EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES
Culver City, California

We have audited the accompanying consolidated financial statements of Exceptional Children's Foundation and Affiliates (collectively, "ECF"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S. ("U.S. GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to ECF's preparation and fair presentation of the consolidated 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 ECF'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Exceptional Children's Foundation and Affiliates as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. GAAP.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016, on our consideration of ECF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ECF's internal control over financial reporting and compliance.

Armanino LLP

Armanino LLP
Los Angeles, California

December 5, 2016

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

ASSETS

Current Assets	
Cash and cash equivalents	$ 2,496,079
Investments, including current appropriation from endowment	2,302,525
Accounts receivable	2,756,881
Pledges receivable, current portion	15,000
Inventory	322,077
Prepaid expenses and other current assets	169,976
	8,062,538
Other Assets	
Endowment investments, net of current appropriation of $785,667	12,672,871
Restricted cash	3,872,414
Pledges receivable, net of current portion	10,000
Restricted deposits and funded reserves	269,500
Fixed assets, net	21,408,073
New markets note receivable (Note 8)	5,335,875
	43,568,733
	$ 51,631,271

See accompanying notes to the consolidated financial statements.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

LIABILITIES AND NET ASSETS

Current Liabilities	
Lines of credit	$ 898,727
Current portion of long-term debt	165,337
Accounts payable and accrued expenses	3,449,377
	4,513,441
Long-Term Liabilities	
Long-term debt, net of current portion	1,958,237
New markets notes payable (Note 8)	7,412,031
	9,370,268
Total Liabilities	13,883,709
Commitments and Contingencies (Notes 5, 6 and 13)	
Net Assets	
Unrestricted	
General	8,589,815
Board-designated	12,332,062
Designated for existing land and buildings	15,043,155
	35,965,032
Temporarily restricted	782,530
Permanently restricted	1,000,000
Total Net Assets	37,747,562
	$ 51,631,271

See accompanying notes to the consolidated financial statements.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support				
Contributions	$ 1,126,906	$ 233,000	$ -	$ 1,359,906
Fundraising events, net of costs of direct benefits of $121,893	1,915,802	17,368	-	1,933,170
Net Assets Released from Restrictions	310,083	(310,083)	-	-
	3,352,791	(59,715)	-	3,293,076
Revenue, Gains, and Losses				
Tuition and fees	18,155,928	-	-	18,155,928
Contract sales	1,873,166	-	-	1,873,166
Rents	737,347	-	-	737,347
Merchandise sales	85,235	-	-	85,235
Miscellaneous	22,603	-	-	22,603
	20,874,279	-	-	20,874,279
	24,227,070	(59,715)	-	24,167,355
Functional Expenses				
Program services	22,682,825	-	-	22,682,825
Management and general	2,425,652	-	-	2,425,652
Fundraising	885,030	-	-	885,030
	25,993,507	-	-	25,993,507
Changes in Net Assets from Operations	(1,766,437)	(59,715)	-	(1,826,152)

See accompanying notes to the consolidated financial statements.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in Net Assets from Operations (Continued)	$ (1,766,437)	$ (59,715)	$ -	$ (1,826,152)
Investment Results and Other Transactions				
Interest and dividends	297,955	4,603	22,229	324,787
Realized losses on sales of investments	(224,573)	(4,395)	(21,222)	(250,190)
Unrealized gains on investments	54,603	1,068	5,160	60,831
Reclassification of investment earnings	-	6,167	(6,167)	-
Net Investment Results and Other Transactions	127,985	7,443	-	135,428
Changes in Net Assets	(1,638,452)	(52,272)	-	(1,690,724)
Net Assets, beginning of year	37,603,484	834,802	1,000,000	39,438,286
Net Assets, end of year	$ 35,965,032	$ 782,530	$ 1,000,000	$ 37,747,562

See accompanying notes to the consolidated financial statements.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Management and General	Fundraising	Total
Personnel Expenses				
Rehab and administration				
Salaries	$ 12,523,588	$ 1,525,868	$ 517,526	$ 14,566,982
Payroll taxes	1,017,057	117,046	39,034	1,173,137
Employee benefits	1,455,444	108,189	23,466	1,587,099
Client payroll				
Payroll	855,275	-	-	855,275
Payroll taxes	65,320	-	-	65,320
Employee benefits	315,847	-	-	315,847
	16,232,531	1,751,103	580,026	18,563,660
Other Expenses				
Agency support	14,480	1,653	271	16,404
Depreciation and amortization	738,962	18,485	2,309	759,756
Equipment rental and maintenance	143,482	1,742	115	145,339
Events and publications	4,976	-	166,456	171,432
Facility maintenance	487,942	10,892	2,086	500,920
Facility rent	994,918	95,936	22,761	1,113,615
Insurance	179,041	24,481	2,338	205,860
Interest	97,012	60,334	-	157,346
Licenses and fees	99,375	8,127	375	107,877
Miscellaneous	119,993	38,216	48,362	206,571
Office supplies	99,603	32,867	16,271	148,741
Other production costs	236,335	-	-	236,335
Production related	331,819	-	-	331,819
Professional services	618,519	177,439	8,600	804,558
Program supplies	427,755	-	-	427,755
Relocation	-	64,611	-	64,611
Staff mileage	120,455	4,421	367	125,243
Staff support services	286,349	95,554	3,338	385,241
Staff training and development	56,425	10,159	384	66,968
Telephone	247,736	21,063	28,886	297,685
Transportation and auto	800,381	-	-	800,381
Utilities	344,736	8,569	2,085	355,390
	$ 22,682,825	$ 2,425,652	$ 885,030	$ 25,993,507

See accompanying notes to the consolidated financial statements.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

Cash Flows from Operating Activities	
Changes in net assets	$ (1,690,724)
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Depreciation and amortization	759,756
Amortization of debt issuance costs (component of interest expense)	11,827
Realized losses on sales of investments	250,190
Unrealized gains on investments	(60,831)
Donated investments	(29,257)
(Increase) decrease in operating assets	
Accounts receivable	74,062
Pledges receivable	30,000
Inventory	(228,119)
Prepaid expenses and other current assets	(10,297)
Security deposits	7,730
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	338,457
Net Cash Used in Operating Activities	(547,206)
Cash Flows from Investing Activities	
Transfers from restricted cash	11,127,586
Proceeds from sales of investments	4,957,436
Purchases of investments	(8,186,908)
Withdrawals from restricted deposits and funded reserves	47,546
Payments to and interest earned on restricted deposits and funded reserves	(17,958)
Purchases of fixed assets	(8,070,082)
Net Cash Used in Investing Activities	(142,380)
Cash Flows from Financing Activities	
Net payments on lines of credit	(287)
Proceeds from new markets notes payable	7,595,000
Advances on new markets note receivable	(5,335,875)
Purchase of debt issuance costs	(194,796)
Principal payments on long-term debt	(143,387)
Net Cash Provided by Financing Activities	1,920,655
Net Increase in Cash and Cash Equivalents	1,231,069
Cash and Cash Equivalents, beginning of year	1,265,010
Cash and Cash Equivalents, end of year	$ 2,496,079

See accompanying notes to the consolidated financial statements.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid during the Year for Interest (net of $46,104 of capitalized interest)	$ 97,240

SUPPLEMENTAL SCHEDULE OF NONCASH OPERATING AND INVESTING ACTIVITIES

Purchases of Fixed Assets on Account	$ 1,079,216

See accompanying notes to the consolidated financial statements.

