NEW ISSUE – BOOK-ENTRY ONLY

Moody's: Series 2013A: Aa3
Series 2013B: A1
(See "RATINGS" herein)

DASNY
DORMITORY AUTHORITY STATE OF NEW YORK

DAC Bond®

$18,975,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM
REVENUE BONDS, SERIES 2013

Consisting of:

Series 2013A consisting of $14,255,000 Subseries 2013A-1 and $685,000 Subseries 2013A-2 (Federally Taxable)

Series 2013B consisting of $3,860,000 Subseries 2013B-1 and $175,000 Subseries 2013B-2 (Federally Taxable)

Dated: Date of Delivery

Due: July 1, as shown on the inside cover

Payment and Security: The InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013A consisting of Subseries 2013A-1 (the "Subseries 2013A-1 Bonds") and Subseries 2013A-2 (Federally Taxable) (the "Subseries 2013A-2 Bonds;" and together with the Subseries 2013A-1 Bonds, the "Series 2013A Bonds") and the InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013B consisting of Subseries 2013B-1 (the "Subseries 2013B-1 Bonds") and Subseries 2013B-2 (Federally Taxable) (the "Subseries 2013B-2 Bonds;" and together with the Subseries 2013B-1 Bonds, the "Series 2013B Bonds") will be special obligations of the Dormitory Authority of the State of New York ("DASNY"). Principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2013A Bonds and the Series 2013B Bonds (collectively, the "Series 2013 Bonds") are payable solely from and secured by a pledge of the Revenues (described below) and the funds and accounts (other than the Arbitrage Rebate Fund) authorized by DASNY's InterAgency Council Pooled Loan Program Revenue Bond Resolution adopted on March 31, 2010 (the "Resolution") and established with respect to the Series 2013A Bonds by the Series 2013A Resolution Authorizing Up To $20,500,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013A, adopted March 13, 2013 (the "Series 2013A Resolution") and with respect to the Series 2013B Bonds by the Series 2013B Resolution Authorizing Up To $20,500,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013B, adopted March 13, 2013 (the "Series 2013B Resolution"), including, in each case, a Debt Service Reserve Fund. The Series 2013A Bonds are separately secured from the Series 2013B Bonds as described herein.

The Revenues pledged to the payment of the Series 2013A Bonds are comprised of certain payments to be made under separate Loan Agreements dated as of March 13, 2013 (each a "Series 2013A Loan Agreement"), between DASNY and each of the following members of the Interagency Council of Developmental Disabilities Agencies, Inc., each of which is a New York State not-for-profit corporation: AABR, Inc. and AABR Realty Facilities Holding Corp. (which shall be considered a single Series 2013A Participant), Birch Family Services, Inc., HASC Center, Inc., Lifespire, Inc., New Horizons Resources, Inc., P.L.U.S. Group Homes, Inc. and The Center for Family Support, Inc. (each a "Series 2013A Participant" and collectively, the "Series 2013A Participants").

The Revenues pledged to the payment of the Series 2013B Bonds are comprised of certain payments to be made under a Loan Agreement dated as of March 13, 2013 (the "Series 2013B Loan Agreement" and collectively with the Series 2013A Loan Agreements, the "Series 2013 Loan Agreements"), between DASNY and Leake and Watts Services, Inc., a member of the Interagency Council of Developmental Disabilities Agencies, Inc., which is a New York State not-for-profit corporation (the "Series 2013B Participant" and collectively with the Series 2013A Participants, the "Series 2013 Participants").

Each Series 2013 Loan Agreement is a general obligation of the respective Series 2013 Participant to pay, in addition to certain fees and expenses, only its Allocable Portion of the principal, Sinking Fund Installments and Redemption Price of and interest on the applicable series of Series 2013 Bonds corresponding to such Series 2013 Participant's proportionate share of the proceeds of the applicable series of Series 2013 Bonds loaned to it by DASNY, and to maintain its Allocable Portion of the applicable Debt Service Reserve Fund Requirement. Payment of amounts due under the Series 2013 Loan Agreements are several and not joint obligations of the Series 2013 Participants. Each of the Series 2013 Participant's obligations under its respective Series 2013 Loan Agreement will be secured by a security interest in certain revenues of such Series 2013 Participant granted to DASNY and pledged and assigned to the Trustee.

A DEFAULT BY ANY ONE OR MORE OF THE SERIES 2013A PARTICIPANTS UNDER THEIR RESPECTIVE SERIES 2013A LOAN AGREEMENTS MAY RESULT IN A DEFAULT UNDER THE RESOLUTION AND THE SERIES 2013A RESOLUTION WITH RESPECT TO SUCH SERIES 2013A PARTICIPANT'S ALLOCABLE PORTION OF THE SERIES 2013A BONDS; HOWEVER, ANY LIABILITY WITH RESPECT TO SUCH DEFAULT IS LIMITED SOLELY TO THE SERIES 2013A PARTICIPANT OR SERIES 2013A PARTICIPANTS THAT ARE IN DEFAULT, WITHOUT RIGHT OF CONTRIBUTION FROM THE NON-DEFAULTING SERIES 2013A PARTICIPANTS. ANY SUCH DEFAULT, HOWEVER, COULD RESULT IN A DEFAULT IN PAYMENT OF THE SERIES 2013A BONDS. A DEFAULT BY THE SERIES 2013B PARTICIPANT UNDER THE SERIES 2013B LOAN AGREEMENT MAY RESULT IN A DEFAULT UNDER THE RESOLUTION AND THE SERIES 2013B RESOLUTION, INCLUDING A DEFAULT IN PAYMENT OF THE SERIES 2013B BONDS.

The Series 2013 Bonds will not be a debt of the State of New York nor will the State of New York be liable thereon. DASNY has no taxing power.

Description: The Series 2013A Bonds and the Series 2013B Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple in excess thereof. Interest (due July 1, 2013 and each January 1 and July 1 thereafter) on the Series 2013 Bonds will be payable by check mailed to the registered owners thereof and principal and Redemption Price of the Series 2013 Bonds will be payable at the principal corporate trust office of The Bank of New York Mellon, New York, New York, the Trustee and Paying Agent, or at the option of the holder of at least $1,000,000 principal amount of the Series 2013A Bonds or the Series 2013B Bonds, as applicable, by wire transfer, as more fully described herein.

The Series 2013 Bonds will be issued as fully registered bonds and when issued initially will be issued in book-entry form, registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2013 Bonds. Purchases of beneficial ownership interests in the Series 2013 Bonds may be made only through the DTC book-entry system. Beneficial Owners (as defined herein) of the Series 2013 Bonds will not receive certificates representing their interests in the Series 2013 Bonds. See "PART 4 - THE SERIES 2013 BONDS – Book-Entry Only System" herein.

Redemption and Purchase in Lieu of Redemption: The Series 2013 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as more fully described herein.

Tax Matters: *In the opinion of Squire Sanders (US) LLP and D. Seaton and Associates, Co-Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Subseries 2013A-1 Bonds and the Subseries 2013B-1 Bonds (the "Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Series 2013 Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including The City of New York and the City of Yonkers. Interest on the Tax-Exempt Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. INTEREST ON THE SUBSERIES 2013A-2 BONDS AND THE SUBSERIES 2013B-2 BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. For a more complete discussion of the tax aspects, see "PART 10 - TAX MATTERS" herein.*

The Series 2013 Bonds are offered, when, as and if issued by DASNY, subject to prior sale, withdrawal or modification of the offer without notice, and subject to the approval of legality by Squire Sanders (US) LLP, New York, New York, and D. Seaton and Associates, New York, New York, Co-Bond Counsel to DASNY. Certain legal matters will be passed upon for the Series 2013 Participants by Cullen and Dykman, LLP, Albany, New York and for the Underwriter by McCarter & English, LLP, New York, New York and Newark, New Jersey. DASNY expects to deliver the Series 2013 Bonds in definitive form in New York, New York on or about May 9, 2013.

MUNICIPAL CAPITAL MARKETS GROUP, INC.

April 26, 2013

$18,975,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM
REVENUE BONDS, SERIES 2013

Consisting of:

$14,255,000 Subseries 2013A-1

Consisting of:

$9,160,000 Serial Bonds

Maturing July 1	Principal Amount	Coupon	Yield	CUSIP[1]
2014	$ 410,000	3.00%	0.65%	649907KX9
2015	1,060,000	2.00	1.05	649907KY7
2016	1,085,000	3.00	1.22	649907KZ4
2017	1,110,000	3.50	1.40	649907LA8
2018	1,110,000	4.00	1.60	649907LB6
2019	1,025,000	4.00	1.80	649907LC4
2020	850,000	2.00	2.05	649907LD2
2021	865,000	2.00	2.15	649907LE0
2022	850,000	2.25	2.45	649907LF7
2023	795,000	2.50	2.65	649907LG5

$4,235,000 3.00% Term Bond due July 1, 2028 to Yield 3.35% CUSIP[1] 649907LH3

$860,000 3.50% Term Bond due July 1, 2038 to Yield 3.82% CUSIP[1] 649907LJ9

$685,000
Subseries 2013A-2
(Federally Taxable)

$685,000 1.23% Term Bond due July 1, 2014 to Yield 1.23% CUSIP[1] 649907LK6

[1] CUSIP numbers have been assigned by an independent company not affiliated with DASNY and are included solely for the convenience of the holder of the Series 2013A Bonds. Neither DASNY nor the Underwriter is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Series 2013A Bonds or as indicated above. CUSIP numbers are subject to being changed after the issuance of the Series 2013A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2013A Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Series 2013A Bonds.

$3,860,000
Subseries 2013B-1

Consisting of:

$2,820,000 Serial Bonds

Maturing July 1	Principal Amount	Coupon	Yield	CUSIP[(1)]
2014	$115,000	2.00%	0.85%	649907LL4
2015	280,000	2.00	1.15	649907LM2
2016	290,000	2.00	1.40	649907LN0
2017	290,000	2.00	1.60	649907LP5
2018	290,000	2.00	1.80	649907LQ3
2019	300,000	2.00	2.00	649907LR1
2020	305,000	2.00	2.25	649907LS9
2021	310,000	2.25	2.50	649907LT7
2022	315,000	2.25	2.65	649907LU4
2023	325,000	2.50	2.85	649907LV2

$1,040,000 3.25% Term Bond due July 1, 2028 to Yield 3.55% CUSIP(1) 649907LW0

$175,000
Subseries 2013B-2
(Federally Taxable)

$175,000 1.43% Term Bond due July 1, 2014 to Yield 1.43% CUSIP(1) 649907LX8

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(1) CUSIP numbers have been assigned by an independent company not affiliated with DASNY and are included solely for the convenience of the holder of the Series 2013B Bonds. Neither DASNY nor the Underwriter is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Series 2013B Bonds or as indicated above. CUSIP numbers are subject to being changed after the issuance of the Series 2013B Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2013B Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Series 2013B Bonds.

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No dealer, broker, salesman or other person has been authorized by DASNY, the Series 2013 Participants or the Underwriter to give any information or to make any representations with respect to the Series 2013 Bonds, other than the information and representations contained in this Official Statement. If given or made, any such information or representation must not be relied upon as having been authorized by DASNY, the Series 2013 Participants or the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2013 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Official Statement has been supplied by the Series 2013 Participants, the Interagency Council of Developmental Disabilities Agencies, Inc. (the "Program Facilitator") and other sources that DASNY believes are reliable. DASNY does not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation of DASNY.

Each Series 2013 Participant has reviewed the portions of this Official Statement describing such Series 2013 Participant, its Series 2013 Facilities, its Mortgages, if any, "PART 1 – INTRODUCTION" (but solely with respect to the headings "The Series 2013 Participants," "Additional Security – Pledged Revenues and Standby Intercepts," "The Mortgages," and "Collateral Assignment of Lease"), "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS – Security for the Series 2013 Bonds - Pledged Revenues – OPWDD Funds," "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS – Security for the Series 2013 Bonds – Mortgages," "PART 3 – THE SERIES 2013 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2013 Bonds," "PART 4 - THE SERIES 2013 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING," "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS," "PART 11 - BONDHOLDERS' RISKS," and the information relating to it contained in Appendices A, B, and C. It is a condition to the sale and delivery of the Series 2013 Bonds that each Series 2013 Participant certify that, as of each such date, such parts do not contain any untrue statement of a material fact and do not omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements were made, not misleading. The Series 2013 Participants make no representations as to the accuracy or completeness of any other information included in this Official Statement.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibility to investors under the federal securities law, but the Underwriter does not guarantee the accuracy or completeness of such information.

References in this Official Statement to the Act, the Resolution, the Series 2013A Resolution, the Series 2013B Resolution and the Loan Agreements do not purport to be complete. Refer to the Act, the Resolution, the Series 2013A Resolution, the Series 2013B Resolution and the Loan Agreements for full and complete details of their provisions. Copies of the Resolution, the Series 2013A Resolution, the Series 2013B Resolution and the Loan Agreements are on file with DASNY and the Trustee.

The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Official Statement, including its appendices, must be considered in its entirety.

Under no circumstances shall the delivery of this Official Statement or any sale made after its delivery create any implication that the affairs of DASNY or the Series 2013 Participants have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2013 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013 BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY - STATE OF NEW YORK 515 BROADWAY, ALBANY, N.Y. 12207
PAUL T. WILLIAMS, JR. - PRESIDENT ALFONSO L. CARNEY, JR. - CHAIR

OFFICIAL STATEMENT
relating to
$18,975,000
INTERAGENCY COUNCIL POOLED LOAN PROGRAM
REVENUE BONDS, SERIES 2013
Consisting of:

$14,255,000 Subseries 2013A-1 and
$685,000 Subseries 2013A-2 (Federally Taxable)

$3,860,000 Subseries 2013B-1 and
$175,000 Subseries 2013B-2 (Federally Taxable)

PART 1 - INTRODUCTION

Purpose of Official Statement

The purpose of this Official Statement, which includes the cover page, the inside cover page and the appendices hereto, is to provide information about: (i) the Dormitory Authority of the State of New York ("DASNY"), AABR, Inc. and AABR Realty Facilities Holding Corp. (which shall be considered a single Series 2013A Participant and collectively referred to as "AABR"), Birch Family Services, Inc., HASC Center, Inc., Lifespire, Inc. ("Lifespire"), New Horizons Resources, Inc., P.L.U.S. Group Homes, Inc. and The Center for Family Support, Inc. (collectively, the "Series 2013A Participants") in connection with the offering by DASNY of the $14,940,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013A, consisting of $14,255,000 Subseries 2013A-1 Bonds and $685,000 Subseries 2013A-2 Bonds (Federally Taxable) (collectively, the "Series 2013A Bonds") and (ii) DASNY and Leake and Watts Services, Inc. ("Leake and Watts" or the "Series 2013B Participant" and collectively with the Series 2013A Participants, the "Series 2013 Participants"), in connection with the offering by DASNY of the $4,035,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013B, consisting of $3,860,000 Subseries 2013B-1 Bonds and $175,000 Subseries 2013B-2 Bonds (Federally Taxable) (collectively, the "Series 2013B Bonds" and together with the Series 2013A Bonds, the "Series 2013 Bonds").

The following is a brief description of certain information concerning the Series 2013 Bonds, DASNY and the Series 2013 Participants. A more complete description of such information and additional information that may affect decisions to invest in the Series 2013 Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain capitalized terms used in this Official Statement are defined in Appendix D hereto.

Purpose of the Issues

Series 2013A Bonds

The Series 2013A Bonds are being issued for the purpose of (i) financing, refinancing or reimbursing a portion of the cost of the acquisition, renovation and furnishing, as applicable, of certain facilities (collectively, the “Series 2013A Facilities”) of the Series 2013A Participants for the provision of services to people with developmental disabilities or other special needs and the acquisition of equipment and other personal property with respect to such Series 2013A Facilities (collectively, the “Series 2013A Project”), (ii) making a deposit to each account of the Debt Service Reserve Fund securing the Series 2013A Bonds (the “Series 2013A Debt Service Reserve Fund”) in an amount equal to each Series 2013A Participant’s Allocable Portion of the Series 2013A Debt Service Reserve Fund Requirement (defined herein) and (iii) paying certain costs of issuance of the Series 2013A Bonds. The Loan Agreements executed by the Series 2013A Participants (the “Series 2013A Loan Agreements”), require, in the aggregate, the payment of amounts sufficient to provide for the payment of the principal or Redemption Price, if any, of, Sinking Fund Installments with respect to, and interest on, the Series 2013A Bonds as the same become due. See “PART 6 - ESTIMATED SOURCES AND USES OF FUNDS.” For a description of the Series 2013A Facilities being financed or refinanced with proceeds of the Series 2013A Bonds, see “Appendix A - Description of Series 2013 Participants.”

Series 2013B Bonds

The Series 2013B Bonds are being issued for the purpose of (i) financing, refinancing or reimbursing a portion of the cost of the acquisition, renovation and furnishing, as applicable, of certain facilities (collectively, the “Series 2013B Facilities”) of the Series 2013B Participant for the provision of services to people with developmental disabilities or other special needs and the acquisition of equipment and other personal property with respect to such Series 2013B Facilities (collectively, the “Series 2013B Project”), (ii) making a deposit to the Debt Service Reserve Fund securing the Series 2013B Bonds (the “Series 2013B Debt Service Reserve Fund”) in an amount equal to the Series 2013B Debt Service Reserve Fund Requirement (defined herein) and (iii) paying certain costs of issuance of the Series 2013B Bonds. The Loan Agreement executed by the Series 2013B Participant (the “Series 2013B Loan Agreement”) requires the payment of amounts sufficient to provide for the payment of the principal or Redemption Price, if any, of, Sinking Fund Installments with respect to, and interest on, the Series 2013B Bonds as the same become due. See “PART 6 - ESTIMATED SOURCES AND USES OF FUNDS.” For a description of the Series 2013B Facilities being financed or refinanced with proceeds of the Series 2013B Bonds, see “Appendix A - Description of Series 2013 Participants.”

Authorization of Issuance

The Act authorizes DASNY, among other things, to issue its bonds for the purpose of financing or refinancing the costs of the acquisition, construction, reconstruction, renovation, development, improvement, expansion and equipping of certain educational, administrative, day program and residential facilities of the not-for-profit members (each a “Participant”) of the Interagency Council of Developmental Disabilities Agencies, Inc., which members include the Series 2013 Participants.

The Resolution authorizes the issuance of multiple series of bonds (each a “Series of Bonds”) pursuant to separate series resolutions (each a “Series Resolution”). Pursuant to the Resolution, each Series of Bonds issued thereunder, including the Series 2013A Bonds and the Series 2013B Bonds, is to be separately secured by (i) the funds and accounts established with respect to such Series of Bonds under a Series Resolution, and (ii) the Revenues pledged to such Series of Bonds and derived from payments made under the loan agreements entered into by DASNY and the applicable Participants in connection with the issuance of such Series of Bonds. Neither the funds and accounts established under a Series Resolution nor any loan agreement entered into or any mortgage or other security granted in connection with the issuance of a Series of Bonds shall secure any other Series of Bonds.

The Series 2013A Bonds will be issued pursuant to the Act, the Resolution and the Series 2013A Resolution. The Series 2013B Bonds will be issued pursuant to the Act, the Resolution and the Series 2013B Resolution. The term "Resolutions" shall mean (i) when used with respect to the Series 2013A Bonds, the Resolution and the Series 2013A Resolution or (ii) when used with respect to the Series 2013B Bonds, the Resolution and the Series 2013B Resolution. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS."

DASNY

DASNY is a public benefit corporation of the State of New York (the "State"), created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational, healthcare, governmental and not-for-profit institutions. See "PART 7 - DASNY."

The Program Facilitator

The InterAgency Council of Developmental Disabilities Agencies, Inc. (the "Program Facilitator") will act as the facilitator for the InterAgency Council Pooled Loan Program. The Program Facilitator is a not-for-profit membership organization voluntarily supported by 130 not-for-profit service provider agencies that conduct business primarily in the City of New York metropolitan area, but also throughout the State, including the Series 2013 Participants. See "PART 4 - THE SERIES 2013 PARTICIPANTS."

The Series 2013 Participants

Each of the Series 2013 Participants is a not-for-profit corporation organized and existing under the laws of the State. See "PART 4 - THE SERIES 2013 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING," "Appendix A - Description of Series 2013 Participants," "Appendix B - Audited Financial Statements of Series 2013 Participants," and "Appendix C - Unaudited Financial Information of Series 2013 Participants."

Upon delivery of the Series 2013A Bonds, the Series 2013A Participants will receive loans from DASNY from the proceeds thereof in the following principal amounts, representing each Series 2013A Participant's Allocable Portion of each Subseries of the Series 2013A Bonds:

Series 2013A Participant	Subseries 2013A-1	Subseries 2013A-2	Total
AABR, Inc. and AABR Realty Facilities Holding Corp.	$1,885,000	$135,000	$2,020,000
Birch Family Services, Inc.	1,300,000	65,000	1,365,000
HASC Center, Inc.	3,625,000	145,000	3,770,000
Lifespire, Inc.	3,520,000	145,000	3,665,000
New Horizons Resources, Inc.	900,000	55,000	955,000

P.L.U.S. Group Homes, Inc.	1,295,000	60,000	1,355,000
The Center for Family Support, Inc.	1,730,000	80,000	1,810,000

No Series 2013A Participant is responsible for the payment obligations of any other Series 2013A Participant. If a Series 2013A Participant fails to pay amounts due under its Loan Agreement in respect of its Allocable Portion of the Series 2013A Bonds, DASNY's sole remedy will be against the defaulting Series 2013A Participant and no other Series 2013A Participant.

Upon delivery of the Series 2013B Bonds, the Series 2013B Participant will receive a loan from DASNY from the proceeds thereof in the following principal amounts:

Series 2013B Participant	Subseries 2013B-1	Subseries 2013B-2	Total
Leake and Watts Services, Inc.	$3,860,000	$175,0000	$4,035,000

See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS - Events of Default - Special Provisions Relating to Defaults" and "Appendix F Summary of Certain Provisions of the Resolutions." See also, "PART 3 - THE SERIES 2013 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

The Series 2013 Bonds

The Series 2013 Bonds are dated their date of delivery and bear interest from such date (payable July 1, 2013, and on each January 1 and July 1 thereafter) at the rates and will mature at the times set forth on the inside cover page of this Official Statement. See "PART 3 - THE SERIES 2013 BONDS - Description of the Series 2013 Bonds."

Payment of the Series 2013 Bonds

Series 2013A Bonds

The Series 2013A Bonds are special obligations of DASNY payable from the applicable Revenues, which consist of certain payments required to be made by the Series 2013A Participants pursuant to their respective Series 2013A Loan Agreements on account of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest due on the Outstanding Series 2013A Bonds. The Revenues are pledged and assigned to the Trustee.

Pursuant to its Loan Agreement, each Series 2013A Participant will be required to pay, among other things, its Allocable Portion of the principal, Sinking Fund Installments and Redemption Price of and interest due on the Outstanding Series 2013A Bonds, in each case corresponding to the proceeds of each maturity of each Subseries of the Series 2013A Bonds loaned to it by DASNY. The obligation of each Series 2013A Participant to make payments under its Loan Agreement constitutes a general obligation of such Series 2013A Participant. The payment obligations of the Series 2013A Participants are several, not joint. For a listing of each Series 2013A Participant's Allocable Portion of the principal and Sinking Fund Installments of and interest on the Series 2013A Bonds, see "PART 3 – THE SERIES 2013 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2013 Bonds."

Series 2013B Bonds

The Series 2013B Bonds are special obligations of DASNY payable from the applicable Revenues, which consist of certain payments required to be made by the Series 2013B Participant pursuant to its Loan Agreement on account of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest due on the Outstanding Series 2013B Bonds. The Revenues are pledged and assigned to the Trustee.

Pursuant to its Loan Agreement, the Series 2013B Participant will be required to pay, among other things, the principal, Sinking Fund Installments and Redemption Price of and interest due on the Outstanding Series 2013B Bonds, in each case corresponding to the proceeds of each maturity of each Subseries of the Series 2013B Bonds loaned to it by DASNY. The obligation of the Series 2013B Participant to make payments under its Loan Agreement constitutes a general obligation of such Series 2013B Participant.

Security for the Series 2013 Bonds

Series 2013A Bonds

The Series 2013A Bonds will be secured by the pledge and assignment to the Trustee of the Revenues, the proceeds from the sale of the Series 2013A Bonds (until disbursed as provided by the Resolution) and all funds and accounts authorized by the Resolution and established by the Series 2013A Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2013A Debt Service Reserve Fund, which will be funded at its requirement with proceeds of the Series 2013A Bonds. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS - Security for the Series 2013 Bonds."

The Series 2013A Bonds are separately secured from all other Series of Bonds, including the Series 2013B Bonds. The Holders of any Series of Bonds other than the Series 2013A Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2013A Bonds.

Series 2013B Bonds

The Series 2013B Bonds will be secured by the pledge and assignment to the Trustee of the Revenues, the proceeds from the sale of the Series 2013B Bonds (until disbursed as provided by the Resolution) and all funds and accounts authorized by the Resolution and established by the Series 2013B Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2013B Debt Service Reserve Fund, which will be funded at its requirement with proceeds of the Series 2013B Bonds. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS - Security for the Series 2013 Bonds."

The Series 2013B Bonds are separately secured from all other Series of Bonds, including the Series 2013A Bonds. The Holders of any Series of Bonds other than the Series 2013B Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2013B Bonds.

General

The Series 2013 Bonds will not be a debt of the State nor will the State be liable thereon. DASNY has no taxing power.

Additional Security - Pledged Revenues and Standby Intercepts

Each Series of the Series 2013 Bonds will also be separately secured by the pledge and assignment to the Trustee of DASNY's security interest in the applicable Pledged Revenues, subject to Prior Pledges, granted by each of the Series 2013 Participants to DASNY pursuant to its Loan Agreement. Certain of the Series 2013 Participants have previously pledged their Public Funds (a portion of which consists of the Pledged Revenues) to DASNY or an industrial development agency as security for their obligations in connection with bonds previously issued by DASNY or such industrial development agency or their accounts receivable (including Public Funds) in connection with lines of credit. The pledge of the Pledged Revenues granted by each such Series 2013 Participant in its Loan Agreement is subject, and subordinate, to such Prior Pledges in all respects. See "Appendix A - Description of Series 2013 Participants" for a description of which Series 2013 Participants have Prior Pledges of their respective Pledged Revenues. In the case of the Series 2013B Participant, the Series 2013B Participant has pledged the 2004 Pledged Revenues (as defined herein) to secure its obligations under the 2004 Loan Agreement (as defined herein) in connection with the Series 2004 Bonds (as defined herein) and in connection with the issuance of the Series 2013B Bonds, the Series 2013B Intercreditor Agreement (as defined herein) will be executed which will provide that upon enforcement of remedies, the proceeds of any such enforcement will be applied first to satisfy all of the Series 2013B Participant's obligations under the 2004 Loan Agreement. See "Security for the Series 2013 Bonds – Series 2013B Intercreditor Agreement."

Pledged Revenues are all Public Funds payable to a Series 2013 Participant with respect to its Series 2013 Facilities. In the case of each Series 2013 Participant, Public Funds includes amounts payable by the New York State Office for People with Developmental Disabilities, formerly known as the New York State Office of Mental Retardation and Developmental Disabilities, ("OPWDD") in connection with its Series 2013 Facilities.

With respect to each Series 2013 Facility (other than AABR's Series 2013A Facility located at 67-60 Sound Avenue, Mattituck, New York (the "Mattituck Facility"), pursuant to separate Prior Property Approvals (each a "PPA"), OPWDD has pre-approved the applicable Series 2013 Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2013 Participant in connection with its financing or refinancing of the acquisition, renovation and furnishing, as applicable, of such Series 2013 Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2013 Participant operates the applicable Series 2013 Facility in accordance with certain defined standards. Assuming annual appropriation of sufficient funds and continued compliance with operational standards, it is expected by the Series 2013 Participants that the amounts received by such Series 2013 Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the Series 2013A Bonds (other than the Allocable Portion of the Series 2013A Bonds of AABR related to the Mattituck Facility) and the amounts received by the Series 2013B Participant pursuant to its PPAs will be sufficient to pay the principal of and interest on the Series 2013B Bonds. The principal of and interest on the Allocable Portion of the Series 2013A Bonds of AABR related to the Mattituck Facility is expected by AABR to be paid from its operating revenues. See "PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

The Pledged Revenues will be paid directly to each Series 2013 Participant and may be disposed of by such Series 2013 Participant for any of its corporate purposes. However, pursuant to the Act, the respective Loan Agreements and certain agreements entered into by DASNY, OPWDD and the respective Series 2013 Participants (each an "Intercept Agreement"), upon the occurrence of certain events described herein and subject to any Prior Pledges of the Pledged Revenues, DASNY may direct OPWDD to remit the revenues payable by OPWDD to a Series 2013 Participant pursuant to its PPA or PPAs or otherwise in the case of the Mattituck Facility (the “Intercept Funds”) directly to DASNY or the Trustee for application to the payment of such Series 2013A Participant’s Allocable Portion of the Outstanding Series 2013A Bonds or to the payment of the Series 2013B Participant’s Outstanding Series 2013B Bonds, as applicable.

