EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee
EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES
Culver City, California

We have audited the accompanying consolidated statement of financial position of Exceptional Children's Foundation and Affiliates (the "Foundation") as of June 30, 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. 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 United States of America (the "U.S.") 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the U.S.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2010, on our consideration of the Foundation'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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INDEPENDENT AUDITORS' REPORT REPORT (Continued)

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supporting schedules required by the U.S. Department of Housing and Urban Development ("HUD") are presented for purposes of additional analysis as required by HUD and are not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

RBZ, LLP

October 14, 2010

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

ASSETS

Current Assets	
Cash and cash equivalents	$ 3,630,489
Investments	8,868,967
Accounts receivable	3,425,084
Inventory	182,451
Prepaid expenses and other assets	240,275
Land and building held for sale	644,625
	16,991,891
Other Assets	
Restricted deposits and funded reserves	362,568
Fixed assets, net	16,548,191
Deferred financing costs, net	117,005
	17,027,764
	$ 34,019,655

See accompanying notes to consolidated financial statements.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

LIABILITIES AND NET ASSETS

Current Liabilities	
Line of credit	$ 909,345
Current portion of long-term debt	315,197
Accounts payable and accrued expenses	1,571,951
	2,796,493
Long-Term Debt, net of current portion	5,618,409
Total Liabilities	8,414,902
Commitment and Contingencies (Notes 4 and 11)	
Net Assets	
Unrestricted	
General	4,490,320
Board-designated	7,970,539
Investment in land and buildings	10,654,558
	23,115,417
Temporarily restricted	1,489,336
Permanently restricted	1,000,000
Total Net Assets	25,604,753
	$ 34,019,655

See accompanying notes to consolidated financial statements.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support				
Contributions	$ 1,889,497	$ 279,050	$ -	$ 2,168,547
Fundraising events, net of direct benefit costs of $18,612	107,211	-	-	107,211
Net Assets Released from Restrictions	452,339	(452,339)	-	-
	2,449,047	(173,289)	-	2,275,758
Revenue, Gains and Losses				
Tuition and fees	18,108,811	-	-	18,108,811
Contract sales	2,875,378	-	-	2,875,378
Rents	612,733	-	-	612,733
Merchandise sales	49,469	-	-	49,469
Interest and dividends	295,808	-	24,053	319,861
Realized losses on sales of investments	(4,216)	-	(345)	(4,561)
Unrealized gains on investments	441,984	-	36,175	478,159
Reclassification of investment earnings	-	59,883	(59,883)	-
Miscellaneous	308,910	-	-	308,910
	22,688,877	59,883	-	22,748,760
	25,137,924	(113,406)	-	25,024,518
Functional Expenses				
Program services	22,126,437	-	-	22,126,437
Management and general	2,210,028	-	-	2,210,028
Fundraising	376,114	-	-	376,114
	24,712,579	-	-	24,712,579
Changes in Net Assets	425,345	(113,406)	-	311,939
Net Assets, beginning of year	22,690,072	1,602,742	1,000,000	25,292,814
Net Assets, end of year	$ 23,115,417	$ 1,489,336	$ 1,000,000	$ 25,604,753

See accompanying notes to consolidated financial statements.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2010

	Program Services	Management and General	Fundraising	Total
Personnel Expenses				
Rehab and administration				
Salaries	$ 12,597,867	$ 1,567,907	$ 262,864	$ 14,428,638
Payroll taxes	1,056,405	121,321	21,325	1,199,051
Employee benefits	1,170,779	130,158	19,107	1,320,044
Client payroll				
Payroll	679,213	-	-	679,213
Payroll taxes	53,617	-	-	53,617
Employee benefits	177,260	-	-	177,260
	15,735,141	1,819,386	303,296	17,857,823
Agency support	16,454	4,063	761	21,278
Depreciation and amortization	668,624	64,793	7,410	740,827
Equipment rental and maintenance	128,653	7,546	4,011	140,210
Events and publications	16,059	5,317	17,591	38,967
Facility maintenance	508,635	-	-	508,635
Facility rent	436,801	2,694	-	439,495
Insurance	119,987	65,903	1,205	187,095
Interest	389,353	47,333	3,216	439,902
Licenses and fees	81,124	27,030	297	108,451
Miscellaneous	123,466	-	-	123,466
Office supplies	57,021	17,495	1,804	76,320
Other production costs	168,206	-	-	168,206
Production related	384,892	-	-	384,892
Professional services	1,380,475	103,627	19,880	1,503,982
Program supplies	373,705	-	-	373,705
Staff mileage	125,572	-	317	125,889
Staff support services	49,072	3,939	940	53,951
Staff training and development	32,340	1,947	360	34,647
Telephone	191,190	24,420	13,276	228,886
Transportation and auto	837,929	110	88	838,127
Utilities	301,738	14,425	1,662	317,825
	$ 22,126,437	$ 2,210,028	$ 376,114	$ 24,712,579

See accompanying notes to consolidated financial statements.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

