$ 14,227,602

The accompanying notes are an integral part of the financial statements.

EXCEPTIONAL CARE FOR CHILDREN, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Revenues and Other Support	\$ 16,029,970	\$ 14,649,852
Cash Paid to Suppliers and Employees	(13,966,738)	(13,583,072)
Interest Paid	(85,144)	(84,265)
	1,978,088	982,515
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(554,303)	(199,692)
Purchase of Investments, Includes Reinvested Interest and Dividends (Net of Fees)	(8,395,204)	(4,811,130)
Proceeds from Sale of Investments	4,266,882	4,666,946
	(4,682,625)	(343,876)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Notes Payable	(57,429)	(52,138)
Proceeds from Paycheck Protection Program	-	2,005,010
Contributions Restricted for the Purchase of Property and Equipment	250,000	228,185
	192,571	2,181,057
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(2,511,966)	2,819,696
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - Beginning of Year	6,262,302	3,442,606
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - End of Year	\$ 3,750,336	\$ 6,262,302
NONCASH INVESTING AND FINANCIAL ACTIVITIES		
Purchase of Property and Equipment with Notes Payable	\$ -	\$ 950,000

The accompanying notes are an integral part of the financial statements.

EXCEPTIONAL CARE FOR CHILDREN, INC.
STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 4,464,150	\$ 1,396,813
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Depreciation	546,032	561,408
Bad Debt Expense	77,673	-
Interest Expense - Amortization of Loan Origination Fees	3,183	3,183
Net Realized and Unrealized Gains	(616,882)	(95,886)
Paycheck Protection Program Forgiveness	(2,005,010)	-
Contributions Restricted for the Purchase of Property and Equipment	(250,000)	(228,185)
Changes in Assets		
Accounts Receivable	(218,699)	(569,938)
Grants Receivable	(125,000)	(58,000)
Prepaid Expenses	32,108	(181,896)
Accrued Interest	8,908	8,805
Changes in Liabilities		
Accounts Payable and Accrued Liabilities	51,884	(2,041)
Accrued Vacation	9,741	148,252
	\$ 1,978,088	\$ 982,515
NET CASH FROM OPERATING ACTIVITIES		

The accompanying notes are an integral part of the financial statements.

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations - Exceptional Care for Children, Inc. (Organization), a Delaware nonprofit corporation, is dedicated to delivering a new and innovative model of care to medically fragile children that allows them to experience their highest intellectual, physical, and spiritual potential while improving the quality of life for the entire family.

The Organization conducts all operations from its residential care facility located in Newark, Delaware.

Revenue Recognition - In accordance with Topic 606, the Organization recognizes revenue resulting from exchange transactions when it satisfies its performance obligations by transferring control over a product or service to a customer. The following is a description of principal exchange transactions from which the Organization generates revenue:

Net Patient Revenue - Net patient service revenue is reported at the amount that reflects the consideration the Organization expects to be entitled for providing patient care. These amounts are due from patients, third-party payors, and others and include variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Contracts, laws, and regulations governing Medicaid programs are complex and subject to interpretation. Thus, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Generally, the Organization bills patients and third-party payors at the beginning of each month for services performed during the prior month. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Organization believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligations based on the inputs needed to satisfy the obligation. These performance obligations relate primarily to providing patient care.

Because all of the Organization's performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC")

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition - Continued

Net Patient Revenue - Continued - 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the year.

The transaction price is based on standard charges for services provided to patients, reduced by applicable contractual adjustments, discounts to under and uninsured patients, and implicit pricing concessions. The estimates of contractual adjustments and discounts are based on contractual agreements, discount policy, and historical collection experience. Patient accounts receivable are considered past due or delinquent at the discretion of management. Management determines on a case-by-case basis receivables that will be charged off as uncollectible. The process for estimating the ultimate collectability of patient accounts receivables involves historical collection experience, changes in contracts with payors, and significant assumptions and judgment.

The Organization has elected to apply the practical expedient allowed under FASB ASC 606-10-10-4 for applying the new revenue standard to a portfolio of contracts with similar characteristics. The Organization accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for patient revenue. Based on historical collection trends and other analysis, the Organization has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

The Organization has elected to apply the practical expedient allowed under FASB ASC 606-10-32-18 for the financing component, as the period of time between the service being provided and the time that payment is received is typically one year or less.

The following is a description of principal activities from which the Organization generates revenue which fall outside the scope of Topic 606:

Contributions and Grants - The Organization recognizes contributions and grants when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition - Continued

Contributions and Grants - Continued - barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Organization also receives state awards for the purpose of providing a societal benefit. These awards are unconditional and recognized as revenue when notification of the award is received.