Pledged Revenues of one Series 2013 Participant will not be available to satisfy the obligations of any other Series 2013 Participant. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS - Security for the Series 2013 Bonds - Pledged Revenues - OPWDD Funds” and “- Standby Intercepts.” See also, “Appendix A - Description of Series 2013 Participants” and “Appendix E - Summary of Certain Provisions of the Loan Agreements.”

Limitations on Payment and Security Upon the Occurrence of Certain Events of Default

Series 2013A Bonds

A failure by a Series 2013A Participant to timely pay its obligations under its Loan Agreement might result in an event of default under the Resolutions if either (a) such Series 2013A Participant’s loan is accelerated in accordance with the provisions of its Loan Agreement, or (b) as a result of such nonpayment, there is failure to pay the principal, Sinking Fund Installments, and Redemption Price of and interest on the Series 2013A Bonds when due. In either event, the Resolution provides that an event of default will have occurred only with respect to the portion of each maturity of each Subseries of the Outstanding Series 2013A Bonds that corresponds to a principal installment on the defaulting Series 2013A Participant’s loan under the terms of its Loan Agreement (referred to as the “Defaulted Allocable Portion”). The funds available for the payment of a Defaulted Allocable Portion of the Series 2013A Bonds are limited by the Resolution to only those Revenues payable by or on behalf of such defaulting Series 2013A Participant pursuant to its Loan Agreement, funds on deposit with the Trustee attributable to such Series 2013A Participant and amounts recovered upon the realization on any collateral granted to DASNY as security for such Series 2013A Participant’s obligations under its Loan Agreement and pledged to the payment of the Series 2013A Bonds.

After the application of all such amounts to the payment of the Defaulted Allocable Portion of the Series 2013A Bonds following the acceleration or extraordinary mandatory redemption thereof in accordance with the Resolutions, such Defaulted Allocable Portion of the Series 2013A Bonds will be deemed paid and discharged and the event of default cured, whether or not payment in full of all of the principal of and interest on such Defaulted Allocable Portion has been made to the Holders thereof. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS - Events of Default - Special Provisions Relating to Defaults” and “Appendix F - Summary of Certain Provisions of the Resolutions.” See also, “PART 3 - THE SERIES 2013 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption.”

NO SERIES 2013 PARTICIPANT IS RESPONSIBLE FOR THE PAYMENT OBLIGATIONS OF ANY OTHER SERIES 2013 PARTICIPANT. IF A SERIES 2013A PARTICIPANT FAILS TO PAY AMOUNTS DUE UNDER ITS LOAN AGREEMENT IN RESPECT OF ITS ALLOCABLE PORTION OF THE SERIES 2013A BONDS, DASNY’S SOLE REMEDY WILL BE AGAINST THE DEFAULTING SERIES 2013A PARTICIPANT AND NO OTHER SERIES 2013 PARTICIPANT.

Series 2013B Bonds

A failure by the Series 2013B Participant to timely pay its obligations under the Series 2013B Loan Agreement might result in an event of default under the Resolutions if either (a) the Series 2013B Participant’s loan is accelerated in accordance with the provisions of the Series 2013B Loan Agreement, or (b) as a result of such nonpayment, there is failure to pay the principal, Sinking Fund Installments, and Redemption Price of and interest on the Series 2013B Bonds when due. In either event, the Resolution provides that an event of default will have occurred. The funds available for the payment of the Series 2013B Bonds are limited by the Resolution to only those Revenues payable by or on behalf of the Series 2013B Participant pursuant to its Loan Agreement, funds on deposit with the Trustee attributable to the Series 2013B Participant and amounts recovered upon the realization on any collateral granted to DASNY as security for the Series 2013B Participant's obligations under its Loan Agreement and pledged to the payment of the Series 2013B Bonds.

After the application of all such amounts to the payment of the Series 2013B Bonds following the acceleration or extraordinary mandatory redemption thereof in accordance with the Resolutions, the Series 2013B Bonds will be deemed paid and discharged and the event of default cured, whether or not payment in full of all of the principal of and interest on the Series 2013B Bonds has been made to the Holders thereof. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS - Events of Default" and "Appendix F - Summary of Certain Provisions of the Resolutions." See also, "PART 3 - THE SERIES 2013 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

The Mortgages

In the event that a Series 2013 Participant owns its Series 2013 Facilities, such Series 2013 Participant's obligations under its Loan Agreement will be additionally secured by a mortgage (each a "Mortgage") from such Series 2013 Participant to DASNY, granting a first mortgage lien on such owned Series 2013 Facilities (except as otherwise described herein), and by a first priority security interest in the fixtures, furniture and equipment located therein or used in connection therewith (except as otherwise described herein), in each case subject only to Permitted Encumbrances.

The Mortgages do not presently provide any security for the Series 2013 Bonds. However, under certain circumstances described herein, one or more of the Mortgages are required to be assigned to the Trustee. Prior to any assignment of a Mortgage to the Trustee, each Loan Agreement provides that DASNY, without the consent of the Trustee or the Holders of the applicable Series of 2013 Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of such Mortgage and of any security interest in furniture, fixtures or equipment located in or on or used in connection therewith and the property subject to such Mortgage or security interest may be released from the lien thereof, all upon such terms and conditions as DASNY may reasonably require. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS - Security for the Series 2013 Bonds - The Mortgages."

In the event that a Series 2013 Participant does not own its Series 2013 Facilities, such Series 2013 Participant's obligations under its Loan Agreement will not be secured by any mortgage or real property security interest.

See "Appendix A - Description of Series 2013 Participants" for a description of which Series 2013 Participants (i) own or lease their respective Series 2013 Facilities and (ii) will grant mortgages (and the nature of such mortgages) on their respective Series 2013 Facilities.

Two of the Mortgaged Properties of Lifespire are subject to a right of reacquisition by the State of New York, acting by and through DASNY and the predecessor of OPWDD in the event that Lifespire, its successors and assigns fail to utilize such Mortgaged Properties as authorized not-for-profit community mental hygiene services facilities for persons with mental retardation and developmental disabilities or, in the event that there is no longer a need for community mental hygiene services for persons with mental retardation and development disabilities, another legally authorized not-for-profit mental hygiene program purpose to which OPWDD has consented in writing. See "PART 11 - BONDHOLDERS' RISKS - Mortgages - Right of Reacquisition of the 127-06 Old South Road Facility and the 237-25 Jamaica Avenue Facility."

Collateral Assignment of Lease

Birch Family Services, Inc. leases its Series 2013A Facility located at 153-17 Jamaica Avenue, Jamaica, New York. In order to secure its obligations under its Loan Agreement, Birch Family Services, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Lease its right, title and interest (but not its obligations) in the lease for such Series 2013A Facility. The landlord under the lease has consented to such collateral assignment.

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2013 Bonds and certain related covenants. These provisions have been summarized, and this description does not purport to be complete. Reference should be made to the Act, the Resolution, the Series 2013A Resolution, the Series 2013B Resolution and the Loan Agreements, copies of which are on file with DASNY and the Trustee. See also "Appendix E - Summary of Certain Provisions of the Loan Agreements" and "Appendix F - Summary of Certain Provisions of the Resolutions" for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of the Series 2013 Bonds

Series 2013A Bonds

The Series 2013A Bonds are special obligations of DASNY. The principal, Sinking Fund Installments, and Redemption Price of and interest on the Series 2013A Bonds are payable solely from the Revenues. With respect to the Series 2013A Participants, the Revenues consist of the payments required to be made by each of the Series 2013A Participants under its respective Loan Agreement on account of such Series 2013A Participant's Allocable Portion of (i) the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2013A Bonds, and (ii) the Series 2013A Debt Service Reserve Fund Requirement (as defined below). The Revenues and the right to receive them have been pledged to the Trustee for the benefit of the Holders of the Series 2013A Bonds. The aggregate of payments due and payable to DASNY under all of the Series 2013A Loan Agreements will be sufficient to pay (i) the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2013A Bonds when due, (ii) amounts necessary to maintain the Series 2013A Debt Service Reserve Fund at its required level, and (iii) the annual fees of DASNY and the Trustee.

Each Series 2013A Loan Agreement is a general obligation of the respective Series 2013A Participant, pursuant to which such Series 2013A Participant will be required to make payments in amounts sufficient to satisfy its Allocable Portion of the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2013A Bonds as reflected in the debt service table set forth in "PART 3 – THE SERIES 2013 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2013 Bonds." The payment obligations of the Series 2013A Participants with respect to the Series 2013A Bonds are several, not joint. Each Series 2013A Participant is obligated to repay only its Allocable Portion of the Series 2013A Bonds. Each Series 2013A Participant's payments under its respective Loan Agreement will be applied pro rata to its Allocable Portion of the principal, Sinking Fund Installments, and Redemption Price of and interest due on each Subseries of the Outstanding Series 2013A Bonds.

Payments under each of the Series 2013A Loan Agreements are to be made monthly on the 10th day of each month. Each payment under the Series 2013A Loan Agreements is to be equal to one-sixth of such Series 2013A Participant's Allocable Portion of the interest coming due on the next succeeding interest payment date and one-twelfth of the Allocable Portion of the principal and Sinking Fund Installments coming due on the next succeeding July l. See "PART 3 – THE SERIES 2013 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2013 Bonds." Each of the respective Loan Agreements also obligates each respective Series 2013A Participant to pay, at least 45 days prior to a redemption date of Series 2013A Bonds called for redemption, its Allocable Portion of the amount, if any, required to pay the Redemption Price of such Series 2013A Bonds. See "PART 3 – THE SERIES 2013 BONDS – Redemption Provisions."

Series 2013B Bonds

The Series 2013B Bonds are special obligations of DASNY. The principal, Sinking Fund Installments, and Redemption Price of and interest on the Series 2013B Bonds are payable solely from the Revenues. With respect to the Series 2013B Participant, the Revenues consist of the payments required to be made by the Series 2013B Participant under the Series 2013B Loan Agreement on account of (i) the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2013B Bonds, and (ii) the Series 2013B Debt Service Reserve Fund Requirement (as defined below). The Revenues and the right to receive them have been pledged to the Trustee for the benefit of the Holders of the Series 2013B Bonds. The payments due and payable to DASNY under the Series 2013B Loan Agreement will be sufficient to pay (i) the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2013B Bonds when due, (ii) amounts necessary to maintain the Series 2013B Debt Service Reserve Fund at its required level, and (iii) the annual fees of DASNY and the Trustee.

The Series 2013B Loan Agreement is a general obligation of the Series 2013B Participant, pursuant to which the Series 2013B Participant will be required to make payments in amounts sufficient to satisfy the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2013B Bonds as reflected in the debt service table set forth in "PART 3 – THE SERIES 2013 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2013 Bonds."

Payments under the Series 2013B Loan Agreement are to be made monthly on the 10th day of each month. Each payment under the Series 2013B Loan Agreement is to be equal to one-sixth of the interest coming due on the next succeeding interest payment date and one-twelfth of the principal and Sinking Fund Installments coming due on the next succeeding July l. See "PART 3 – THE SERIES 2013 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2013 Bonds." The Series 2013B Loan Agreement also obligates the Series 2013B Participant to pay, at least 45 days prior to a redemption date of Series 2013B Bonds called for redemption, the amount, if any, required to pay the Redemption Price of such Series 2013B Bonds. See "PART 3 – THE SERIES 2013 BONDS – Redemption Provisions."

Security for the Series 2013 Bonds

General

Series 2013A Bonds

The Series 2013A Bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and DASNY's security interest in the applicable Pledged Revenues, subject to Prior Pledges. See "Appendix A - Description of the Series 2013 Participants" for a description of which Series 2013A Participants have Prior Pledges of their respective Pledged Revenues.

The Series 2013A Bonds will also be secured by the proceeds from the sale of such Series 2013A Bonds (until disbursed as provided in the Resolutions) and all funds and accounts authorized by the Resolution and established by the Series 2013A Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2013A Debt Service Reserve Fund.

Pursuant to the terms of the Resolution, the Series 2013A Bonds are separately secured from all other Series of Bonds, including the Series 2013B Bonds. The Holders of any Series of Bonds are not entitled to the rights, benefits and security conferred upon the Holders of any other Series of Bonds.

Series 2013B Bonds

The Series 2013B Bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and DASNY's security interest in the applicable Pledged Revenues, subject to Prior Pledges. See "Appendix A - Description of the Series 2013 Participants" for a description of the Prior Pledges for the Series 2013B Participant. See also, " – Series 2013B Intercreditor Agreement" below.

The Series 2013B Bonds will also be secured by the proceeds from the sale of such Series 2013B Bonds (until disbursed as provided in the Resolutions) and all funds and accounts authorized by the Resolution and established by the Series 2013B Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2013B Debt Service Reserve Fund.

Pursuant to the terms of the Resolution, the Series 2013B Bonds are separately secured from all other Series of Bonds, including the Series 2013A Bonds. The Holders of any Series of Bonds are not entitled to the rights, benefits and security conferred upon the Holders of any other Series of Bonds.

Pledged Revenues - OPWDD Funds

Pursuant to the Act and the respective Loan Agreements, each Series 2013 Participant has pledged and assigned to DASNY its Pledged Revenues in an amount sufficient to satisfy its payment obligations under its Loan Agreement, subject to any Prior Pledges. With respect to each Series 2013 Participant, the Pledged Revenues are all Public Funds payable to a Series 2013 Participant with respect to its Series 2013 Facilities including any Intercept Funds. See "PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

Other than AABR's Mattituck Facility, each Series 2013 Facility is supported by an OPWDD PPA, which the applicable Series 2013 Participant has received. The PPA represents OPWDD's pre-approval of the applicable Series 2013 Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2013 Participant in connection with its financing or refinancing of the acquisition, renovation and furnishing, as applicable, of such Series 2013 Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2013 Participant operates the applicable Series 2013 Facility in accordance with certain defined standards. Assuming annual appropriation of sufficient funds and continued compliance with operational standards, it is expected by the Series 2013A Participants that the amounts received by the Series 2013A Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the Series 2013A Bonds (except for AABR's Allocable Portion of the Series 2013A Bonds related to the Mattituck Facility) and the amounts received by the Series 2013B Participant pursuant to its PPAs will be sufficient to pay the principal of and interest on the Series 2013B Bonds. It is expected by AABR that the principal of and interest on AABR's Allocable Portion of the Series 2013A Bonds related to the Mattituck Facility will be paid from operating revenues of AABR. See "PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

Standby Intercepts

The Act authorizes, and each Loan Agreement and Intercept Agreement establishes, an intercept mechanism whereby OPWDD officials are authorized and required to pay a Series 2013 Participant's Intercept Funds to DASNY in accordance with a certificate filed by DASNY with such State officer. Until the occurrence of an event with respect to a Series 2013 Participant described in clause (a) or (b) below, a Series 2013 Participant's Intercept Funds will be paid directly to such Series 2013 Participant and applied towards any of its corporate purposes. However, pursuant to the respective Loan Agreements and Intercept Agreements, upon the occurrence of (a) an event of default under a Series 2013 Participant's Loan Agreement, or an event which with the passage of time or giving of notice, or both, would become an event of default under such Series 2013 Participant's Loan Agreement, or (b) a drawing of funds from the applicable Debt Service Reserve Fund for the benefit of such Series 2013 Participant that has not been repaid by such Series 2013 Participant as required by its Loan Agreement and the applicable Resolutions, DASNY may, in addition to all other remedies available pursuant to such Series 2013 Participant's Loan Agreement, cause such Series 2013 Participant's Intercept Funds to be deducted, withheld and paid directly to DASNY or the Trustee, as appropriate, in an amount sufficient to make the payments required by such Series 2013 Participant pursuant to its Loan Agreement. See "PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities." Intercept Funds of one Series 2013 Participant will not be available to satisfy the payment obligations of any other Series 2013 Participant.

There can be no assurance that the amount of a Series 2013 Participant's Intercept Funds will be sufficient to satisfy its payment obligations with respect to its Allocable Portion of the Series 2013A Bonds (or the Series 2013B Bonds in the case of the Series 2013B Participant). In the event that amounts received from OPWDD upon the intercept of a Series 2013 Participant's Intercept Funds are insufficient to pay all of a Series 2013A Participant's Allocable Portion of the principal of and interest on the Series 2013A Bonds when due (or the Series 2013B Bonds in the case of the Series 2013B Participant), such amounts received will be applied pro rata to such Series 2013A Participant's Allocable Portion of each Subseries of the Series 2013A Bonds (or the Subseries of the Series 2013B Bonds in the case of the Series 2013B Participant).

The ability of the Series 2013 Participants to satisfy their payment obligations under the respective Loan Agreements with respect to the Series 2013 Bonds and DASNY's ability to realize upon its security interests in the respective Pledged Revenues are largely dependent upon the continued operation by the Series 2013 Participants of their respective Series 2013 Facilities, which may be adversely affected by a number of risk factors. Such risk factors include, but are not limited to, (i) the financial condition of the Series 2013 Participants and their ability to continue to generate sufficient revenues to support all of their respective facilities, including their Series 2013 Facilities, (ii) the continued compliance by the Series 2013 Participants with State and local operational standards with respect to their Series 2013 Facilities, and (iii) the continued commitment of Public Funds to support the programs and facilities operated by the Series 2013 Participants, particularly with respect to the Series 2013 Facilities, the continued appropriations by the State in amounts sufficient for OPWDD to make payments to the Series 2013 Participants pursuant to their respective PPAs or otherwise. For a more detailed discussion of risk factors affecting the ability of the Series 2013 Participants to pay amounts owed under their Loan Agreements and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2013 Bonds, see "PART 11 - BONDHOLDERS' RISKS" herein. See also, "PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING" and "Appendix A - Description of the Series 2013 Participants" for a description of which Series 2013 Participants have Prior Pledges of their respective Pledged Revenues.

Debt Service Reserve Fund

Series 2013A Bonds

The Resolution authorizes, and the Series 2013A Resolution establishes, the Series 2013A Debt Service Reserve Fund, which is required to be maintained in an amount equal to one-half of the greatest amount required in the then current or any future calendar year to pay the sum of (i) interest on the Outstanding Series 2013A Bonds payable during such year, excluding interest accrued thereon prior to July 1 of the next preceding year and (ii) the principal and the Sinking Fund Installments of such Series 2013A Bonds (the "Series 2013A Debt Service Reserve Fund Requirement").

Proceeds of the Series 2013A Bonds will be deposited in separate accounts established in the Series 2013A Debt Service Reserve Fund for each Series 2013A Participant in amounts equal to the respective Series 2013A Participant's Allocable Portion of the Series 2013A Debt Service Reserve Fund Requirement. If, on the fourth Business Day preceding an interest payment date for the Series 2013A Bonds, the amount on deposit in the account established for a Series 2013A Participant in the Debt Service Fund is less than the amount necessary to pay such Series 2013A Participant's Allocable Portion of the principal or Sinking Fund Installments of and interest on the Outstanding Series 2013A Bonds payable on such interest payment date, the Trustee is required to transfer moneys from the applicable account of the Series 2013A Debt Service Reserve Fund to the corresponding account of the Debt Service Fund in an amount sufficient to provide for such payment. Each Series 2013A Loan Agreement requires the respective Series 2013A Participant to restore in full any amount withdrawn from the Series 2013A Debt Service Reserve Fund for its benefit within five days after receiving notice of a withdrawal. Each Series 2013A Loan Agreement also requires the respective Series 2013A Participant to restore in full its Allocable Portion of the Series 2013A Debt Service Reserve Fund Requirement within five days after receiving notice of a deficiency in the Series 2013A Debt Service Reserve Fund resulting from a devaluation of the investments held therein. Each Series 2013A Participant is responsible for only its Allocable Portion of the Series 2013A Debt Service Reserve Fund Requirement. Moneys in the Series 2013A Debt Service Reserve Fund in excess of its requirement shall be applied in accordance with the Resolutions.

Series 2013B Bonds

The Resolution authorizes, and the Series 2013B Resolution establishes, the Series 2013B Debt Service Reserve Fund, which is required to be maintained in an amount equal to one-half of the greatest amount required in the then current or any future calendar year to pay the sum of (i) interest on the Outstanding Series 2013B Bonds payable during such year, excluding interest accrued thereon prior to July 1 of the next preceding year and (ii) the principal and the Sinking Fund Installments of such Series 2013B Bonds (the "Series 2013B Debt Service Reserve Fund Requirement").

If, on the fourth Business Day preceding an interest payment date for the Series 2013B Bonds, the amount on deposit in the Series 2013B Debt Service Fund is less than the amount necessary to pay the principal or Sinking Fund Installments of and interest on the Outstanding Series 2013B Bonds payable on such interest payment date, the Trustee is required to transfer moneys from the Series 2013B Debt Service Reserve Fund to the Debt Service Fund in an amount sufficient to provide for such payment. The Series 2013B Loan Agreement requires the Series 2013B Participant to restore in full any amount withdrawn from the Series 2013B Debt Service Reserve Fund for its benefit within five days after receiving notice of a withdrawal. The Series 2013B Loan Agreement also requires the Series 2013B Participant to restore in full the Series 2013B Debt Service Reserve Fund Requirement within five days after receiving notice of a deficiency in the Series 2013B Debt Service Reserve Fund resulting from a devaluation of the investments held therein. Moneys in the Series 2013B Debt Service Reserve Fund in excess of its requirement shall be applied in accordance with the Resolutions.

Reserve Fund Facilities

In lieu of or in substitution for moneys in the applicable Debt Service Reserve Fund, DASNY may deposit or cause to be deposited with the Trustee a Reserve Fund Facility satisfying the requirements of the Resolutions for all or any part of the applicable Debt Service Reserve Fund Requirement or any Series 2013 Participant's Allocable Portion thereof. See "Appendix F - Summary of Certain Provisions of the Resolutions."

Mortgages

In the event that a Series 2013 Participant owns its Series 2013 Facilities, such Series 2013 Participant's obligations to DASNY under its Loan Agreement will be additionally secured by its Mortgage granting a first mortgage lien on such owned Series 2013 Facilities to DASNY (except in the case of the Series 2013B Facilities located at 634 East 241st Street, Bronx, New York, 954 East 211th Street, Bronx, New York, 1035 E. 233rd Street, Bronx, New York, 1623 Glover Street, Bronx, New York, 450 Castle Hill Avenue, Bronx, New York and 4316 Van Cortland Park East, Bronx, New York, where the Series 2013B Participant will grant a second mortgage), and by a first priority security interest granted to DASNY in the fixtures, furnishings and equipment now or hereafter located on the property subject to such Mortgage (except in the case of the Series 2013B Facilities located at 634 East 241st Street, Bronx, New York, 1035 E. 233rd Street, Bronx, New York, 450 Castle Hill Avenue, Bronx, New York, 954 East 211th Street, Bronx, New York, 1623 Glover Street, Bronx, New York, 4316 Van Cortland Park East, Bronx, New York and 122-15 Irwin Place, Springfield Gardens, New York, where the Series 2013B Participant will grant a second priority security interest), in each case subject to Permitted Encumbrances. See "Appendix A - Description of Series 2013 Participants."

Prior to any assignment of a Mortgage to the Trustee, each Loan Agreement provides that DASNY, without the consent of the Trustee or the Holders of the applicable Series of Series 2013 Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of such Mortgage and of any security interest in furniture, fixtures or equipment located in or on or used in connection therewith and the property subject to such Mortgage or security interest may be released from the lien thereof, all upon such terms and conditions as DASNY may reasonably require. Notwithstanding the foregoing, a Series 2013 Participant may remove furniture, fixtures or equipment from the Mortgaged Property provided that such Series 2013 Participant shall replace such furniture, fixtures or equipment with furniture, fixtures or equipment having equivalent value and utility.

DASNY may, but has no present intention to, assign all or a portion of any of the Mortgages or such security interests to the Trustee. Upon (a) a withdrawal from an applicable account of the Series 2013A Debt Service Reserve Fund or from the Series 2013B Debt Service Reserve Fund, which has not been restored by the respective Series 2013 Participant to its requirement within 30 days from the date of such withdrawal or (b) the occurrence and continuance of an event of default under a Series 2013 Participant's Loan Agreement and the acceleration of the loan thereunder, DASNY is required to assign such Series 2013 Participant's Mortgage and the related security interest in the fixtures, furnishings and equipment to the Trustee for the benefit of the Holders of such Series 2013 Participant's Allocable Portion of the applicable Outstanding Series of Series 2013 Bonds. Unless a Mortgage is assigned to the Trustee, none of the Mortgages or the security interests in the related fixtures, furnishings and equipment or any proceeds therefrom will be pledged to the Holders of the Series 2013 Bonds. **Each Mortgage secures only the obligations of the Series 2013 Participant granting the Mortgage, and, in the event**

of a default by a Series 2013 Participant which may lead to the assignment of its Mortgage, only the Mortgage of that defaulting Series 2013 Participant may be assigned.

Each Series 2013 Participant may incur debt secured on parity with or subordinate to the lien of its Mortgage, including debt incurred in connection with the issuance of other Series of Bonds under the Resolution, with the prior consent of DASNY.

The liens and security interest granted to DASNY by a Mortgage are subject to Permitted Encumbrances. The lien of and security interest in each Series 2013 Participant's owned Series 2013 Facility(ies) as described in its Mortgage may also be limited by certain factors. See "PART 11-BONDHOLDERS' RISKS" and "Appendix A – Description of Series 2013 Participants" herein.

Collateral Assignment of Lease

In order to secure its obligations under its Loan Agreement, Birch Family Services, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Lease its right, title and interest (but not its obligations) in the lease for its Series 2013 Facility located at 153-17 Jamaica Avenue, Jamaica, New York. The landlord under the lease has consented to such collateral assignment.

Series 2013B Intercreditor Agreement

In 2004, DASNY issued its Leake and Watts Services, Inc. Insured Revenue Bonds, Series 2004, in the original aggregate principal amount of $33,105,000 (the "Series 2004 Bonds" and together with the Series 2013B Bonds, the "Leake and Watts Bonds") $21,815,000 of which remain outstanding. The Series 2004 Bonds were issued to provide a loan to the Series 2013B Participant pursuant to a loan agreement (the "2004 Loan Agreement" and together with the Series 2013B Loan Agreement, the "Leake and Watts Loan Agreements") by and between DASNY and the Series 2013B Participant. The Series 2004 Bonds were insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation (the "Bond Insurer").

The Series 2013B Participant's obligations under the 2004 Loan Agreement are secured by the security interest in the pledged revenues granted thereunder. For purposes of the 2004 Loan Agreement, the term pledged revenues means all public funds, all moneys apportioned or otherwise payable to the Series 2013B Participant, by the federal government, receipts, revenues, income, gifts, grants, assistance, bequests and other moneys received by the Series 2013B Participant, including all rights to receive the same, whether in the form of accounts receivable, lease payments or other contract rights or other rights, and the proceeds of such rights whether now owned or held or hereafter coming into existence (the "2004 Pledged Revenues"). Under the 2004 Loan Agreement, the Series 2013B Participant covenanted not to create or permit to be created any lien, pledge, security interest or assignment in the 2004 Pledged Revenues that is on a parity with the interest granted by the 2004 Loan Agreement without the prior written consent of DASNY and the Bond Insurer.

In connection with the issuance of the Series 2013B Bonds, DASNY, the Trustee and the trustee for the Series 2004 Bonds will execute an intercreditor agreement (the "Series 2013B Intercreditor Agreement"). In the Series 2013B Intercreditor Agreement, the parties acknowledge and agree that the pledge, grant of a security interest in and assignment to the DASNY of the Pledged Revenues made in the Series 2013B Loan Agreement (which consist solely of Public Funds payable to the Series 2013B Participant with respect to its Series 2013B Facilities) is subordinate to the Prior Pledges identified therein, which Prior Pledges include the pledge of the 2004 Pledged Revenues made in the 2004 Loan Agreement (which consist of all of the Series 2013B Participant's gross revenues as described above).

The parties further acknowledge that the 2013 Pledged Revenues are included as part of the 2004 Pledged Revenues.

Pursuant to the Series 2013B Intercreditor Agreement, in the event of:

(a) a payment default with respect to either Leake and Watts Loan Agreement or series of the Leake and Watts Bonds and/or insufficient revenues to pay obligations under both Leake and Watts Loan Agreements or both series of the Leake and Watts Bonds, any payments by the Series 2013B Participant and any proceeds resulting from the enforcement of remedies under the applicable financing documents will be applied (i) first, for the benefit of the Holders of the Series 2004 Bonds until the Series 2013B Participant's payment obligations then due and owing under the 2004 Loan Agreement are fully satisfied, and (ii) only then shall the Pledged Revenues or the proceeds thereof be applied, for the benefit of the Holders of the Series 2013B Bonds to satisfy the Series 2013B Participant's payment obligations then due and owing under the Series 2013B Loan Agreement; or

(b) an acceleration of either Leake and Watts Loan Agreement or series of Leake and Watts Bonds, whether or not the other Loan Agreement or series of Leake and Watts Bonds has been accelerated, any payments by the Series 2013B Bonds and any proceeds resulting from the enforcement of remedies under the applicable financing documents will be applied (i) first, for the benefit of the Holders of the Series 2004 Bonds until the Series 2013B Participant's payment obligations then due and owing under the 2004 Loan Agreement are fully satisfied and (ii) only then shall the Pledged Revenues or the proceeds thereof be applied for the benefit of the Holders of the Series 2013B Bonds to satisfy the Series 2013B Participant's payment obligations then due and owing under the Series 2013B Loan Agreement.