Cash Flows from Operating Activities	
Changes in net assets	$ 311,939
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Depreciation and amortization	740,827
Realized losses on sales of investments	4,561
Unrealized gains on investments	(478,159)
Noncash contribution of land and building held for sale	(644,625)
(Increase) decrease in operating assets	
Accounts receivable	56,473
Inventory	(5,600)
Prepaid expenses and other current assets	163,304
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	(398,517)
Payments made to terminate defined benefit pension plan	(645,000)
Net Cash Used in Operating Activities	(894,797)
Cash Flows from Investing Activities	
Proceeds from sales of investments	9,738,222
Purchases of investments	(8,546,125)
Withdrawals from restricted deposits and funded reserves	278,832
Payments to and interest earned on restricted deposits and funded reserves	(307,179)
Purchases of fixed assets	(1,562,163)
Net Cash Used in Investing Activities	(398,413)
Cash Flows from Financing Activities	
Net borrowings on line of credit	909,345
Principal payments on long-term debt	(338,018)
Net Cash Provided by Financing Activities	571,327
Net Decrease in Cash and Cash Equivalents	(721,883)
Cash and Cash Equivalents, beginning of year	4,352,372
Cash and Cash Equivalents, end of year	$ 3,630,489

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid during the Year for Interest	$ 440,278

See accompanying notes to consolidated financial statements.

NOTE 1 - NATURE OF OPERATIONS

Exceptional Children's Foundation ("ECF") and its affiliates, Valverde, Inc. and ERAS Home II (collectively the "Foundation") 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. The Foundation provides a wide range of programs and services to infants, youths, adults and their families each year. People served include individuals with learning disabilities, mental retardation, cerebral palsy, epilepsy, autism, and related conditions. The Foundation has 16 program sites located throughout Los Angeles County.

Foundation programs are as follows:

Kayne ERAS Center

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

Programs and services provided by the Center include:

- Therapeutic creative enrichment programs
- Specialized therapy services
- Physical education and recreational services
- Low cost diagnostic screening and comprehensive diagnostic testing
- 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 each year in central Los Angeles, the South Bay, 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, disabled, or "at risk." The program includes a variety of therapies and carefully structured activities designed to help young children develop language, cognitive and social skills, and gross and fine motor control.

NOTE 1 - NATURE OF OPERATIONS (Continued)

Development Activity Centers

Developmental Activity Centers in Culver City and Los Angeles offer many adults with moderate-to-profound mental retardation and other developmental disabilities a stepping-stone to independence. The Culver City program utilizes classroom and natural environments to provide training and support services in the areas of self-care, self-advocacy, community integration, and vocational skills. The Los Angeles program is an innovative simulated community that has won acclaim for creativity as a learning environment.

Art Centers

A nationally-recognized Art Center program in Los Angeles, and a smaller site in San Pedro, California, encourage, assist and support the maximum personal artistic development for adults with developmental disabilities, ages 18 to more than 60 years. 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 art classes, the program also offers training in independent living skills.

Work Activity

At two Packaging Assembly and Rework ("PAR") Services 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, grounds maintenance, 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. The Foundation operates six different residential facilities, including group homes and independent living centers for individuals located in Los Angeles, Reseda, Santa Fe Springs, and Culver City, California. Four of the Foundation'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, Inc.
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

Accounting Standards Codification

Effective July 1, 2009, as required by the Financial Accounting Standards Board, the Foundation has implemented the new codification as the source of authoritative accounting principles generally accepted in the United States of America, for financial statements with interim and annual periods ending after September 15, 2009. All existing and future accounting pronouncements will now be arranged by topics and referred to within these financial statements as Accounting Standards Codification ("ASC") Topics.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status

The Foundation is comprised of three 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.

Effective July 1, 2009, the Foundation has adopted the changes to ASC Topic *Income Taxes*, which requires the Foundation to evaluate its tax positions and recognize a liability for any positions that would not be considered "more likely than not" to be upheld under a tax authority examination. If such issues exist, the Foundation's policy will be to recognize any tax liability so recorded, including applicable interest and penalties, as a component of income tax expense.

The Foundation's federal income tax and informational returns for tax years ending June 30, 2007, and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Foundation's only state tax jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ending June 30, 2006, and subsequent.

Basis of Consolidation

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

Financial Statement Presentation

The Foundation 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 the Foundation.

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

Unrestricted Net Assets, Investment in Land and Buildings - Represents the investment in land and building, net of accumulated depreciation and debt secured by the land and building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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.

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

For financial statement purposes, the Foundation considers all highly-liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

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

The Foundation's 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 present at a meeting.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

ASC Topic *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the U.S., and expands disclosures about fair value measurements. Under this topic, the Foundation must report 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). At year end, all investments were considered to be Level 1, with the exception of corporate bonds which were deemed to be Level 2 (see Note 3).

Accounts Receivable

Accounts receivable are unsecured and the Foundation is at risk to the extent that such amounts become uncollectible. Management anticipates it will collect 100% of its accounts receivable balance; thus no allowance for doubtful accounts has been established.

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. The review of recoverability is based on management's estimate of the undiscounted future cash flows that are expected to result from the asset's use and eventual disposition. These cash flows consider factors such as expected future operating income, trends and prospects, as well as the effects of competition and other factors. If an impairment event exists due to the projected inability to recover the carrying value of an asset or asset group, an impairment loss is recognized to the extent the carrying value exceeds estimated fair value. No impairment provision was recorded by the Foundation during the year.