Noncash contributions are recorded at fair value on the date of donation. During the years ended June 30, 2021 and 2020, the Organization recognized \$15,677 and \$18,859, respectively, in donated noncash contributions.

Donated services are recognized as contributions in accordance with FASB ASC 958-605, *Revenue Recognition*, if the services a) create or enhance nonfinancial assets, or b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Volunteers contribute time to the Organization throughout the year; however, the financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria under FASB ASC 958-605.

During the years ended June 30, 2021 and 2020, the Organization recognized \$18,146 and \$12,500, respectively, in donated legal fees and expenses from a board member who is a partner in a law firm that serves as counsel to the Organization.

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets - Continued

Net Assets With Donor Restrictions - Continued - restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions received with donor restrictions whose restrictions are met within the same fiscal year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash on hand and cash held in banks for use in operations; cash and short-term investments held in investment accounts are recognized in investments.

Cash Restricted for Capital Investment - Cash restricted for capital investment consists of cash that is restricted for capital investment under certain contractual or donor-imposed restrictions.

Patient Cash Held as Agent - The Organization may at times receive Institutional Payee Status for residents who receive Social Security benefits. Once payment is received, the Organization deposits the funds into an interest-bearing account. Each eligible resident may accrue up to \$3,500 in the account with interest being prorated to each resident based on percentage of ownership in the account.

Property and Equipment - Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation expense in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

The Organization reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced by a charge to the statements of activities to its current fair value.

Gifts of long-lived assets such as land, buildings, or equipment are recorded at their fair market value and reported as net assets without donor restriction unless explicit donor stipulations specify how the donated assets must be used.

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment - Continued - Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Inventory - Inventory consists of small novelty and gift items sold in the Organization's Sheldon Shoppe. Inventories are stated at the lower of cost (first-in, first-out basis) or net realizable value.

Investments - Investments are reported at fair value. Donated securities are also reported at fair market value as of the date of receipt. All realized and unrealized gains and losses arising from fluctuations in market values, sales, or other disposition of assets are accounted for as increases or decreases in net assets without donor restrictions.

Loan Deposit and Origination Fees - Loan origination fees represent costs incurred from long-term borrowings and are presented as a reduction of the carrying amount of the debt. Amortization of the loan origination fees is calculated using the straight-line method over the term of the related financing agreement and is reported as interest expense in the statements of functional expenses.

Accrued Vacation - Upon the end of employment, provided employees give adequate notice and are not terminated, it is the Organization's policy to compensate employees for their vacation balance as of the last day of work as specified in the employee handbook. As of June 30, 2021 and 2020, the Organization estimated \$334,940 and \$325,199, respectively, for accrued compensation of future absences.

Advertising - The Organization expenses advertising costs as incurred.

Medical Supplies - Pharmaceuticals, biological products, and other medical supplies used in providing medical services to patients are expensed when purchased.

Use of Estimates - In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation, creating at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value - The Organization's framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology are on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments carried at NAV (Net Asset Value) as a practical expedient are not assigned a fair value hierarchy.

Income Tax Status - The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The federal information returns of the Organization for the years ended June 30, 2018, 2019, and 2020, are subject to examination by the tax authorities, generally for three years after they were filed.

Expense Allocation - The costs of providing various programs and other activities of the Organization have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events - The Organization's policy is to evaluate events and transactions subsequent to its year end for potential recognition in the financial statements or disclosure in the notes to the financial statements. Management has evaluated events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 2: AVAILABILITY AND LIQUIDITY

The following reflects the Organization's financial assets as of the date of the statements of financial position, reduced by amounts not available for general use because of contractual, board designation, or donor-imposed restrictions within one year of the statements of financial position date.

	<u>2021</u>	<u>2020</u>
Financial Assets as of June 30		
Cash and Cash Equivalents	\$ 3,217,431	\$ 5,979,397
Cash Restricted for Capital Investment	532,503	282,503
Patient Cash Held as Agent	402	402
Accrued Interest	25,341	34,249
Accounts Receivable, Net	2,732,525	2,591,499
Investments	<u>12,216,415</u>	<u>7,471,211</u>
Total Financial Assets as of June 30	18,724,617	16,359,261
Less: Amounts Not Available to be Used Within a Year		
Donor-Restricted - For Specified Purpose	(249,780)	(99,394)
Donor-Restricted - Cash for Capital Investment	(532,503)	(282,503)
Patient Cash Held as Agent	<u>(402)</u>	<u>(402)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 17,941,932</u>	<u>\$ 15,976,962</u>

The Organization's short-term liquidity plan is to maintain readily available resources, including operating cash, to cover expenses as they are incurred. The majority of the Organization's cash inflow is from services provided in carrying out its mission and are received consistently throughout the year. As a result, operating cash balances are consistently above 30 days of operating expenses. Additionally, the Organization has available a \$1,500,000 line of credit to draw upon should the need arise.