The Series 2013B Facilities remain subject to the provisions of the State's Mental Hygiene Law, including, without limitation, the provisions relating to the ability of the New York State Commissioner of OPWDD to request the appointment of a receiver as described in "PART 5 – SOURCES OF SERIES 2013 PARTICIPANT FUNDING – New York State Office for People with Developmental Disabilities – Commissioner's Ability to Request a Receiver for a Facility; Security Interests."

Events of Default

Events of Default

The Resolutions provide that events of default thereunder constitute events of default with respect to the Series 2013A Bonds or the Series 2013B Bonds, as applicable. The following are events of default under the Resolutions:

(i) a default in the payment of the principal, Sinking Fund Installments or Redemption Price of or interest on the Series 2013A Bonds or the Series 2013B Bonds, as applicable, of any Subseries; *provided, however,* if the failure to make any such payment is caused by a failure of a Series 2013A Participant to timely pay its Allocable Portion of the principal, Sinking Fund Installments or Redemption Price of or interest on the applicable Series 2013A Bonds pursuant to the terms of its Series 2013A Loan Agreement, then it shall be an event of default under the Resolution and the Series 2013A Resolution only with respect to the Defaulted Allocable Portion of the Series 2013A Bonds Outstanding;

(ii) DASNY shall default in the due and punctual performance of its tax covenants contained in the Resolutions with the result that the interest on the Subseries 2013A-1 Bonds or the Subseries 2013B-1 Bonds, as applicable, shall no longer be excludable from gross income for federal income tax purposes;

(iii) a default by DASNY in the due and punctual performance of any other covenant, condition, agreement or provision contained in the Series 2013A Bonds or in the Series 2013B Bonds, as applicable, or in the applicable Resolutions which continues for 30 days after written notice thereof is given to DASNY by the Trustee (such notice to be given at the Trustee's discretion or at the written request of Holders of not less than 25% in principal amount of Outstanding Series 2013A Bonds or Series 2013B Bonds, as applicable); or

(iv) an event of default under a Loan Agreement shall have occurred and is continuing and, as a result thereof, all sums payable by a Series 2013 Participant under such Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled; *provided, however*, that such event of default under a Series 2013A Loan Agreement shall constitute an event of default under the Resolution and the Series 2013A Resolution only with respect to the Defaulted Allocable Portion of the Series 2013A Bonds.

With respect to an event of default affecting only the Defaulted Allocable Portion of the Series 2013A Bonds and not any other portion of the Series 2013A Bonds, the Trustee will determine such Defaulted Allocable Portion in the manner described in "PART 3 - THE SERIES 2013 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption" herein.

The Series 2013A Bonds are separately secured from all other Series of Bonds which may be issued pursuant to the Resolution, including the Series 2013B Bonds. **While an event of default with respect to another Series of Bonds will not necessarily result in an event of default with respect to the Series 2013A Bonds, an event of default by a Series 2013A Participant under a loan agreement entered into in connection with the issuance of another Series of Bonds will result in an event of default under such Series 2013A Participant's Loan Agreement.**

The Series 2013B Bonds are separately secured from all other Series of Bonds which may be issued pursuant to the Resolutions, including the Series 2013A Bonds. **While an event of default with respect to another Series of Bonds will not necessarily result in an event of default with respect to the Series 2013B Bonds, an event of default by the Series 2013B Participant under a loan agreement entered into in connection with the issuance of another Series of Bonds will result in an event of default under the Series 2013B Loan Agreement. In addition, an event of default under the 2004 Loan Agreement will result in an Event of Default under the Series 2013B Loan Agreement pursuant to the terms of the Series 2013B Intercreditor Agreement.**

Acceleration; Control of Proceedings

The Resolution provides that if an event of default (other than an event of default described in clause (i) under the first paragraph of the subheading "Events of Default" above resulting from a Series 2013A Participant's failure to timely pay its Allocable Portion of the Series 2013A Bonds or from the Series 2013B Participant's failure to timely pay the Series 2013B Bonds or an event as described in clauses (ii) or (iv) under the first paragraph of the subheading "Events of Default") occurs and continues, the Trustee shall, upon the written request of the Holders of not less than 25% in principal amount of the Outstanding applicable Series of Series 2013 Bonds, by a notice in writing to DASNY, declare the principal of and interest on all of the Outstanding applicable Series of Series 2013 Bonds to be due and payable immediately. At the expiration of 30 days from the giving of such notice, such principal and interest shall become immediately due and payable. The Trustee may, with the written consent of the Holders of not less than 25% in principal amount of the applicable Series of Series 2013 Bonds then

Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

In the case of a default described in clause (i) under the first paragraph of the subheading "Events of Default" above resulting from a failure of a Series 2013A Participant to timely pay its Allocable Portion of the Series 2013A Bonds pursuant to its Loan Agreement, a failure of the Series 2013B Participant to timely pay the Series 2013B Bonds pursuant to the Series 2013B Loan Agreement, or a default described in clause (iv) under the first paragraph of the subheading "Events of Default" above then and in every such case the Trustee shall, upon the written request of the Holders of not less than 25% in principal amount of the Defaulted Allocable Portion of the Outstanding Series 2013A Bonds declare the principal of and interest on the Defaulted Allocable Portion of the Outstanding Series 2013A Bonds to be due and payable immediately, and, upon the written request of the Holders of not less than 25% in principal amount of the Outstanding Series 2013B Bonds declare the principal of and interest on the Outstanding Series 2013B Bonds to be due and payable immediately.

At the expiration of 30 days after notice of such declaration has been given, such principal and interest shall become immediately due and payable. The Trustee may, with the written consent of the Holders of not less than 25% in principal amount of the Defaulted Allocable Portion of the Series 2013A Bonds then Outstanding or the Series 2013B Bond then Outstanding, as applicable, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

With respect to the Series 2013A Bonds, the Holders of not less than 25% in principal amount of the Outstanding Series 2013A Bonds or 25% in principal amount of Defaulted Allocable Portion of the Outstanding Series 2013A Bonds, as applicable, or, in the case of a default described in clause (ii) in the first paragraph under the subheading "Events of Default" above, the Holders of not less than a majority in principal amount of the Outstanding Series 2013A Bonds, shall have the right to direct the method and place of conducting all remedial actions to be taken by the Trustee with respect to the Series 2013A Bonds.

With respect to the Series 2013B Bonds, the Holders of not less than 25% in principal amount of the Outstanding Series 2013B Bonds or, in the case of a default described in clause (ii) in the first paragraph under the subheading "Events of Default" above, the Holders of not less than a majority in principal amount of the Outstanding Series 2013B Bonds, shall have the right to direct the method and place of conducting all remedial actions to be taken by the Trustee with respect to the Series 2013B Bonds.

Notice of Events of Default

The Resolution provides that the Trustee is to give notice in accordance with the Resolution of each event of default actually known to the Trustee to the Holders of the applicable Series of Series 2013 Bonds within 30 days, after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that except in the case of default in the payment of principal, Sinking Fund Installments or Redemption Price of or interest due on any of the applicable Series of Series 2013 Bonds, the Trustee is protected in withholding such notice thereof to the Holders if and as long as the Trustee in good faith determines that the withholding of such notice is in the best interests of the Holders of the Series 2013 Bonds.

Special Provisions Relating to Defaults

Series 2013A Bonds

The Resolution provides that upon the happening and continuance of an event of default affecting only a Defaulted Allocable Portion of the Series 2013A Bonds as described in clauses (i) and (iv) above under the subheading "Events of Default," payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on such Defaulted Allocable Portion of Series 2013A Bonds (either by their terms, by acceleration or by the extraordinary mandatory redemption thereof) shall be limited solely to (i) those Revenues received or receivable by DASNY pursuant to the defaulting Series 2013A Participant's Loan Agreement, including such Series 2013A Participant's Pledged Revenues and other amounts derived from the exercise of any remedies under such Loan Agreement and the realization of any security or collateral granted by such defaulting Series 2013A Participant as security for its loan, and (ii) the moneys and securities on deposit in only those accounts established pursuant to the Series 2013A Resolution for the payment of such defaulting Series 2013A Participant's Allocable Portion of the Series of 2013A Bonds. Holders of a Defaulted Allocable Portion of the Series 2013A Bonds will have no right to any other Revenues or any other funds held by the Trustee under the Resolution derived from payments made by or on behalf of any other Series 2013A Participant for the payment of the Series 2013A Bonds or any other security pledged by such other non-defaulting Series 2013A Participants as security for their loans.

If, following the exercise of all remedies available to the Trustee under the Resolutions and the realization on all security and collateral available for the payment of a Defaulted Allocable Portion of the Outstanding Series 2013A Bonds, moneys derived from the sources specified above are available to pay only a portion of the principal and interest due on such Defaulted Allocable Portion of the Series 2013A Bonds upon the extraordinary mandatory redemption or acceleration thereof, then after application by the Trustee of all available moneys to the partial payment of such Defaulted Allocable Portion of the Series 2013A Bonds on a pro rata basis in accordance with the Resolution, (i) the remaining Defaulted Allocable Portion of the Series 2013A Bonds shall be cancelled with the same effect as if paid in full and the event of default shall be deemed cured, (ii) all obligations of DASNY and the Trustee under the Resolutions with respect to such Defaulted Allocable Portion of the Series 2013A Bonds shall be deemed to have been discharged and satisfied, and (iii) the Holders of the Defaulted Allocable Portion of the Series 2013A Bonds shall no longer be entitled to the benefits of the Resolutions by virtue of their ownership of such Defaulted Allocable Portion of the Series 2013A Bonds. Upon such payment and/or cancellation of a Defaulted Allocable Portion of the Outstanding Series 2013A Bonds, DASNY shall execute and the Trustee shall authenticate a new Series 2013A Bond or Series 2013A Bonds in a principal amount equal to the Outstanding principal amount of the Series 2013A Bonds of each applicable maturity less the principal amount of the Defaulted Allocable Portion thereof so paid and/or cancelled.

Payments made to Holders of the Series 2013A Bonds of less than all of the principal of and interest on a Defaulted Allocable Portion of the Outstanding Series 2013A Bonds following an acceleration or extraordinary mandatory redemption of such Defaulted Allocable Portion of the Series 2013A Bonds and the application by the Trustee of all funds available for the payment thereof as described above, will not be deemed a payment default on the Series 2013A Bonds under the Resolutions.

Series 2013B Bonds

If, following the exercise of all remedies available to the Trustee under the Resolutions upon an event of default described in clauses (i) and (iv) above under the subheading "Events of Default," and the realization on all security and collateral available for the payment of the Outstanding Series 2013B

Bonds, moneys derived from the sources specified above are available to pay only a portion of the principal and interest due on the Series 2013B Bonds upon the extraordinary mandatory redemption or acceleration thereof, then after application by the Trustee of all available moneys to the partial payment of such Series 2013B Bonds on a pro rata basis in accordance with the Resolutions, (i) the remaining Series 2013B Bonds shall be cancelled with the same effect as if paid in full and the event of default shall be deemed cured, (ii) all obligations of DASNY and the Trustee under the Resolutions with respect to such Series 2013B Bonds shall be deemed to have been discharged and satisfied, and (iii) the Holders of the Series 2013B Bonds shall no longer be entitled to the benefits of the Resolutions by virtue of their ownership of such Series 2013B Bonds. Upon such payment and/or cancellation of an Outstanding Series 2013B Bonds, DASNY shall execute and the Trustee shall authenticate a new Series 2013B Bond or Series 2013B Bonds in a principal amount equal to the Outstanding principal amount of the Series 2013B Bonds of each applicable maturity less the principal amount thereof so paid and/or cancelled.

Payments made to Holders of the Series 2013B Bonds of less than all of the principal of and interest on the Outstanding Series 2013B Bonds following an acceleration or extraordinary mandatory redemption of the Series 2013B Bonds and the application by the Trustee of all funds available for the payment thereof as described above, will not be deemed a payment default on the Series 2013B Bonds under the Resolutions.

General

The Series 2013 Bonds will not be a debt of the State nor will the State be liable thereon. DASNY has no taxing power. DASNY has never defaulted in the timely payment of principal or sinking fund installments of or interest on its bonds or notes. See "PART 7 – DASNY."

PART 3 - THE SERIES 2013 BONDS

Set forth below is a narrative description of certain provisions relating to the Series 2013 Bonds. These provisions have been summarized, and this description does not purport to be complete. Reference should be made to the Resolution, the Series 2013A Resolution, the Series 2013B Resolution and the Loan Agreements, copies of which are on file with DASNY and the Trustee. See also "Appendix E - Summary of Certain Provisions of the Loan Agreements" and "Appendix F - Summary of Certain Provisions of the Resolutions," for a more complete description of certain provisions of the Series 2013 Bonds.

General

The Series 2013 Bonds will be issued pursuant to the Resolutions. The Series 2013 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the Series 2013 Bonds will be made in book-entry form, without certificates. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2013 Bonds, payments of principal, Sinking Fund Installments, Redemption Price and interest on the Series 2013 Bonds will be made by the Trustee directly to Cede & Co. Disbursement of such payments to the Direct Participants (as hereinafter defined) is the responsibility of DTC and disbursement of those payments to the Beneficial Owners of the Series 2013 Bonds is the responsibility of the Direct Participants and the Indirect Participants (as hereinafter defined). If at any time the Book-Entry Only System is discontinued for the Series 2013 Bonds, the Series 2013 Bonds will be exchangeable for fully registered Series 2013 Bonds in any authorized denominations of the same Series, Subseries and maturity, without charge, except the payment of any tax, fee or other governmental charge required to be paid with respect to such exchange, subject to the conditions and restrictions set for in the Resolution. See " - Book-Entry Only System" herein and "Appendix F - Summary of Certain Provisions of the Resolutions."

Description of the Series 2013 Bonds

The Series 2013 Bonds will be dated their date of delivery and will bear interest from such date (payable on July 1, 2013 and on each January 1 and July 1 thereafter) at the rates per annum, and will mature on July 1 in each of the years set forth on the inside cover page of this Official Statement. The Series 2013 Bonds will be issuable in fully registered book-entry-only form, without coupons, in denominations of $5,000 or any integral multiple in excess thereof.

Each Series and Subseries of the Series 2013 Bonds may be exchanged for other Series 2013 Bonds of the same Series and Subseries in any other authorized denominations upon payment of a charge sufficient to reimburse DASNY or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange and for the cost of preparing the new bond, and otherwise as provided in the Resolution.

Redemption Provisions

Optional Redemption

The Subseries 2013A-1 Bonds and the Subseries 2013B-1 Bonds (collectively, the "Tax-Exempt Bonds") maturing on or after July 1, 2024 are subject to redemption, on or after July 1, 2023, as a whole or in part at any time at the option of DASNY, at the Redemption Price equal to 100% of the unpaid principal amount of the Tax-Exempt Bonds to be redeemed, plus accrued interest to the redemption date.

The Subseries 2013A-2 and the Subseries 2013B-2 Bonds (collectively, the "Taxable Bonds") are not subject to optional redemption.

Extraordinary Mandatory Redemption

Series 2013A Bonds

Each Defaulted Allocable Portion of the Series 2013A Bonds is subject to extraordinary mandatory redemption at any time prior to maturity in whole, within 45 days following the realization by the Trustee pursuant to the Resolution on all security and collateral granted by the applicable defaulting Series 2013A Participant as security for its loan upon an acceleration of such loan under its Loan Agreement. The Series 2013A Bonds to be so redeemed shall be redeemed at a redemption price equal to (a) the principal amount of the Outstanding Defaulted Allocable Portion of the Series 2013A Bonds to be redeemed on the redemption date, times the lesser of (i) 100% or (ii) the quotient, expressed as a percentage, obtained by dividing (A) the amount of funds available to the Trustee to pay the principal of and interest on such Defaulted Allocable Portion of the Series 2013A Bonds on the redemption date less the amount of accrued interest to be paid on such Defaulted Allocable Portion of the Series 2013A Bonds on such date, by (B) the principal amount of the Defaulted Allocable Portion of the Series 2013A Bonds to be redeemed, plus (b) accrued interest to the redemption date.

The Trustee shall, as reasonably practicable, determine the Defaulted Allocable Portion of the Series 2013A Bonds to be redeemed based upon the schedule of amortization of the defaulting Series 2013A Participant's loan which has been accelerated. All Series 2013A Bonds of each maturity that correspond to a principal installment of the defaulted loan shall be called for redemption in part. The Trustee shall redeem only that portion of each Series 2013A Bond which represents the quotient obtained by dividing the principal scheduled to be paid on such defaulted loan in the year of maturity of such Series 2013A Bond by the total principal scheduled to be paid in the year of maturity of such Series

2013A Bond on all loans made with the proceeds of the Series 2013A Bonds, including the defaulted loan.

The particular Series 2013A Bonds of each affected maturity to be redeemed will be selected in the manner described below under "- Selection of Series 2013 Bonds to be Redeemed."

Series 2013B Bonds

The Series 2013B Bonds are subject to extraordinary mandatory redemption at any time prior to maturity in whole, within 45 days following the realization by the Trustee pursuant to the Resolution on all security and collateral granted by the Series 2013B Participant as security for its loan upon an acceleration of such loan under its Loan Agreement. The Series 2013B Bonds to be so redeemed shall be redeemed at a redemption price equal to (a) the principal amount of the Outstanding Series 2013B Bonds to be redeemed on the redemption date, times the lesser of (i) 100% or (ii) the quotient, expressed as a percentage, obtained by dividing (A) the amount of funds available to the Trustee to pay the principal of and interest on the Series 2013B Bonds on the redemption date less the amount of accrued interest to be paid on the Series 2013B Bonds on such date, by (B) the principal amount of the Series 2013B Bonds to be redeemed, plus (b) accrued interest to the redemption date.

The particular Series 2013B Bonds of each affected maturity to be redeemed will be selected in the manner described below under "- Selection of Series 2013 Bonds to be Redeemed."

Special Redemption

The applicable Series 2013 Bonds are also subject to redemption at the option of DASNY, as a whole or in part, on any interest payment date at 100% of the principal amount thereof, from (a) the proceeds of a condemnation or insurance award, which is not to be used to repair, restore or replace a Series 2013 Facility of a Series 2013 Participant and (b) the proceeds of the sale of a Series 2013 Facility.

Mandatory Sinking Fund Redemption

The Subseries 2013A-1 Bonds maturing on July 1, 2028 and July 1, 2038 shall be subject to mandatory redemption prior to maturity, in part on July 1 of the years and in the respective principal amounts set forth below, at a Redemption Price equal to the principal amount thereof, together with accrued interest to the date of redemption, from mandatory Sinking Fund Installments required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of the Subseries 2013A-1 Bonds specified for each such year below:

Subseries 2013A-1 Bonds Maturing July 1, 2028		Subseries 2013A-1 Bonds Maturing July 1, 2038			
Year	Sinking Fund Installment	Year	Sinking Fund Installment	Year	Sinking Fund Installment
2024	$785,000	2029	$155,000	2034	$65,000
2025	815,000	2030	165,000	2035	70,000
2026	855,000	2031	60,000	2036	70,000
2027	880,000	2032	65,000	2037	70,000
2028†	900,000	2033	65,000	2038†	75,000

†Final maturity.

The Subseries 2013A-2 Bonds maturing on July 1, 2014 shall be subject to mandatory redemption prior to maturity, in part on July 1 of the years and in the respective principal amounts set forth below, at a Redemption Price equal to the principal amount thereof, together with accrued interest to the date of redemption, from mandatory Sinking Fund Installments required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of the Subseries 2013A-2 Bonds specified for each such year below:

Year	Sinking Fund Installment
2013	$ 65,000
2014†	620,000

†Final maturity.

The Series 2013A Participants may elect to have the Series 2013A Bonds purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on the Series 2013A Bonds of the same Subseries and maturity. To the extent DASNY's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption through mandatory Sinking Fund Installments of any Holder's Series 2013A Bonds of the Subseries and maturity so purchased will be reduced for such year.

The Subseries 2013B-1 Bonds maturing on July 1, 2028 shall be subject to mandatory redemption prior to maturity, in part on July 1 of the years and in the respective principal amounts set forth below, at a Redemption Price equal to the principal amount thereof, together with accrued interest to the date of redemption, from mandatory Sinking Fund Installments required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of the Subseries 2013B-1 Bonds specified for each such year below:

Year	Sinking Fund Installment	Year	Sinking Fund Installment
2024	$330,000	2027	$140,000
2025	230,000	2028†	90,000
2026	250,000		

†Final maturity.

The Subseries 2013B-2 Bonds maturing on July 1, 2014 shall be subject to mandatory redemption prior to maturity, in part on July 1 of the years and in the respective principal amounts set forth below, at a Redemption Price equal to the principal amount thereof, together with accrued interest to the date of redemption, from mandatory Sinking Fund Installments required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of the Subseries 2013B-2 Bonds specified for each such year below:

Year	Sinking Fund Installment
2013	$ 15,000
2014†	160,000

†Final maturity.

The Series 2013B Participant may elect to have the Series 2013B Bonds purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on the Series 2013B Bonds of the same Subseries and maturity. To the extent DASNY's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption through mandatory Sinking Fund Installments of any Holder's Series 2013B Bonds of the Subseries and maturity so purchased will be reduced for such year.

Selection of Series 2013 Bonds to be Redeemed

In the case of redemptions of Subseries 2013A-1 Bonds or Subseries 2013B-1 Bonds, as applicable, described above under the heading "Optional Redemption," DASNY will select the maturities of the Allocable Portion of the Subseries 2013A-1 Bonds or the Subseries 2013B-1 Bonds, as applicable, to be redeemed. In the case of redemption of Series 2013A Bonds or the Series 2013B Bonds, as applicable, described above under the heading "Special Redemption," Series 2013A Bonds or Series 2013B Bonds, as applicable, will be redeemed to the extent practicable pro rata among maturities of the Allocable Portion of the applicable Series of the Series 2013 Bonds, but only in integral multiples of $5,000 within each maturity. If less than all of the Series 2013 Bonds of a Series and maturity are to be redeemed (pursuant to an optional, special, extraordinary mandatory or mandatory sinking fund redemption), the Series 2013 Bonds of such Series and maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion.

Notice of Redemption

The Trustee is to give notice of the redemption of a Series 2013 Bond in the name of DASNY which notice shall be given by first-class mail, postage prepaid, not less than 30 days nor more than 45 days prior to the redemption date to the registered owners of any Series 2013 Bonds which are to be redeemed, at their last known addresses appearing on the registration books of DASNY not more than 10 days prior to the date such notice is to be given. If DASNY's obligation to redeem Series 2013 Bonds is subject to one or more conditions, then such notice must describe the conditions to such redemption. The failure of any owner of a Series 2013 Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Series 2013 Bond. If directed in writing by an Authorized Officer of DASNY, the Trustee shall publish or cause to be published such notice in an Authorized Newspaper not less than 30 days nor more than 45 days prior to the redemption date, but such publication is not a condition precedent to such redemption and failure to publish such notice or any defect in such notice or publication will not affect the validity of the proceedings for the redemption of such Series 2013 Bonds.

If, on the redemption date, moneys for the redemption of the Series 2013 Bonds of like Series, Subseries and maturity to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the Redemption Price, and if notice of redemption has been mailed, then interest on the Series 2013 Bonds of such Series, Subseries and maturity will cease to accrue from and after the redemption date and such Series 2013 Bonds will no longer be considered to be

Outstanding under the Resolution and the Series 2013A Resolution or the Series 2013B Resolution, as applicable.

For a more complete description of the redemption and other provisions relating to the Series 2013 Bonds, see “Appendix F - Summary of Certain Provisions of the Resolutions.”

Purchase in Lieu of Optional Redemption

The Tax-Exempt Bonds maturing on or after July 1, 2024 are also subject to purchase prior to maturity, at the election of DASNY, on or after July 1, 2023, in any order, in whole or in part at any time, at the price set forth in “PART 3 - THE SERIES 2013 BONDS - Redemption Provisions - Optional Redemption” (the “Purchase Price”), plus accrued interest to the date set for purchase (the “Purchase Date”) set forth in the notice of purchase to the registered owners of the Tax-Exempt Bonds to be so purchased.

Notice of Purchase and its Effect

Notice of the purchase of Tax-Exempt Bonds will be given by DASNY in the name of the Series 2013 Participants to the registered owners of the applicable Tax-Exempt Bonds to be purchased by first-class mail, postage prepaid, not less than 30 days nor more than 45 days prior to the Purchase Date specified in such notice. The Tax-Exempt Bonds to be purchased are required to be tendered on the applicable Purchase Date to the Trustee. Tax-Exempt Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. Such purchase shall not operate to extinguish the indebtedness of DASNY evidenced thereby and such Tax-Exempt Bonds need not be cancelled, but shall remain Outstanding under the Resolution and in such case shall continue to bear interest.

DASNY’s obligation to purchase a Tax-Exempt Bond to be purchased or cause it to be purchased is conditioned upon the availability of sufficient money to pay the Purchase Price for all of the Tax-Exempt Bonds to be purchased on such Purchase Date. If sufficient money is available on the applicable Purchase Date to pay the applicable Purchase Price of the Tax-Exempt Bonds to be purchased, the former registered owners of such Tax-Exempt Bonds will have no claim thereunder or under the Resolution or otherwise for payment of any amount other than the applicable Purchase Price. If sufficient money is not available on the applicable Purchase Date for payment of the applicable Purchase Price, the Tax-Exempt Bonds tendered or deemed tendered for purchase will continue to be registered in the name of the registered owners on the applicable Purchase Date, who will be entitled to the payment of the principal of and interest on such Tax-Exempt Bonds in accordance with their respective terms.

In the event not all of the Outstanding Tax-Exempt Bonds of a Series and maturity are to be purchased, the Tax-Exempt Bonds of such Series and maturity to be purchased will be selected by lot in the same manner as Tax-Exempt Bonds of a Series and maturity to be redeemed in part are to be selected.

Book-Entry-Only System

DTC will act as securities depository for the Series 2013 Bonds. The Series 2013 Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2013 Bond certificate will be issued for each maturity of the respective Series and Subseries of Series 2013 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York

Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2013 Bonds, except in the event that use of the book-entry system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 2013 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to DASNY as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2013 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from DASNY or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC, the Trustee or DASNY, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DASNY and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2013 Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2013 Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Series 2013 Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. DASNY and the Trustee shall not have any responsibility or obligation to any Direct or Indirect Participant or any person claiming a beneficial ownership interest in the Series 2013 Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of DASNY (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2013 Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by DASNY; or other action taken by DTC as a registered owner.

For every transfer and exchange of beneficial ownership of the Series 2013 Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its services as depository with respect to the Series 2013 Bonds at any time by giving notice to DASNY and discharging its responsibilities with respect thereto under applicable law, or DASNY may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, DASNY may retain another securities depository for the Series 2013 Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If DASNY directs the Trustee to deliver such bond certificates, such Series 2013 Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2013 Bonds in any other authorized denominations and of the same Series, Subseries and maturity as set forth in the Resolution, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of DASNY.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book-Entry Only System" has been extracted from information given by DTC. None of DASNY, the Trustee or the Underwriter make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Principal, Sinking Fund Installment and Interest Requirements for the Series 2013 Bonds

The following table sets forth the amounts required to be paid by each of the Series 2013 Participants during each twelve month period ending June 30 of the Bond Years shown for the payment of the interest on the Series 2013 Bonds payable on January 1 of such year and the principal and Sinking Fund Installments of and interest on the Series 2013 Bonds payable on the succeeding July 1 and the aggregate payments to be made by the Series 2013 Participants during each such period with respect to the Series 2013 Bonds.