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 the Foundation by the donor.

During the year, the Foundation received a donation of land and building recorded at its estimated fair value of $644,625. This land and building is being held for sale at June 30, 2010 (see Note 13).

Wills and Trusts

In the past, the Foundation 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. Contributions in the form of irrevocable charitable remainder trusts are recognized when the trusts are established and the Foundation is named irrevocably as a beneficiary.

Functional Expenses

The Foundation 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 the Foundation's cash balances exceed the FDIC insured limit of $250,000. The Foundation has not experienced and does not anticipate any losses related to these balances.

The Foundation has two major funding sources that comprise approximately 21% and 10% of its revenue during the year and 28% and 6%, respectively, of its receivables at June 30, 2010. Management anticipates this funding will continue at the present levels.

Subsequent Events

The Foundation has evaluated events subsequent to June 30, 2010, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through October 14, 2010, 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 financial statements, except as disclosed in Note 13.

NOTE 3 - INVESTMENTS

Investments consist of the following:

Mutual funds	$ 3,293,058
Common stocks	3,004,268
Corporate bonds	2,571,641
	$ 8,868,967

Activity in the investments during the year was as follows:

Balance, beginning of year	$ 9,587,466
Purchases of investments	8,546,125
Proceeds from sales of investments	(9,738,222)
Realized losses on sales of investments	(4,561)
Unrealized gains on investments	478,159
	$ 8,868,967

NOTE 4 - RESTRICTED DEPOSITS AND FUNDED RESERVES

Restricted deposits and funded reserves are as follows:

Bond Reserves	
The Foundation is required to make monthly deposits of $20,463 to bond reserve accounts for payments of principal, interest, mortgage insurance and administration of the bonds (see Note 8).	$ 93,645
Replacement Reserves	
The HUD Projects are required to make monthly deposits to replacement reserves totaling $1,228 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.	166,469
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 have no surplus cash as of June 30, 2010.	93,016
Tenant Security Deposits	
The HUD Projects are required to maintain separate cash accounts for tenants' rental security deposits.	9,438
	$ 362,568

NOTE 5 - FIXED ASSETS

Fixed assets consist of the following:

Buildings and improvements	$ 16,976,288
Land and improvements	7,386,277
Furniture and fixtures	3,297,177
Computer equipment	1,368,340
Transportation equipment	1,067,064
Leasehold improvements	288,435
Construction-in-progress	144,036
Other equipment	33,600
	30,561,217
Accumulated depreciation and amortization	(14,013,026)
	$ 16,548,191

NOTE 6 - DEFERRED FINANCING COSTS

Deferred financing costs are recorded at cost and are amortized on a straight-line basis over the respective terms of the debt as follows:

Deferred financing costs	$ 247,879
Accumulated amortization	(130,874)
	$ 117,005

NOTE 7 - LINE OF CREDIT

The Foundation has a $2,400,000 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) (0.3487% at June 30, 2010) plus 1.25%. This line is secured by the Foundation's securities, cash and other assets held in a Merrill Lynch Trust Company account and is available for as long as the Foundation maintains its investment portfolio in this account. The line of credit agreement contains various covenants including a requirement to maintain the Foundation's Merrill Lynch Trust Company account at a sufficient value to cover the outstanding balance. At June 30, 2010, the Foundation was in compliance with these covenants.

NOTE 8 - LONG-TERM DEBT

Long-term debt is as follows:

Note payable to US Bank, secured by the Kayne ERAS Center's land and building, with monthly principal and interest installments of $16,826. Interest is fixed at a rate of 6.4% through February 2019, at which time all outstanding principal and interest are due.	$ 2,354,721
California Health Facilities Financing Authority ("CHFFA") Insured Revenue Bonds, 1995 Series A, secured by a deed of trust on the ECF headquarters' land and building, payable in monthly installments of $20,885, sufficient to pay the interest (6.1%), semiannual payments and annual principal payments. Bond principal payments increase over time up to $225,000 per year, with the final payment due May 2020.	1,480,217
Note payable to HUD, secured by a first deed of trust on Valverde, Inc.'s 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.	450,248
Note payable to HUD, secured by a first deed of trust on Westington's 13-unit apartment complex for the developmentally disabled, payable in monthly installments of $5,716, including interest at 9.25%, through March 2024.	532,627

NOTE 8 - LONG-TERM DEBT (Continued)

Note payable to HUD, secured by a first deed of trust on 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.	561,304
Capital advance from HUD, secured by a first deed of trust on ERAS Home II's 6-bed group home for the developmentally disabled, noninterest-bearing, with no payment due as long as the Foundation continues to provide housing to the developmentally disabled through September 2037.	404,900
Severance agreement payable to a former executive of Educational Resource and Services Center, Inc., unsecured, payable in monthly installments of $7,500, net of a discount rate of 5.68%, through March 2012. Payments after March 2012 are contingent on the holder being alive and on the Foundation's ability to pay, as defined in the agreement.	149,589
	5,933,606
Current portion	(315,197)
	$ 5,618,409

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

Year Ending June 30,	
2011	$ 315,197
2012	310,435
2013	264,000
2014	283,874
2015	304,597
Thereafter	4,455,503
	$ 5,933,606

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 the Foundation (see Note 11).