NOTE 1 - NATURE OF OPERATIONS

Exceptional Children's Foundation and its affiliates, Friends of ECF, Valverde, Inc. and ERAS Home II (collectively, "ECF") are California tax-exempt nonprofit corporations whose mission is to provide the highest quality services for children and adults who are challenged with developmental, learning, and emotional disabilities empowering them to reach their greatest potential. ECF provides a wide range of programs and services to infants, youths, adults, and their families each year. People served include individuals with learning disabilities, intellectual disabilities, cerebral palsy, epilepsy, autism, and related conditions. ECF has 15 program sites located throughout Los Angeles County.

ECF programs are as follows:

Kayne ERAS Center

The Kayne Eras Center ("KEC") is a large multi-service center serving children and their families each year through its mental health, and special education programs and services. Based in Culver City, California, KEC provides the highest quality educational programs and therapeutic services to meet the needs of students with special learning, emotional and developmental challenges. KEC's state-certified and Western Association of Schools and Colleges-accredited K-12 nonpublic school provides special education services to students from school districts throughout greater Los Angeles. KEC also includes on-site and home-based mental health as well as diagnostic and therapeutic services.

Programs and services provided by KEC include:

- Therapeutic creative enrichment programs
- Specialized speech, behavioral and educational therapy services
- Physical education and recreational services
- Specialized full day classroom programs
- Mental health programs

Early Start

The Early Start program provides early intervention services to developmentally delayed children and their families in central Los Angeles and the San Fernando Valley communities of Southern California. Early Start offers center-based and home visit services for infants and toddlers from birth to age three who are developmentally delayed and/or disabled. The program includes a variety of therapies and structured activities designed to help young children develop language, gross and fine motor, cognitive, and social skills.

NOTE 1 - NATURE OF OPERATIONS (Continued)

Developmental Activity Centers

Developmental Activity Centers in Culver City and Los Angeles offer adults with moderate to profound developmental disabilities an opportunity to build self-care and social skills, volunteer in the community and enjoy craft activities and recreational outings in a creative learning environment.

Art Centers

With studios in Culver City, San Pedro, Downtown and South Los Angeles, the Art Center program encourages, assists and supports the maximum personal artistic development for adults with developmental disabilities. The Art Center program is nationally recognized for its leadership in demonstrating that individuals with developmental disabilities can often produce fine art. In addition to providing art instruction, the program markets and sells the artists' work.

Work Activity

At two Packaging Assembly and Rework ("PAR") Work Activity sites in Culver City and Santa Fe Springs, California, adults learn good work habits and appropriate social skills while meeting governmental and private contract requirements for packaging, assembly, and rework. The program provides facility-based vocational training and paid work to improve earning potential and independent functioning of persons with developmental disabilities and to promote transition to community employment settings.

Supported Employment

Adults with developmental disabilities and acquired brain injuries receive community integrated job placement, on the job training, and support services through supported employment. For program participants, this is a much awaited gateway to greater independence. Under the supervision of an ECF job coach, participants are hired by local businesses to perform a variety of tasks including (but not limited to) clerical, janitorial, and food service assignments.

NOTE 1 - NATURE OF OPERATIONS (Continued)

Residential Services

Residential Services provide adults with developmental disabilities the opportunity to live in the community with the level of support each person needs to optimize his or her quality of life. ECF operates six different residential facilities, including group homes and independent living centers for individuals located in Los Angeles, Whittier, and Culver City, California. Four of ECF's residential facilities (the "HUD Projects") are funded by the U.S. Department of Housing and Urban Development ("HUD") to benefit people living with developmental disabilities. Permanent financing for the HUD Projects is provided by HUD under Sections 202 and 811 of the Housing Act of 1959, which regulates the HUD Projects with respect to their rents and operating methods. The HUD Projects also receive HUD Sections 8 and 811 housing assistance and project rental assistance payments. The four HUD Projects are as follows:

Valverde
HUD Project No. 122-EH310-WHH-L8
A 12-bed group home in Los Angeles, California.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Tax Status

ECF is comprised of four nonprofit public benefit corporations organized under the laws of California and, as such, are exempt from federal and state income taxes under Internal Revenue Code ("IRC") Section 501(c)(3) and corresponding state provisions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status (Continued)

The federal informational tax returns of Exceptional Children's Foundation, Friends of ECF, Valverde, Inc., and ERAS Home II for tax years ended June 30, 2013, and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the only state tax jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ended June 30, 2012, and subsequent.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Exceptional Children's Foundation, Friends of ECF, Valverde, Inc., and ERAS Home II. All significant inter-agency transactions and balances have been eliminated in consolidation.

Financial Statement Presentation

ECF reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets, General - Include contributions, fundraising, fees, sales and other forms of revenue that are not restricted by the donor or grantor as well as expenditures related to the general operations of ECF.

Unrestricted Net Assets, Board-Designated - Include unrestricted net assets ECF's Board of Directors has segregated to be used for capital improvements, purchases, future projects, and operations.

Unrestricted Net Assets, Designated for Land and Buildings - Include unrestricted net assets designated for land and buildings in use, net of accumulated depreciation and debt secured by the land and building.

Temporarily Restricted Net Assets - Include contributions that are temporarily restricted by the donor or grantor. When the restriction expires, the net assets of this classification are reclassified to unrestricted net assets. Restricted contributions where restrictions are met in the same reporting period are classified as unrestricted.

Permanently Restricted Net Assets - Include contributions that have been restricted by the donor in perpetuity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Cash and Cash Equivalents

ECF considers all highly-liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents, except for certain money market account balances included in investments (see Note 3).

Cash Held-in-Trust

ECF maintains bank accounts, segregated from ECF's assets, for cash held-in-trust for clients. At June 30, 2016, the amount of such funds held-in-trust totaled $14,063. Balances in such accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to the applicable limits.

Restricted Cash

ECF has restricted cash totaling $3,872,414 which represents proceeds from the new markets notes payable to be used for costs in connection with its new land and building (See Note 6).

Investments

Investments are monitored by the Board of Directors' investment committee and are stated at fair value. Unrealized gains and losses are recognized aggregately. Realized gains and losses are recognized immediately upon sale and are computed using the specific identification method.

The Board of Directors has limited the use of investments such that investment principal cannot be used unless approved by a vote of 75% of the Board of Directors in attendance in person or telephonically.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable are unsecured and ECF is at-risk to the extent such amounts become uncollectible. Management anticipates it will collect 100% of the accounts receivable balance; thus no allowance for doubtful accounts has been established as of June 30, 2016.

Pledges Receivable

The pledges receivable balance consists of unconditional promises to give monetary assets to ECF. Management anticipates it will collect 100% of the pledges receivable balance; thus no allowance for potentially uncollectible pledges has been established as of June 30, 2016.

Inventory

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

Fixed Assets

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

Buildings and improvements	10 - 40 years
Land improvements	40 years
Furniture and fixtures	3 - 5 years
Equipment (computer, transportation, and other)	5 - 7 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate the carrying value of an asset or asset group may not be recoverable, but at least annually. No impairment provision was recorded by ECF during the year ended June 30, 2016.

Debt Issuance Costs

ECF paid $194,796 in debt issuance costs and reports the unamortized portion as a reduction of the new markets notes payable on the consolidated statement of financial position. The debt issuance costs are being amortized on the straight-line basis over the 7-year life of the new markets notes payable (See Note 8).

Endowments

Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Contributions

Contributions consist primarily of donations from foundations, businesses, and the general public. Contributions are recorded when committed to ECF by the donor.

Wills and Trusts

In the past, ECF has been named as a beneficiary in a substantial number of wills and trusts. These contributions are recorded when estate proceeds become a liability of the estate and ECF has been so notified. Contributions in the form of irrevocable charitable remainder trusts are recognized when the trusts are established and ECF is named irrevocably as a beneficiary.