NOTE 3: CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

The following is a summary of cash, cash equivalents, and restricted cash reported within the statements of financial position reported on the statements of cash flows:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 3,217,431	\$ 5,979,397
Cash Restricted for Capital Investment	532,503	282,503
Patient Cash Held as Agent	<u>402</u>	<u>402</u>
Total Cash, Cash Equivalents, and Restricted Cash Reported on the Statements of Cash Flows	<u>\$ 3,750,336</u>	<u>\$ 6,262,302</u>

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 4: REVENUE FROM CONTRACTS WITH CUSTOMERS

Net patient revenue, by major payor, for the years ended June 30, 2021 and 2020, was comprised of the following:

	<u>2021</u>	<u>2020</u>
Medicaid - Managed Care Organizations		
Standard Charges	\$ 15,181,537	\$ 14,787,653
Retroactive Adjustments	-	-
Implicit Pricing Concessions	-	-
	<u> </u>	<u> </u>
Total Net Patient Revenue	<u>\$ 15,181,537</u>	<u>\$ 14,787,653</u>

Net patient revenue is recognized over time as performance obligations are satisfied (Note1).

Accounts receivable and contract balances from contracts with customers are as follows:

	<u>2021</u>		
	<u>Accounts Receivable</u>	<u>Contract Assets</u>	<u>Contract Liabilities</u>
Beginning of Year	\$ 2,579,010	\$ -	\$ -
End of Year	2,732,525	-	-
	<u>2020</u>		
	<u>Accounts Receivable</u>	<u>Contract Assets</u>	<u>Contract Liabilities</u>
Beginning of Year	\$ 2,010,277	\$ -	\$ -
End of Year	2,579,010	-	-

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 5: INVESTMENTS

The cost and fair value of the investments consisted of the following as of June 30:

	2021		
	Cost	Fair Value	Appreciation (Depreciation)
Investments			
Cash and Short-Term Investments	\$ 4,644,032	\$ 4,644,032	\$ -
Common Stock	3,596,180	4,350,982	754,802
Corporate Bonds - Fixed Income	2,681,729	2,771,526	89,797
Certificates of Deposit	44,388	46,806	2,418
Private Investment Fund	255,000	403,069	148,069
	<u>\$ 11,221,329</u>	<u>\$ 12,216,415</u>	<u>\$ 995,086</u>
	2020		
	Cost	Fair Value	Appreciation (Depreciation)
Investments			
Cash and Short-Term Investments	\$ 1,476,807	\$ 1,476,807	\$ -
Common Stock	1,330,670	1,583,518	252,848
Corporate Bonds - Fixed Income	2,840,023	2,937,352	97,329
Certificates of Deposit	1,172,538	1,182,345	9,807
Private Investment Fund	255,000	289,203	34,203
Asset-Backed Securities	2,159	1,986	(173)
	<u>\$ 7,077,197</u>	<u>\$ 7,471,211</u>	<u>\$ 394,014</u>

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 5: INVESTMENTS - CONTINUED

Fair value of investments measured on a recurring basis as of June 30 was as follows:

	2021			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash and Short-Term Investments	\$ 4,644,032	\$ 4,644,032	\$ -	\$ -
Common Stock	4,350,982	4,350,982	-	-
Corporate Bonds - Fixed Income	2,771,526	2,771,526	-	-
Certificates of Deposit	46,806	-	46,806	-
	<u>11,813,346</u>	<u>\$ 11,766,540</u>	<u>\$ 46,806</u>	<u>\$ -</u>
Private Investment Funds Measured at Net Asset Value	<u>403,069</u>			
Total Investments, at Fair Value	<u>\$ 12,216,415</u>			
	2020			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash and Short-Term Investments	\$ 1,476,807	\$ 1,476,807	\$ -	\$ -
Common Stock	1,583,518	1,583,518	-	-
Corporate Bonds - Fixed Income	2,937,352	2,937,352	-	-
Certificates of Deposit	1,182,345	-	1,182,345	-
Asset-Backed Securities	1,986	-	1,986	-
	<u>7,182,008</u>	<u>\$ 5,997,677</u>	<u>\$ 1,184,331</u>	<u>\$ -</u>
Private Investment Funds Measured at Net Asset Value	<u>289,203</u>			
Total Investments, at Fair Value	<u>\$ 7,471,211</u>			

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 5: INVESTMENTS - CONTINUED

Certain investments are measured at fair value using the net asset value per share (or its equivalent) and have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The private investment funds seek to consistently realize high risk-adjusted appreciation in the value of its assets by investing substantially in a combination of convertible arbitrage, quantitative trading, merger arbitrage, fundamental long/short, currency and credit arbitrage strategies. There were no unfunded commitments as of June 30, 2021 and 2020. Redemptions can only be made quarterly.