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	Released from Restrictions	Balance, June 30, 2010
PAR Services	$ 134,375	$ 462,784
Barman House	85,000	467,500
Emma Jane Meyers	10,088	185,490
Ahmanson Foundation	-	75,000
Weingart Foundation	29,825	45,175
ERAS Home I Promissory Note	20,000	40,000
Green Foundation	-	35,000
Dale Fukamaki Memorial Fund	2,966	26,898
Annenburg Foundation DAC Roof	72,170	27,830
Early Start Program	32,615	25,010
Looking Beyond	2,220	15,280
Unappropriated Earnings on Permanent Endowment	45,172	14,711
Marci Glen Study Fund	-	12,601
Herschensohn	-	12,367
Lon V. Smith Foundation	-	10,000
Nethercult PSVE Fund	925	8,139
ERAS Home II Special Purpose Fund	-	8,146
Fund Development	2,983	5,017
Dwight Stuart Youth Foundation	-	5,000
Archerd Fund - Rosenblum House #2	-	3,377
Scholarship Fund	-	1,686
Ruth Farber Scholarship	-	1,150
Paula Sapon Scholarship	-	875
Tikum Olam Early Start	-	200
Barbara Cull Fund	4,000	100
Northrop Grumman Corp	10,000	-
	$ 452,339	$ 1,489,336

NOTE 10 - ENDOWMENTS

The Foundation's endowments includes both permanently donor-restricted funds and funds designated by the Board of Directors to function as endowments.

NOTE 10 - ENDOWMENTS (Continued)

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the California Uniform Prudent Management of Institutional Funds Act ("Cal UPMIFA") as requiring the preservation of the fair value of donor-restricted endowment funds, absent further instructions. Any remaining portion of the donor-restricted endowment fund not classified as permanently restricted net assets is 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, the Foundation 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 the Foundation 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 the Foundation

(7) The investment policies of the Foundation

Return Objectives and Risk Parameters

The Foundation 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 Budget and Finance 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 10 - ENDOWMENTS (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation uses the total return methodology in which investment returns are achieved through either capital appreciation (realized and unrealized) or current yield (interest and dividends). The Foundation 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

The Foundation has a policy of appropriating for distribution each year a stated amount of its board-designated endowment on the first day of each fiscal year. From its donor-restricted endowment, the Foundation may spend a discretionary portion of its annual current earnings, not to exceed 5% in any given year. In establishing this policy, the Foundation considers the long-term expected return on its endowment. The Foundation understands the current spending policy may reduce its board-designated endowment to the extent spending exceeds earnings in any period. The Foundation is required to maintain the initial principal balance ($1,000,000) of the donor-restricted endowment assets.

Endowment Net Asset Composition by Type of Fund

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 14,711	$ 1,000,000	$ 1,014,711
Board-designated endowment funds	7,970,539	-	-	7,970,539
	$ 7,970,539	$ 14,711	$ 1,000,000	$ 8,985,250

NOTE 10 - ENDOWMENTS (Continued)

Changes in Endowment Net Assets During the Year Ended

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, July 1, 2009	$ 7,854,989	$ -	$ 1,000,000	$ 8,854,989
Investment return				
Investment income	225,658	-	28,728	254,386
Investment fees	(36,723)	-	(4,675)	(41,398)
Net realized and unrealized gains	281,443	-	35,830	317,273
Reclassification of investment earnings	-	59,883	(59,883)	-
Amounts expended during the year for operational and program expenses	(354,828)	(45,172)	-	(400,000)
Balance, June 30, 2010	$ 7,970,539	$ 14,711	$ 1,000,000	$ 8,985,250

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Lease Commitments

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

Year Ending June 30,	
2011	$ 489,455
2012	384,606
2013	81,115
2014	34,387
	$ 989,563

Rent expense, comprised of facilities, equipment, buses and uniforms totaled $1,302,920 for the year.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

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

In May 1986, Valverde, Inc. entered into Section 8 Housing Assistance Payments ("HAP") Contract No. SF-85-499 with HUD for an initial period of 20 years. The contract is currently renewed for a period of five years through May 2011 under Contract No. CA16-T831-049. The amount earned under the HAP contract for the year was $154,828.

In April 1984, Westington entered into Section 8 HAP Contract No. SF-83-522 with HUD for a period of 20 years. The contract is currently renewed for a period of five years through April 2014 under Contract No. CA16-T811-003. The amount earned under the HAP contract for the year was $114,637.

In September 1983, Whittier Springs entered into Section 8 HAP Contract No. SF-83-692 with HUD for a period of 20 years. The contract is currently renewed for a period of five years through September 2014 under Contract No. CA16-T811-009. The amount earned under the HAP contract for the year was $106,986.

In January 2003, ERAS Home II entered into Section 811 Project Rental Assistance Contract ("PRAC") No. CA16-Q931-01'5 with HUD for an initial period of up to 20 years. The contract is currently renewed for a period of one year through December 2010. The amount earned under the PRAC contract for the year was $5,295.