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Total Debt Service by Series 2013 Participant

	SERIES 2013A BONDS														SERIES 2013B BONDS	
12 Month Period Ending	AABR, Inc. and AABR Realty Facilities Holding Corp.		Birch Family Services, Inc.		HASC Center, Inc.		Lifespire, Inc.		New Horizons Resources, Inc.		P.L.U.S. Group Homes, Inc.		The Center for Family Support, Inc.		Leake and Watts Services, Inc.	
	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest
6/30/2013	$ 15,000	$ 8,829	$ 5,000	$ 5,525	$ 10,000	$15,332	$ 15,000	$15,643	$ 5,000	$ 3,837	$ 5,000	$ 5,480	$ 5,000	$ 7,346	$ 15,000	$13,835
6/30/2014	300,000	60,939	100,000	38,188	210,000	106,023	160,000	108,112	95,000	26,503	75,000	37,877	95,000	50,798	275,000	95,676
6/30/2015	315,000	54,063	100,000	36,250	210,000	102,113	160,000	105,613	100,000	24,538	75,000	36,600	100,000	49,275	280,000	91,088
6/30/2016	315,000	47,763	100,000	34,250	215,000	97,913	165,000	102,413	105,000	22,538	80,000	35,100	105,000	47,275	290,000	85,488
6/30/2017	320,000	38,313	105,000	31,250	225,000	91,463	165,000	97,463	105,000	19,388	80,000	32,700	110,000	44,125	290,000	79,688
6/30/2018	330,000	27,113	75,000	27,575	235,000	83,588	165,000	91,688	115,000	15,713	80,000	29,900	110,000	40,275	290,000	73,888
6/30/2019	225,000	13,913	80,000	24,575	235,000	74,188	170,000	85,088	115,000	11,113	85,000	26,700	115,000	35,875	300,000	68,088
6/30/2020	30,000	4,913	80,000	21,375	240,000	64,788	180,000	78,288	115,000	6,513	90,000	23,300	115,000	31,275	305,000	62,088
6/30/2021	35,000	4,313	80,000	19,775	250,000	59,988	180,000	74,688	115,000	4,213	90,000	21,500	115,000	28,975	310,000	55,988
6/30/2022	35,000	3,613	80,000	18,175	255,000	54,988	185,000	71,088	85,000	1,913	90,000	19,700	120,000	26,675	315,000	49,013
6/30/2023	35,000	2,825	85,000	16,375	260,000	49,250	195,000	66,925			95,000	17,675	125,000	23,975	325,000	41,925
6/30/2024	10,000	1,950	90,000	14,250	265,000	42,750	195,000	62,050			95,000	15,300	130,000	20,850	330,000	33,800
6/30/2025	10,000	1,650	90,000	11,550	280,000	34,800	205,000	56,200			100,000	12,450	130,000	16,950	230,000	23,075
6/30/2026	15,000	1,350	95,000	8,850	290,000	26,400	215,000	50,050			100,000	9,450	140,000	13,050	250,000	15,600
6/30/2027	15,000	900	100,000	6,000	290,000	17,700	225,000	43,600			105,000	6,450	145,000	8,850	140,000	7,475
6/30/2028	15,000	450	100,000	3,000	300,000	9,000	225,000	36,850			110,000	3,300	150,000	4,500	90,000	2,925
6/30/2029							155,000	30,100								
6/30/2030							165,000	24,675								
6/30/2031							60,000	18,900								
6/30/2032							65,000	16,800								
6/30/2033							65,000	14,525								
6/30/2034							65,000	12,250								
6/30/2035							70,000	9,975								
6/30/2036							70,000	7,525								
6/30/2037							70,000	5,075								
6/30/2038							75,000	2,625								

PART 4 - THE SERIES 2013 PARTICIPANTS

Descriptions of the Series 2013 Participants, their operations and the Series 2013 Facilities they will finance or refinance with the proceeds of the Series 2013 Bonds are set forth in Appendix A hereto. Copies of the most recent audited financial statements for each of the Series 2013 Participants are set forth in Appendix B hereto and copies of recent unaudited financial information for each of the Series 2013 Participants are set forth in Appendix C. Prospective purchasers of the Series 2013 Bonds should carefully review Appendix A, Appendix B and Appendix C.

The Series 2013 Participants are not-for-profit corporations, organized and existing under the laws of the State. Typically, management of each Series 2013 Participant has as an operational goal the acquisition of sufficient revenues to cover programmatic expenses, including debt service and the provision for capital improvements. When revenues exceed expenses, the excess revenues are reflected in a fund balance (or net assets) category and may be used for any lawful purpose consistent with the Series 2013 Participant's charitable purposes. When revenues are not sufficient to cover expenses, the Series 2013 Participant must cover the deficit from fund reserves or other assets or reduce its services and expenses to match its income. Trustees or members of the Board of Directors of a Series 2013 Participant typically serve without remuneration, though expenses associated with attendance at board meetings or other official board functions may be reimbursed.

Each of the Series 2013 Participants owns and/or leases and operates one or more facilities, including the Series 2013 Facilities as described in Appendix A, in the State, to provide services to individuals who are developmentally disabled or have other special needs. Each of the Series 2013 Participants has represented that it has the appropriate licenses and authority to provide its services under State statutes. The Series 2013 Participants all currently have one or more contracts or approved reimbursement arrangements with one or more departments of the State, The City of New York or a county in the State. Such contracts or arrangements have been typically for a period of one fiscal year. *No independent investigation or verification has been made of the status of compliance with State, city, county or federal agency standards of licensing and operations of the Series 2013 Participants in order to continue to receive payments of State, city, county, and/or federal funds under such contracts or arrangements. The contracts or arrangements provide a substantial portion of the total revenues of each of the Series 2013 Participants.* **A careful review should be made of Appendix A, Appendix B and Appendix C to this Official Statement to determine the creditworthiness of each of the Series 2013 Participants**. See "PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING" herein.

The Series 2013 Participants have engaged the Program Facilitator to act as the facilitator for the InterAgency Council Pooled Loan Program. For its services, the Series 2013 Participants will pay the Program Facilitator a fee of .25% of the principal amount of the Series 2013 Bonds at closing and an annual fee of .125% of all outstanding Series 2013 Bonds. Each of the Series 2013 Participants are members of the Program Facilitator.

Except for AABR's Mattituck Facility, all of the Series 2013 Facilities financed by the Series 2013 Bonds are covered by PPAs funded by OPWDD. AABR expects that the principal of and interest on Allocable Portion of the Series 2013A Bonds of AABR related to the Mattituck Facility is expected to be paid from operating revenues of AABR. All of the Series 2013 Participants have over 30 years of experience providing services. See "PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING."

Also see "Appendix A - Description of Series 2013 Participants" for a description of which Series 2013 Participants have Prior Pledges of their respective Pledged Revenues.

PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING

General

OPWDD provides a portion of the revenues of the Series 2013 Participants through contracts and reimbursement arrangements for the provision of their services. The current methodology used by OPWDD in determining the amounts to be paid to the Series 2013 Participants for provision of services is set forth below. Other government funding sources for one or more of the Series 2013 Participants are described in "Appendix A - Description of Series 2013 Participants."

New York State Office for People with Developmental Disabilities

OPWDD is responsible for coordinating services for more than 126,000 New Yorkers with developmental disabilities, including intellectual disabilities, cerebral palsy, Down syndrome, autism spectrum disorders, and other disabilities. It provides services directly and through a network of approximately 700 non-profit "service provider" agencies, with about 80% of services provided by the non-profit service provider agencies and 20% provided directly by the State. Although the community residential program statewide has grown from 9,000 community beds in 1980 to over 40,000 community beds in 2013, additional development of community services will be required to serve individuals needing out-of-home placement who cannot be served within the existing capacity. Funding for new services is distributed through a Request for Services process, and is targeted to the locally identified priority services and populations. Awards are based upon an agency's demonstrated ability to identify and serve the various priority populations.

OPWDD is charged with developing a comprehensive, cost-effective and integrated system of services to serve the full range of needs of persons with developmental disabilities. OPWDD recently reorganized its regional structure in order to implement a consistent approach and culture to the entire service system. There are now five regional offices specifically dedicated to oversee the non-profit operations and six regional offices dedicated to the operation and oversight of State provided services. Additionally, families who care for nearly 43,000 disabled family members at home are supported by a variety of services, including respite, family training, in-home services, and service coordination. These services are provided almost entirely by the non-profit sector.

In connection with the foregoing, OPWDD is responsible for, among other things, the regulation and certification of the Series 2013 Facilities expected to be financed or refinanced with the proceeds of the Series 2013 Bonds. Such regulation and certification includes, among other things, participation in the determination as to the need for the Series 2013 Facilities, review of plans and specifications for construction/rehabilitation of the Series 2013 Facilities, the right to conduct inspections and program audits, and the establishment of a reimbursement rate for an individual's care.

Population

Consistent with its comprehensive Five Year Plan, OPWDD serves a diverse population of individuals with developmental disabilities including persons with mental retardation, cerebral palsy, autism and epilepsy. OPWDD's programs are characterized by two related service systems: a State-operated institutional system and a community-based system with programs run by both the State and voluntary non-profit agencies.

The State-operated institutional system provides residential care and habilitative services to consumers at nine developmental centers and related special population units located throughout the State. OPWDD's 2011-2015 Comprehensive Plan includes plans to close the remainder of the developmental center through the placement of the 1,200 remaining individuals into community homes.

The only remaining institutional facilities will be small, specialized forensic and behavioral units to serve individuals who require this level of care.

The OPWDD Budget for 2012-2013 reflects an increase of slightly over 1% in overall funding to OPWDD. It provides for new funding to provide 2,900 new opportunities for individuals to (i) be placed into community settings from developmental centers, and (ii) return from out-of-state residential school settings, as well as other respite, crisis, employment and community integration opportunities. In addition, the budget includes $334 million over five years (including $56 million this year) for enhanced fire safety efforts. OPWDD has found efficiencies in its state operations by consolidating certain back office functions, including purchasing, and reconfiguring its regional offices as described above. These savings will be reinvested in community services.

As a result of recent negotiations between the State and the U.S. Center for Medicaid & Medicare Services ("CMS") regarding a reduction in the total amount of Medicaid funds that are available to the State in State Fiscal Year 2013-14, OPWDD's available Medicaid funding for voluntary agencies will be reduced by approximately 4.5%. The reduction will not be administered as an across the board cut as Governor Cuomo announced that the cuts will be targeted towards agency administration costs and not funds committed to property (i.e., PPA dollars). The Commissioner of OPWDD also announced that OPWDD will work with provider association representatives and the Developmental Disabilities Advisory Council to discuss the development of targeted actions to address the reduction, which may include, among other things, the movement of people from higher cost to lower cost service options, increased enrollment of service recipients into Medicare (thereby reducing the Medicaid spending), a reduction in the State's portion of room and board payments to providers based upon a surplus/loss analysis and a 1-2% reduction in the agency administration portion of the rates.

Population Statistics

The following are actual population statistics for the residential programs for the mentally retarded or the disabled provided by OPWDD. Consistent with its plan, the State Operated Development Center census as of December 31, 2012 was slightly over 1,000. (Source: OPWDD):

Year (as of 3/31)	**State-Operated Development Centers**	**Not-for-Profit Community Residences**
2007	1,700	37,500
2008	1,593	36,760
2009	1,500	37,500
2010	1,300	37,500
2011	1,300	39,000
2012	1,300	40,000

The appropriations made for the operations and costs of OPWDD for State Fiscal Years 2006-2007 through 2012-2013 are as follows (Source: OPWDD):

Year	**Aid to Localities**	**State Operations**	**Total Operations**
2006-2007	$1,818,919,000	$1,454,196,000	$3,273,115,000
2007-2008	2,067,751,000	1,465,083,000	3,532,834,000
2008-2009	2,234,383,899	1,976,645,000	4,211,028,899
2009-2010	2,221,012,000	2,171,410,000	4,392,422,000

2010-2011	2,363,796,000	2,263,789,000	4,527,585,000
2011-2012	2,296,901,500	2,150,820,700	4,447,722,200
2012-2013	2,478,841,000	2,140,718,000	4,783,099,000

The funding received by the Series 2013 Participants from OPWDD is appropriated through Aid to Localities appropriations.

Prior Property Approval Process

Prior to initiating the development of a project to serve developmentally disabled/mentally retarded individuals, a not-for-profit provider is required under Title 14, New York State Codes, Rules and Regulations Part 620 to complete a Certificate of Need ("CON") process. The CON is reviewed by the OPWDD Developmental Disabilities Services Office for compliance with local government and general State plans for needed development as to type of individuals to be served and the program to be provided.

If CON approval is received and an appropriate program site is identified, a PPA proposal that details the capital costs associated with the development of the site is prepared by the provider and regional Developmental Disabilities Services Office. The PPA process, inaugurated in the early 1980's, was developed to satisfy the regulatory requirement for OPWDD and New York State Division of the Budget approval of capital costs for program sites. This regulatory requirement is incorporated in Title 14, New York State Codes, Rules and Regulations Parts 635, 681, 686, and 690. The PPA identifies funding and financing sources for capital costs and the level and method of reimbursement for such costs.

Securing PPA approval establishes commitments of the voluntary provider, as well as OPWDD. The provider commits to develop the program to serve a specific number of individuals in a specific type of facility and program. OPWDD commits to support the development and operation of the project if it is completed in conformance with the PPA, subject to annual appropriation of sufficient moneys by the State Legislature.

Commissioner's Ability to Request a Receiver for a Facility; Security Interests

Pursuant to the State's Mental Hygiene Law, facilities, such as the Series 2013 Facilities, are required to have an operating certificate issued by the New York State Commissioner of the Office for People with Developmental Disabilities (the "Commissioner"). The Commissioner, upon issuing a notice that he or she will revoke or suspend an operating certificate of a facility, or he or she will disapprove an application for a renewal of such certificate, or prior to suspending an operating certificate for up to 60 days, may ask a court to appoint a receiver for the facility in the event that the health, safety and welfare of the residents are in jeopardy. The court shall appoint a receiver, upon making certain findings as described in the Mental Hygiene Law, which should be a voluntary association or not-for-profit corporation approved by the Commissioner and which holds a valid and current operating certificate for a facility similar to the one going into receivership. The Mental Hygiene Law explicitly provides that the receiver so appointed shall honor all existing leases, mortgages and chattel mortgages that had previously been undertaken as obligations of the owners or operators of the facility. However, such receiver may make application to the appointing court for rescission, reformation or such other relief as may be appropriate with respect to executory covenants or provisions of any contractual obligations of such owners or operators as may be necessary or appropriate to protect the best interests of the persons with developmental disabilities residing within such facility. It further provides that no security interest in any real or personal property comprising the facility, contained within the facility or in any fixture of the facility shall be impaired or diminished in priority by the receiver.

OPWDD Rights With Respect to Series 2013 Facilities

In addition to the statutory receivership remedy described above, each Loan Agreement provides for a contractual remedy upon the failure of a Series 2013 Participant to operate its Series 2013 Facilities in accordance with regulatory standards. Each Series 2013 Participant has covenanted and agreed in its Loan Agreement that in the event that it fails to operate a certified program for the developmentally disabled at one or more of its Series 2013 Facilities in accordance with the valid operating certificate issued by OPWDD for such Series 2013 Facility, in addition to any other legal remedies OPWDD may have, OPWDD shall have the right (after written notice and a request to remedy such failure and without resort to judicial proceedings) to use, possess and occupy such Series 2013 Facility for the remaining term during which such Series 2013 Participant has agreed to operate such certified program at the Series 2013 Facility and, further, may assign such rights to another operator. In such event, OPWDD or any assignee will be required to make the payments owed by the Series 2013 Participant under its Loan Agreement with respect to such Series 2013 Facility as they become due and owing. See "Appendix D - Summary of Certain Provisions of the Loan Agreements" for further details of OPWDD's rights with respect to the Series 2013 Facilities and DASNY's remedy upon an event of default by a Series 2013 Participant under its Loan Agreement to request OPWDD to exercise such rights.

PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of proceeds of the Series 2013 Bonds:

	Subseries 2013A-1 Bonds	**Subseries 2013A-2 Bonds**	**Subseries 2013B-1 Bonds**	**Subseries 2013B-2 Bonds**
Estimated Sources of Funds				
Proceeds of Series 2013 Bonds	$14,255,000.00	$685,000.00	$3,860,000.00	$175,000.00
Net Original Issue Premium (Discount)	190,526.40	0.00	(47,859.65)	0.00
Total Sources of Funds	$14,445,526.40	$685,000.00	$3,812,140.35	$175,000.00
Estimated Uses of Funds				
Deposit to Project Loan Fund	$13,282,685.27	$ 0.00	$3,511,677.93	$ 0.00
Deposit to Debt Service Reserve Fund	747,375.25	36,789.45	187,743.75	8,142.54
Deposit to Debt Service Fund	24,591.24	0.00	3,465.87	0.00
Deposit to Capitalized Interest Account	45,920.25	0.00	17,753.07	0.00
Underwriter's Discount	288,910.52	147,605.17	76,242.81	38,786.19
Costs of Issuance	56,043.87	500,605.38	15,256.92	128,071.27
Total Uses of Funds	$14,445,526.40	$685,000.00	$3,812,140.35	$175,000.00

PART 7 - DASNY

Background, Purposes and Powers

DASNY is a body corporate and politic constituting a public benefit corporation. DASNY was created in 1944 to finance and build dormitories at State teachers' colleges to provide housing for the large influx of students returning to college on the G.I. Bill following World War II. Over the years, the State Legislature has expanded DASNY's scope of responsibilities. Today, pursuant to the Act, DASNY is authorized to finance, design, construct or rehabilitate facilities for use by a variety of public and private not-for-profit entities.

DASNY provides financing services to its clients in three major areas: public facilities; not-for-profit healthcare; and independent higher education and other not-for-profit institutions. DASNY issues State-supported debt, including Personal Income Tax Revenue Bonds, on behalf of public clients such as The State University of New York, The City University of New York, the Departments of Health and Education of the State, the Office of Mental Health, the Office of People with Developmental Disabilities, the Office of Alcoholism and Substance Abuse Services, the Office of General Services, and the Office of General Services of the State on behalf of the Department of Audit and Control. Other public clients for whom DASNY issues debt include Boards of Cooperative Educational Services ("BOCES"), school districts across the State and certain cities and counties that have accessed DASNY for the purpose of providing court facilities. DASNY's private clients include independent colleges and universities, private hospitals, certain private secondary schools, special education schools, facilities for the aged, primary care facilities, libraries, museums, research centers and government-supported voluntary agencies, among others.

To carry out its programs, DASNY is authorized to issue and sell negotiable bonds and notes to finance the construction of facilities for such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions. At March 31, 2013, DASNY had approximately $45 billion aggregate principal amount of bonds and notes outstanding. DASNY also is authorized to make tax-exempt leases, with its Tax-Exempt Leasing Program ("TELP"). As part of its operating activities, DASNY also administers a wide variety of grants authorized by the State for economic development, education and community improvement and payable to both public and private grantees from proceeds of Personal Income Tax Revenue Bonds issued by DASNY.

DASNY is a conduit debt issuer. Under existing law, and assuming continuing compliance with tax law, interest on most bonds and notes issued by DASNY has been determined to be excludable from gross income for federal tax purposes under Section 103 of the Code (as defined herein). All of DASNY's outstanding bonds and notes, both fixed and variable rate, are special obligations of DASNY payable solely from payments required to be made by or for the account of the client institution for which the particular special obligations were issued. DASNY has no obligation to pay its special obligations other than from such payments. DASNY has always paid the principal of and interest on all of its obligations on time and in full; however, as a conduit debt issuer, payments on DASNY's special obligations are solely dependent upon payments made by DASNY's client for which the particular special obligations were issued and the security provisions relating thereto.

DASNY also offers a variety of construction services to certain educational, governmental and not-for-profit institutions in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects, interior design of projects and designing and managing projects to rehabilitate older facilities.

In connection with the powers described above, DASNY has the general power to acquire real and personal property, give mortgages, make contracts, operate certain facilities and fix and collect rentals or other charges for their use, contract with the holders of its bonds and notes as to such rentals and charges, borrow money and adopt a program of self-insurance.

DASNY has a staff of approximately 520 employees located in three main offices (Albany, New York City and Buffalo) and at approximately 55 field sites across the State.

Governance

DASNY is governed by an eleven-member board. Board members include the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her who serves until his or her successor is appointed, the Director of the Budget of the State, one member appointed by the Temporary President of the State Senate, one member appointed by the Speaker of the State Assembly and five members appointed by the Governor, with the advice and consent of the Senate, for terms of three years. The Commissioner of Education of the State, the Commissioner of Health of the State and the Director of the Budget of the State each may appoint a representative to attend and vote at DASNY meetings. The members of DASNY serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties.

The Governor of the State appoints a Chair from the members appointed by him or her and the members of DASNY annually choose the following officers, of which the first two must be members of DASNY: Vice-Chair, Secretary, Treasurer, Assistant Secretaries and Assistant Treasurers.

The current members of DASNY are as follows:

ALFONSO L. CARNEY, JR., *Chair*, New York.

Alfonso L. Carney, Jr. was reappointed as a Member of DASNY by the Governor on April 27, 2010. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical consulting services in New York City. He has served as Acting Chief Operating Officer and Corporate Secretary for the Goldman Sachs Foundation in New York where, working with the President of the Foundation, he managed the staff of the Foundation, provided strategic oversight of the administration, communications and legal affairs teams, and developed selected Foundation program initiatives. Mr. Carney has held senior level legal positions with Altria Group, Inc., Philip Morris Companies Inc., Philip Morris Management Corporation, Kraft Foods, Inc. and General Foods Corporation. Mr. Carney holds a Bachelor's degree in philosophy from Trinity College and a Juris Doctor degree from the University of Virginia School of Law. His current term expired on March 31, 2013 and by law he continues to serve until a successor shall be chosen and qualified.

JOHN B. JOHNSON, JR., *Vice-Chair,* Watertown.

John B. Johnson, Jr. was reappointed as a Member of DASNY by the Governor on March 16, 2010. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expired on March 31, 2013 and by law he continues to serve until a successor shall be chosen and qualified.

JACQUES JIHA, Ph.D., *Secretary*, Woodbury.

Jacques Jiha was appointed as a Member of DASNY by the Governor on December 15, 2008. Mr. Jiha is the Executive Vice President/Chief Operating Officer & Chief Financial Officer of Earl G. Graves, Ltd/Black Enterprise, a multi-media company with properties in print, digital media, television, events and the internet. He is a member of the Investment Advisory Committee of the New York Common Retirement Fund and previously served as Deputy Comptroller for Pension Investment and Public Finance in the Office of the New York State Comptroller. He holds a Ph.D. and a Master's degree in Economics from the New School University and a Bachelor's degree in Economics from Fordham University. His current term expired on March 31, 2011 and by law he continues to serve until a successor shall be chosen and qualified.

TIM C. LOFTIS, Esq., Buffalo.

Tim C. Loftis was appointed as a Member of DASNY by the Governor on June 20, 2012. Mr. Loftis is a partner in the Business and Corporate practice group of the law firm Jaeckle Fleischmann & Mugel, LLP. He has experience in business and corporate matters with an emphasis on transactional matters, including domestic and international mergers and acquisitions as well as complex commercial financing transactions. Mr. Loftis holds a Bachelor of Arts degree from the State University of New York at Buffalo and a Juris Doctor degree from Georgetown University Law Center. His term expires on March 31, 2015.

BERYL L. SNYDER, J.D., New York.

Beryl L. Snyder was appointed as a member of DASNY by the Governor on June 15, 2011. Ms. Snyder is a principal in HBJ Investments, LLC, an investment company where her duties include evaluation and analysis of a wide variety of investments in, among other areas: fixed income, equities, alternative investments and early stage companies. She holds a Bachelor of Arts degree in History from Vassar College and a Juris Doctor degree from Rutgers University. Her current term expires on August 31, 2013.

SANDRA M. SHAPARD, Delmar.

Sandra M. Shapard was appointed as a Member of DASNY by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from 1995 until her retirement in 2001, during which time she headed the Office of Fiscal Research and Policy Analysis and twice served as Acting First Deputy Comptroller. Previously, Ms. Shapard held the positions of Deputy Director and First Deputy Director for the New York State Division of the Budget from 1991 to 1994. She began her career in New York State government with the Assembly where she held the positions of Staff Director of the Office of Counsel to the Majority, Special Assistant to the Speaker, and Deputy Director of Budget Studies for the Committee on Ways and Means. A graduate of Mississippi University for Women, Ms. Shapard received a Masters of Public Administration from Harvard University, John F. Kennedy School of Government, where she has served as visiting lecturer, and has completed graduate work at Vanderbilt University.

GERARD ROMSKI, Esq., Mount Kisco.

Gerard Romski was reappointed as a Member of DASNY by the Temporary President of the State Senate on June 21, 2012. He is Counsel and Project Executive for "Arverne By The Sea," where he is responsible for advancing and overseeing all facets of "Arverne by the Sea," one of New York City's largest mixed-use developments located in Queens, New York. Mr. Romski is also of counsel to the New York City law firm of Rich, Intelisano & Katz, LLP. Mr. Romski holds a Bachelor of Arts degree from the New York Institute of Technology and a Juris Doctor degree from Brooklyn Law School.

ROMAN B. HEDGES, Ph.D., Delmar.

Roman B. Hedges was appointed as a Member of DASNY by the Speaker of the State Assembly on February 24, 2003. Dr. Hedges serves on the Legislative Advisory Task Force on Demographic Research and Reapportionment. He is the former Deputy Secretary of the New York State Assembly Committee on Ways and Means. He was an Associate Professor of Political Science and Public Policy at the State University of New York at Albany where he taught graduate and undergraduate courses in American politics, research methodology, and public policy. Dr. Hedges previously served as the Director of Fiscal Studies of the Assembly Committee on Ways and Means. Dr. Hedges holds a Doctor of Philosophy and a Master of Arts degree from the University of Rochester and a Bachelor of Arts degree from Knox College.

JOHN B. KING, JR., J.D., Ed.D., *Commissioner of Education of the State of New York,* Slingerlands; *ex-officio.*

John B. King, Jr., was appointed by the Board of Regents to serve as President of the University of the State of New York and Commissioner of Education on July 15, 2011. As Commissioner of Education, Dr. King serves as Chief Executive Officer of the State Education Department and as President of the University of the State of New York, which is comprised of public and non-public elementary and secondary schools, public and independent colleges and universities, libraries, museums, broadcasting facilities, historical repositories, proprietary schools and services for children and adults with disabilities. He holds a Bachelor of Arts degree in Government from Harvard University, a Master of Arts degree in Teaching of Social Studies from Teachers College, Columbia University, a Juris Doctor degree from Yale Law School and a Doctor of Education degree in Educational Administrative Practice from Teachers College, Columbia University.

NIRAV R. SHAH, M.D., M.P.H., *Commissioner of Health*, Albany; *ex-officio*.

Nirav R. Shah, M.D., M.P.H.., was appointed Commissioner of Health on January 24, 2011. Prior to his appointment he served as Attending Physician at Bellevue Hospital Center, Associate Investigator at the Geisinger Center for Health Research in central Pennsylvania, and Assistant Professor of Medicine at the NYU Langone Medical Center. Dr. Shah is an expert in use of systems-based methods, a leading researcher in use of large scale clinical laboratories and electronic health records and he has served on the editorial boards of various medical journals. He is a graduate of Harvard College, received his medical and master of public health degrees from Yale School of Medicine, was a Robert Wood Johnson Clinical Scholar at UCLA and a National Research Service Award Fellow at NYU.

ROBERT L. MEGNA, *Budget Director of the State of New York,* Albany*; ex-officio.*

Robert L. Megna was appointed Budget Director on June 15, 2009. He is responsible for the overall development and management of the State's fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State's debt portfolio, as well as pensions and employee benefits. Mr. Megna previously served as Commissioner of the New York State Department of Taxation and Finance, responsible for overseeing the collection and accounting of more than $90 billion in State and local taxes, the administration of State and local taxes, including New York City and the City of Yonkers income taxes and the processing of tax returns, registrations and associated documents. He holds Masters degrees in Public Policy from Fordham University and Economics from the London School of Economics.

The principal staff of DASNY is as follows:

PAUL T. WILLIAMS, JR. is the President and chief executive officer of DASNY. Mr. Williams is responsible for the overall management of DASNY's administration and operations. He most recently served as Senior Counsel in the law firm of Nixon Peabody LLP. Prior to working at Nixon Peabody, Mr. Williams helped to establish a boutique Wall Street investment banking company. Prior to that, Mr. Williams was a partner in, and then of counsel to, the law firm of Bryan Cave LLP. He was a founding partner in the law firm of Wood, Williams, Rafalsky & Harris, which included a public finance practice.

Mr. Williams is licensed to practice law in the State of New York and holds professional licenses in the securities industry. He holds a Bachelor's degree from Yale University and a Juris Doctor degree from Columbia University School of Law.

MICHAEL T. CORRIGAN is the Vice President of DASNY, and assists the President in the administration and operation of DASNY. Mr. Corrigan came to DASNY in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. He began his government service career in 1983 as a budget analyst for Rensselaer County, and served as the County's Budget Director from 1986 to 1995. Immediately before coming to DASNY, he served as the appointed Rensselaer County Executive for a short period. Mr. Corrigan holds a Bachelor's degree in Economics from the State University of New York at Plattsburgh and a Master's degree in Business Administration from the University of Massachusetts.

PORTIA LEE is the Managing Director of Public Finance and Portfolio Monitoring. She is responsible for supervising and directing DASNY bond issuance in the capital markets, implementing and overseeing financing programs, overseeing DASNY's compliance with continuing disclosure requirements and monitoring the financial condition of existing DASNY clients. Ms. Lee previously served as Senior Investment Officer at the New York State Comptroller's Office where she was responsible for assisting in the administration of the long-term fixed income portfolio of the New York State Common Retirement Fund, as well as the short-term portfolio, and the Securities Lending Program. From 1995 to 2005, Ms. Lee worked at Moody's Investors Service where she most recently served as Vice President and Senior Credit Officer in the Public Finance Housing Group. She holds a Bachelor's degree from the State University of New York at Albany.

PAUL W. KUTEY is the Chief Financial Officer of DASNY. Mr. Kutey oversees and directs the activities of the Office of Finance and Information Services. He is responsible for supervising DASNY's investment program, accounting functions, operation, maintenance and development of computer hardware, software and communications infrastructure; as well as the development and implementation of financial policies, financial management systems and internal controls for financial reporting. Previously, Mr. Kutey was Senior Vice President of Finance and Operations for AYCO Company, L.P., a Goldman Sachs Company. He is a Certified Public Accountant and holds a Bachelor of Business Administration degree from Siena College.