Functional Expenses

ECF allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated accordingly.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Risk

Occasionally ECF's cash balances exceed FDIC-insured limits. ECF has not experienced and does not anticipate any losses related to these balances.

ECF had two major funding sources that comprised 17% and 16% of its revenue and 23% and 13%, respectively, of its accounts receivable at June 30, 2016. Management anticipates this funding will continue at present levels.

Subsequent Events

ECF has evaluated events subsequent to June 30, 2016, to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated through December 5, 2016, the date the consolidated financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the consolidated financial statements.

NOTE 3 - INVESTMENTS

ECF reports its investments at fair value among three categories of price inputs available. These categories of inputs are quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3). The following table sets forth by level, within the fair value hierarchy, investments as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Equities	$ 7,984,790	$ -	$ -	$ 7,984,790
Mutual funds	2,990,708	-	-	2,990,708
Fixed income	-	2,029,551	-	2,029,551
U.S. Government obligations	-	635,967	-	635,967
Alternatives	-	536,195	-	536,195
Corporate bonds	-	473,578	-	473,578
Money market accounts	283,884	-	-	283,884
U.S. Government-Agency obligations	-	40,723	-	40,723
	$ 11,259,382	$ 3,716,014	$ -	$ 14,975,396

Investments are reported on the consolidated statement of financial position as follows:

Investments, including current appropriation from endowment	$ 2,302,525
Endowment investments, net of current appropriation of $785,667	12,672,871
	$ 14,975,396

Activity in the investments during the year was as follows:

Balance, beginning of year	$ 11,906,026
Contributed stock	29,257
Purchases of investments	8,186,908
Proceeds from sales of investments	(4,957,436)
Realized losses on sales of investments	(250,190)
Unrealized gains on investments	60,831
	$ 14,975,396

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable consist of the following:

Due in less than one year	$	15,000
Due in one to five years		10,000
	$	25,000

ECF has not discounted the pledges receivable balance as management has determined the impact is immaterial to the consolidated financial statements.

NOTE 5 - RESTRICTED DEPOSITS AND FUNDED RESERVES

Restricted deposits and funded reserves are as follows:

Replacement Reserves		
The HUD Projects are required to make monthly deposits to replacement reserves totaling $1,421 per month. In accordance with provisions of the regulatory agreements, the replacement reserves are to be used for the replacement of fixed assets with the prior approval of HUD.	$	130,549
Residual Receipts Reserves		
The HUD Projects are required to make annual deposits to the extent of their "surplus cash," as defined by HUD. In accordance with provisions of the regulatory agreements with HUD, the residual receipts reserve is to be used for major expenditures of the HUD Projects with the prior approval of HUD. The HUD Projects are reporting no surplus cash as of June 30, 2016; no deposit into the residual receipts reserve are required during the year ending June 30, 2017.		96,433
Tenant Security Deposits		
The HUD Projects are required to maintain separate cash accounts for tenants' rental security deposits.		42,518
	$	269,500

NOTE 6 - FIXED ASSETS

Fixed assets consist of the following:

Buildings and improvements	$ 18,031,739
Land and improvements	9,803,266
Furniture and fixtures	3,701,517
Computer equipment	1,770,917
Transportation equipment	871,588
Leasehold improvements	572,564
Construction-in-progress	2,462,917
	37,214,508
Accumulated depreciation and amortization	(15,806,435)
	$ 21,408,073

ECF has used the proceeds of the new markets note payable (Note 8) to purchase land to build a new program service facility, as well as land for parking. The new building was substantially completed in September 2016. Building costs incurred through June 30, 2016, are reported above as construction-in-progress; additional costs totaling approximately $2,800,000 were incurred subsequent to June 30, 2016.

NOTE 7 - LINES OF CREDIT

ECF has a $4,000,000 revolving line of credit with Merrill Lynch Private Finance, Inc., with monthly payments of interest-only at the 1-month LIBOR (London InterBank Offered Rate) (.4527% at June 30, 2016) plus 1.25%. This line is secured by ECF's securities, cash and other assets held in a Merrill Lynch Trust Company account and is available for as long as ECF maintains sufficient investments in this account. The line of credit agreement contains various covenants including a requirement to maintain ECF's Merrill Lynch Trust Company account at a sufficient value to cover the outstanding balance. At June 30, 2016, $898,727 was outstanding on this line and ECF was in compliance with these covenants.

ECF has a $3,406,000 revolving line of credit agreement with Morgan Stanley, with monthly payments of interest-only at the 1-month LIBOR plus 1.25%. This line is secured by ECF's securities, cash and other assets held in a Morgan Stanley account and is available for as long as ECF maintains sufficient investments in this account. The line of credit agreement contains various covenants including a requirement to maintain ECF's Morgan Stanley account at a sufficient value to cover the outstanding balance. At June 30, 2016, no balance was outstanding on this line and ECF was in compliance with these covenants.

NOTE 8 - NEW MARKETS TAX CREDIT TRANSACTION

Effective January 29, 2016, ECF entered into an IRC Section 45D New Markets Tax Credit ("NMTC") transaction in connection with its new land and building. Elements of the transaction were as follows:

- ECF formed a new California tax-exempt nonprofit corporation, Friends of Exceptional Children's Foundation ("FOECF").
- ECF made a contribution to FOECF totaling $5,335,875.
- FOECF lent $5,335,875 to an entity formed by the NMTC Investor Community Development Entity (the "CDE"), as contemplated by IRC Section 45D, with interest-only payments at 1% through January 2023, at which time it will require quarterly payments $109,565, including interest at 1%, until its final maturity in January 2036.

NOTE 8 - NEW MARKETS TAX CREDIT TRANSACTION (Continued)

- The CDE advanced two notes to ECF to operate a "Portion of Business" in the new land and building:

  - Note A in the amount of $5,335,875, with interest-only payments at 1.4283% through January 2023, at which time it will require quarterly payments $112,617, including interest at 1.4283%, until its final maturity in January 2036.

  - Note B in the amount of $2,259,125, with interest-only payments at 1.4283% through January 2023, at which time it will require quarterly payments $47,680, including interest at 1.4283%, until its final maturity in January 2036.

- ECF incurred debt issuance costs totaling $194,796 in connection with Notes A and B. The unamortized portion of the debt issuance costs have been reported on the consolidated statement of financial position as a reduction of the new markets notes payable liability. Amortization totaling $11,827 was recognized during the year as a component of interest expense.

- At the end of the 7-year tax credit compliance period, ECF anticipates it will recognize a gain of approximately $2,100,000 as the new markets note receivable and notes payable are terminated.

NOTE 9 - EMPLOYEE BENEFIT PLANS

ECF offers IRC Sections 403(b) and 401(k) individual defined contribution plans for all eligible employees. The 401(k) plan is open to all employees except substitutes and temporary employees. Participants may make salary deferrals to their individual accounts up to the maximum allowable deferral amounts for defined contribution plans. ECF may make discretionary matching contributions to the 401(k) plan for eligible employees. No discretionary contributions were made during or accrued for the year ended June 30, 2016.

The 403(b) plan is a non-ERISA plan designed for highly-compensated employees. Participants may make annual contributions up to the maximum allowable deferral amount for defined contribution plans.