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 11 - COMMITMENTS AND CONTINGENCIES (Continued)

Barman House

Effective July 2005, the city of Culver City, California, transferred ownership of Barman House to the Foundation, subject to its continued operation as an independent living facility for the developmentally disabled through October 2013. The Foundation recognized Barman House as a temporarily restricted contribution in the amount of $850,000 at the time of the contribution, and will release the restriction on a pro-rata basis through October 2013. If the Foundation ceases to operate Barman House as an independent living facility for the developmentally disabled prior to October 2013, ownership will revert to the city of Culver City.

Contingent Promissory Note

The Foundation has 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 II. The terms of the note agreement require the Foundation to provide housing to the developmentally disabled. For as long as the Foundation complies with the provisions of its regulatory agreement with CA HCD, the remaining principal ($40,000 as of June 30, 2010) shall be amortized at the rate of $20,000 annually until reduced to $0 in the year 2012, at which time the mortgage lien will be released with no payments of principal or interest required.

NOTE 12 - EMPLOYEE BENEFIT PLANS

The Foundation offers IRC Sections 403(b) and 401(k) individual defined contribution plans for all eligible employees. Previously, the Foundation had a noncontributory defined benefit pension plan (the "DBPP") for its eligible employees. Effective June 30, 2008, the DBPP was terminated, and the Foundation paid out an amount sufficient to cover all earned benefits. During the year ended June 30, 2010, the final payments totaling $645,000 were made, closing out the final liabilities of the DBPP.

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. The Foundation may make discretionary contributions to the 401(k) plan for eligible employees. No discretionary contributions were accrued for the year ended June 30, 2010.

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 13 - SUBSEQUENT EVENTS

As of October 8, 2010, the land and building held for sale has been sold for $680,000, less sales costs totaling $35,375, resulting in no gain or loss on the sale. Escrow is scheduled to close for this sale during the last half of October 2010.

SUPPORTING SCHEDULES REQUIRED BY HUD

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF FINANCIAL POSITION - HUD PROJECTS

JUNE 30, 2010

	Valverde, Inc. 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	$ 8,259	$ 793	$ 1,398	$ 1,472	$ 11,922
1130 Tenant accounts receivable	-	3,191	53	-	3,244
	8,259	3,984	1,451	1,472	15,166
Deposits Held in Trust, Funded					
1191 Tenant deposits held in trust	-	5,647	2,332	1,459	9,438
Restricted Deposits and Funded Reserves					
1320 Replacement reserves	36,135	60,733	69,601	-	166,469
1340 Residual receipts reserve	-	76,545	16,471	-	93,016
	36,135	137,278	86,072	-	259,485
Fixed Assets					
1410 Land and improvements	190,233	154,184	254,637	297,547	896,601
1420 Buildings and improvements	523,429	571,525	501,582	107,353	1,703,889
1440 Building equipment (portable)	9,387	13,503	10,710	-	33,600
1460 Furnishings	29,881	50,478	59,499	-	139,858
	752,930	789,690	826,428	404,900	2,773,948
1495 Accumulated depreciation	(384,414)	(507,281)	(469,985)	(34,443)	(1,396,123)
	368,516	282,409	356,443	370,457	1,377,825
	$ 412,910	$ 429,318	$ 446,298	$ 373,388	$ 1,661,914

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF FINANCIAL POSITION - HUD PROJECTS

JUNE 30, 2010

	Valverde, Inc. 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	$ 5,179	$ 1,189	$ 2,882	$ 1,543	$ 10,793
2131 Accrued interest	3,471	4,106	4,327	-	11,904
2170 Current portion of mortgage payable	12,904	20,161	20,799	-	53,864
	21,554	25,456	28,008	1,543	76,561
Deposit Liabilities					
2191 Tenant deposits held in trust (contra)	-	2,517	1,492	1,459	5,468
Long-term Liabilities					
2113 Accounts payable - sponsor	158,039	436,617	349,761	18,878	963,295
2320 Mortgage payable, net of current portion	437,344	512,466	540,505	404,900	1,895,215
	595,383	949,083	890,266	423,778	2,858,510
Total Liabilities	616,937	977,056	919,766	426,780	2,940,539
Commitment and Contingencies (Notes 4 and 11)					
Net Assets (Deficit)					
3131 Unrestricted net (deficit)	(204,027)	(547,738)	(473,468)	(53,392)	(1,278,625)
	$ 412,910	$ 429,318	$ 446,298	$ 373,388	$ 1,661,914

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF STATEMENTS OF ACTIVITIES - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2010

	Valverde, Inc. 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	$ 25,352	$ 55,133	$ 77,814	$ 23,217	$ 181,516
5121 Tenant assistance payments	154,828	114,637	104,106	5,295	378,866
5190 Rent income - manager unit	15,015	14,148	2,880	-	32,043
Gross potential rent	195,195	183,918	184,800	28,512	592,425
Vacancies					
5220 Apartments	(1,119)	(1,095)	(26,375)	(4,752)	(33,341)
Net rental revenue	194,076	182,823	158,425	23,760	559,084
Financial revenue					
5410 Interest income - project operations	-	3	3	-	6
5430 Interest income - residual receipts	-	1,556	112	-	1,668
5440 Interest income - replacement reserve	52	84	121	-	257
	52	1,643	236	-	1,931
Total revenue	194,128	184,466	158,661	23,760	561,015