MICHAEL E. CUSACK is General Counsel to DASNY. Mr. Cusack is responsible for all legal services including legislation, litigation, contract matters and the legal aspects of all DASNY financings. He is licensed to practice law in the States of New York and Massachusetts, as well as the United States District Court for the Northern District of New York. Mr. Cusack has over twenty years of combined legal experience, including management of an in-house legal department and external counsel teams (and budgets) across a five-state region. He most recently served as of counsel to the Albany, New York law firm of Young/Sommer, LLC, where his practice included representation of Upstate New York municipalities, telecommunications service providers in the siting of public utility/personal wireless service facilities and other private sector clients. He holds a Bachelor of Science degree from Siena College and a Juris Doctor degree from Albany Law School of Union University.

STEPHEN D. CURRO, P.E. is the Managing Director of Construction. Mr. Curro is responsible for DASNY's construction groups, including design, project management, purchasing, contract administration, interior design, and engineering and other technology services. Mr. Curro joined DASNY in 2001 as Director of Technical Services, and most recently served as Director of Construction Support Services. He is a registered Professional Engineer in New York and has worked in the construction industry for more than 20 years. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

CARRA L. WALLACE is the Managing Director of the Office of Executive Initiatives. Ms. Wallace is responsible for strategic efforts in program development, including maximizing the utilization of Minority and Women Owned Businesses, sustainability, training and marketing, as well as communicating with DASNY's clients, vendors, the public and governmental officials. She has more than 20 years of senior leadership experience in diverse private sector telecommunications businesses and civic organizations. Ms. Wallace holds a Bachelor's Degree from Pepperdine University and a Master's Degree in Public Administration from Columbia University.

Claims and Litigation

Although certain claims and litigation have been asserted or commenced against DASNY, DASNY believes that such claims and litigation either are covered by insurance or by bonds filed with DASNY, or that DASNY has sufficient funds available or the legal power and ability to seek sufficient funds to meet any such claims or judgments resulting from such matters.

Other Matters

New York State Public Authorities Control Board

The New York State Public Authorities Control Board (the "PACB") has authority to approve the financing and construction of any new or reactivated projects proposed by DASNY and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. DASNY obtains the approval of the PACB for the issuance of all of its bonds and notes.

Legislation

From time to time, bills are introduced into the State Legislature which, if enacted into law, would affect DASNY and its operations. DASNY is not able to represent whether such bills will be introduced or become law in the future. In addition, the State undertakes periodic studies of public authorities in the State (including DASNY) and their financing programs. Any of such periodic studies could result in proposed legislation which, if adopted, would affect DASNY and its operations.

Environmental Quality Review

DASNY complies with the New York State Environmental Quality Review Act and with the New York State Historic Preservation Act of 1980, and the respective regulations promulgated thereunder to the extent such acts and regulations are applicable.

Independent Auditors

The accounting firm of KPMG LLP audited the financial statements of DASNY for the fiscal year ended March 31, 2012. Copies of the most recent audited financial statements are available upon request at the offices of DASNY.

PART 8 - LEGALITY OF THE SERIES 2013 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2013 Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control.

The Series 2013 Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 9 - NEGOTIABLE INSTRUMENTS

The Series 2013 Bonds are negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution, the Series 2013A Resolution, the Series 2013B Resolution and in the Series 2013 Bonds.

PART 10 - TAX MATTERS

Tax-Exempt Bonds

General

In the opinion of Squire Sanders (US) LLP and D. Seaton and Associates, Co-Bond Counsel, under existing law: (i) interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) interest on the Tax-Exempt Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including The City of New York and the City of Yonkers. Co-Bond Counsel expresses no opinion as to any other tax consequences regarding the Tax-Exempt Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of DASNY and the Series 2013 Participants contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Tax-Exempt Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. In addition, Co-Bond Counsel has relied on, among other things, the opinions of counsel to the Series 2013 Participants, regarding, among other matters, the current status of each Series 2013 Participant as an organization described in Section 501(c)(3) of the Code, which opinions are subject to a number of qualifications and limitations. Co-Bond Counsel also has relied upon representations of the Series 2013 Participants concerning the Series 2013 Participants' "unrelated trade or business" activities as defined in Section 513(a) of the Code. Co-Bond Counsel has not given any opinion or assurance concerning Section 513(a) of the Code or the effect of any future activities of DASNY or the Series 2013 Participants. Failure of any Series 2013 Participant to maintain its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Tax-Exempt Bonds in a manner that is substantially related to such Series 2013 Participant's charitable purpose under Section 513(a) of the Code, may cause interest on the Tax-Exempt Bonds to be included in gross income retroactively to the date of the issuance of the Tax-Exempt Bonds. Co-Bond Counsel will not independently verify the accuracy of DASNY's and the Series 2013 Participants' certifications and representations or the continuing compliance with DASNY's and the Series 2013 Participants' covenants and will not independently verify the accuracy of the opinions of any Series 2013 Participant's counsel.

The opinion of Co-Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Co-Bond Counsel's legal judgment as to exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Co-Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by DASNY or the Series 2013 Participants may cause loss of such status and result in the interest on the Tax-Exempt Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Tax-Exempt Bonds. The Series 2013 Participants and, subject to certain limitations, DASNY have each covenanted to take the actions required of it for the interest on the Tax-Exempt Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Tax-Exempt Bonds, Co-Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Co-Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds or the market value of the Tax-Exempt Bonds.

A portion of the interest on the Tax-Exempt Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Tax-Exempt Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Tax-Exempt Bonds. Co-Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Tax-Exempt Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Tax-Exempt Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Co-Bond Counsel's engagement with respect to the Tax-Exempt Bonds ends with the issuance of the Tax-Exempt Bonds, and, unless separately engaged, Co-Bond Counsel is not obligated to defend DASNY, the Series 2013 Participants, or the owners of the Tax-Exempt Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Tax-Exempt Bonds, under current IRS procedures, the IRS will treat DASNY as the taxpayer and the beneficial owners of the Tax-Exempt Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Tax-Exempt Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Tax-Exempt Bonds.

Prospective purchasers of the Tax-Exempt Bonds upon their original issuance at prices other than the respective prices indicated on the inside cover page of this Official Statement, and prospective purchasers of the Tax-Exempt Bonds at other than their original issuance, should consult their own tax advisors regarding other tax considerations such as the consequences of market discount, as to all of which Co-Bond Counsel expresses no opinion.

Risk of Future Legislative Changes and/or Court Decisions

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Tax-Exempt Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Tax-Exempt Bonds will not have an adverse effect on the tax status of interest on the Tax-Exempt Bonds or the market value or marketability of the Tax-Exempt Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Tax-Exempt Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, recent presidential and legislative proposals would eliminate, reduce or otherwise alter the tax benefits currently provided to certain owners of state and local government bonds, including proposals that would result in additional federal income tax on taxpayers that own tax-exempt obligations if their incomes exceed certain thresholds. Investors in the Tax-Exempt Bonds should be aware that any such future legislative actions (including federal income tax reform) may retroactively change the treatment of all or a portion of the interest on the Tax-Exempt Bonds for federal income tax purposes for all or certain taxpayers. In such event, the market value of the Tax-Exempt Bonds may be adversely affected and the ability of holders to sell their Tax-Exempt Bonds in the secondary market may be reduced. In the event of any such change, the Tax-Exempt Bonds are not subject to special mandatory redemption because of such change, and the interest rates on the Tax-Exempt Bonds are not subject to adjustment because of such change.

Investors should consult their own financial and tax advisors to analyze the importance of these risks.

Original Issue Discount and Original Issue Premium

Certain of the Tax-Exempt Bonds ("Discount Bonds") as indicated on the inside cover page of this Official Statement were offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Tax-Exempt Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. The amount of OID that accrues each year to a corporate owner of a Discount Bond is taken into account in computing the corporation's liability for federal alternative minimum tax. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the inside cover page of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Tax-Exempt Bonds ("Premium Bonds") as indicated on the inside cover page of this Official Statement were offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside cover page of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Discount and Premium Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable or amortizable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

Taxable Bonds

General

In the opinion of Squire Sanders (US) LLP and D. Seaton and Associates, Co-Bond Counsel, under existing law, interest on the Taxable Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including The City of New York and the City of Yonkers. An opinion to those effects will be included in the legal opinion. Co-Bond Counsel expresses no opinion as to any other tax consequences regarding the Taxable Bonds. INTEREST ON THE TAXABLE BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. THE LEGAL DEFEASANCE OF THE TAXABLE BONDS MAY RESULT IN A DEEMED SALE OR EXCHANGE OF THE TAXABLE BONDS UNDER CERTAIN CIRCUMSTANCES; OWNERS OF THE TAXABLE BONDS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL INCOME TAX CONSEQUENCES OF SUCH AN EVENT. PROSPECTIVE PURCHASERS OF THE TAXABLE BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE AND LOCAL, AND FOREIGN TAX CONSEQUENCES OF THEIR ACQUISITION, OWNERSHIP AND DISPOSITION OF THE TAXABLE BONDS.

The following discussion is generally limited to "U.S. owners," meaning beneficial owners of Taxable Bonds that for United States federal income tax purposes are individual citizens or residents of the United States, corporations or other entities taxable as corporations created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), and certain estates or trusts with specific connections to the United States. Partnerships holding Taxable Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Bonds (including their status as U.S. owners).

Original Issue Discount and Original Issue Premium

Certain of the Taxable Bonds ("Discount Bonds") may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond, provided that excess equals or exceeds a statutory de minimis amount (one-quarter of one percent of the Discount Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity (or, if required by applicable Treasury Regulations, to an earlier call date)). The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the time a U.S. owner owns a Discount Bond (i) is interest includable in the U.S. owner's gross income for federal income tax purposes, and (ii) is added to the U.S. owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale, or other disposition of the Discount Bond. The effect of OID is to accelerate the recognition of taxable income during the term of the Discount Bond.

Certain of the Taxable Bonds ("Premium Bonds") may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. If a U.S. owner purchases a Premium Bond, that owner will be considered to have purchased such a Premium Bond with "amortizable bond premium" equal in amount to such excess. The U.S. owner may elect (which election shall apply to all securities purchased at a premium by such U.S. owner), in accordance with the applicable provisions of Section 171 of the Code, to amortize that premium as an offset to the interest payments on the Premium Bond using a constant yield to maturity method over the remaining term of the Premium Bond (or, if required by applicable Treasury Regulations, to an earlier call date). Pursuant to Section 67(b)(11) of the Code, the amortization of that premium is not considered a miscellaneous itemized deduction. Any amortization of bond premium will reduce the basis of the Premium Bond pursuant to Section 1016(a)(5) of the Code.

Owners of Discount and Premium Bonds should consult their own tax advisors as to the determination for federal tax purposes of the amount of OID or amortizable bond premium properly accruable or amortizable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and amortizable bond premium for purposes of state or local taxes on, or based on, income.

Information Reporting and Backup Withholding

General information reporting requirements will apply to payments of principal and interest made on a Taxable Bond and the proceeds of the sale of a Taxable Bond to non-corporate holders of the Taxable Bonds, and "backup withholding," currently at a rate of 28%, will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of a Taxable Bond that is a U.S. owner generally can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

Medicare Tax Affecting U.S. Owners

For taxable years beginning after December 31, 2012, a U.S. owner that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% Medicare tax on the lesser of (1) the U.S. owner's "net investment income" for the taxable year and (2) the excess of the U.S. owner's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000, depending on the individual's circumstances). A U.S. owner's net investment income will generally include its interest income and its net gains from the disposition of Taxable Bonds, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). A U.S. owner that is an individual, estate, or trust, should consult its own tax advisor regarding the applicability of the Medicare tax.

Non-U.S. Owners

Under the Code, interest and OID on any Taxable Bond whose beneficial owner is not a U.S. owner are generally not subject to United States income tax or withholding tax (including backup withholding) if the non-U.S. owner provides the payor of interest on the Taxable Bonds with an appropriate statement as to its status as a non-U.S. owner. This statement can be made on IRS Form W-8BEN or a successor form. If, however, the non-U.S. owner conducts a trade or business in the United States and the interest or OID on the Taxable Bonds held by the non-U.S. owner is effectively connected with such trade or business, that interest or OID will be subject to United States income tax but will generally not be subject to United States withholding tax (including backup withholding). The foregoing is a brief summary of certain federal income tax consequences to a non-U.S. owner. Non-U.S. owners should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Bonds.

Circular 230

THE FOREGOING DISCUSSION IN "TAX MATTERS" WAS NOT INTENDED OR WRITTEN BY CO-BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE TAXABLE BONDS. THE FOREGOING DISCUSSION IN "TAX MATTERS" WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TAXABLE BONDS. EACH PROSPECTIVE PURCHASER OF THE TAXABLE BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE PURCHASER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

See "Appendix G – Form of Approving Opinions of Co-Bond Counsel."

PART 11 - BONDHOLDERS' RISKS

General

The Series 2013 Bonds involve a certain degree of risk. Prospective investors in the Series 2013 Bonds should review all of the information in this Official Statement and information pertaining to the Series 2013 Participants incorporated herein by reference carefully prior to purchasing any of the Series 2013 Bonds. This Official Statement contains only summaries of the Resolution, the Series 2013A Resolution, the Series 2013B Resolution, the Loan Agreements and the related documents. Prospective investors are urged to read such documents in their entirety prior to investing in the Series 2013 Bonds. Copies of such documents may be obtained from the Underwriter prior to the issuance of the Series 2013 Bonds. In addition, prospective investors should carefully review Appendix A for a discussion of the financial condition and results of operations of the Series 2013 Participants, Appendix B for copies of the audited financial statements of the Series 2013 Participants and Appendix C for copies of recent unaudited financial information for each of the Series 2013 Participants.

Set forth below are certain risk factors, among others, that could adversely affect a Series 2013 Participant's operation and revenues and expenses of its Series 2013 Facilities to an extent which cannot be determined at this time. Such risk factors should be considered before any investment in the Series 2013 Bonds is made. These risk factors should not be considered definitive or exhaustive.

Special, Limited Obligations of DASNY

Each Series of the Series 2013 Bonds are special, limited obligations of DASNY payable solely from applicable revenues to be received by DASNY from the Series 2013 Participants under the applicable Loan Agreement or Agreements and from amounts held in the funds established pursuant to the applicable Resolutions (other than the Arbitrage Rebate Fund). The Series 2013 Bonds will not be a debt of the State nor will the State be liable thereon. DASNY has no taxing power.

Several Obligations of Series 2013 Participants

The obligations of each Series 2013 Participant under its Loan Agreement are independent of the obligations of the other Series 2013 Participants under their Loan Agreements. With respect to the Series 2013A Bonds, a failure by a Series 2013A Participant to timely pay its obligations under its Loan Agreement might result in an event of default under the Resolutions with respect to such Series 2013A Participant's Allocable Portion of the Series 2013A Bonds. Upon the happening and continuance of an event of default affecting only a Defaulted Allocable Portion of the Series 2013A Bonds, payment on such Defaulted Allocable Portion of Series 2013A Bonds will be limited to amounts received from or payable by or on behalf of such Series 2013A Participant and amounts derived upon the realization of any security or collateral granted by such defaulting Series 2013A Participant. Holders of a Defaulted Allocable Portion of the Series 2013A Bonds will have no right to any other Revenues or any other funds held by the Trustee under the Resolution derived from payments made by or on behalf of any other Series 2013A Participant for the payment of the Series 2013A Bonds or any other security pledged by such other non-defaulting Series 2013 Participants as security for their loans. With respect to the Series 2013B Bonds, upon the happening and continuance of an event of default affecting the Series 2013B Bonds, payment on such Series 2013B Bonds will be limited to amounts received from or payable by or on behalf of the Series 2013B Participant and amounts derived upon the realization of any security or collateral granted by the Series 2013B Participant. See "PART 1 - INTRODUCTION - Limitations on Payment and Security Upon the Occurrence of Certain Events of Default," "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS - Events of Default - Special Provisions Relating to Defaults," "PART 3 - THE SERIES 2013 BONDS - Redemption Provisions" and "Appendix F - Summary of Certain Provisions of the Resolutions."

No Cross Collateralization

The Series 2013A Bonds and the Series 2013B Bonds are not issued under the same Series Resolution and are not cross-collateralized. Each applicable Series of the Series 2013 Bonds involves different Series 2013 Participants. See "Appendix A - Description of Series 2013 Participants," "Appendix B - Audited Financial Statements of Series 2013 Participants," and "Appendix C - Unaudited Financial Information of Series 2013 Participants."

Reliance on Credit of the Series 2013 Participants

The Series 2013 Bonds are being issued without credit enhancement in the form of a letter of credit, bond insurance or any other form. While the amounts payable to the Series 2013 Participants pursuant to their respective PPAs are calculated in a manner so as to provide moneys equal to debt service on their respective loans, except for the portion of AABR's loan related to the Mattituck Facility, there can be no assurance that the funds received by a particular Series 2013 Participant pursuant to its PPA or PPAs (or by DASNY or Trustee upon the intercept of such Intercept Funds) will be sufficient for the repayment of such Series 2013 Participant's Allocable Portion of the applicable Series of Series 2013

Bonds (whether because of non-appropriation of funds by the State, failure of a Series 2013 Participant to operate its Series 2013 Facility or Facilities in accordance with operational standards or otherwise). Moreover, the payment obligations of the Series 2013 Participants are several, not joint. The Holders of the Series 2013 Bonds must therefore rely upon the credit of each Series 2013 Participant for the repayment of the applicable Series of the Series 2013 Bonds (and not the credit of DASNY, the Trustee, the Underwriter, the State or any other municipality of the State). See "PART 1 - INTRODUCTION - Additional Security - Pledged Revenues and The Standby Intercepts," "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS - Security for the Series 2013 Bonds," and "PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

Each Participant covenants in its Loan Agreement that it has maintained in its current Fiscal Year and it will maintain in each Fiscal Year subsequent to the date of delivery of its Loan Agreement Total Net Revenues Available for Debt Service sufficient to produce in each Fiscal Year a Total Debt Service Coverage Ratio of not less than 1.00 to 1.00. For its Fiscal Year ended June 30, 2012, AABR has calculated its Total Debt Service Coverage Ratio to be 0.629 to 1.00. See "Appendix A – Description of Series 2013 Participants – AABR, Inc. and AABR Realty Facilities Holding Corp." and "Appendix E – Summary of Certain Provisions of the Loan Agreements – Reports Relating to the Project or the Mortgaged Property, Financial Information and Financial Covenants."

Revenues of Series 2013 Participants

Future revenues of each Series 2013 Participant are dependent upon, among other things, legislative appropriations, federal and State policy, the outcome of current and potential litigation and other conditions that are unpredictable, some of which are discussed below. The ability to pay principal of and interest on the Series 2013 Bonds depends upon the receipt by the Trustee of the Loan Repayments under the Loan Agreements. A number of risks that could affect the Series 2013 Participants' ability to pay such amounts are failure of (i) the State, various county and city legislature to approve sufficient appropriations for the purchase of services from the Series 2013 Participants; (ii) the State, various county and city departments to make timely payments to the Series 2013 Participants of appropriated amounts caused by revenue short falls or other State and local fiscal considerations; (iii) the Series 2013 Participants to fulfill their obligations which entitle them to receive payments; (iv) the Series 2013 Participants to receive the appropriate certifications from the required licensing or certifying entity(ies) to provide services as required; and/or (v) the Series 2013 Participants to obtain the renewal of their contracts. In addition, a Series 2013 Participant's license and/or certification may be revoked for failure to comply with standards of operation applicable to such Series 2013 Participant.

Payment Defaults May Affect More Than One Series of Bonds Issued Under the Resolution

Upon the issuance of any other Series of Bonds for the benefit of one or more of the Series 2013 Participants, the applicable Series 2013 Participant and DASNY shall enter into separate loan agreements. Each Series of the Series 2013 Bonds is separately secured from all other Series of Bonds and the Holders of any Series of Bonds other than such Series of the Series 2013 Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the applicable Series of Series 2013 Bonds. While an event of default with respect to another Series of Bonds will not necessarily result in an event of default with respect to the either Series of the Series 2013 Bonds, an event of default by a Series 2013 Participant under a loan agreement entered into in connection with the issuance of another Series of Bonds will result in an "Event of Default" under such Series 2013 Participant's Loan Agreement. In addition, pursuant to the Series 2013B Intercreditor Agreement, an event of default under the Series 2004 Loan Agreement between DASNY and the Series 2013B Participant will result in an Event of Default under the Series 2013B Loan Agreement. See "PART 1 - INTRODUCTION - Authorization of Issuance" and "- Security for the Series 2013 Bonds" and "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS."

Enforceability of Remedies; Effect of Bankruptcy of a Series 2013 Participant

The Series 2013 Bonds are payable from the sources and are secured as described in this Official Statement. The practical realization of value from the collateral for the Series 2013 Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Resolutions, the respective Loan Agreements and the respective Mortgages or other security agreements. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Resolutions, the Loan Agreements and the Mortgages may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinions to be delivered concurrently with the delivery of the Series 2013 Bonds will be qualified as to the enforceability of the various agreements and other instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

The rights and remedies of the Holders of the Series 2013 Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If a Series 2013 Participant were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against such Series 2013 Participant and its property, including the commencement of foreclosure proceedings under its Mortgage, if applicable. Such Series 2013 Participant would not be permitted or required to make payments of principal or interest under its Loan Agreement, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court, the automatic stay may serve to prevent DASNY from intercepting the Series 2013 Participant's Intercept Funds pursuant to the applicable Intercept Agreement or the Trustee from applying amounts on deposit in the accounts established with respect to such Series 2013 Participant under the Resolutions from being applied in accordance with the provisions of the Resolutions and the application of such amounts to the payment of principal of, and interest on, such Series 2013 Participant's Allocable Portion of the applicable Series of Series 2013 Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such intercept or accounts to be applied in accordance with the provisions of the Resolutions would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of such Series 2013 Participant, which could affect the likelihood or timing of obtaining such relief. In addition, if the Mortgage of such defaulting Series 2013 Participant is assigned by DASNY to the Trustee as described herein and the value of the related Mortgaged Property is less than the principal amount of such Series 2013 Participant's total Loan Repayment obligation at the time of a bankruptcy proceeding, the security interest of the Trustee in such property is subject to the claims of creditors that the mortgaged indebtedness in excess of the fair market value of the Mortgaged Property is unsecured and, therefore, to the extent of such excess is not entitled to a secured priority position in the administration of the bankruptcy estate.

A Series 2013 Participant could file a plan for the adjustment of its debts in a proceeding under the Bankruptcy Code, which plan could include provisions modifying or altering the rights of creditors generally, or any class of them, whether secured or unsecured. The plan, when confirmed by the United States Bankruptcy Court, would bind all creditors who have notice or knowledge of the plan and would discharge all claims against such Series 2013 Participant provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Mortgages

Mortgages Not Currently Security for Series 2013 Bonds

The Mortgages do not presently provide any security for the Series 2013 Bonds. Prior to any assignment of a Mortgage to the Trustee, each Loan Agreement provides that DASNY, without the consent of the Trustee or the Holders of the Series 2013 Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of such Mortgage and of any security interest in furniture, fixtures or equipment located in or on or used in connection therewith and the property subject to such Mortgage or security interest may be released from the lien thereof, all upon such terms and conditions as DASNY may reasonably require. Notwithstanding the foregoing, a Series 2013 Participant may remove furniture, fixtures or equipment from the Mortgaged Property provided that such Series 2013 Participant shall replace such furniture, fixtures or equipment with furniture, fixtures or equipment having equivalent value and utility. However, under certain circumstances described herein, one or more of the Mortgages may be assigned to the Trustee. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS - Security for the Series 2013 Bonds - Mortgages."

Pledge of Property Under Mortgages

The security interest in the Mortgaged Property granted under a Mortgage may be affected by various matters, including, (i) rights arising in favor of the United States of America or any agency thereof, (ii) present or future prohibitions against assignment in any applicable federal or state statutes or regulations, (iii) constructive trusts, equitable liens or other rights imposed or conferred by any state or federal court in the exercise of its equitable jurisdiction and rights of donors of property, (iv) claims that might obtain priority if continuation statements are not filed in accordance with applicable laws, (v) the rights of holders of prior perfected security interests in equipment and other goods owned by a Series 2013 Participant and included in the Mortgaged Property and the proceeds of sale of such property, (vi) statutory liens and other liens arising as a matter of law, (vii) the rights of parties secured by other liens or encumbrances permitted by the applicable Loan Agreements or the applicable Mortgages, and (viii) claims by creditors that the mortgaged indebtedness in excess of the fair market value of the Mortgaged Property is unsecured to the extent of such excess.

Insufficiency of Mortgage Foreclosure Proceeds; Environmental Impairment of Property

One of the options under each Series 2013 Participant's Loan Agreement, and one of the options under the Resolution, is to institute proceedings to enforce the lien on and sell such Series 2013 Participant's Mortgaged Property in the event of a default under its Loan Agreement, its Mortgage(s) or the Resolutions. However, due to the limited uses for which a Series 2013 Participant's Mortgaged Property may be utilized, none of DASNY, the Program Facilitator, the Trustee, the applicable Series 2013 Participant, or the Underwriter makes any assurances or representations that a sale of a Series 2013 Participant's Mortgaged Property or, if such Mortgaged Property is sold, that the proceeds received upon a foreclosure or other sale, along with all moneys on deposit in the various funds of such Series 2013 Participant established under the Resolution, will be sufficient to pay in full the principal of, or interest on, the Allocable Portion of the Series 2013A Bonds attributable to such defaulting Series 2013A Participant or the principal of, or interest on, the Series 2013B Bonds in the case of the Series 2013B Participant.

In exercising the rights of foreclosure under a Mortgage, DASNY or the Trustee, as the case may be, in accordance with current commercial lending practices, may perform a Phase I Environmental Audit to determine the presence or likely presence of a release or a substantial threat of a release of any hazardous materials at, on, to, or from the Mortgaged Property. If the audit indicated the existence of hazardous materials with respect to the Mortgaged Property, the Trustee or DASNY, as applicable, may conclude that it is not in the best interests of the Bondholders to foreclose on such property due to liability for removal of hazardous materials. In such an event, the Trustee or DASNY may decline to exercise foreclosure rights with respect to Mortgaged Property under a Mortgage without specific instructions from Bondholders and receipt of funds, security and/or indemnity from the Bondholders reasonably satisfactory to such party to pay the costs, expenses, and liabilities which might be incurred by its compliance with such instructions. Consequently, the existence, post-acquisition, of hazardous materials with respect to any Mortgaged Property could severely limit the ability, due to the economic liability associated with removal of such materials, to foreclose on such property and/or obtain the market value for such property in security for the Series 2013 Bonds that would otherwise have been available absent the existence of such hazardous materials.

Another option under a Series 2013 Participant's Loan Agreement is to institute proceedings to enforce the lien on and sell the Series 2013 Participant's Equipment (as defined in each Mortgage) in the event of a default under its Loan Agreement, its Mortgage(s) or the Resolutions. However, due to the limited uses for which a Series 2013 Participant's Equipment may be utilized, none of DASNY, the Program Facilitator, the Trustee, the applicable Series 2013 Participant, or the Underwriter makes any assurances or representations that DASNY or the Trustee will be able to sell a Series 2013 Participant's Equipment or, if such Equipment is sold, that the proceeds received upon a sale, along with all moneys on deposit in the various funds of the Series 2013 Participant established under the Resolution, would be sufficient to pay in full the principal of, or interest on, the Series 2013 Bonds attributable to such defaulting Series 2013 Participant.

No Approval by New York State Supreme Court

Section 510 of the New York Not-For-Profit Corporation Law ("NFPCL") requires New York State Supreme Court approval of any "sale, lease, exchange or other disposition" of "all, or substantially all, the assets" of a not-for-profit corporation such as the Series 2013 Participants. Such approval was not sought in connection with the execution, delivery and performance by the Series 2013 Participants of the Mortgages or the pledges of assets and revenues that are contemplated by the Resolutions and the Loan Agreements. It is the opinion of counsel to the Series 2013 Participants that such actions do not require approval pursuant to NFPCL §510. However, absent court decisions definitively resolving this issue, it cannot be ruled out that a defendant in a foreclosure action may raise as an affirmative defense the failure to obtain NFPCL §510 court approval.

Right of Reacquisition of the 127-06 Old South Road Facility and the 237-25 Jamaica Avenue Facility

Lifespire acquired title to the Series 2013 Facilities located at 127-06 Old South Road, South Ozone Park, New York (the "127-06 Old South Road Facility") and 237-25 Jamaica Avenue, Bellerose, New York (the "237-35 Jamaica Avenue Facility"), from the State of New York, acting by and through DASNY and the predecessor of OPWDD (the "Seller") for $1.00 on February 2, 2004. The deed pursuant to which Lifespire acquired title to the 127-06 Old South Road Facility and the 237-25 Jamaica Avenue Facility contained a right of reacquisition by the Seller in the event that Lifespire, its successors and assigns fail to utilize the 127-06 Old South Road Facility and the 237-25 Jamaica Avenue Facility as authorized not-for-profit community mental hygiene services facilities for persons with mental retardation and developmental disabilities or, in the event that there is no longer a need for community mental hygiene services for persons with mental retardation and development disabilities, another legally authorized not-for-profit mental hygiene program purpose to which OPWDD has consented in writing. Lifespire has requested the Seller to enter into a subordination agreement in order to subordinate its right of reacquisition to the lien granted by Lifespire's Mortgage on the 127-06 Old South Road Facility and the 237-25 Jamaica Avenue Facility. There is no guarantee that Lifespire will be able to obtain such subordination agreement from the Seller or that Lifespire's title to the 127-06 Old South Road Facility and the 237-25 Jamaica Avenue Facility will not continue to be subject to the right of reacquisition.