The components of investment return for the years ended June 30 were as follows:

	2021	2020
Interest and Dividends	\$ 139,809	\$ 149,883
Realized Gains	15,810	4,928
Unrealized Gains	601,072	90,958
Investment Fees	(20,395)	(14,503)
	\$ 736,296	\$ 231,266

NOTE 6: LINE OF CREDIT

The Organization has a line of credit in the amount of \$1,500,000, of which \$0 was outstanding as of June 30, 2021 and 2020. The line assesses interest at the 30-day LIBOR (.09% and .16% as of June 30, 2021 and 2020, respectively) plus 2.75% and is secured by the Organization's entire investment portfolio. Subsequent to June 30, 2021, through the date the financial statements were available to be issued, the Organization has made no draws from the line.

NOTE 7: LEASES

The Organization leases copiers under an operating lease expiring in July 2025. Rental expense for the years ended June 30, 2021 and 2020 was \$9,075 and \$14,388. As of June 30, 2021, future minimum lease payments are as follows:

2022	\$	9,900
2023		9,900
2024		9,900
2025		9,900
2026		825
	\$	40,425

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 8: NOTES PAYABLE

The following is a summary of notes payable as of June 30:

	2021	2020
Construction note payable with monthly payments of \$5,612 including interest at 5.25% through September 2, 2022, when the final balloon payment is due. The note is secured by substantially all organization assets and a mortgage lien on the property.	\$ 731,058	\$ 758,779
Note payable with monthly payments of \$6,270 including interest at 5% through July 1, 2029, when the final balloon payment is due. The note is secured by a mortgage lien on the property.	894,332	924,040
Total Notes Payable	1,625,390	1,682,819
Less: Unamortized Loan Origination Fees	476	3,659
Total Notes Payable (Net of Unamortized Loan Origination Fees)	1,624,914	1,679,160
Less: Current Maturities of Notes Payable	60,827	60,979
Notes Payable (Net of Current Maturities)	\$ 1,564,087	\$ 1,618,181

As of June 30, 2020, aggregate principal maturities of notes payable for the next five years, and in the aggregate thereafter for the years ending June 30, are as follows:

2022	\$	60,827
2023		734,283
2024		34,505
2025		36,270
2026		38,126
2027 and Thereafter		721,379
		\$ 1,625,390

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 9: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of June 30:

	2021	2020
Alarm and Door Upgrades	\$ 3,318	\$ 3,318
Backup Generator	51,000	51,000
Bridge Unit Building Renovations	478,185	228,185
Clinical Excellence Fund	5,278	6,123
Covid-19 - Preparation, Prevention, and Response	115,941	10,888
Education and Enrichment	13,000	-
Music Therapy	56,085	34,578
Nursing Equipment	10,000	10,000
Palliative Care	7,257	7,257
Skilled Therapy Equipment	35,940	24,500
Therapeutic Enrichment	6,279	6,048
	\$ 782,283	\$ 381,897

NOTE 10: COMMITMENTS AND CONTINGENCIES

The Organization has contracted with a vendor to provide design services for a new residential building. As of June 30, 2021, committed costs totaled approximately \$330,415, of which all is expected to be disbursed during the year ending June 30, 2022.

Funds received through The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) may be subject to future independent audit under the Office of Management and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and review by grantor agencies. Future audits and reviews could result in the disallowance of expenditures under the terms of the award. Management believes that any costs ultimately disallowed would not materially affect the Organization's financial position.

The Organization is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management purchases professional and general liability insurance to cover claims from litigation and believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect of the financial condition or results of operations of the Organization.

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 11: RETIREMENT PLAN

The Organization has a 403(b) defined contribution plan (Plan) covering eligible employees. Employees are eligible to participate in the Plan after completing 30 days of service and attaining 18 years of age. Eligible employees may enter the Plan on the first day of the month. Employees who meet the age and service requirement may begin receiving employer contributions on the first day of the month coinciding with, or next following, the attainment of the eligibility requirements.