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF STATEMENTS OF ACTIVITIES - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2010

	Valverde, Inc. 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					
6204 Management consultants	$ 2,065	$ 1,210	$ 2,083	$ 1,800	$ 7,158
6310 Office salaries	46,440	39,695	37,162	5,260	128,557
6311 Office expenses	363	-	-	210	573
6320 Management fee	9,204	9,804	10,320	3,600	32,928
6331 Administrative rent-free unit	15,015	14,148	2,880	-	32,043
6350 Audit expense	6,000	6,684	6,684	684	20,052
6351 Bookkeeping	169	-	-	-	169
6390 Miscellaneous administrative expense	47	707	1,834	385	2,973
	79,303	72,248	60,963	11,939	224,453
Utilities					
6450 Electricity	8,205	4,540	3,448	7,178	23,371
6451 Water	7,415	5,062	5,445	2,240	20,162
6452 Gas	2,212	4,061	344	1,935	8,552
	17,832	13,663	9,237	11,353	52,085
Operating and Maintenance					
6510 Payroll	7,650	5,614	5,909	3,117	22,290
6515 Supplies	868	4,154	5,370	-	10,392
6520 Contracts	15,432	16,226	12,977	507	45,142
6525 Garbage and trash removal	3,684	3,644	1,969	-	9,297
6546 Heating and cooling repairs	-	720	-	-	720
	27,634	30,358	26,225	3,624	87,841
Depreciation					
6600 Depreciation	22,051	19,770	19,490	2,684	63,995

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF STATEMENTS OF ACTIVITIES - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2010

	Valverde, Inc. 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	$ 1,710	$ 2,081	$ 3,140	$ 2,168	$ 9,099
6711 Payroll taxes	4,037	3,368	3,224	402	11,031
6720 Property and liability insurance	1,229	2,280	1,467	874	5,850
6722 Workers' compensation	2,224	1,884	1,744	428	6,280
6723 Health insurance and other employee benefits	3,082	2,397	2,269	593	8,341
	12,282	12,010	11,844	4,465	40,601
Financial					
6820 Interest on mortgage payable	42,156	50,061	52,728	-	144,945
Total expenses	201,258	198,110	180,487	34,065	613,920
Changes in Unrestricted Net Assets	(7,130)	(13,644)	(21,826)	(10,305)	(52,905)
Unrestricted Net Assets (Deficit), beginning of Year	(196,897)	(534,094)	(451,642)	(43,087)	(1,225,720)
Unrestricted Net Assets (Deficit), end of Year	$ (204,027)	$ (547,738)	$ (473,468)	$ (53,392)	$ (1,278,625)

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF CASH FLOWS - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2010

	Valverde, Inc. 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	$ 180,272	$ 193,632	$ 171,615	$ 24,668	$ 570,187
Interest	52	1,643	236	-	1,931
	180,324	195,275	171,851	24,668	572,118
Disbursements					
Administrative	(8,644)	(8,318)	(10,600)	(3,079)	(30,641)
Management fees	(9,204)	(9,804)	(10,320)	(3,600)	(32,928)
Utilities	(17,293)	(15,698)	(9,518)	(9,810)	(52,319)
Salaries and wages	(53,505)	(45,309)	(43,071)	(8,377)	(150,262)
Operating and maintenance	(19,181)	(27,553)	(23,593)	(507)	(70,834)
Real estate taxes	(1,710)	(2,081)	(3,140)	(2,168)	(9,099)
Property insurance	(1,229)	(2,280)	(1,467)	(874)	(5,850)
Miscellaneous taxes and insurance	(9,343)	(7,649)	(7,237)	(1,423)	(25,652)
Interest on mortgage payable	(42,246)	(50,201)	(52,874)	-	(145,321)
Deposits held in trust, net	-	93	8	1,459	1,560
	(162,355)	(168,800)	(161,812)	(28,379)	(521,346)
Net Cash Provided by (Used in) Operating Activities	17,969	26,475	10,039	(3,711)	50,772
Cash Flows from Investing Activities					
Acquisition of fixed assets	(30,095)	(1,300)	(27,333)	-	(58,728)
Deposits to and interest earned on replacement reserve	(1,111)	(5,144)	20,676	-	14,421
Deposits to and interest earned on residual receipts reserve	-	(25,216)	(16,471)	-	(41,687)
Net Cash Provided by (Used in) Investing Activities	(31,206)	(31,660)	(23,128)	-	(85,994)

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

STATEMENTS OF CASH FLOWS - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2010