NOTE 10 - LONG-TERM DEBT

Long-term debt is as follows:

Note payable to Morgan Stanley, secured by investments held by Morgan Stanley, payable in monthly installments of $7,635, including interest at 3.426% through June 2020, at which time principal totaling approximately $260,000 is due or interest on this note can switch to a variable rate for 3 remaining years or a new fixed rate can be negotiated.	$	574,931
Note payable to HUD, secured by a first deed of trust on the Valverde 12-bed group home for the developmentally disabled, with living quarters for the site manager, payable in monthly installments of $4,501, including interest at 9.25%, through June 2026.		357,826
Note payable to HUD, secured by a first deed of trust on the Westington 13-unit apartment complex for the developmentally disabled, payable in monthly installments of $5,716, including interest at 9.25%, through March 2024.		378,428
Note payable to HUD, secured by a first deed of trust on the Whittier Springs 13-unit apartment complex for the developmentally disabled, payable in monthly installments of $5,988, including interest at 9.25%, through May 2024.		407,489
Capital advance from HUD, secured by a first deed of trust on the ERAS Home II 6-bed group home for the developmentally disabled, noninterest-bearing, with no payment due as long as ECF continues to provide housing to the developmentally disabled through Sept 2037.		404,900
		2,123,574
Current portion		(165,337)
	$	1,958,237

NOTE 10 - LONG-TERM DEBT (Continued)

Future scheduled maturities of long-term debt are as follows:

Year Ending June 30,	
2017	$ 165,337
2018	176,838
2019	189,290
2020	202,754
2021	401,636
Thereafter	987,719
	$ 2,123,574

The monthly installment payments for the three notes payable to HUD (described above) are withheld by HUD from the monthly Section 8 vouchers payable by HUD to ECF (see Note 13).

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 11 - NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets and releases during the year are as follows:

	Released from Restrictions	Balance, June 30, 2016
PAR Services	$ -	$ 231,619
Emma Jane Meyers	-	135,490
Unappropriated Earnings on Permanent Endowment (see Note 12)	50,000	126,476
Dale Fukamaki Memorial Fund	-	78,678
William Randolph Hearst Foundation	18,750	56,250
Green Foundation	16,500	33,500
Early Start Program	8,333	26,667
Disability Communication Fund	-	25,000
Kayne Eras School	24,000	20,000
Ella Fitzgerald	5,000	15,000 *
Brotman Foundation	-	10,000 *
Drown Foundation	-	10,000
The Siragusa Foundation	-	7,500
Supported Employment - Doheney Foundation	-	3,000
Edison International	2,500	2,500
CEO's Employee Development Fund	-	850
Eisner Foundation	150,000	-
Capital Group	15,000	-
Developmental - Carrie Estelle Doheny Foundation	10,000	-
Time restricted (pledges receivable)	10,000	-
	$ 310,083	$ 782,530

* These balances include represent pledges receivable with donor purpose restrictions.

NOTE 12 - ENDOWMENTS

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

NOTE 12 - ENDOWMENTS (Continued)

Interpretation of Relevant Law

The Board of Directors of ECF has interpreted the California Uniform Prudent Management of Institutional Funds Act ("Cal UPMIFA") as requiring the preservation of the principal of donor-restricted endowment funds, absent further instructions. Earnings from the donor-permanently-restricted endowment fund are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by Cal UPMIFA.

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

(1) The duration and preservation of the fund

(2) The purposes of ECF and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of ECF

(7) The investment policies of ECF

Return Objectives and Risk Parameters

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

NOTE 12 - ENDOWMENTS (Continued)

Strategies Employed for Achieving Objectives

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

Spending Policy and How Investment Objectives Relate to Spending Policy

Through the budget process, ECF each year appropriates a stated amount, not to exceed 5% of the average board-designated endowment balance, for operations and capital needs. Additional distributions can be made only with Board approval. ECF understands the current spending policy may reduce its board-designated endowment to the extent spending exceeds earnings in any period. From its donor-restricted endowment, ECF may spend a discretionary portion of its annual current earnings, not to exceed 7% per year on a cumulative basis. In establishing this policy, ECF considers the long term expected return on its endowment. ECF is required to maintain the initial principal balance ($1,000,000) of the donor-restricted endowment assets. ECF has appropriated $785,667 to be transferred to operations during the fiscal year ending June 30, 2017.

Endowment Net Asset Composition by Type of Fund

	Unrestricted Board-Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 126,476	$ 1,000,000	$ 1,126,476
Board-designated endowment funds	12,332,062	-	-	12,332,062
	$ 12,332,062	$ 126,476	$ 1,000,000	$ 13,458,538

NOTE 12 - ENDOWMENTS (Continued)

Changes in Endowment Net Assets

	Unrestricted Board-Designated	Temporarily Restricted	Permanently Restricted	Total
Balance, July 1, 2015	$ 9,500,189	$ 169,033	$ 1,000,000	$ 10,669,222
Investment return				
Investment income	271,475	6,205	29,963	307,643
Investment fees	(70,073)	(1,602)	(7,734)	(79,409)
Net realized and unrealized gains and losses	(145,529)	(3,327)	(16,062)	(164,918)
Reclassification of investment earnings	-	6,167	(6,167)	-
Additional board-designation	3,000,000	-	-	3,000,000
Amounts appropriated for expenditure during the year for operational and program expenses	(224,000)	(50,000)	-	(274,000)
Balance, June 30, 2016	$ 12,332,062	$ 126,476	$ 1,000,000	$ 13,458,538

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Lease Commitments

ECF leases facilities and equipment under several long-term operating lease agreements. Future required minimum lease payments are as follows:

Year Ending June 30,	
2017	$ 458,853
2018	248,835
2019	136,980
2020	153,542
2021	158,148
Thereafter	344,687
	$ 1,501,045

Rent expense, comprised of facilities, equipment, buses, and uniforms totaled $1,250,797 for the year.

HUD Section 8 Housing Assistance Payments Contracts, Section 811 Project Rental Assistance Contract

Each of the HUD Projects has entered into either a Section 8 Housing Assistance Payments ("HAP") Contract or a Section 811 Project Rental Assistance Contract ("PRAC"). The amount earned under the three HAP contracts totaled $448,673 for the year. The amount earned under the PRAC contract totaled $24,097 for the year.

These contracts provide for a maximum annual rent supplement payment by HUD to the HUD Projects. This maximum annual rent supplement payment is subject to adjustment if there is any change in contract rent, number of contract units or family income of the tenant.

Congress has determined not to renew HAP contracts on a long-term basis. Future renewals of terminating HAP contracts will generally be for a period of one to five years and will tend to be at or below comparable market rate rents in the HUD Projects' areas. It cannot be determined what ultimate effect this may have on the HUD Projects' future rental revenue and operations.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

Sub-Minimum Wage Standards

The U.S. Fair Labor Standards Act Section 14c authorizes employers to pay wages less than the Federal minimum wage standard for workers whose productive capability is impaired by a physical or developmental disability. Many participants in ECF's Work Activity Programs are paid a “piece rate” using Section 14c sub-minimum wage rates. Over the last several years, there have been various efforts to reduce or eliminate reliance on sub-minimum wage for workers with disabilities. If Section 14c were eliminated, these disabled workers would be required to be paid the Federal minimum wage. It is not possible at this time to determine the future effects this would have on these Work Activity Programs serving ECF's disabled workers.

Contingent Promissory Notes

ECF had a conditional noninterest-bearing promissory note payable to the State of California Department of Housing and Community Development ("CA HCD"), secured by the real estate of ERAS Home I. The terms of the note agreement required ECF to provide housing to the developmentally disabled. For as long as ECF complies with the provisions of its regulatory agreement with CA HCD, the remaining principal was amortized at the rate of $20,000 annually until reduced to $0 during 2012, at which time the mortgage lien was to be released with no payments of principal or interest required. Management is seeking confirmation of the transfer of clear title to ECF from CA HCD.