Release of Series 2013 Facilities from Lien of Mortgages

Each Loan Agreement, each Mortgage and the Resolutions provide a Series 2013 Participant the ability to prepay a portion of its loan attributable to a Series 2013 Facility and, upon the redemption or defeasance of the related Series 2013 Bonds to have such Series 2013 Facility released from the lien of the applicable Mortgage. There is no assurance that the security, if any, provided by the remaining Series 2013 Facilities subject to the lien of such Mortgage will be sufficient to pay the then outstanding principal and interest (or other amounts due) with respect to such Series 2013 Participant's Allocable Portion of the applicable Series of the Series 2013 Bonds. In such event none of DASNY, the Trustee, the Program Facilitator or any Bondholder will have any recourse to, claim against or right of contribution from any other Series 2013 Participant.

In view of the foregoing, investors should rely on their own examination of the creditworthiness and financial condition of each of the Series 2013 Participants and the terms of this offering, including, without limitation, the merits and risks involved and the uncertainties associated with the possible limitations or inability to enforce the remedies set forth in the Mortgages, in the event that the Mortgages are assigned to the Trustee by DASNY.

Non-Appropriation of State, County and City Departments' Funds

The Series 2013 Participants are subject to Federal, State and local actions, including, among others, actions by the various State, county and city departments. The Series 2013 Bonds are payable from operating revenues of the Series 2013 Participants, which depend in large measure upon the appropriations of the State for the funds of the various State, county and city departments that have contracts with the Series 2013 Participants. HOWEVER, THE OBLIGATION OF THE VARIOUS STATE, COUNTY AND CITY DEPARTMENTS TO RENEW SUCH CONTRACTS IS SUBJECT TO ANNUAL REEVALUATION BY THE DEPARTMENT OBTAINING THE CONTRACT AS PART OF ITS ANNUAL BUDGET APPROPRIATION PROCESS. EACH YEAR THE STATE LEGISLATURE, WHICH HAS THE RESPONSIBILITY OF APPROPRIATING AND ALLOCATING STATE RESOURCES AMONG THE STATE'S VARIOUS DEPARTMENTS, HAS THE RIGHT, IN ITS SOLE DISCRETION, EITHER (I) TO APPROPRIATE SUFFICIENT FUNDS, FROM WHATEVER SOURCE, TO FUND IN WHOLE OR IN PART THE VARIOUS DEPARTMENTS' BUDGETS FROM WHICH THE CONTRACTS PROCURED FOR THE NEXT FISCAL YEAR ARE TO BE PAID, OR (II) TO APPROPRIATE INSUFFICIENT FUNDS TO MAKE SUCH PAYMENTS OR (III) NOT TO APPROPRIATE ANY FUNDS FOR THE VARIOUS DEPARTMENTS' BUDGETS FROM WHICH CONTRACTS ARE TO BE PROCURED AND PAID.

In particular, the ability of the State, county, and city departments to disburse Medicaid reimbursements, and other State, county and city departments to fund contracts of the Series 2013 Participants, is limited in part by the amount of revenues collected, as well as the amount of appropriations authorized, by the State for such fiscal year. Failure of the State to receive sufficient revenues to fund appropriations for such fiscal year and/or the failure of the Series 2013 Participants to generate sufficient revenues from other sources (or have access to sufficient fund balances) to make the scheduled Loan Repayments that are to be used by the Trustee to repay the applicable Series 2013 Bonds, will materially adversely affect a Series 2013 Participant's ability to make its Loan Repayments and, consequently, the repayment of the Series 2013 Bonds attributable to such Series 2013 Participant.

Federal Medicaid Reform

A majority of the Public Funds are received from Medicaid. Future Medicaid reform may materially adversely affect the Public Funds received by the Series 2013 Participants.

Reduction in Medicaid Funds

As a result of recent negotiations between the State and CMS regarding a reduction in the total amount of Medicaid funds that are available to the State in State Fiscal Year 2013-14, OPWDD's available Medicaid funding for voluntary agencies will be reduced by approximately 4.5%. The reduction will not be administered as an across the board cut as Governor Cuomo announced that the cuts will be targeted towards agency administration costs and not funds committed to property (i.e., PPA dollars). The Commissioner of OPWDD also announced that OPWDD will work with provider association representatives and the Developmental Disabilities Advisory Council to discuss the development of targeted actions to address the reduction, which may include, among other things, the movement of people from higher cost to lower cost service options, increased enrollment of service recipients into Medicare (thereby reducing the Medicaid spending), a reduction in the State's portion of room and board payments to providers based upon a surplus/loss analysis and a 1-2% reduction in the agency administration portion of the rates. This reduction and any future reduction in Medicaid funds may materially adversely affect a Series 2013 Participant's ability to make its Loan Repayments and, consequently, the repayment of the Series 2013 Bonds attributable to such Series 2013 Participant.

Completion of the Projects; Zoning; Certificate of Occupancy

The acquisition of all of the Series 2013 Facilities are complete. All of the Series 2013 Facilities with the exception of: (1) Birch Family Services, Inc.'s Series 2013 Facility located at 122-15 Irwin Place, Springfield Gardens, New York (Certificate of Completion); (2) Lifespire's Series 2013 Facilities located at 127-06 Old South Road, South Ozone Park, New York (Certificate of Completion) and 237-25 Jamaica Avenue, Jamaica, New York (Certificate of Occupancy); (3) HASC Center, Inc.'s Series 2013 Facilities located at 1122 Avenue L, Brooklyn, New York (Certificate of Occupancy) and 3521 Avenue L, Brooklyn, New York (Certificate of Completion); (4) AABR's Series 2013 Facility located at 158 Cromwell Avenue, Staten Island, New York (Certificate of Completion); (5) Leake and Watts' Series 2013 Facilities located at 634 East 241st Street, Bronx, New York (Certificate of Occupancy), 1623 Glover Street, Bronx, New York (Certificate of Occupancy), 1035 East 233rd Street, Bronx, New York (Certificate of Occupancy) and 450 Caste Hill Avenue, Bronx, New York (Certificate of Completion); (6) The Center for Family Support, Inc.'s Series 2013 Facilities located at 540 Snediker Avenue, Brooklyn, New York (Certificate of Occupancy) and 143-73 230th Street, Rosedale, New York (Certificate of Completion); and (7) P.L.U.S. Group Homes, Inc.'s Series 2013 Facility located at 72 Universe Drive, Levittown, New York (Certificate of Occupancy) have their respective Certificates of Occupancy and/or Certificates of Completion.

Each Series 2013 Facility may require special use permits or compliance or other zoning approval (each, a "Certificate") from the applicable municipality. Failure of a Series 2013 Participant to obtain an appropriate Certificate where the same is required could materially adversely affect the financial position of such Series 2013 Participant. Moreover, the failure of a Series 2013 Participant's Series 2013 Facilities to receive a Certificate when required could materially adversely impact either the Series 2013 Participant's, the Trustee's or another party's right to use or occupy the Series 2013 Facility, before or after the exercise of default remedies.

Operating Certificates, which permit the Series 2013 Participants to operate their Series 2013 Facilities have been issued by OPWDD for all of the Series 2013 Facilities, except: (1) HASC Center, Inc.'s Series 2013 Facility located at 3521 Avenue L, Brooklyn, New York; (2) AABR's Mattituck Facility; (3) Leake and Watts' Series 2013 Facility located at 1035 East 233rd Street, Bronx, New York and 450 Castle Hill Avenue, Bronx, New York; (4) The Center for Family Support, Inc.'s Series 2013 Facilities located at 540 Snediker Avenue, Brooklyn, New York and 143-73 230th Street, Rosedale, New York; and (5) P.L.U.S. Group Homes, Inc.'s Series 2013 Facility located at 72 Universe Drive, Levittown, New York. The Series 2013 Facilities described in clauses (1) – (5) do not currently have their Operating Certificates as their construction and/or renovation are not yet completed.

Additional Indebtedness

Under its Loan Agreement, each Series 2013 Participant has the ability to incur additional debt. An event of default by a Series 2013 Participant under a loan agreement entered into in connection with the issuance of another Series of Bonds will result in an "Event of Default" under such Series 2013 Participant's Loan Agreement. In addition, an event of default under the 2004 Loan Agreement between DASNY and the Series 2013B Participant will result in an Event of Default under the Series 2013B Loan Agreement pursuant to the terms of the Series 2013B Intercreditor Agreement. See "Security for the Series 2013 Bonds – Series 2013B Intercreditor Agreement" and "Appendix E - Summary of Certain Provisions of the Loan Agreements."

Prior Pledges of Pledged Revenues

The Series 2013 Bonds are secured by the pledge and assignment to the Trustee of DASNY's security interest in the Pledged Revenues, subject to Prior Pledges, granted by each of the Series 2013 Participants to DASNY pursuant to its Loan Agreement. Certain of the Series 2013 Participants have previously pledged their Public Funds (a portion of which consists of the Pledged Revenues) to DASNY or an industrial development agency as security for their obligations in connection with bonds previously issued by DASNY or such industrial development agency. Certain of the Series 2013 Participants have pledged their accounts receivable, including Public Funds, as security for their obligations in connection with lines of credit. The pledge of the Pledged Revenues securing such Series 2013 Participant's Allocable Portion of the applicable Series of the Series 2013 Bonds is subject, and subordinate, to such Prior Pledges in all respects. See "Appendix A - Description of Series 2013 Participants" for a description of which Series 2013 Participants have Prior Pledges of their respective Pledged Revenues.

Grant of Additional Security Interests

Subject to the limitations set forth in its Loan Agreement, a Series 2013 Participant may grant security interests in its Accounts Receivable, and the proceeds thereof, in favor of banks or other financial institutions in order to secure a line of credit for working capital purposes, whether by entering into a new credit facility or amending, modifying or extending an existing credit facility. The incurrence of such indebtedness and the granting of such security interests could materially adversely affect the financial position of a Series 2013 Participant and its ability to satisfy its Loan Repayment obligations. See "Appendix E - Summary of Certain Provisions of the Loan Agreements."

A Series 2013 Participant may also grant a subordinate mortgage as security for bonds issued by DASNY after the date of issuance of the Series 2013 Bonds, in an amount up to the amount approved by OPWDD pursuant to the PPA process, for the purpose of financing the cost of renovating, constructing, equipping or completing a Series 2013 Facility, and any loan agreement, or amendment to the applicable Loan Agreement, between DASNY and such Series 2013 Participant, in each case in connection with such financing.

Effect of Changes in Tax-Exempt Status; Continued Legal Requirements of Tax-Exempt Status

As an entity qualified under Section 501(c)(3) of the Code, the applicable Series 2013 Participants are subject to various requirements affecting its operation. The failure of a Series 2013 Participant to maintain its tax-exempt status may affect the Series 2013 Participant's ability to receive funds from State and federal sources, which could adversely affect its ability to pay its principal Loan Repayments under its Loan Agreement. Further, a loss of a Series 2013 Participant's status as a Section 501(c)(3) organization, failure of a Series 2013 Participant to comply with certain legal requirements of the Code, or adoption of amendments to the Code applicable to such Series 2013 Participant that restrict the use of tax-exempt bonds for facilities, such as one or more of its Series 2013 Facilities, could cause interest on the Tax-Exempt Bonds to be included in the gross income of the Bondholders or former Bondholders for federal income tax purposes, and such inclusion could be retroactive to the date of issuance of the Tax-Exempt Bonds. The opinions of Co-Bond Counsel and the description of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings, and other official interpretations of law in existence on the date the Tax-Exempt Bonds are issued. No assurance can be given that such laws or the interpretation thereof will not change or that new provisions of law will not be enacted or promulgated at any time while the Tax-Exempt Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Tax-Exempt Bonds. See "PART 10 - TAX MATTERS" above. The Tax-Exempt Bonds are not subject to redemption, nor will the interest rate on the Tax-Exempt Bonds be changed, if interest on the Tax-Exempt Bonds is included in the gross income of the Bondholders or former Bondholders.

Risk of Audit by Internal Revenue Service

The Internal Revenue Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Internal Revenue Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Tax-Exempt Bonds.

Risk of Review by State and Federal Agencies

Various State and Federal agencies, including without limitation, OPWDD, the Office of Medicaid Inspector General, the New York State Office of State Controller, the New York State Department of Health, the United States Office of Inspector General, and the New York State Commission on Quality of Care, have ongoing programs of reviewing the services provided by, and the claims for payment submitted by, service provider agencies, such as the Series 2013 Participants, to determine compliance with State and/or federal laws and regulations. Such reviews, if adversely determined, may affect the ability of the service provider agency to provide its services and receive payments therefor. No assurances can be given as to whether or not any State or federal agency will commence a review of any Series 2013 Participant and the effect of any such review on such Series 2013 Participant's ability to make its payments under its Loan Agreement.

Specific Risks Related to AABR's Water Street Facility

AABR's Series 2013A Facility located at 130 Water Street, Apartment MB, New York, New York (the "Water Street Facility") is a condominium unit. As a result, any sale and/or lease of the Water Street Facility is subject to the condominium declaration. Certain practical and legal considerations, however, could inhibit or materially delay or otherwise preclude the receipt of sufficient revenues to repay AABR's Allocable Portion of the Series 2013A Bonds.

Specific Risks Related to Birch Family Services, Inc.'s Jamaica Avenue Facility

In order to secure its obligations under its Loan Agreement, Birch Family Services, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Lease its right, title and interest (but not its obligations) in the lease for its Series 2013 Facility located at 153-17 Jamaica Avenue, Jamaica, New York (the "Lease"). The landlord under the Lease has consented to such collateral assignment. Upon and during an uncured Event of Default under Birch Family Services, Inc.'s Loan Agreement, DASNY may further assign the Lease to a financially sound New York State-approved not-for-profit corporation selection by DASNY (the "Replacement Tenant") for purposes of operating a State-approved program within such Series 2013A Facility similar to the program currently operated therein by Birch Family Services, Inc. The Replacement Tenant would assume Birch Family Services, Inc.'s liabilities and obligations under the Lease on terms acceptable to the landlord. Notwithstanding the Collateral Assignment of Lease, Birch Family Services, Inc. shall remain liable under the Lease to perform all of its obligations thereunder. Certain practical and legal considerations, however, could inhibit or materially delay the ability to locate a Replacement Tenant for such Series 2013 Facility, or otherwise preclude the receipt of sufficient revenues to repay Birch Family Services, Inc.'s Allocable Portion of the Series 2013A Bonds.

Specific Risks Related to the Leake and Watts Castle Hill Facility

Restrictive Covenant

Pursuant to the Declaration of Restrictive Covenant dated as of March 1, 2012 (the "Declaration"), Leake and Watts has agreed that the Series 2013B Facility located at 450 Castle Hill Avenue, Bronx, New York (the "Castle Hill Facility") is subject to a restrictive deed covenant for the Performance Term (as hereinafter defined) during which time the Castle Hill Facility be used for the benefit of the people of the City (i) as a center for child welfare and educational programs and services and which is operated for the benefit of one or more not-for-profit entities; (ii) for purposes ancillary and incidental to the foregoing uses provided that such ancillary and incidental purposes relate to, promote, and do not derogate from, use of the Castle Hill Facility for the purposes in clause (i) above; and (iii) for such other cultural, educational, artistic, community, social service or recreational use for the benefit of the people of the City as the City shall approve through the Mayor of the City or the Mayor's designee. For purposes hereof, "Performance Term" shall mean the period commencing on the Performance Term Commencement Date (as hereinafter defined) and concluding 30 years thereafter and "Performance Term Commencement Date" shall mean the date on which the construction work contemplated by the Project (as defined in the Declaration) has been substantially completed as evidenced by the issuance of the Certificate of Occupancy (Temporary or Final) for the Castle Hill Facility, or a Letter of Completion by the City's Building Department, in either case, as required by applicable law, and the Castle Hill Facility can be utilized as required by clauses (i), (ii) or (iii) above.

Use of Insurance Proceeds

Under the Declaration, Leake and Watts has agreed that if the Castle Hill Facility is damaged or destroyed by fire or other casualty, ordinary or extraordinary, foreseen or unforeseen, Leake and Watts shall restore the Castle Hill Facility to the extent and the value of, and to the extent reasonably practicable, the character of the Castle Hill Facility as it existed prior so said casualty such that the Castle Hill Facility can continue to be used in accordance with the restrictive covenant described above under " – Restrictive Covenant." Leake and Watts is required to restore the Castle Hill Facility whether or not (i) such damage or destruction has been insured or was insurable, (ii) Leake and Watts is entitled to receive any insurance proceeds or (iii) the insurance proceeds are sufficient to pay the costs of the restoration of the Castle Hill Facility. If after a fire or other casualty, the Castle Hill Facility cannot be repaired or restored so that the Castle Hill Facility can continue to be used in accordance with the restrictive covenant described above under " – Restrictive Covenant," unless the City agrees otherwise, the insurance proceeds shall be allocated between Leake and Watts and the City as follows: (a) to the City, an amount equal to the funds disbursed by the City to Leake and Watts and (b) the balance, if any, to Leake and Watts. As a result of this provision, there may be insufficient insurance proceeds to repay the Series 2013B Bonds in the event of damage or destruction to the Castle Hill Facility.

Subordination of Mortgage

Under the Declaration, the Mortgage on the Castle Hill Facility is subject to and subordinate to the Declaration in all respects. As a result of the restrictive covenant described above under " – Restrictive Covenant" and the subordination of the Mortgage on the Castle Hill Facility to the Declaration, the proceeds received from a foreclosure of the Castle Hill Facility (which may be difficult to obtain because of such restrictive covenant) may be insufficient to repay the Series 2013B Bonds.

PART 12 - STATE NOT LIABLE ON THE SERIES 2013 BONDS

The Act provides that notes and bonds of DASNY are not a debt of the State, that the State is not liable on them and that such notes or bonds are not payable out of any funds other than those of DASNY. The Resolution specifically provides that the Series 2013 Bonds are not a debt of the State and that the State is not liable on them.

PART 13 - COVENANT BY THE STATE

The Act states that the State pledges and agrees with the holders of DASNY's notes and bonds that the State will not limit or alter the rights vested in DASNY to provide projects, to establish and collect rentals therefrom and to fulfill agreements with the holders of DASNY's notes and bonds or in any way impair the rights and remedies of the holders of such notes or bonds until such notes or bonds and interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the holders of such notes or bonds are fully met and discharged. Notwithstanding the State's pledges and agreements contained in the Act, the State may in the exercise of its sovereign power enact or amend its laws which, if determined to be both reasonable and necessary to serve an important public purpose, could have the effect of impairing these pledges and agreements with DASNY and with the holders of DASNY's notes or bonds.

PART 14 - LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2013 Bonds by DASNY are subject to the approval of Squire Sanders (US) LLP, New York, New York, and D. Seaton and Associates, New York, New York, Co-Bond Counsel to DASNY, whose approving opinions will be delivered with the Series 2013 Bonds. The proposed form of Co-Bond Counsel's opinions are set forth in Appendix G hereto.

Certain legal matters will be passed upon for the Series 2013 Participants by Cullen and Dykman LLP, Albany, New York and for the Underwriter by McCarter & English, LLP, New York, New York and Newark, New Jersey.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2013 Bonds or questioning or affecting the validity of the Series 2013 Bonds or the proceedings and authority under which they are to be issued.

See "Appendix A - Description of Series 2013 Participants" for a description of any litigation which may have a material adverse affect on the Series 2013 Participants.

PART 15 - CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), each Series 2013 Participant has undertaken in a written agreement (collectively, the "Continuing Disclosure Agreements") for the benefit of the Holders of the Series 2013 Bonds to provide to Digital Assurance Certification LLC ("DAC"), on behalf of DASNY as DASNY's disclosure dissemination agent, on or before 180 days after the end of each fiscal year, commencing with the fiscal year of the Series 2013 Participants ending December 31, 2012 or June 30, 2013, as applicable, for filing by DAC with the Municipal Securities Rulemaking Board (the "MSRB") and its Electronic Municipal Market Access System for municipal securities disclosure on an annual basis, operating data and financial information of the type hereinafter described which is included in this Official Statement (the "Annual Information"), together with each Series 2013 Participant's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America and audited by an independent firm of certified public accountants in accordance with auditing standards generally accepted in the United States of America; provided, however, that if the audited financial statements are not then available, unaudited financial statements shall be provided and such audited financial statements shall be delivered to DAC for delivery to the MSRB.

If, and only if, and to the extent that it receives the Annual Information and annual financial statements described above from the Series 2013 Participants, DAC has undertaken in each Continuing Disclosure Agreement, on behalf of and as agent for the applicable Series 2013 Participant and DASNY, to file such information and financial statements, as promptly as practicable, but no later than three business days after receipt of the information by DAC from the Series 2013 Participant, with the MSRB.

The Series 2013 Participants also will undertake in their respective Continuing Disclosure Agreements to provide to DASNY, the Trustee and DAC, in a timely manner not in excess of nine (9) Business Days after the occurrence of a Notice Event (as hereinafter defined), the notices required to be provided by Rule 15c2-12 and described below (the "Notices"). In addition, DASNY and the Trustee will undertake to provide such Notices to DAC, should they have actual knowledge of the occurrence of a Notice Event. Upon receipt of Notices from a Series 2013 Participant, the Trustee or DASNY, DAC will file the Notices with the MSRB in a timely manner. With respect to the Series 2013 Bonds, DAC has only the duties specifically set forth in the Continuing Disclosure Agreements. DAC's obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreements is limited to the extent it has been provided such information pursuant to the Continuing Disclosure Agreements. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Continuing Disclosure Agreements and DAC has no duty or obligation to review or verify any information contained in the Annual Information, Audited Financial Statements, Notices or any other information, disclosures or notices provided to it by a Series 2013 Participant, the Trustee or DASNY and shall not be deemed to be acting in any fiduciary capacity for DASNY, a Series 2013 Participant, the Trustee, the Owners of the Series 2013 Bonds or any other party. DAC has no responsibility for DASNY, any Series 2013 Participant or the Trustee's failure to provide to DAC a Notice required by the Continuing Disclosure Agreements or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether a Series 2013 Participant, the Trustee or DASNY has complied with the Continuing Disclosure Agreements and DAC may conclusively rely upon certifications of a Series 2013 Participant, the Trustee and DASNY with respect to their respective obligations under the Continuing Disclosure Agreements. In the event that the obligations of DAC as DASNY's disclosure dissemination agent terminate, DASNY will either appoint a successor disclosure dissemination agent or, alternatively, assume all responsibilities of the disclosure dissemination agent for the benefit of the Bondholders.

The Annual Information will consist of the funding sources of a Series 2013 Participant and the Debt Service Coverage calculation for a Series 2013 Participant.

The Notices include notice of any of the following events with respect to the Series 2013 Bonds (a "Notice Event"): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2013 Bonds, or other material events affecting the tax status of the Series 2013 Bonds; (7) modifications to rights of the Owners of the Series 2013 Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2013 Bonds, if material; (11) rating changes on the Series 2013 Bonds; (12) bankruptcy, insolvency, receivership or similar events of a Series 2013 Participant; (13) the consummation of a merger, consolidation, or acquisition involving a Series 2013 Participant or the sale of all or substantially all of the assets of such Series 2013 Participant, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional Trustee or the change of name of a Trustee, if material. In addition, DAC will undertake to provide to the MSRB, in a timely manner, notice of any failure by any of the Series 2013 Participants to provide the Annual Information and annual financial statements by the date required in the Series 2013 Participants' undertaking described above.

The sole and exclusive remedy for breach or default under any Continuing Disclosure Agreement is an action to compel specific performance of the undertakings of the defaulting Series 2013 Participant and/or DASNY or the Trustee, and no person, including any Holder of the Series 2013 Bonds, may recover monetary damages thereunder under any circumstances. DASNY or such defaulting Series 2013 Participant may be compelled to comply with their respective obligations under a Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any Holder of Outstanding Series 2013 Bonds or by the Trustee on behalf of the Owners of Outstanding Series 2013 Bonds or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the Owners of Outstanding Series 2013 Bonds. However, the Trustee is not required to take any enforcement action unless so directed by the Owners of not less than 25% in aggregate principal amount of Outstanding Series 2013 Bonds. A breach or default under a Continuing Disclosure Agreement will not constitute an event of default under the Resolutions. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreements, insofar as the provisions of Rule 15c2-12 no longer in effect required the providing of such information, will no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. Any Continuing Disclosure Agreement, however, may under certain circumstances be amended or modified without the consent of Owners of the Series 2013 Bonds. Copies of all Continuing Disclosure Agreements when executed by the parties thereto upon the delivery of the Series 2013 Bonds will be on file at the principal office of DASNY.

For information about the Series 2013 Participants' compliance with their continuing disclosure undertakings made pursuant to Rule 15c2-12, see "Appendix A - Description of Series 2013 Participants."

PART 16 - UNDERWRITING

The Series 2013 Bonds are being purchased by Municipal Capital Markets Group, Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Series 2013A Bonds from DASNY at a purchase price of $14,694,010.71 and to make a public offering of the Series 2013A Bonds at prices not in excess public offering prices set forth on the inside cover page of this Official Statement. The Underwriter will be obligated to purchase all Series 2013A Bonds if any Series 2013A Bonds are purchased. The Underwriter has agreed, subject to certain conditions, to purchase the Series 2013B Bonds from DASNY at a purchase price of $3,872,111.35 and to make a public offering of the Series 2013B Bonds at prices not in excess public offering prices set forth on the inside cover page of this Official Statement. The Underwriter will be obligated to purchase all Series 2013B Bonds if any Series 2013B Bonds are purchased. The Series 2013 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2013 Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter. The issuance of each Series of the Series 2013 Bonds is not conditioned upon the issuance of the other Series of the Series 2013 Bonds.

The Series 2013 Participants have agreed to indemnify the Underwriter and DASNY with respect to certain liabilities, including certain liabilities under the federal securities laws.

PART 17 - RATINGS

The Series 2013A Bonds have been rated "Aa3" by Moody's and the Series 2013B Bonds have been rated "A1" by Moody's. The ratings on the Series 2013 Bonds are based upon the obligation of the applicable Series 2013 Participants under the Loan Agreements to make certain payments from the Revenues, and on the security interest in the Pledged Revenues granted by such Series 2013 Participants to DASNY under the Loan Agreements. An explanation of the significance of the rating should be obtained from Moody's. There is no assurance that such ratings will prevail for any given period of time or that they will not be changed or withdrawn by Moody's if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the applicable Series of Series 2013 Bonds.

PART 18 - INDEPENDENT PUBLIC ACCOUNTANTS

Each of the Series 2013 Participants has provided its financial statements, included in Appendix B to this Official Statement, which have been audited by independent certified public accounting firms, as stated in their respective reports appearing therein. Notwithstanding the receipt of any consents to append the financial statements to this Official Statement, none of the auditors performed any procedures relating to any of the information contained in this Official Statement.

PART 19 - MISCELLANEOUS

References in this Official Statement to the Act, the Resolutions, the Loan Agreements and the Mortgages do not purport to be complete. Refer to the Act, the Resolutions, the Loan Agreements and the Mortgages for full and complete details of their provisions. Copies of the Resolutions, the Loan Agreements and the Mortgages are on file with DASNY and the Trustee.

The agreements of DASNY with Holders of the Series 2013 Bonds are fully set forth in the Resolutions. Neither any advertisement of the Series 2013 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2013 Bonds.

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly stated, are intended as such, and not as representations of facts. No representation is made that any of the opinions or estimates will be realized.

The information regarding the Series 2013 Participants contained in this Official Statement and information concerning the Series 2013 Facilities contained herein has, in each case, been furnished by the Series 2013 Participants. DASNY believes that this information is reliable, but DASNY makes no representations or warranties as to the accuracy or completeness of such information.

The information regarding DTC and DTC's book-entry only system has been furnished by DTC. DASNY believes that this information is reliable, but makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

"Appendix A - Description of Series 2013 Participants," "Appendix B - Audited Financial Statements of Series 2013 Participants" and "Appendix C - Unaudited Financial Information of Series 2013 Participants" were supplied by the Series 2013 Participants.

"Appendix D - Certain Definitions," "Appendix E - Summary of Certain Provisions of the Loan Agreements," "Appendix F - Summary of Certain Provisions of the Resolutions" and "Appendix G - Form of Approving Opinions of Co-Bond Counsel" have been prepared by Squire Sanders (US) LLP, New York, New York, and D. Seaton and Associates, New York, New York, Co-Bond Counsel to DASNY.

Each Series 2013 Participant has reviewed the parts of this Official Statement describing such Series 2013 Participant, its Series 2013 Facilities, its Mortgage, if any, "PART 1 – INTRODUCTION" (but solely with respect to the headings "The Series 2013 Participants," "Additional Security – Pledged Revenues and Standby Intercepts," "The Mortgages," and "Collateral Assignment of Lease"), "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS – Security for the Series 2013 Bonds - Pledged Revenues – OPWDD Funds," "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS – Security for the Series 2013 Bonds – Mortgages," "PART 3 – THE SERIES 2013 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2013 Bonds," "PART 4 - THE SERIES 2013 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2013 PARTICIPANT FUNDING," "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS," "PART 11 - BONDHOLDERS' RISKS," and the information relating to it contained in Appendices A, B, and C. It is a condition to the sale and delivery of the Series 2013 Bonds that each Series 2013 Participant certify as of the dates of sale and delivery of the Series 2013 Bonds that such parts do not contain any untrue statement of a material fact and do not omit any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

Each Series 2013 Participant has agreed to indemnify DASNY and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact as described in the preceding paragraph with respect to such Series 2013 Participant.