	Valverde, Inc. 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	$ (11,769)	$ (18,386)	$ (18,978)	$ -	$ (49,133)
Net advances from sponsor	30,637	22,079	23,165	5,183	81,064
Net Cash Provided by Financing Activities	18,868	3,693	4,187	5,183	31,931
Net Increase in Cash	5,631	(1,492)	(8,902)	1,472	(3,291)
Cash, beginning of year	2,628	2,285	10,300	-	15,213
Cash, end of year	$ 8,259	$ 793	$ 1,398	$ 1,472	$ 11,922
Reconciliation of Changes in Unrestricted Net Assets to Net Cash Provided by (Used in) Operating Activities					
Changes in unrestricted net assets	$ (7,130)	$ (13,644)	$ (21,826)	$ (10,305)	$ (52,905)
Adjustments to reconcile changes in unrestricted net assets to net cash provided by (used in) operating activities					
Depreciation	22,051	19,770	19,490	2,684	63,995
(Increase) decrease in					
Tenant accounts receivable	-	(3,191)	(53)	2,367	(877)
Accounts receivable	1,211	28,148	16,123	-	45,482
Tenant deposits held in trust	-	(4)	(2)	(1,459)	(1,465)
Increase (decrease) in					
Accounts payable	1,927	(4,561)	(3,557)	1,543	(4,648)
Accrued interest	(90)	(140)	(146)	-	(376)
Tenant deposits held in trust (contra)	-	97	10	1,459	1,566
Net Cash Provided by (Used in) Operating Activities	$ 17,969	$ 26,475	$ 10,039	$ (3,711)	$ 50,772

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, 2010

	Valverde, Inc. 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	$ 35,024	$ 55,589	$ 90,277	$ -	$ 180,890
Valverde ($407 x 12)	4,884	-	-	-	4,884
Westington ($410 x 12)	-	4,920	-	-	4,920
Whittier Springs ($411 x 10 + $400 x 2)	-	-	4,910	-	4,910
Retroactive deposits	175	140	-	-	315
Approved Withdrawals	(4,000)	-	(25,707)	-	(29,707)
Interest Income	52	84	121	-	257
Balance, end of year	$ 36,135	$ 60,733	$ 69,601	$ -	$ 166,469
Schedules of Residual Receipts Reserves					
Balance, beginning of year	$ -	$ 51,329	$ -	$ -	$ 51,329
Deposits	-	23,660	16,359	-	40,019
Interest Income	-	1,556	112	-	1,668
Balance, end of year	$ -	$ 76,545	$ 16,471	$ -	$ 93,016

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUPPORTING SCHEDULES REQUIRED BY HUD

COMPUTATIONS OF SURPLUS CASH - HUD PROJECTS

FOR THE YEAR ENDED JUNE 30, 2010

	Valverde, Inc. 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
Computations of Surplus Cash				
1110 Petty cash	$ -	$ 150	$ 150	$ -
1120 Cash in bank	8,259	643	1,248	1,472
1191 Tenant deposits held in trust	-	5,647	2,332	1,459
	8,259	6,440	3,730	2,931
Current Obligations				
2110 Accounts payable	5,179	1,189	2,882	1,543
2131 Accrued interest	3,471	4,106	4,327	-
2191 Tenant deposits held in trust (contra)	-	2,517	1,492	1,459
Total current obligations	8,650	7,812	8,701	3,002
Surplus Cash (Deficit), June 30, 2010	$ (391)	$ (1,372)	$ (4,971)	$ (71)

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, 2010

	Balance, July 1, 2009	Additions	Disposals	Balance, June 30, 2010
Valverde, Inc. HUD Project No. 122-EH310-WHH-L8				
1410 Land and improvements	$ 190,233	$ -	$ -	$ 190,233
1420 Buildings and improvements	494,425	29,004	-	523,429
1440 Building equipment (portable)	9,387	-	-	9,387
1460 Furnishings	28,790	1,091	-	29,881
	722,835	30,095	-	752,930
1495 Accumulated depreciation	(362,363)	(22,051)	-	(384,414)
	$ 360,472	$ 8,044	$ -	$ 368,516
Westington HUD Project No. 122-EH151-WHC-L8				
1410 Land and improvements	$ 154,184	$ -	$ -	$ 154,184
1420 Buildings and improvements	570,225	1,300	-	571,525
1440 Building equipment (portable)	13,503	-	-	13,503
1460 Furnishings	50,478	-	-	50,478
	788,390	1,300	-	789,690
1495 Accumulated depreciation	(487,511)	(19,770)	-	(507,281)
	$ 300,879	$ (18,470)	$ -	$ 282,409
Whittier Springs HUD Project No. 122-EH157-WHC-L8				
1410 Land and improvements	$ 254,637	$ -	$ -	$ 254,637
1420 Buildings and improvements	496,508	5,074	-	501,582
1440 Building equipment (portable)	10,710	-	-	10,710
1460 Furnishings	37,240	22,259	-	59,499
	799,095	27,333	-	826,428
1495 Accumulated depreciation	(450,495)	(19,490)	-	(469,985)
	$ 348,600	$ 7,843	$ -	$ 356,443

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, 2010

	Balance, July 1, 2009	Additions	Disposals	Balance, June 30, 2010
ERAS Home II HUD Project No. 122-HD044-WDD-NP				
1410 Land and improvements	$ 297,547	$ -	$ -	$ 297,547
1420 Buildings and improvements	107,353	-	-	107,353
1440 Building equipment (portable)	-	-	-	-
1460 Furnishings	-	-	-	-
	404,900	-	-	404,900
1495 Accumulated depreciation	(31,759)	(2,684)	-	(34,443)
	$ 373,141	$ (2,684)	$ -	$ 370,457

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2010

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

To the Audit Committee
EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES
Culver City, California

We have audited the consolidated financial statements of Exceptional Children's Foundation and Affiliates as of and for the year ended June 30, 2010, and have issued our report thereon dated October 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (the "U.S.") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Exceptional Children's Foundation and Affiliates' internal control over financial reporting as a basis for designing our auditing procedures 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 Exceptional Children's Foundation and Affiliates' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Exceptional Children's Foundation and Affiliates' internal control over financial reporting.