Effective July 2005, the City of Culver City, California, transferred ownership of Barman House to ECF, subject to its continued operation as an intermediate care facility/developmentally disabled habilitative through October 2013. ECF recognized Barman House as a temporarily restricted contribution in the amount of $850,000 at the time of the contribution, and released the restriction on a pro-rata basis through October 2013. Management is seeking confirmation of the transfer of clear title to ECF from the City of Culver City.

Litigation

ECF is occasionally involved in litigation in the normal course of operations. At this time management is not aware of any material adverse financial consequences resulting from known litigation.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

NEW MARKETS TAX CREDIT PORTION OF BUSINESS SCHEDULES

FOR THE YEAR ENDED JUNE 30, 2016

INDEPENDENT AUDITOR'S REPORT ON NEW MARKETS TAX CREDIT PORTION OF BUSINESS SCHEDULES

Board of Directors
EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES
Culver City, California

We have audited the consolidated financial statements of Exceptional Children's Foundation and Affiliates (collectively, "ECF"), as of and for the year ended June 30, 2016, and have issued our report thereon dated December 5, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The New Markets Tax Credit Portion of Business Schedules of ECF are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Armanino LLP

Armanino LLP
Los Angeles, California

December 5, 2016

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

NEW MARKETS TAX CREDIT PORTION OF BUSINESS SCHEDULES

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016

	NMTC Portion of Business Activity	Legacy ECF activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
			ASSETS				
Cash and Cash Equivalents	$ -	$ 2,473,425	$ -	$ 2,473,425	$ 22,654	$ -	$ 2,496,079
Investments	-	1,516,858	-	1,516,858	-	-	1,516,858
Accounts Receivable	-	2,756,881	-	2,756,881	-	-	2,756,881
Pledges Receivable	-	25,000	-	25,000	-	-	25,000
Inventory	-	322,077	-	322,077	-	-	322,077
Prepaid Expenses and Other Current Assets	-	169,976	-	169,976	-	-	169,976
Due from Affiliate	-	2,198,957	(2,198,957)	-	-	-	-
Endowment Investments	-	13,458,538	-	13,458,538	-	-	13,458,538
Restricted Cash	3,872,414	-	-	3,872,414	-	-	3,872,414
Restricted Deposits and Funded Reserves	-	237,907	-	237,907	-	-	237,907
Other Deposits	-	31,593	-	31,593	-	-	31,593
Fixed Assets, net	7,607,540	13,800,533	-	21,408,073	-	-	21,408,073
New Markets Note Receivable	-	-	-	-	5,335,875	-	5,335,875
	$ 11,479,954	$ 36,991,745	$ (2,198,957)	$ 46,272,742	$ 5,358,529	$ -	$ 51,631,271

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

NEW MARKETS TAX CREDIT PORTION OF BUSINESS SCHEDULES

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016

	NMTC Portion of Business Activity	Legacy ECF activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
LIABILITIES AND NET ASSETS (DEFICIT)							
Lines of Credit	$ -	$ 898,727	$ -	$ 898,727	$ -	$ -	$ 898,727
Accounts Payable and Accrued Expenses	-	3,449,377	-	3,449,377	-	-	3,449,377
Due to Affiliate	2,198,957	-	(2,198,957)	-	-	-	-
Long-Term Debt	-	2,123,574	-	2,123,574	-	-	2,123,574
New Markets Notes Payable	7,412,031	-	-	7,412,031	-	-	7,412,031
Total Liabilities	9,610,988	6,471,678	(2,198,957)	13,883,709	-	-	13,883,709
Commitments and Contingencies (Notes 6, 13 and 4)							
Net Assets	1,868,966	30,520,067	-	32,389,033	5,358,529	-	37,747,562
	$ 11,479,954	$ 36,991,745	$ (2,198,957)	$ 46,272,742	$ 5,358,529	$ -	$ 51,631,271

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

NEW MARKETS TAX CREDIT PORTION OF BUSINESS SCHEDULES

CONSOLIDATING STATEMENTS OF ACTIVITIES

JUNE 30, 2016

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
			REVENUE				
Public Support							
Contributions	$ -	$ 1,359,906	$ -	$ 1,359,906	$ 5,335,875	$ (5,335,875)	$ 1,359,906
Fundraising events, net of direct benefit costs of $121,893	-	1,933,170	-	1,933,170	-	-	1,933,170
	-	3,293,076	-	3,293,076	5,335,875	(5,335,875)	3,293,076
Revenue, Gains, and Losses							
Tuition and fees	-	18,155,928	-	18,155,928	-	-	18,155,928
Contract sales	-	1,873,166	-	1,873,166	-	-	1,873,166
Rents	-	737,347	-	737,347	-	-	737,347
Merchandise sales	-	85,235	-	85,235	-	-	85,235
Miscellaneous	-	22,603	-	22,603	-	-	22,603
	-	20,874,279	-	20,874,279	-	-	20,874,279
Total Revenue, Gains and Support	-	24,167,355	-	24,167,355	5,335,875	(5,335,875)	24,167,355

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

NEW MARKETS TAX CREDIT PORTION OF BUSINESS SCHEDULES

CONSOLIDATING STATEMENTS OF ACTIVITIES

JUNE 30, 2016

	NMTC Portion of Business Activity	Legacy ECF Activity	Eliminations	Total ECF	Friends of ECF	Eliminations	Consolidated Total
Functional Expenses							
Program services	-	28,018,700	-	28,018,700	-	(5,335,875)	22,682,825
Management and general	11,827	2,413,796	-	2,425,623	29	-	2,425,652
Fundraising	-	885,030	-	885,030	-	-	885,030
	11,827	31,317,526	-	31,329,353	29	(5,335,875)	25,993,507
Change in Net Assets from Operations	(11,827)	(7,150,171)	-	(7,161,998)	5,335,846	-	(1,826,152)
Investment Results and Other Transactions							
Interest and dividends	-	302,104	-	302,104	22,683	-	324,787
Realized losses on sales of investments	-	(250,190)	-	(250,190)	-	-	(250,190)
Unrealized gains on investments	-	60,831	-	60,831	-	-	60,831
Net Investment Results and Other Transactions	-	112,745	-	112,745	22,683	-	135,428
Changes in Net Assets	$ (11,827)	$ (7,037,426)	$ -	$ (7,049,253)	$ 5,358,529	$ -	$ (1,690,724)

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

FOR THE YEAR ENDED JUNE 30, 2016

INDEPENDENT AUDITOR'S REPORT ON SUPPORTING SCHEDULES REQUIRED BY HUD

Board of Directors
EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES
HUD PROJECTS NO. 122-EH310-WHH-L8, 122-EH151-WHC-L8, 122-EH157-WHC-L8 AND 122-HD044-WDD-NP
Culver City, California

We have audited the consolidated financial statements of Exceptional Children's Foundation and Affiliates, which include HUD Projects #122-EH310-WHH-L8, #122-EH151-WHC-L8, #122-EH157-WHC-L8 and #122-HD044-WDD-NP (collectively, the "ECF HUD Projects"), as of and for the year ended June 30, 2016, and have issued our report thereon dated December 5, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The supporting schedules required by HUD for the ECF HUD Projects are presented for the purpose of additional analysis as required by the U.S. Department of Housing and Urban Development ("HUD") Real Estate Assessment Center Summary of Financial Reporting and Auditing Guidance for HUD Multifamily Program Participants and Independent Auditors, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Armanino LLP

Armanino LLP
Los Angeles, California

December 5, 2016

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF FINANCIAL POSITION - HUD PROJECTS