The execution and delivery of this Official Statement by an Authorized Officer have been duly authorized by DASNY.

DORMITORY AUTHORITY OF
THE STATE OF NEW YORK

By: /s/ Paul T. Williams, Jr.
Authorized Officer

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APPENDIX A

DESCRIPTION OF SERIES 2013 PARTICIPANTS

AABR, Inc. and AABR Realty Facilities Holding Corp.

General Operations. AABR, Inc. (the "Association") provides services to the multiple handicapped, severely developmentally disabled and blind individuals. The Association was founded in 1956 to establish a recreational program for people with severe disabilities, at a time when the mentally disabled were segregated from society with few educational institutions. As the Association grew, it began to establish formalized schools with a commitment to provide formal education to all children, regardless of disability. During the 1970s and 1980s, the Association expanded its program to establish residential facilities and day programs throughout New York City. The Association is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State Law.

AABR Realty Facilities Holding Corp. ("AABR Realty" and, collectively, with the Association ("AABR")) is a not-for-profit organization exempt from income tax under Section 501(c)(2) of the Internal Revenue Code and comparable New York State Law. AABR Realty owns condominiums, cooperatives and other real property, which are leased by AABR Realty to the Association for the operation and administration of the Association's programs. Because the Association and AABR Realty will both receive the loan from the proceeds of the Series 2013A Bonds, this Appendix includes consolidated financial information about AABR Management, Inc. ("AABR Management") and all of its subsidiaries, which include the Association and AABR Realty, notwithstanding that the Series 2013A Participants are only the Association and AABR Realty. AABR Management and its other subsidiaries will not have any obligations to make payments under the Loan Agreement.

In February 2013, the Association, AABR Realty and AABR Management approved a plan of merger whereby the Association, AABR Realty and AABR Management will merge with the Association as the surviving entity. The merger is expected to be consummated prior to the end of 2013.

AABR's funding sources for its 2012 Fiscal Year were: the State of New York Office for People with Developmental Disabilities ("OPWDD") (approximately 95%) and the New York State Education Department ("SED") (approximately 4%).

Description of Facilities and Financing Plan. The Authority will lend AABR approximately $2,020,000 from the proceeds of the Series 2013A Bonds ("AABR's Allocable Portion") which amount will be used to refinance debt incurred for the following projects (collectively, the "Facilities"):

- 172-54 Highland Avenue, Jamaica Estates, New York ("Highland Avenue") - approximately $260,857 for the acquisition and renovation of a 3,461 square-foot two and one half-story building to be used as a residence for eight developmentally disabled individuals.

- 9-06 119th Street, College Point, New York ("119th Street") – approximately $243,698 for the acquisition and renovation of a 2,656 square-foot two and one half-story building to be used as a residence for eight developmentally disabled individuals.

- 33-15 153rd Street, Flushing, New York ("153rd Street") – approximately $391,796 for the acquisition and renovation of a 2,080 square-foot two and one half-story building to be used as a residence for seven developmentally disabled individuals.

- 119-64 Sixth Avenue, College Point, New York ("Sixth Avenue") – approximately $382,388 for the acquisition and renovation of a 2,085 square-foot two and one half-story building to be used as a residence for seven developmentally disabled individuals.

- 130 Water Street, Apartment MB, New York, New York ("Water Street") – approximately $179,434 for the acquisition and renovation of a 753 square-foot space occupying one story of a building to be used as a residence for four developmentally disabled individuals.

- 67-60 Sound Avenue, Mattituck, New York ("Sound Avenue") – approximately $177,443 for the acquisition and renovation of a 4,735 square-foot three-story building to be used as a vacation retreat for developmentally disabled individuals.

- 158 Cromwell Avenue, Staten Island, New York ("Cromwell Avenue") – approximately $134,814 for the acquisition and renovation of a 3,148 square-foot two and one half-story building to be used as a residence for eight developmentally disabled individuals.

The remaining Series 2013A Bond proceeds to be loaned in the amount of approximately $249,570 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OPWDD and the Facilities, other than Sound Avenue, are supported by OPWDD Prior Property Approvals ("PPAs"), which AABR has received. This means the Facilities, other than Sound Avenue, are pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the construction and/or renovation and furnishing of the Facilities and financing or refinancing costs incurred in connection therewith. The principal of and interest on the AABR's Allocable Portion of the Series 2013A Bonds related to Sound Avenue is expected by AABR to be paid from its operating revenues. Each of the facilities has an existing Certificate of Occupancy and Operating Certificate. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

AABR Realty owns the Facilities, and will grant the Authority a first priority mortgage on each of the Facilities and a lien on the Public Funds attributable to each of the facilities.

Other Properties. AABR Realty also owns twenty properties and AABR leases another three properties throughout New York City and Long Island.

Description of Employees. AABR employs a total of approximately 650 employees, of which approximately 480 full-time employees are employed at the Facilities. AABR does not expect that the operation of the Facilities will require the employment of additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement among the Authority, the Association and AABR Realty, the actual Debt Service Coverage for Fiscal Year 2012 and the Pro Forma Debt Service Coverage (which includes AABR's Allocable Portion of the Series 2013A Bonds) are as follows:

	2012 Actual	2012 Pro Forma
Revenues	$35,411,474	$35,411,474
Expenses	37,294,067	37,294,067
Total Net Revenue	(1,882,593)	(1,882,593)
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	1,282,373	1,282,373
Plus Depreciation and Amortization	1,000,368	1,000,368
Plus Current Interest Expense	420,337	420,337
New PPA Program Revenues	0	0
Total Net Revenues Available for Debt Service	820,485	820,485
Maximum Annual Debt Service	1,305,366	1,298,166
Total Debt Service Coverage Ratio	0.629	0.632

AABR did not meet a minimum Debt Service Coverage Ratio of 1.0 due to the inability to cut certain expenses related to a corresponding reduction in Medicaid payments in a timely enough manner.

Financials.

Audited financial statements for AABR Management and subsidiaries for the fiscal years ended June 30, 2010, June 30, 2011 and June 30, 2012 were prepared by BDO USA, LLP. Such audited financial statements are attached as Appendix B-I. Interim unaudited financial information relating to AABR Management and subsidiaries, prepared by AABR Management and covering the period from July 1, 2012 through February 28, 2013 is attached as Appendix C-I. Significant accounting policies are contained in the audited financial statements.

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Management's Summary of Financial Information and Results of Operations.

Summary of Financial Information for Prior Five Fiscal Years - All Funds

The following is a combined summary of financial information for AABR Management and subsidiaries for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by AABR Management and derived from the audited financial statements of AABR Management and subsidiaries. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-I.

Fiscal Year Ended June 30,

	2008	**2009**	**2010**	**2011**	**2012**
Current Assets	$10,075,751	$11,406,698	$13,375,836	$11,810,547	$13,270,501
Net Fixed Assets	11,506,586	11,228,111	11,372,657	10,834,196	10,309,217
Other	378,989	322,539	249,992	274,175	342,300
Total	21,961,326	22,957,348	24,998,485	22,918,918	23,922,018
Current Liabilities	6,705,563	8,507,590	8,320,010	6,949,201	10,728,854
Other Liabilities	8,210,082	8,035,415	8,580,668	7,425,365	6,529,411
Net Assets	7,045,681	6,414,343	8,097,807	8,544,352	6,663,753
Total	21,961,326	22,957,348	24,998,485	22,918,918	23,922,018
Operating Revenue:					
Program Revenue	30,850,174	32,528,790	35,350,085	35,201,844	34,763,474
Nonprogram Revenue	676,568	879,581	586,120	753,524	519,324
Total	31,526,742	33,408,371	35,936,205	35,955,368	35,282,798
Operating Expenses	30,752,894	32,884,256	35,473,005	36,401,343	36,011,694
Prior Period Revenue	109,869	258,729	1,580,739	224,202	170,708
Other Changes in Plan Assets and Benefit Obligations	(1,265,322)	(841,560)	(295,388)	653,635	(1,282,373)
Change in Net Assets	191,017	(631,338)	1,683,464	446,545	(1,880,599)
Net Assets, Beginning of Year	6,854,664	7,045,681	6,414,343	8,097,807	8,544,352
Net Assets, End of Year	7,045,681	6,414,343	8,097,807	8,544,352	6,663,753
Cash & Equivalents	4,115,917	5,650,572	6,757,296	6,359,892	8,291,913

Management Discussion of Results of Operations.

(1) Known Trends or Uncertainties Likely to have an Impact on Liquidity: AABR believes there are no trends or uncertainties which have had or are reasonably likely to have a material impact on its short-term or long-term liquidity.

(2) Sources of Liquidity: AABR Management and subsidiaries had combined current assets of $11,810,547 and $13,270,501 at the end of the fiscal years of 2011 and 2012, respectively.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: AABR is not aware of any trends or uncertainties that have had or that are reasonably expected to have a material impact on its net revenues. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS.")

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fundraising, and interest of AABR Management and subsidiaries for fiscal years 2011 and 2012 were $480,362 and $258,154, respectively. See Appendix C-I for interim unaudited financial information through February 28, 2013.

(5) Causes for Changes in Financial Statements: No significant amounts of income or loss are derived from sources other than the continuing operations of AABR.

Liquidity and Capital Resources. As of June 30, 2012, AABR Management and subsidiaries had $8,291,913 in unrestricted cash and cash equivalents and $3,996,434 in net accounts receivable.

Long-Term Debt. As of June 30, 2012, the Association and AABR Realty had $6,529,411 in outstanding long-term indebtedness. $6,516,473 million of this indebtedness is secured by mortgages, and is not secured by a security interest in AABR's Public Funds.

Contingencies; Pending or Potential Litigation. In the opinion of Management, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or threatened to challenge the authority or ability of AABR to continue to operate its facilities or to challenge title to its properties or seeking damages in excess of applicable insurance coverage or wherein an adverse determination might materially adversely affect the ability of AABR to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers. The affairs of AABR are governed by a Board of Directors consisting of eight members. The officers of the Board of Directors are: Audrey Sachs, President; Andy Occhino, Secretary; and Joseph Pulvirenti, Treasurer. Other members of the Board of Directors include: Joseph Giamelli, Jeff Meaney, Randy Rock, Regina Skyer and Christopher Weldon. The Board meets on a bi-monthly basis; a majority of the members constitutes a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers.

Tom McAlvanah has been the Executive Director of AABR since April 2011. He has served people with disabilities for 36 years. His position reports to the Board of Directors. He is a licensed

Master of Social Work, receiving his M.S.W. degree from Hunter College. He received his B.A. degree from Queens College.

Continuing Disclosure.

AABR is in compliance with all of its continuing disclosure undertakings made pursuant to Rule 15c2-12.

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BIRCH FAMILY SERVICES, INC.

General Operations. Birch Family Services, Inc. (d.b.a. Birch Family Services) ("Birch Family Services") was founded in 1975. Operating out of over 21 facilities, Birch Family Services provides a wide range of educational, residential and support services to the developmentally disabled in Manhattan, Brooklyn, Queens, and the Bronx. Birch Family Services is a comprehensive voluntary not-for-profit human services organization. A part of Birch Family Services' mission is to provide support and assistance to individuals with developmental and related disabilities and their families. In order to achieve its mission, Birch Family Services provides services with the following goals: to assist individuals to develop to their fullest level of independence; to allow individuals choice in determining what their lives will be like; to help families stay together by providing relief, training and support of caregivers which enhance the family's quality of life; and to provide excellent services as defined by the consumers of service. Birch Family Services is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State Law.

Birch Family Services' funding sources for its 2012 Fiscal Year were: SED (approximately 71.5%), OPWDD (approximately 28.2%), and miscellaneous other sources (approximately .3%).

Description of Facilities and Financing Plan. The Authority will lend Birch Family Services approximately $1,365,000 from the proceeds of the Series 2013A Bonds ("Birch Family Services' Allocable Portion") which amount will be used to finance or refinance debt incurrence for the following projects:

- 122-15 Irwin Place, Springfield Gardens, New York ("Irwin Place") - approximately $1,105,348 for the purchase, construction, renovation and furnishing of a 2,496 square-foot two-story building containing a residence for six young adults whose primary disability is Autism Spectrum Disorder.

- 153-17 Jamaica Avenue, Jamaica, New York ("Jamaica Avenue", and together with Irwin Place, the "Facilities") – approximately $106,152 for the renovation of a 2,930 square-foot one-story building to be used for a day habilitation program for twelve individuals and expected to be expanded to serve 18 individuals.

The remaining Series 2013A Bond proceeds to be loaned in the amount of approximately $153,500 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OPWDD and the Facilities are supported by PPAs, which Birch Family Services has received. This means the Facilities are pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the construction and/or renovation and furnishing of the Facilities and financing or refinancing costs incurred in connection therewith. Irwin Place received its Operating Certificate in September of 2012 and its Certificate of Occupancy is expected at the completion of the Facility. Jamaica Avenue has a Certificate of Occupancy and an existing Operating Certificate. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Birch Family Services owns Irwin Place and leases Jamaica Avenue. Birch Family Services will grant the Authority a first priority mortgage on the real property with respect to Irwin Place, a second priority security interest in the furniture, equipment and other assets constituting a portion of Irwin Place, and a lien on the Public Funds attributable to both Irwin Place and Jamaica Avenue.

Other Properties. Birch Family Services also owns nine properties and leases another 13 properties throughout New York City.

Description of Employees. Birch Family Services employs a total of approximately 998 employees, of which approximately 15 employees are employed at Irwin Place and 3 employees are employed at Jamaica Avenue. Birch Family Services does expect that the operation of Irwin Place and Jamaica Avenue will require it to employ additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and Birch Family Services, the actual Debt Service Coverage for Fiscal Year 2012 and the Pro Forma Debt Service Coverage (which includes Birch Family Services' Allocable Portion of the Series 2013A Bonds) are as follows:

	2012 Actual	**2012 Pro Forma**
Revenues	$53,627,033	$53,627,033
Expenses	53,187,900	53,187,900
Total Net Revenue	439,133	439,133
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	0	0
Plus Depreciation and Amortization	1,303,154	1,303,154
Plus Current Interest Expense	614,299	614,299
New PPA Program Revenues	0	138,188
Total Net Revenues Available for Debt Service	2,356,586	2,494,774
Max Annual DS	1,896,018	2,033,474
Debt Service Coverage	1.24	1.23

Financials.

Audited financial statements for Birch Family Services' fiscal year ended June 30, 2010 were prepared by Loeb & Troper LLP. Audited financial statements for Birch Family Services' fiscal year ended June 30, 2011 and June 30, 2012 were prepared by BDO USA, LLP. Such audited financial statements are attached as Appendix B-II. The audited financial statements for the fiscal years ended June 30, 2011 and June 30, 2012 were prepared on a consolidated basis with The Herbert G. Birch Services Fund, Inc., a wholly-owned subsidiary of Birch Family Services (the "Fund"). Interim unaudited financial information relating to Birch Family Services and the Fund, prepared by Birch Family Services' Management and covering the period from July 1, 2012 through February 28, 2013, is attached as Appendix C-II. Significant accounting policies are contained in the audited financial statements.

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Management's Summary of Financial Information and Results of Operations.

Summary of Financial Information for Prior Five Fiscal Years - All Funds

The following is a combined summary of financial information for Birch Family Services for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by Birch Family Services' Management and derived from Birch Family Services' audited financial statements. The data with respect to fiscal years 2009[1] through 2012 is presented on a consolidated basis with the Fund. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-II.

Fiscal Year Ended June 30,

	2008	2009	2010	2011	2012
Current Assets	$ 8,613,744	$ 8,256,551	$ 7,869,255	$ 6,513,111	$ 7,971,234
Net Fixed Assets	8,584,095	9,371,194	8,819,528	12,218,913	12,551,359
Other	1,146,260	1,403,884	1,664,856	963,379	1,336,783
Total	18,344,099	19,031,629	18,353,639	19,695,403	21,859,376
Current Liabilities	10,398,447	10,364,390	7,619,458	8,361,761	9,420,374
Other Liabilities	5,800,948	6,163,125	7,768,649	8,171,052	8,837,279
Net Assets	2,144,704	2,504,114	2,965,532	3,162,590	3,601,723
Total	18,344,099	19,031,629	18,353,639	19,695,403	21,859,376
Operating Revenue:					
Program Revenue	43,509,080	43,827,499	46,788,808	50,084,261	52,248,634
Nonprogram Revenue	1,160,273	1,264,423	1,238,248	1,177,102	1,378,399
Total	44,669,353	45,091,922	48,027,056	51,261,363	53,627,033
Operating Expenses	44,539,166	44,797,239	47,565,638	51,064,305	53,187,900
Change in Net Assets	130,187	294,863	461,418	197,058	439,133
Net Assets, Beginning of Year	2,014,517	2,209,431	2,504,114	2,965,532	3,162,590
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	2,144,704	2,504,114	2,965,532	3,162,590	3,601,723
Cash & Equivalents	1,506,716	1,892,152	2,886,893	1,543,775	3,555,425

[1] The data with respect to fiscal year 2009 is based on the audited financial statements for fiscal year 2010, which were presented on a consolidated basis with the Fund. The audited financial statements for fiscal year 2009, included in Appendix B-II hereto, are presented with respect to Birch Family Services only.

Management Discussion of Results of Operations.

(1) Known Trends or Uncertainties Likely to have an Impact on Liquidity: Birch Family Services believes there are no trends or uncertainties which have had or are reasonably likely to have a material impact on its short-term or long-term liquidity.

(2) Sources of Liquidity: (a) Internal: Birch Family Services and the Fund had combined current assets of $6,513,111 and $7,971,234 at the end of the fiscal years of 2011 and 2012, respectively. (b) External: Birch Family Services has available a $7 million line of credit from Citibank, N.A.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: Birch Family Services is not aware of any trends or uncertainties that have had or that are reasonably expected to have a material impact on the net revenues. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS.")

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, and interest for fiscal years 2011 and 2012 were $279,743 and $397,995, respectively. See Appendix C-II for interim unaudited financial information through February 28, 2013.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally affect the revenue of the program. Birch Family Services' total operations have increased due to the opening of the Facilities.

Liquidity and Capital Resources. As of June 30, 2012, Birch Family Services had $3,555,425 in unrestricted cash and cash equivalents and $3,998,447 in net accounts receivable.

As of December 31, 2012, Birch Family Services had an available line of credit of $7 million with Citibank, N.A. with interest payable monthly at the greater of the prime rate or one-month LIBOR plus 2% per annum, less .125% in each instance. The interest rate charged in 2012 was 3.125%. The line of credit is revolving and is secured by all business personal property of Birch Family Services, including accounts receivable. There was no balance outstanding at June 30, 2012. Subsequent to June 30, 2012, Birch Family Services drew down an additional $3,500,000 on its credit line, of which $1,000,000 has been repaid. The current outstanding balance as of January 31, 2013, is $2,500,000.

Long-Term Debt. As of June 30, 2012, Birch Family Services had $9,267,071 in outstanding long-term indebtedness. Approximately $4,101,885 of this indebtedness is secured by mortgages, and is not secured by a security interest in Birch Family Services' Public Funds. The balance of approximately $5,165,186 is secured by a security interest in Birch Family Services' Public Funds. Birch Family Services has not incurred any long-term debt subsequent to June 30, 2012.

Contingencies; Pending or Potential Litigation. In the opinion of Management, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or threatened to challenge the authority or ability of Birch Family Services to continue to operate its facilities or to challenge title to its properties or seeking damages in excess of applicable insurance coverage or wherein an adverse determination might materially adversely affect the ability of Birch Family Services to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers. The affairs of the Birch Family Services are governed by a Board of Directors consisting of ten members. The officers of the Board of Directors are: Robin E. Keller, Esq., Chair; Dan Brecher, Esq., First Vice Chair; Judith Kauffman Fullmer, Second Vice-Chair; Alan L. Goldberg, CPA, Treasurer; and Jean Rawitt, Secretary. Other members of the Board of Directors include: Judy Collins, Esq., Richard Farley, Esq., Sharon Jones, Rahul Khara and George Varughese. The Board meets at least once per year; a majority of the members constitutes a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers.

Gerald F. Maurer, Ph.D. has been the Chief Executive Officer of Birch Family Services since 2005. Dr. Maurer has served people with developmental disabilities for over 30 years. His position reports to the Board of Directors. Rinku Bhattacharya assumed the role of Chief Financial Officer of Birch Family Services effective 2010. Ms. Bhattacharya has positioned herself to meet the complex fiscal challenges Birch Family Services faces due to the current economic climate by careful and critical analyses of all finance-based functions. Susan Lee Miller has worked for Birch Family Services since 1975 and has served as Chief Operating Officer since 1994.

Continuing Disclosure.

Birch Family Services is in compliance with all of its continuing disclosure undertakings made pursuant to Rule 15c2-12.

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HASC CENTER, INC.

General Operations. HASC Center, Inc. ("HASC Center") was founded in 1963. Operating out of 20 facilities, HASC Center provides a wide range of day and residential services to the developmentally disabled community of Brooklyn. The mission of HASC Center is to assist people with developmental disabilities to improve the quality of their lives in the community. To achieve this mission, HASC Center provides quality housing, habilitative and rehabilitative services to people with disabilities. It operates within a philosophy of encouraging independence, individualization, inclusion and productivity for its consumers. HASC Center's primary funding sources are OPWDD (approximately 99%) and the Adult Career and Continuing Education Services-Vocational Rehabilitation program of SED ("ACCES-VR") (approximately 1%). HASC Center is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State law.

Description of Facilities and Financing Plan. The Authority will lend HASC Center approximately $3,770,000 from the proceeds of the 2013A Bonds ("HASC Center's Allocable Portion"), which will be used to finance or refinance debt incurred for the following projects:

- 3521 Avenue L, 1st and 2nd Floors, Brooklyn, New York ("3521 Avenue L"): $2,047,512 to refinance existing loans for the purchase and renovation of a residential facility for eleven developmentally disabled adults in a 3,285 square foot, two-story residential building.

- 1122 Avenue L, Brooklyn, New York ("1122 Avenue L" and together with 3521 Avenue L, the "Facilities"): $1,309,711 incurred in the construction and renovation of a 2,440 square foot, two-story residence for five developmentally disabled adults.

The remaining proceeds in the amount of $412,777 will be used for legal fees, capitalized interest, costs of issuance and debt service reserve requirements.

Both of the facilities are supported by PPAs, which HASC Center has received. This means the new projects are pre-approved by OPWDD for principal and interest reimbursement by OPWDD. 1122 Avenue L has an Operating Certificate, but needs a Certificate of Occupancy. 3531 Avenue L's Operating Certificate is expected to be issued by April 1, 2013.

HASC Center owns both 3521 Avenue L and 1122 Avenue L. HASC Center will grant the Authority a first priority mortgage on each of the Facilities and a lien on Public Funds attributable to each of the Facilities.

Other Properties. HASC Center also owns 15 residences and leases 13 other residences and properties in Brooklyn, New York.

Description of Employees. HASC Center employs 200 full-time and 393 part-time employees in New York City and no other employees elsewhere in the State of New York. The new residential Facilities located at 3521 Avenue L and 1122 Avenue L will require it to employ approximately 40 new employees.

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Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and HASC Center, the actual Debt Service Coverage for Fiscal Year 2012 and the Pro Forma Debt Service Coverage (which includes HASC Center's Allocable Portion of the Series 2013A Bonds) are as follows:

	2012 Actual	**2012 Pro Forma**
Revenues	$34,038,127	$34,038,127
Expenses	30,909,192	30,909,192
Total Net Revenue	3,128,935	3,128,935
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	0	0
Plus Depreciation and Amortization	843,318	843,318
Plus Current Interest Expense	488,782	488,782
New PPA Program Revenues	0	318,588
Total Net Revenues Available for Debt Service	4,461,035	4,779,623
Maximum Annual Debt Service	2,230,110	2,504,089
Total Debt Service Coverage Ratio	2.000	1.909

Financials.

Audited financial statements for HASC Center's fiscal years ending June 30, 2010 through June 30, 2012 were prepared by J. Gliksman CPA PC and are attached as Appendix B-III. Interim unaudited financial information covering the period from July 1, 2012 through February 28, 2013 is attached as Appendix C-III. Significant accounting policies are contained in the audited financial statements.

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Summary of Financial Information and Result of Operations.

Summary of Financial Information for Prior Five Fiscal Years – All Funds.

The following is a summary of financial information for HASC Center for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by HASC Center's management and derived from the audited financial statements of HASC Center for such periods. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-III.

	Fiscal Year Ended June 30,				
	2008	**2009**	**2010**	**2011**	**2012**
Current Assets	$ 8,428,652	$12,844,927	$17,451,569	$19,339,894	$21,351,284
Net Fixed Assets	13,330,928	13,112,358	12,595,849	11,809,352	13,287,897
Other Assets	2,840,634	2,268,244	2,548,296	3,053,722	3,071,239
Total	24,600,214	28,225,529	32,595,714	34,283,968	37,710,420
Current Liabilities	2,473,589	3,724,029	5,067,632	4,702,703	5,841,465
Other Liabilities	9,625,380	8,670,099	8,194,942	7,479,605	6,638,360
Net Assets	12,501,245	15,831,401	19,333,140	22,101,660	25,230,595
Total	24,600,214	28,225,529	32,595,714	34,283,968	37,710,420
Operating Revenue:					
Program Revenue	24,794,725	28,703,409	31,900,896	32,832,020	33,441,357
Nonprogram Revenue	1,145,865	622,150	682,810	331,804	596,770
Total	25,940,590	29,325,559	32,583,706	33,163,824	34,038,127
Operating Expenses	23,446,415	26,460,962	29,081,967	29,905,999	30,909,192
Change in Net Assets	2,494,175	2,864,597	3,501,739	3,257,825	3,128,935
Net Assets, Beginning of Year	10,007,070	12,501,245	15,831,401	19,333,140	22,101,660
Prior Period Adjustment	0	465,559	0	(489,305)	0
Net Assets, End of Year	12,501,245	15,831,401	19,333,140	22,101,660	25,230,595
Cash & Equivalents	2,846,255	5,138,793	9,979,295	11,546,439	9,988,154

Management Discussion of Results of Operations.

(1) Known Trends or Uncertainties Likely to Have an Impact on Liquidity: HASC Center believes that there are no trends or uncertainties that have had, or are reasonably likely to have, a material impact on HASC Center's short-term or long-term liquidity.

(2) Sources of Liquidity: (a) Internal – Current assets were $21,354,284 and $19,339,894 at the end of the 2012 and 2011 fiscal years, respectively. (b) External – HASC Center has a line of credit from Capital One Bank in the amount of $1,446,245. HASC Center expects to retire this loan with permanent financing during 2013.

(3) Material Commitments for Capital Expenditures and Sources of Funds: See notes to the financial statements for details of HASC Center's long-term debt, including required annual payments. Interest and principal payments are included in reimbursement rates paid by OPWDD to HASC Center.

(4) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: HASC Center is not aware of any trend or uncertainty which has had a material negative impact on net revenues.

(5) Income or Loss from Sources Other than Continuing Operations: No significant amounts of income or loss are derived from sources other than HASC Center's continuing operations.

(6) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally affect the revenue of the program. HASC Center's total operations have increased due to the opening of 1122 Avenue L on July 1, 2012.

Liquidity and Capital Resources. As of June 30, 2012, HASC Center had $9,988,154 in unrestricted cash and cash equivalents and $136,876 in net accounts receivable.

As of June 30, 2012, HASC Center had an outstanding balance of $1,446,245 on its line of credit with Capital One Bank, carrying an interest rate of 4%. As of March 31, 2013 the outstanding balance was $1,946,245 of an available amount of $2,000,000. The line of credit is secured by accounts receivable. There were no other loans outstanding as of March 31, 2013.

Long-Term Debt. As of June 30, 2012, HASC Center has $7,447,979 in outstanding long-term indebtedness, which is secured by mortgages and is not secured by a security interest in HASC Center's Public Funds. HASC Center has not incurred any long-term debt subsequent to June 30, 2012.

Contingencies; Pending or Potential Litigation. In the opinion of Management, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or threatened to challenge the authority or the ability of HASC Center to continue to operate its facilities or to challenge title to its properties or seeking damages in excess of applicable insurance coverage or wherein an adverse determination might materially adversely affect the ability of HASC Center to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers: The affairs of HASC Center are governed by an eight member Board of Directors. The officers are comprised of: Mr. Abe Eisner, President, Mr. Shloimie Goldner, Secretary, and Mr. Chaim Lefkowitz, Vice President. The other members of the Board of Directors are: Mrs.

Lillian Lieberman, Mrs. Reeba Oestrich, Mordechai Perlstein, Rabbi Chaim Israel, and Rabbi Yeshaya Schwartz. The Board of Directors meets at least four times a year. A majority of the members of the Board constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers: Samuel Kahn is the Executive Director of HASC Center. He holds a Bachelor of Arts in Talmudic Studies from Chasan Sofer Rabbinical College and a Masters of Arts in Business Administration from Adelphi University. HASC Center has several other key employees including an Assistant Executive Director and a Controller.