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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

rbz

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Exceptional Children's Foundation and Affiliates' consolidated financial statements are free of 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 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*.

Summary

This report is intended solely for the information and use of management, the audit committee, the board of directors, and others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

RBZ, LLP

October 14, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Audit Committee
EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES
Culver City, California

Compliance

We have audited the compliance of Exceptional Children's Foundation and Affiliates with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Exceptional Children's Foundation and Affiliates' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Exceptional Children's Foundation and Affiliates' management. Our responsibility is to express an opinion on Exceptional Children's Foundation and Affiliates' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S.; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 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 Exceptional Children's Foundation and Affiliates' 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. Our audit does not provide a legal determination of Exceptional Children's Foundation and Affiliates' compliance with those requirements.

In our opinion, Exceptional Children's Foundation and Affiliates complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

rbz

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Internal Control Over Compliance

Management of Exceptional Children's Foundation and Affiliates is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Exceptional Children's Foundation and Affiliates' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, 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 Exceptional Children's Foundation and Affiliates' internal control over compliance.

A *deficiency in internal control* over compliance exists when the design or operation of 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 a 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Summary

This report is intended solely for the information and use of management, the audit committee, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

RBZ, LLP

October 14, 2010

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

Agency and Program Grant Title	Federal CFDA Number	American Recovery and Reinvestment Act	Section 8 Contract No.	Federal Government Expenditures
Major Programs				
U.S. Department of Housing and Urban Development				
Supportive Housing for the Elderly (and Disabled) - Direct Loans				
Valverde, Inc. - FHA Project No. 122-EH310-WHH-L8	14.157	N/A	N/A	$ 450,248
Westington - FHA Project No. 122-EH151-WHC-L8	14.157	N/A	N/A	532,627
Whittier Springs - FHA Project No. 122-EH157-WHC-L8	14.157	N/A	N/A	561,304
	14.157			1,544,179
Non-Major Programs				
U.S. Department of Housing and Urban Development				
Supportive Housing for Persons with Disabilities				
Section 811				
ERAS Home II - FHA Project No. 122-HD044-WDD-NP				
Section 811 Capital Advance	14.181	N/A	N/A	404,900
ERAS Home II - FHA Project No. 122-HD044-WDD-NP				
Section 811 Project Rental Assistance Contract	14.181	N/A	N/A	5,295
	14.181			410,195

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

Agency and Program Grant Title	Federal CFDA Number	American Recovery and Reinvestment Act	Section 8 Contract No.	Federal Government Expenditures
Non-Major Programs (Continued)				
U.S. Department of Housing and Urban Development				
Section 8 New Construction and Substantial Rehabilitation				
Valverde, Inc. - Section 8 Project No. CA16-T831-049	14.182	N/A	SF-85-499	154,828
Westington - Section 8 Project No. CA16-T811-003	14.182	N/A	SF-83-522	114,637
Whittier Springs - Section 8 Project No. CA16-T811-009	14.182	N/A	SF-83-692	106,986
	14.182			376,451
The American Recovery and Reinvestment Act				
ARRA Head Start	93.708	ARRA	N/A	32,528
The American Recovery and Reinvestment Act				
ARRA Basic Start	84.390A	ARRA	N/A	7,003
Total Non-Major Programs				826,177
Total Federal Expenditures				$ 2,370,356

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal assistance programs of Exceptional Children's Foundation and Affiliates.

NOTE 2 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 2 of the Notes to the Financial Statements of Exceptional Children's Foundation and Affiliates as of and for the year ended June 30, 2010.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SCHEDULES OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

- A - SUMMARY OF AUDITORS' RESULTS

1. An unqualified 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 that are not considered to be material weaknesses were reported.
3. The audit of the consolidated financial statements disclosed no instances of noncompliance that are 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 that are not considered to be material weaknesses were reported.
5. An unqualified opinion was issued on compliance with requirements applicable to major programs.
6. The audit disclosed no findings that are required to be reported under OMB Circular A-133 §510(a).
7. The major programs are 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	$ 1,544,179
Total Major Programs		$ 1,544,179

8. The dollar threshold used to distinguish between Type A and Type B programs was $300,000, as described in OMB Circular A-133 §520(b).
9. The auditee qualified as a low-risk auditee under OMB Circular A-133 §530.

- B - FINDINGS AND QUESTIONED COSTS - 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, 2010

No corrective action required.

EXCEPTIONAL CHILDREN'S FOUNDATION AND AFFILIATES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2010

- A - FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENT AUDIT, JUNE 30, 2009

None

- B - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS AUDIT, JUNE 30, 2009

None