JUNE 30, 2016

	Valverde HUD Project No. 122-EH310-WHH-L8	Westington HUD Project No. 122-EH151-WHC-L8	Whittier Springs HUD Project No. 122-EH157-WHC-L8	ERAS Home II HUD Project No. 122-HD044-WDD-NP	Total
ASSETS					
Current Assets					
1120 Cash	$ 1,404	$ 10,433	$ 14,635	$ 1,278	$ 27,750
1135 Accounts receivable - HUD	9,852	-	723	-	10,575
	11,256	10,433	15,358	1,278	38,325
Deposits Held in Trust, Funded					
1191 Tenant deposits held in trust	-	5,668	3,693	1,564	10,925
Restricted Deposits and Funded Reserves					
1320 Replacement reserves	27,080	45,654	48,360	9,455	130,549
1340 Residual receipts reserve	-	93,419	3,014	-	96,433
	27,080	139,073	51,374	9,455	226,982
Fixed Assets					
1410 Land and improvements	190,233	154,184	254,637	297,547	896,601
1420 Buildings and improvements	576,528	615,376	556,822	108,895	1,857,621
1440 Building equipment (portable)	9,387	13,503	10,710	-	33,600
1460 Furnishings	42,674	51,600	61,564	2,714	158,552
	818,822	834,663	883,733	409,156	2,946,374
1495 Accumulated depreciation	(524,012)	(613,562)	(611,141)	(53,431)	(1,802,146)
	294,810	221,101	272,592	355,725	1,144,228
	$ 333,146	$ 376,275	$ 343,017	$ 368,022	$ 1,420,460

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF FINANCIAL POSITION - HUD PROJECTS

JUNE 30, 2016

	Valverde HUD Project No. 122-EH310-WHH-L8	Westington HUD Project No. 122-EH151-WHC-L8	Whittier Springs HUD Project No. 122-EH157-WHC-L8	ERAS Home II HUD Project No. 122-HD044-WDD-NP	Total
LIABILITIES AND NET ASSETS (DEFICIT)					
Current Liabilities					
2110 Accounts payable	$ 5,974	$ 18,082	$ 16,914	$ 1,399	$ 42,369
2131 Accrued interest	5,503	2,917	3,141	-	11,561
2170 Current portion of mortgage payable	21,826	35,045	35,645	-	92,516
2210 Prepaid rents	-	945	2,509	-	3,454
	33,303	56,989	58,209	1,399	149,900
Deposit Liabilities					
2191 Tenant deposits held in trust (contra)	-	2,347	3,367	1,564	7,278
Long-Term Liabilities					
2305 Accounts payable - sponsor	306,000	487,007	397,889	90,610	1,281,506
2320 Mortgage payable, net of current portion	336,000	343,383	371,844	404,900	1,456,127
	642,000	830,390	769,733	495,510	2,737,633
Total Liabilities	675,303	889,726	831,309	498,473	2,894,811
Commitments and Contingencies (Notes 5 and 13)					
Net Assets (Deficit)					
3131 Unrestricted net assets (deficit)	(342,157)	(513,451)	(488,292)	(130,451)	(1,474,351)
	$ 333,146	$ 376,275	$ 343,017	$ 368,022	$ 1,420,460

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

CONSOLIDATING STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Valverde HUD Project No. 122-EH310-WHH-L8	Westington HUD Project No. 122-EH151-WHC-L8	Whittier Springs HUD Project No. 122-EH157-WHC-L8	ERAS Home II HUD Project No. 122-HD044-WDD-NP	Total
REVENUE					
Rental Revenue					
5120 Tenant rent payments	$ 42,618	$ 63,009	$ 32,218	$ 14,275	$ 152,120
5121 Tenant assistance payments	160,278	128,481	163,262	29,249	481,270
5190 Rent income - manager unit	-	15,958	16,290	-	32,248
Gross potential rent	202,896	207,448	211,770	43,524	665,638
Vacancies					
5220 Apartments	(3,890)	(7,112)	-	(9,479)	(20,481)
Net rental revenue	199,006	200,336	211,770	34,045	645,157
Financial Revenue					
5410 Interest income - project operations	-	-	-	-	-
5430 Interest income - residual receipts	-	885	3	-	888
5440 Interest income - replacement reserve	23	40	23	-	86
	23	925	26	-	974
Other Revenue					
5990 Miscellaneous revenue	-	-	7,453	-	7,453
Total revenue	199,029	201,261	219,249	34,045	653,584

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

CONSOLIDATING STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Valverde HUD Project No. 122-EH310-WHH-L8	Westington HUD Project No. 122-EH151-WHC-L8	Whittier Springs HUD Project No. 122-EH157-WHC-L8	ERAS Home II HUD Project No. 122-HD044-WDD-NP	Total
EXPENSES					
Administrative Expenses					
6310 Office salaries	$ 68,165	$ 54,153	$ 60,403	$ 21,475	$ 204,196
6311 Office expenses	1,547	1,203	748	18	3,516
6320 Management fee	11,955	15,327	15,299	3,600	46,181
6331 Administrative rent-free unit	16,908	15,958	16,290	-	49,156
6350 Audit expense	5,500	6,553	6,553	1,725	20,331
6351 Bookkeeping	466	310	236	126	1,138
6390 Miscellaneous administrative expense	-	-	475	996	1,471
	104,541	93,504	100,004	27,940	325,989
Utilities					
6450 Electricity	16,681	4,918	3,977	5,616	31,192
6451 Water	3,109	3,741	9,285	2,139	18,274
6452 Gas	1,773	3,225	572	1,008	6,578
	21,563	11,884	13,834	8,763	56,044
Operating and Maintenance					
6510 Payroll	2,540	7,702	3,950	18	14,210
6515 Supplies	407	-	32	-	439
6520 Contracts	16,025	6,593	12,430	432	35,480
6525 Garbage and trash removal	10,553	8,102	2,661	-	21,316
	29,525	22,397	19,073	450	71,445
Depreciation					
6600 Depreciation	23,067	19,000	19,693	3,292	65,052

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

CONSOLIDATING STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Valverde HUD Project No. 122-EH310-WHH-L8	Westington HUD Project No. 122-EH151-WHC-L8	Whittier Springs HUD Project No. 122-EH157-WHC-L8	ERAS Home II HUD Project No. 122-HD044-WDD-NP	Total
EXPENSES (CONTINUED)					
Taxes and Insurance					
6710 Real estate taxes	$ 1,355	$ 2,081	$ 4,369	$ 7,244	$ 15,049
6711 Payroll taxes	5,614	4,327	5,043	1,795	16,779
6720 Property and liability insurance	1,673	3,095	3,182	-	7,950
6722 Workers' compensation	5,812	3,824	4,600	965	15,201
6723 Health insurance and other employee benefits	4,211	1,614	2,943	1,174	9,942
6790 Miscellaneous Taxes, Licenses, Permits and Insurance	70	-	-	-	70
	18,735	14,941	20,137	11,178	64,991
Financial					
6820 Interest on mortgage payable	33,470	36,382	38,668	-	108,520
Total expenses	230,901	198,108	211,409	51,623	692,041
Changes in Unrestricted Net Assets	(31,872)	3,153	7,840	(17,578)	(38,457)
Unrestricted Net Assets (Deficit), beginning of year	(310,285)	(516,604)	(496,132)	(112,873)	(1,435,894)
Unrestricted Net Assets (Deficit), end of year	$ (342,157)	$ (513,451)	$ (488,292)	$ (130,451)	$ (1,474,351)

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF CASH FLOWS - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2016