Each year, participants may contribute up to 100% of pretax annual salary, as defined in the Plan. Participants may direct all or part of their salary deferrals as Roth elective deferrals. Participants who have attained age 50 before the end of the plan year may make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified plans as defined in the plan document (rollover). The Organization, at its discretion, may make annual employer matching contributions. For the years ended June 30, 2021 and 2020, the Organization contributed \$77,555 and \$67,608, respectively, to the Plan.

NOTE 12: FUNCTIONAL ALLOCATION OF EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Organization allocates cost as follows:

<u>Expense Category</u>	<u>Allocation Method</u>
Advertising	Direct
Depreciation	Full Time Equivalency
Employee Benefits	Full Time Equivalency
Insurance	Full Time Equivalency
Interest	Full Time Equivalency
Janitorial Services	Full Time Equivalency
Miscellaneous	Full Time Equivalency
Payroll Expense	Full Time Equivalency
Payroll Taxes	Full Time Equivalency
Processing Fees	Full Time Equivalency
Professional Development	Full Time Equivalency
Professional Fees	Full Time Equivalency and Direct
Repairs and Maintenance	Full Time Equivalency
Small Equipment	Full Time Equivalency
Taxes and Licenses	Full Time Equivalency
Telephone	Full Time Equivalency
Utilities	Full Time Equivalency

EXCEPTIONAL CARE FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 13: CONDITIONAL CONTRIBUTION - PAYCHECK PROTECTION PROGRAM (PPP) LOAN

In April 2020, the Organization borrowed funds under the Small Business Administration (SBA) Paycheck Protection Program (PPP) in the amount of \$2,005,010 at 1% interest subject to usage for qualified expenses. Payments are deferred for at least 10 months after the end of the loan forgiveness cover period. If the loan forgiveness application is submitted within the 10-month loan forgiveness period, payments are deferred further until the loan forgiveness application is processed by the SBA and the SBA submits payment to the lender or notifies the lender that no forgiveness is allowed. Any unforgiven proceeds under the program are payable in monthly installments over the remaining two-year term of the loan unless the Organization and the lender mutually agree to extend the term to five years.

During the year ended June 30, 2021, the Organization received loan forgiveness and recognized the conditional contribution as revenue.

NOTE 14: CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances in financial institutions, which at times exceed federally insured limits. The uninsured cash balance as of June 30, 2021 and 2020, was \$3,308,493 and \$6,489,530, respectively.

As of June 30, 2021, approximately 99% of accounts receivable was due from Medicaid Managed Care Organizations.

SUPPLEMENTARY INFORMATION

EXCEPTIONAL CARE FOR CHILDREN, INC.
SCHEDULES OF REVENUES AND OTHER SUPPORT
YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
REVENUE AND OTHER SUPPORT		
Net Patient Service Revenue	\$ 15,181,537	\$ 14,787,653
Contribution and Grant Revenue	402,246	480,741
In-Kind Donations	15,677	31,359
CARES Act - Paycheck Protection Program	2,005,010	-
CARES Act - Provider Relief Funds	651,600	-
CARES Act - Delaware Nonprofit Support Program	228,191	-
Interest Income	6,911	9,542
Investment Income, Net of Fees	119,414	135,380
Net Realized and Unrealized Gains	616,882	95,886
Miscellaneous Revenue	43,008	83,854
TOTAL REVENUE AND OTHER SUPPORT	\$ 19,270,476	\$ 15,624,415

EXCEPTIONAL CARE FOR CHILDREN, INC.
SCHEDULES OF EXPENSES
YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
COMPENSATION AND RELATED EXPENSES		
Payroll Expense	\$ 9,025,671	\$ 8,663,419
Payroll Taxes	607,012	603,407
Employee Benefits	1,659,008	1,680,561
 TOTAL COMPENSATION AND RELATED EXPENSES	 11,291,691	 10,947,387
 EXPENSES		
Administrative Supplies and Expenses	26,005	29,095
Advertising	287	3,065
Depreciation	546,032	561,408
Food	255,460	214,298
Fundraising	15,504	51,461
Insurance	437,092	423,276
Interest	88,327	87,448
Janitorial Services	93,225	84,568
Medical Supplies and Services	1,131,167	1,024,024
Miscellaneous	45,142	45,504
Processing Fees	22,930	31,278
Professional Development	53,930	68,278
Professional Fees	280,627	226,071
Repairs and Maintenance	171,858	174,717
Small Equipment	14,265	15,562
Taxes and Licenses	2,360	1,442
Telephone	21,154	23,505
Therapeutic Enrichment	1,697	5,140
Utilities	229,900	210,075
 TOTAL EXPENSES	 \$ 14,806,326	 \$ 14,227,602