	Valverde HUD Project No. 122-EH310-WHH-L8	Westington HUD Project No. 122-EH151-WHC-L8	Whittier Springs HUD Project No. 122-EH157-WHC-L8	ERAS Home II HUD Project No. 122-HD044-WDD-NP	Total
Cash Flows from Operating Activities					
Receipts					
Rental	$ 172,251	$ 184,392	$ 194,757	$ 34,045	$ 585,445
Interest	23	925	26	-	974
Other	-	-	7,453	-	7,453
	172,274	185,317	202,236	34,045	593,872
Disbursements					
Administrative	(7,513)	(7,018)	(9,943)	(2,865)	(27,339)
Management fees	(12,876)	(16,853)	(10,202)	(4,800)	(44,731)
Utilities	(19,493)	(14,612)	(14,594)	(7,835)	(56,534)
Salaries and wages	(70,705)	(67,547)	(68,219)	(21,494)	(227,965)
Operating and maintenance	(26,830)	(23,318)	(18,744)	(432)	(69,324)
Real estate taxes	(1,355)	(2,081)	(4,369)	(7,244)	(15,049)
Property insurance	(1,673)	(3,095)	(3,182)	-	(7,950)
Miscellaneous taxes and insurance	(15,687)	(10,428)	(13,009)	(3,934)	(43,058)
Interest on mortgage payable	(30,834)	(36,629)	(38,882)	-	(106,345)
Deposits held in trust, net	-	(280)	(107)	-	(387)
	(186,966)	(181,861)	(181,251)	(48,604)	(598,682)
Net Cash Provided by (Used in) Operating Activities	(14,692)	3,456	20,985	(14,559)	(4,810)
Cash Flows from Investing Activities					
Acquisition of fixed assets	(9,640)	(33,000)	-	-	(42,640)
Deposits to and interest earned on replacement reserves	(5,051)	(5,104)	(5,055)	(1,860)	(17,070)
Withdrawals from replacement reserves	2,139	45,407	-	-	47,546
Deposits to and interest earned on residual receipts reserves	-	(885)	(3)	-	(888)
Net Cash Used in Investing Activities	(12,552)	6,418	(5,058)	(1,860)	(13,052)

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF CASH FLOWS - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2016

	Valverde HUD Project No. 122-EH310-WHH-L8	Westington HUD Project No. 122-EH151-WHC-L8	Whittier Springs HUD Project No. 122-EH157-WHC-L8	ERAS Home II HUD Project No. 122-HD044-WDD-NP	Total
Cash Flows from Financing Activities					
Principal payments on mortgage payable	$ (14,178)	$ (32,075)	$ (27,707)	$ -	$ (73,960)
Net advances from sponsor	40,443	-	-	16,148	56,591
Net Cash Provided by (Used in) Financing Activities	26,265	(32,075)	(27,707)	16,148	(17,369)
Net Increase (Decrease) in Cash	(979)	(22,201)	(11,780)	(271)	(35,231)
Cash, beginning of year	2,383	32,634	26,415	1,549	62,981
Cash, end of year	$ 1,404	$ 10,433	$ 14,635	$ 1,278	$ 27,750

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF CASH FLOWS - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2016

	Valverde HUD Project No. 122-EH310-WHH-L8	Westington HUD Project No. 122-EH151-WHC-L8	Whittier Springs HUD Project No. 122-EH157-WHC-L8	ERAS Home II HUD Project No. 122-HD044-WDD-NP	Total
Reconciliation of Changes in Unrestricted Net Assets to Net Cash Provided by (Used in) Operating Activities					
Changes in unrestricted net assets	$ (31,872)	$ 3,153	$ 7,840	$ (17,578)	$ (38,457)
Adjustments to reconcile changes in unrestricted net assets to net cash provided by (used in) operating activities					
Depreciation	23,067	19,000	19,693	3,292	65,052
(Increase) decrease in operating assets					
Tenant accounts receivable	5	-	-	-	5
Accounts receivable - HUD	(9,852)	-	(723)	-	(10,575)
Increase (decrease) in operating liabilities					
Accounts payable	1,324	(18,184)	(5,504)	(273)	(22,637)
Accrued interest	2,636	(247)	(214)	-	2,175
Prepaid rent	-	14	-	-	14
Tenant deposits held in trust (contra)	-	(280)	(107)	-	(387)
Net Cash Provided by (Used in) Operating Activities	$ (14,692)	$ 3,456	$ 20,985	$ (14,559)	$ (4,810)

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

SCHEDULES OF REPLACEMENT RESERVES AND RESIDUAL RECEIPTS RESERVES - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2016

	Valverde HUD Project No. 122-EH310-WHH-L8	Westington HUD Project No. 122-WH151-WHC-L8	Whittier Springs HUD Project No. 122-EH157-WHC-L8	ERAS Home II HUD Project No. 122-HD044-WDD-NP	Total
Schedules of Replacement Reserves					
Balance, beginning of year	$ 24,168	$ 85,957	$ 43,305	$ 7,595	$ 161,025
Valverde ($419 x 12)	5,028	-	-	-	5,028
Westington ($421 x 10)	-	4,210	-	-	4,210
Westington ($427 x 2)	-	854	-	-	854
Whittier Springs ($416 x 2)	-	-	832	-	832
Whittier Springs ($420 x 10)	-	-	4,200	-	4,200
ERAS Home II ($155 x 12)	-	-	-	1,860	1,860
Approved Withdrawals	(2,139)	(45,407)	-	-	(47,546)
Interest Income, net of account fees	23	40	23	-	86
Balance, end of year	$ 27,080	$ 45,654	$ 48,360	$ 9,455	$ 130,549
Schedules of Residual Receipts Reserves					
Balance, beginning of year	$ -	$ 92,534	$ 3,011	$ -	$ 95,545
Interest Income	-	885	3	-	888
Balance, end of year	$ -	$ 93,419	$ 3,014	$ -	$ 96,433

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

COMPUTATIONS OF SURPLUS CASH (DEFICIT) - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2016

	Valverde HUD Project No. 122-EH310-WHH-L8	Westington HUD Project No. 122-EH151-WHC-L8	Whittier Springs HUD Project No. 122-EH157-WHC-L8	ERAS Home II HUD Project No. 122-HD044-WDD-NP
Cash				
1110 Petty cash	$ -	$ 150	$ 150	$ -
1120 Cash in bank	1,404	10,283	14,485	1,278
1135 Accounts receivable - HUD	9,852	-	723	-
1191 Tenant deposits held in trust	-	5,668	3,693	1,564
	11,256	16,101	19,051	2,842
Current Obligations				
2110 Accounts payable	5,974	18,082	16,914	1,399
2131 Accrued interest	5,503	2,917	3,141	-
2210 Prepaid rents	-	945	2,509	-
2191 Tenant deposits held in trust (contra)	-	2,347	3,367	1,564
Total current obligations	11,477	24,291	25,931	2,963
Surplus Cash (Deficit), June 30, 2015	$ (221)	$ (8,190)	$ (6,880)	$ (121)
Payments Due to Residual Receipts Reserve	$ -	$ -	$ -	$ -

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

SCHEDULES OF CHANGES IN FIXED ASSET ACCOUNTS - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2016

	Balance, July 1, 2014	Additions	Disposals	Balance, June 30, 2015
Valverde HUD Project No. 122-EH310-WHH-L8				
1410 Land and improvements	$ 190,233	$ -	$ -	$ 190,233
1420 Buildings and improvements	569,028	7,500	-	576,528
1440 Building equipment (portable)	9,387	-	-	9,387
1460 Furnishings	40,534	2,140	-	42,674
	809,182	9,640	-	818,822
1495 Accumulated depreciation	(500,945)	(23,067)	-	(524,012)
	$ 308,237	$ (13,427)	$ -	$ 294,810
Westington HUD Project No. 122-EH151-WHC-L8				
1410 Land and improvements	$ 154,184	$ -	$ -	$ 154,184
1420 Buildings and improvements	582,376	33,000	-	615,376
1440 Building equipment (portable)	13,503	-	-	13,503
1460 Furnishings	51,600	-	-	51,600
	801,663	33,000	-	834,663
1495 Accumulated depreciation	(594,562)	(19,000)	-	(613,562)
	$ 207,101	$ 14,000	$ -	$ 221,101
Whittier Springs HUD Project No. 122-EH157-WHC-L8				
1410 Land and improvements	$ 254,637	$ -	$ -	$ 254,637
1420 Buildings and improvements	556,822	-	-	556,822
1440 Building equipment (portable)	10,710	-	-	10,710
1460 Furnishings	61,564	-	-	61,564
	883,733	-	-	883,733
1495 Accumulated depreciation	(591,448)	(19,693)	-	(611,141)
	$ 292,285	$ (19,693)	$ -	$ 272,592

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

SCHEDULES OF CHANGES IN FIXED ASSET ACCOUNTS - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2016

	Balance July 1, 2014	Additions	Disposals	Balance, June 30, 2015
ERAS Home II HUD Project No. 122-HD044-WDD-NP				
1410 Land and improvements	$ 297,547	$ -	$ -	$ 297,547
1420 Buildings and improvements	108,895	-	-	108,895
1440 Building equipment (portable)	-	-	-	-
1460 Furnishings	2,714	-	-	2,714
	409,156	-	-	409,156
1495 Accumulated depreciation	(50,139)	(3,292)	-	(53,431)
	$ 359,017	$ (3,292)	$ -	$ 355,725

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CERTIFICATION OF PROJECT OWNERS

FOR THE YEAR ENDED JUNE 30, 2016

We hereby certify that we have examined the accompanying financial statements and supplemental data of Exceptional Children's Foundation and Affiliates, as of and for the year ended June 30, 2016, and to the best of our knowledge and belief, the same are accurate and complete.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

____
Shelley I. Smith, Esq., Board Chair
December 5, 2016

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Scott D. Bowling, Psy.D, President and CEO
December 5, 2016

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES
HUD PROJECT

MANAGEMENT AGENT'S CERTIFICATION

FOR THE YEAR ENDED JUNE 30, 2016

I hereby certify that I have examined the accompanying financial statements and supplemental data of Exceptional Children's Foundation and Affiliates, as of and for the year ended June 30, 2016, and to the best of my knowledge and belief, the same are accurate and complete.

EXCEPTIONAL CHILDREN'S FOUNDATION
Management Agent, EIN 95-1862084

____
Scott D. Bowling, Psy.D, President and CEO
December 5, 2016

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SINGLE AUDIT REPORTS AND SCHEDULES

FOR THE YEAR ENDED JUNE 30, 2016

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES
Culver City, California

We have audited, in accordance with U.S. GAAS and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the U.S., the consolidated financial statements of Exceptional Children's Foundation and Affiliates ("ECF") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 5, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered ECF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ECF's internal control. Accordingly, we do not express an opinion on the effectiveness of ECF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of ECF's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ECF's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ECF's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ECF's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Armanino LLP

ArmaninoLLP
Los Angeles, California

December 5, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES
Culver City, California

Report on Compliance for Each Major Federal Program

We have audited Exceptional Children's Foundation and Affiliates' ("ECF") compliance with the types of compliance requirements described in the *OMB Uniform Guidance Compliance Supplement* that could have a direct and material effect on each of ECF's major federal programs for the year ended June 30, 2016. ECF's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of ECF's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. GAAS; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the U.S.; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ECF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of ECF's compliance.

Opinion on Each Major Federal Program

In our opinion, ECF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of ECF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ECF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ECF's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of ECF as of and for the year ended June 30, 2016, and have issued our report thereon dated December 5, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Armanino LLP

Armanino LLP
Los Angeles, California

December 5, 2016

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

Agency and Program Grant Title	Federal CFDA Number	Expenditures of Federal Awards
Federal Awards		
U.S. Department of Housing and Urban Development		
Supportive Housing for the Elderly (and Disabled) - Direct Loans		
Valverde - FHA Project No. 122-EH310-WHH-L8	14.157	$ 372,004
Westington - FHA Project No. 122-EH151-WHC-L8	14.157	410,503
Whittier Springs - FHA Project No. 122-EH157-WHC-L8	14.157	435,196
Subtotal	14.157	1,217,703
Supportive Housing for Persons with Disabilities Section 811		
ERAS Home II - FHA Project No. 122-HD044-WDD-NP Section 811 Capital Advance	14.181	404,900
ERAS Home II - FHA Project No. 122-HD044-WDD-NP Section 811 Project Rental Assistance Contract	14.181	29,249
Subtotal	14.181	434,149
Section 8 New Construction and Substantial Rehabilitation		
Valverde - Section 8 Project No. CA16-T831-049	14.182	160,278
Westington - Section 8 Project No. CA16-T811-003	14.182	128,481
Whittier Springs - Section 8 Project No. CA16-T811-009	14.182	163,262
Subtotal	14.182	452,021
Total Federal Awards		$ 2,103,873

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Exceptional Children's Foundation and Affiliates ("ECF") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of ECF, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of ECF.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

NOTE 3 - THE UNIFORM GUIDANCE

The Uniform Guidance became effective December 26, 2014. Non-Federal entities are not required to implement the reforms to administrative requirements and cost principles until they receive a federal award with terms and conditions that incorporate the Uniform Guidance on or after December 26, 2014.

NOTE 4 - INDIRECT COSTS

ECF does not use the 10% de minimis cost rate.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 5 - LOAN BALANCES

The federal awards reported on the schedule of expenditures of federal awards are the July 1, 2015, balances. The loan balances reported on the June 30, 2016, consolidated statement of financial position are as follows:

Valverde, Inc.	$	357,826
Westington		378,428
Whittier Springs		407,489
ERAS Home II		404,900
	$	1,548,643

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

- A - SUMMARY OF AUDITOR'S RESULTS

1. An unmodified opinion was issued on the consolidated financial statements of Exceptional Children's Foundation and Affiliates.
2. The audit of the consolidated financial statements disclosed no material weaknesses in internal control over financial reporting; no significant deficiencies not considered to be material weaknesses were reported.
3. The audit of the consolidated financial statements disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
4. The audit of compliance with requirements applicable to each major program disclosed no material weaknesses in internal control over compliance with requirements applicable to major programs; no significant deficiencies not considered to be material weaknesses were reported.
5. An unmodified opinion was issued on compliance with requirements applicable to major programs.
6. The audit disclosed no findings required to be reported under the Uniform Guidance.
7. The major program is identified as follows:

Program Title	Federal CFDA Number	Expenditures of Federal Awards
U.S. Department of Housing and Urban Development Supportive Housing for the Elderly (and Disabled) - Direct Loans	14.157	$ 1,217,703

8. The dollar threshold used to distinguish between Type A and Type B programs was $750,000, as described in the Uniform Guidance.
9. The auditee does qualify as a low-risk auditee under the Uniform Guidance.

- B - FINDINGS AND QUESTIONED COSTS - CONSOLIDATED FINANCIAL STATEMENTS AUDIT

None

- C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS AUDIT

None

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2016

No corrective action required.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

- A - FINDINGS AND QUESTIONED COSTS - CONSOLIDATED FINANCIAL STATEMENTS AUDIT, JUNE 30, 2015

None

- B - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS AUDIT, JUNE 30, 2015

None