Continuing Disclosure.

HASC Center is in compliance with all of its continuing disclosure undertakings made pursuant to Rule 15c2-12.

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LIFESPIRE, INC.

General Operations. Lifespire, Inc. ("Lifespire") was founded in 1951. Lifespire provides a wide range of in-home and residential and day program services to the developmentally disabled community of New York City. Lifespire's mission is to provide support and assistance to individuals with developmental and related disabilities and their families. In order to achieve its mission, Lifespire provides services the goals of which are: to assist individuals to develop to their fullest level of independence; to allow individual choice in determining what their lives will be like; to help families stay together by providing relief, training and support of caregivers, which enhance the family's quality of life; and to provide excellent services as defined by the consumers of those services. Lifespire is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State Law.

Lifespire's funding sources for its 2012 Fiscal Year were: OPWDD (approximately 98%) and OMH and ACCES-VR (approximately 2%).

Description of Facilities and Financing Plan. The Authority will lend Lifespire approximately $3,665,000 from the proceeds of the Series 2013A Bonds ("Lifespire's Allocable Portion"). Such amount will be used to finance or refinance debt incurred in connection with projects at the following facilities (the "Facilities"):

- 127-06 Old South Road, South Ozone Park, New York ("Old South Road") - approximately $1,280,562 for the acquisition, renovation and furnishing of an 3,776 square-foot two-story building to be used as a residence for eleven developmentally disabled adults.

- 315 James Street, Connelly, New York ("James Street") - approximately $1,147,475 for the renovation and furnishing of a 4,680 square-foot one-story building to be used as a residence for eight developmentally disabled adults.

- 237-25 Jamaica Avenue, Bellerose, Queens, New York ("Jamaica Avenue") - approximately $838,064 for the renovation and furnishing of a 6,000 square-foot two-story building to be used as a day habilitation program for 25 developmentally disabled adults.

The remaining Series 2013A Bond proceeds to be loaned in the amount of approximately $398,899 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OPWDD and the Facilities are supported by PPAs, which Lifespire has received. This means the Facilities are pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the acquisition and/or renovation and furnishing of the Facilities and financing or refinancing costs incurred in connection therewith. Other than Jamaica Avenue, the Facilities each have a Certificate of Occupancy and each needs an Operating Certificate. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Lifespire owns the Facilities, and will grant a first priority mortgage on the Facilities to the Authority. Lifespire will also grant the Authority a lien on the Public Funds attributable to the Facilities.

Other Properties. Lifespire also owns 34 other properties and leases another 43 residential and day program properties in the Boroughs of New York City and leases office space in Manhattan and Staten Island.

Description of Employees. Lifespire employs 1,183 full-time and 274 part-time employees in New York City and Westchester County. Lifespire expects that the operation of the Facilities will require it to employ additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and Lifespire, the actual Debt Service Coverage for Fiscal Year 2012 and the Pro Forma Debt Service Coverage (which includes Lifespire's Allocable Portion of the Series 2013A Bonds) are as follows:

	2012 Actual	**2012 Pro Forma**
Revenues	$103,289,400	$103,289,400
Expenses	110,815,319	110,815,319
Total Net Revenue	(7,525,919)	(7,525,919)
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	8,194,914	8,194,914
Plus Depreciation and Amortization	2,241,574	2,241,574
Plus Current Interest Expense	2,168,914	2,168,914
New PPA Program Revenues	0	268,112
Total Net Revenues Available for Debt Service	5,079,483	5,347,595
Maximum Annual Debt Service	5,049,189	5,323,168
Total Debt Service Coverage Ratio	1.006	1.005

Financials. Audited financial statements for Lifespire's fiscal years ended June 30, 2010 through June 30, 2012 were prepared by MBAF-ERE CPAs, LLC (predecessor to ERE LLP) and are attached as Appendix B-V. Interim unaudited financial information prepared by Lifespire's Management covering the period from July 1, 2012 through March 31, 2013 is attached as Appendix C-V. Significant accounting policies are contained in the audited financial statements.

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Management's Summary of Financial Information and Results of Operations.

Summary of Financial information for Prior Five Fiscal Years — All Funds

The following is a summary of financial information for Lifespire for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by Lifespire's Management and derived from Lifespire's audited financial statements. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-V.

Fiscal Year Ended June 30,

	2008	2009	2010	2011	2012
Current Assets	$27,711,125	$32,327,387	$40,740,254	$41,543,217	$55,147,172
Net Fixed Assets	19,816,115	21,680,546	19,956,497	18,555,175	19,301,407
Other	10,199,177	10,473,509	11,482,683	11,653,646	8,356,158
Total	57,726,417	64,481,442	72,179,434	71,752,038	82,804,737
Current Liabilities	18,977,281	20,776,032	24,862,807	26,523,603	35,522,231
Other Liabilities	27,677,626	32,553,230	34,300,815	26,616,278	36,214,975
Net Assets	11,071,510	11,152,180	13,015,812	18,612,157	11,067,531
Total	57,726,417	64,481,442	72,179,434	71,752,038	82,804,737
Operating Revenue:					
Program Revenue	91,316,624	96,968,426	103,587,506	103,181,862	103,289,400
Nonprogram Revenue	544,358	216,865	247,895	152,212	(1,438,773)
Total	91,860,982	97,185,291	103,835,401	103,334,074	101,850,627
Operating Expenses	93,706,180	98,780,232	103,570,238	102,603,545	101,181,632
Change in Net Assets	(1,251,368)	80,670	1,863,632	5,596,345	(7,544,626)
Net Assets, Beginning of Year	12,322,878	11,071,510	11,152,180	13,015,812	18,612,157
Prior Period Adjustment	593,806	1,674,658	1,597,096	0	0
Net Assets, End of Year	11,071,510	11,152,180	13,015,812	18,612,157	11,067,531
Cash & Equivalents	10,660,141	9,109,636	19,420,012	22,407,985	24,876,092

Management Discussion of Results of Operations.

(1) Known Trends or Uncertainties Likely to Have an Impact on Liquidity: Lifespire is not aware of any trends or uncertainties that have had or are reasonably likely to have a material impact on Lifespire's short-term or long-term liquidity.

(2) Sources of Liquidity: (a) Internal – Lifespire had current assets of $55,147,172 and $41,543,217 at the end of the fiscal years of 2012 and 2011, respectively. (b) External – Lifespire has available a $5 million line of credit with J.P. Morgan Chase for operating expenses and a $5 million line of credit with Bank of America for capital improvements.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: Lifespire is not aware of any trends or uncertainties that have had or that are reasonably expected to have a material impact on the net revenues. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS.")

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund-raising, and interest for fiscal years 2011 and 2012 were $139,540 and $183,113, respectively. See APPENDIX C-V for interim unaudited financial information through March 31, 2013.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally affect the revenue of the program. Lifespire's total operations have increased due to expansion of residential services provided. Lifespire records unearned advances to fee for service revenue as deferred revenue until it is expended for the purpose of the funding source, at which time it is recognized as Prior Period Revenue.

Liquidity and Capital Resources. As of June 30, 2012, Lifespire had $24,876,092 in unrestricted cash and cash equivalents and $452,052 in net accounts receivable.

As of June 30, 2012, Lifespire had an available line of credit of $5 million with J.P. Morgan Chase which expires on March 14, 2014. The proceeds of the line of credit are to be used for operating expenses. Interest is charged at the bank's floating rate of prime plus 0.5% (3.75% at June 30, 2012) and is secured by a lien on Lifespire's receivables. The receivables totaled $15,282,545 at June 30, 2012. There was no outstanding balance as of June 30, 2012, and there is no outstanding balance as of March 31, 2013.

As of June 30, 2012, Lifespire had an available line of credit of $5 million with Bank of America carrying an interest rate of the bank's prime rate plus 0.5% (3.75% at June 30, 2012) through March 31, 2013, which Lifespire expects to be extended. Lifespire's property and leasehold improvements not otherwise encumbered have been pledged as collateral against any advances on the line of credit. As of June 30, 2012, there was an outstanding balance of $1,914,085 on this line of credit. As of March 31, 2013, the outstanding balance remained at $1,914,085.

Long-Term Debt. As of June 30, 2012, Lifespire had $18,375,608 in outstanding long-term indebtedness. Of this amount, $15,600,000 is secured by a security interest in certain receivables of Lifespire, which may include Lifespire's Public Funds. See Notes 15, 17 and 18 of Lifespire's Audited Financial Statements under titles of "Mortgages Payable - DASNY," "Bonds Payable - DASNY" and "Bonds Payable - IDA." Lifespire has not incurred any long-term debt subsequent to June 30, 2012.

Contingencies; Pending or Potential Litigation. In the opinion of Management, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or threatened to challenge the authority or ability of Lifespire to continue to operate its facilities or to challenge title to its properties or seeking damages in excess of applicable insurance coverage or wherein an adverse determination might materially adversely affect the ability of Lifespire to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement.

Management.

Directors and Officers: The affairs of Lifespire are governed by a Board of Directors of eighteen. The officers are comprised of: Jeffrey Goodman, Chairman, Patrick Vatel, Treasurer and Ellen R. Greene, Secretary. Other members of the Board are: Anne Dunbar, Audrey Lieberman, Michael R. Dillon, Margaret Davino, Michael S. Gross, Jerome Greene, Sister Grace Henke, Lawrence Hirsch, Robert Krakow, Denise Nicoletti, Julian Palmo, Michael Rappaport, Elizabeth Schiff, Mathew Hoffman, and Alan S. Lui. The Board of Directors meets at least four times a year. Fifty percent of the members of the Board constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers: Mark van Voorst is the Chief Executive Officer of Lifespire. He holds a Master of Divinity from Princeton Theological Seminary. Prior to working at Lifespire, Mark van Voorst was the Associate Executive Director of Lexington Center. Lifespire has several other key employees including Tom Lydon, Chief Operating Officer and Keith Lee, Chief Financial Officer.

Continuing Disclosure.

Lifespire is in compliance with all of its continuing disclosure undertakings made pursuant to Rule 15c2-12.

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NEW HORIZONS RESOURCES, INC.

General Operations. New Horizons Resources, Inc. ("New Horizons") was founded in 1974. New Horizons provides a wide range of day and residential services to the developmentally disabled in the Hudson Valley region of New York State. The mission of New Horizons is to enable people with developmental disabilities to achieve fulfilling lives within their local communities by establishing a sense of home, belonging, self-determination, learning, productivity and individual respect. Today, New Horizons supports over 160 individuals in 30 residences located in Dutchess & Ulster counties, New York. The agency also provides nonresidential supports to 200 individuals, including day habilitation, in-home services, respite and Medicaid service coordination. New Horizons is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State law.

New Horizons' sole funding source for its 2012 Fiscal Year was OPWDD.

Description of Facilities and Financing Plan. The Authority will lend New Horizons approximately $955,000 from the proceeds of the 2013A Bonds ("New Horizons' Allocable Portion"), which will be used to finance or refinance debt incurred for the following projects:

- 24 Gerry Road, Poughkeepsie, New York ("Gerry Road"): $200,051 to refinance existing loans for the acquisition and renovation of a 1,566 square foot, one-story residential facility for three developmentally disabled individuals.

- 50 Angelo Boulevard, Poughkeepsie, New York ("Angelo Boulevard" and together with Gerry Road, the "Facilities"): $652,653 to refinance existing loans for the acquisition and renovation of a 2,749 square foot, two-story residential facility for six developmentally disabled individuals.

The remaining proceeds in the amount of $102,296 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OPWDD and the Facilities are supported by PPAs, which New Horizons has received. This means the Facilities are pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the construction and/or renovation and furnishing of the Facilities and financing or refinancing costs incurred in connection therewith. Each of the facilities has an existing Certificate of Occupancy and Operating Certificate. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

New Horizons owns the Facilities. New Horizons will grant the Authority a first priority mortgage on each of the Facilities and a lien on Public Funds attributable to each of the Facilities.

Other Properties. New Horizons also owns 27 properties and leases another four properties throughout the Hudson Valley.

Description of Employees. New Horizons employs a total of approximately 400 employees, of which approximately 13 full-time employees are employed at the Facilities. New Horizons does not expect that the operation of the Facilities will require it to employ additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and New Horizons, the actual Debt Service Coverage for Fiscal Year 2011 and the Pro Forma Debt Service Coverage (which includes New Horizons' Allocable Portion of the Series 2013A Bonds) are as follows:

	2011 Actual	**2011 Pro Forma**
Revenues	$20,828,182	$20,828,182
Expenses	20,108,974	20,108,974
Total Net Revenue	719,208	719,208
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	0	0
Plus Depreciation and Amortization	1,005,756	1,005,756
Plus Current Interest Expense	500,253	500,253
New PPA Program Revenues	0	0
Total Net Revenues Available for Debt Service	2,225,217	2,225,217
Maximum Annual Debt Service	1,315,848	1,303,448
Total Debt Service Coverage Ratio	1.691	1.707

Financials.

Audited financial statements for New Horizons' fiscal years ended December 31, 2009, December 31, 2010 and December 31, 2011 were prepared by Marvin and Company, P.C.. Such audited financial statements are attached as Appendix B-VI. Interim unaudited financial information relating to New Horizons, prepared by New Horizons' Management and covering the period from January 1, 2012 through February 28, 2013 is attached as Appendix C-VI. Significant accounting policies are contained in the audited financial statements.

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Management's Summary of Financial Information and Results of Operations.

Summary of Financial Information for Prior Five Fiscal Years - All Funds

The following is a combined summary of financial information for New Horizons for the most recently ended four fiscal years for which audited financial statements were available and the unaudited financial statements for the fiscal year ended December 31, 2012, and has been prepared by New Horizons' Management and derived from New Horizons' audited and unaudited financial statements. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-VI and the unaudited financial statements presented in Appendix C-VI.

Fiscal Year Ended December 31,

	2008	2009	2010	2011	2012 (unaudited)
Current Assets	$ 6,650,503	$ 8,005,549	$ 8,075,165	$ 7,897,235	$ 6,831,225
Net Fixed Assets	14,387,757	14,662,638	14,197,600	13,347,495	13,925,293
Other	1,509,263	1,708,991	1,580,623	1,411,901	1,292,678
Total	22,547,523	24,377,178	23,853,388	22,656,631	22,049,196
Current Liabilities	3,114,260	3,915,738	3,254,399	2,868,914	2,478,441
Other Liabilities	9,717,618	9,790,196	8,475,091	7,715,919	7,317,769
Net Assets	9,715,645	10,671,244	12,123,898	12,071,798	12,252,986
Total	22,547,523	24,377,178	23,853,388	22,656,631	22,049,196
Operating Revenue:					
Program Revenue	19,833,663	20,497,524	22,128,738	20,788,978	20,027,727
Nonprogram Revenue	786,198	265,080	366,762	376,063	379,551
Total	20,619,861	20,762,604	22,495,500	21,165,041	20,407,278
Operating Expenses	18,707,918	20,048,496	21,100,434	21,124,582	20,108,974
Change in Temporarily Restricted Net Assets	848,470	241,491	57,588	(92,559)	(117,116)
Change in Net Assets	2,760,413	955,599	1,452,654	(52,100)	181,188
Net Assets, Beginning of Year	6,955,232	9,715,645	10,671,244	12,123,898	12,071,798
Net Assets, End of Year	9,715,645	10,671,244	12,123,898	12,071,798	12,252,986
Cash & Equivalents	2,989,170	5,400,190	4,235,258	5,870,432	4,870,435

Management Discussion of Results of Operations.

(1) Known Trends or Uncertainties Likely to have an Impact on Liquidity: New Horizons believes there are no trends or uncertainties which have had or are reasonably likely to have a material impact on its short-term or long-term liquidity.

(2) Sources of Liquidity: (a) Internal: New Horizons had combined current assets of $7,897,235 and $6,831,225 at the end of the fiscal years of 2011 and 2012 (unaudited), respectively. (b) External: New Horizons has available a $1,000,000 line of credit with KeyBank of New York.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: New Horizons is not aware of any trends or uncertainties that have had or that are reasonably expected to have a material impact on the net revenues. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS.")

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, and interest for fiscal years 2011 and 2012 (unaudited) were $376,063 and $379,551, respectively. See Appendix C-VI for interim unaudited financial information through February 28, 2013.

(5) Causes for Changes in Financial Statements: No significant amounts of income or loss are derived from sources other than New Horizons' continuing operations.

Liquidity and Capital Resources. As of December 31, 2012 (unaudited), New Horizons had $4,870,435 in unrestricted cash and cash equivalents and $1,884,621 in net accounts receivable.

As of December 31, 2012, New Horizons had an available line of credit of $1 million with KeyBank of New York with interest payable monthly at the prime rate plus 2%. The line of credit is available through June 30, 2013, and is secured by the related receivables which are used to determine the borrowing base as defined in the agreement. There was no balance outstanding at December 31, 2012. On February 1, 2013, New Horizons reduced the line of credit by $415,000 in order to secure a standby letter of credit in that amount. The letter of credit was required by AIG/Chartis pursuant to a 2013 payment agreement for workers compensation insurance.

Long-Term Debt. As of December 31, 2012, New Horizons had $7,885,067 in outstanding long-term indebtedness. Approximately $7,817,067 of this indebtedness is secured by mortgages and a security interest in New Horizons' Public Funds. The balance is secured by security interests in vehicles. New Horizons has not incurred any long-term debt subsequent to December 31, 2012.

Contingencies; Pending or Potential Litigation. In the opinion of Management, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or threatened to challenge the authority or ability of New Horizons to continue to operate its facilities or to challenge title to its properties or seeking damages in excess of applicable insurance coverage or wherein an adverse determination might materially adversely affect the ability of New Horizons to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers. The affairs of New Horizons are governed by a Board of Directors consisting of 15 members. The officers of the Board of Directors are: Stacey Langenthal, President; Daniel G. Hickey, Vice President; Peter Leonard, Secretary; and Bruce Marley, Treasurer. Other members of the Board of Directors include: Kimberly Bottini, Theresa Burdick, George F. Decker, Jr., Val Fidanque, Susan P. Hochhauser, Maureen Kangas, Joseph Kirchhoff, Helena Lee, Edward L. McCormick, Marilyn McCauley and Rita McPeck. The Board meets at least five times per year; a majority of the members constitutes a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers.

William Beattie became Executive Director of New Horizons on January 31, 2013, prior to which he served as Associate Executive Director. Mr. Beattie has worked with persons who have disabilities for over 30 years. His career began as a nurse in a developmental center. At New Horizons, he has served in various clinical and administrative roles. He has been the organizational leader of New Horizons' effort to achieve and maintain accreditation with the Council on Quality and Leadership. He has a degree in Nursing and an advanced degree in Public Administration.

Continuing Disclosure.

New Horizons is in compliance with all of its continuing disclosure undertakings made pursuant to Rule 15c2-12.

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P.L.U.S. GROUP HOMES, INC.

General Operations. P.L.U.S. Group Homes, Inc. ("P.L.U.S.") was founded in 1986. P.L.U.S. develops and operates group homes for autistic and developmentally disabled adults in Nassau County, New York. The mission of P.L.U.S. is based on the belief that an individualized service environment will ultimately produce the functional abilities which autistic and developmentally disabled individuals need to live meaningful and productive lives. Today, P.L.U.S. operates six group homes serving 48 individuals. P.L.U.S. is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State law.

P.L.U.S.'s primary funding source for its 2012 Fiscal Year was OPWDD (approximately 99%).

Description of Facilities and Financing Plan. The Authority will lend P.L.U.S. approximately $1,355,000 from the proceeds of the 2013A Bonds ("P.L.U.S.'s Allocable Portion"), which will be used to finance or refinance debt incurred for the following project:

- 72 Universe Drive, Levittown, New York (the "Facility"): $1,208,064 to refinance existing loans for the acquisition, renovation, equipping and furnishing of a 1,306 square foot, two-story residential facility for six developmentally disabled individuals.

The remaining proceeds in the amount of $146,936 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facility is OPWDD and the Facilities are supported by PPAs, which P.L.U.S. has received. This means the Facility is pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the construction and/or renovation and furnishing of the Facility and financing or refinancing costs incurred in connection therewith. The Facility has a Certificate of Occupancy and Operating Certificate. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

P.L.U.S. owns the Facility. P.L.U.S. will grant the Authority a first priority mortgage on the Facility and a lien on Public Funds attributable to the Facility.

Other Properties. P.L.U.S. also owns 6 additional properties in Nassau County, New York..

Description of Employees. P.L.U.S. employs a total of approximately 152 employees, none of which currently are employed at the Facility. P.L.U.S. expects that the operation of the Facility will require it to employ 17 additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and P.L.U.S., the actual Debt Service Coverage for Fiscal Year 2011 and the Pro Forma Debt Service Coverage (which includes P.L.U.S.'s Allocable Portion of the Series 2013A Bonds) are as follows:

	2011 Actual	2011 Pro Forma
Revenues	$7,787,405	$7,787,405
Expenses	8,001,008	8,001,008
Total Net Revenue	(213,603)	(213,603)
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	0	0
Plus Depreciation and Amortization	412,253	412,253
Plus Current Interest Expense	137,495	137,495
New PPA Program Revenues	0	115,100
Total Net Revenues Available for Debt Service	336,145	451,245
Maximum Annual Debt Service	334,610	444,027
Total Debt Service Coverage Ratio	1.005	1.016

Financials.

Audited financial statements for P.L.U.S.'s fiscal years ended December 31, 2009 and December 31, 2010 were prepared by Fuoco Group, LLP. Audited financial statements for P.L.U.S.'s fiscal year ended December 31, 2011 were prepared by BDO USA, LLP. Such audited financial statements are attached as Appendix B-VII. Interim unaudited financial information relating to P.L.U.S., prepared by P.L.U.S.'s Management and covering the period from January 1, 2012 through February 28, 2013 is attached as Appendix C-VII. Significant accounting policies are contained in the audited financial statements. .

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Management's Summary of Financial Information and Results of Operations.

Summary of Financial Information for Prior Five Fiscal Years - All Funds

The following is a combined summary of financial information for P.L.U.S. for the most recently ended four fiscal years for which audited financial statements were available and the unaudited financial statements for the fiscal year ended December 31, 2012, and has been prepared by P.L.U.S.'s Management and derived from P.L.U.S.'s audited and unaudited financial statements. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-VI and the unaudited financial statements presented in Appendix C-VI.

Fiscal Year Ended December 31,

	2008	2009	2010	2011	2012 (unaudited)
Current Assets	$ 2,328,143	$ 2,719,779	$ 1,984,412	$ 2,359,830	$ 835,778
Net Fixed Assets	4,664,029	4,525,522	4,840,405	4,446,276	4,394,716
Other	921,007	525,852	465,816	416,076	435,701
Total	7,913,179	7,771,153	7,290,633	7,222,179	5,686,195
Current Liabilities	1,541,810	1,652,940	1,731,930	2,112,318	1,179,448
Other Liabilities	3,208,654	2,814,821	2,302,399	2,067,160	1,853,799
Net Assets	3,162,715	3,303,392	3,256,304	3,042,701	2,652,948
Total	7,913,179	7,771,153	7,290,633	7,222,179	5,686,195
Operating Revenue:					
Program Revenue	6,805,088	7,153,598	8,209,741	7,776,142	7,800,374
Nonprogram Revenue	154,385	98,751	82,854	25,627	20,510
Total	6,959,473	7,252,349	8,292,595	7,787,405	7,820,824
Operating Expenses	6,850,021	7,135,508	8,344,262	8,001,008	8,210,637
Gain/Loss on Swap Agreement	(76,000)	23,836	4,579	11,263	(36,322)
Change in Net Assets	33,452	140,677	(47,088)	(213,603)	(389,753)
Net Assets, Beginning of Year	3,129,263	3,162,715	3,303,392	3,256,304	3,042,701
Net Assets, End of Year	3,162,715	3,303,392	3,256,304	3,042,701	2,652,948
Cash & Equivalents	842,989	1,098,270	564,820	1,478,673	178,851

Management Discussion of Results of Operations.

(1) Known Trends or Uncertainties Likely to have an Impact on Liquidity: P.L.U.S. believes there are no trends or uncertainties which have had or are reasonably likely to have a material impact on its short-term or long-term liquidity.

(2) Sources of Liquidity: P.L.U.S. had combined current assets of $2,359,830 and $835,778 at the end of the fiscal years of 2011 and 2012 (unaudited), respectively.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: P.L.U.S. is not aware of any trends or uncertainties that have had or that are reasonably expected to have a material impact on the net revenues. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS.")

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, and interest for fiscal years 2011 and 2012 (unaudited) were $25,627 and $20,510, respectively. See Appendix C-VII for interim unaudited financial information through February 28, 2013.

(5) Causes for Changes in Financial Statements: No significant amounts of income or loss are derived from sources other than P.L.U.S.'s continuing operations.

Liquidity and Capital Resources. As of December 31, 2012 (unaudited), P.L.U.S. had $178,851 in unrestricted cash and cash equivalents and $625,962 in net accounts receivable.

Long-Term Debt. As of December 31, 2012, P.L.U.S. had $1,853,799 in outstanding long-term indebtedness. Approximately $1,827,788 of this indebtedness is secured by mortgages, and is not secured by a security interest in P.L.U.S.'s Public Funds. The balance of approximately $26,011 is secured by a security interest in certain equipment of P.L.U.S. P.L.U.S. has not incurred any long-term debt subsequent to December 31, 2012.

Contingencies; Pending or Potential Litigation. In the opinion of Management, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or threatened to challenge the authority or ability of P.L.U.S. to continue to operate its facilities or to challenge title to its properties or seeking damages in excess of applicable insurance coverage or wherein an adverse determination might materially adversely affect the ability of P.L.U.S. to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers. The affairs of P.L.U.S. are governed by a Board of Directors consisting of six members. The officers of the Board of Directors are: Dr. Phillip Smith, President; Sara M. Baker, Vice President; Yvonne Laubis, Secretary; and Champshi Dedhiya, Treasurer. Other members of the Board of Directors include: Donna LoDuca and Dr. Claude Mangum. The Board meets on a monthly basis; one-half of the members constitutes a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers.

Teresa Cancilla has been the Executive Director of P.L.U.S. for the past 16 years. She has been employed by P.L.U.S. since its inception in 1986. Prior to serving as Executive Director, Ms. Cancilla served as Nursing Supervisor, Director of Nursing, Director of Clinical Services and Acting Executive Director during emergency situations. In addition to her position as Executive Director, Ms. Cancilla also serves as Director of Clinical Services and Medicaid Service Coordination Supervisor of P.L.U.S. Other key officers of P.L.U.S. include Mark Sobelski, Chief Financial Officer and Richard Maiorella, Assistant to the Executive Director.

Continuing Disclosure.

P.L.U.S. is in compliance with all of its continuing disclosure undertakings made pursuant to Rule 15c2-12.

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THE CENTER FOR FAMILY SUPPORT, INC.

General Operations. The Center for Family Support, Inc. ("The Center for Family Support") was founded in 1953. Operating out of 26 facilities, The Center for Family Support provides a wide range of in-home and residential services to the developmentally disabled community of New York City. The Center for Family Support's mission is to provide support and assistance to individuals with developmental and related disabilities and their families. In order to achieve this mission, The Center for Family Support provides services whose goals are: To assist individuals to develop to their fullest level of independence; to allow individuals choice in determining what their lives will be like; to help families stay together by providing relief, training and support for caregivers which enhance the family's quality of life; and to provide excellent services as defined by the consumers of service. The Center for Family Support's primary funding sources are: OPWDD (approximately 98%) and New York City Department of Health and Mental Hygiene (approximately 2%). The Center for Family Support is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State law.

Description of Facilities and Financing Plan. The Authority will lend The Center for Family Support approximately $1,810,000 from the proceeds of the Series 2013A Bonds ("The Center for Family Support's Allocable Portion"), which will be used to finance or refinance debt incurred in connection with the following facilities (the "Facilities"):

- 540 Snediker Avenue, Brooklyn, New York ("Snediker") - approximately $792,133 for the acquisition, renovation and furnishing of a 2,080 square-foot two-story building to be used as a residence for five developmentally disabled adults.

- 143-73 230th Street, Rosedale, New York ("230th Street") - approximately $824,530 for the acquisition, renovation and furnishing of a 2,138 square-foot two-story building to be used as a residence for six developmentally disabled adults.

The remaining Series 2013A Bond proceeds to be loaned in the amount of approximately $193,337 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding for the Facilities is OPWDD and the Facilities are supported by PPAs, which The Center for Family Support has received. Snediker needs an Operating Certificate and a Certificate of Occupancy; 230th Street needs an Operating Certificate and a Certificate of Occupancy.

The Center for Family Support owns each of the Facilities and will grant the Authority a first priority mortgage on each of the Facilities and a lien on the Public Funds attributable to each of the Facilities.

Other Properties. The Center for Family Support owns 14 project facilities and leases 9 residential properties in New York City and Yonkers and leases office space in Manhattan, the Bronx, Staten Island and Long Island.

Description of Employees. The Center for Family Support employs 852 employees, including 360 full-time and 479 part-time employees in New York City and 13 full-time and part-time employees elsewhere in the State of New York. The Center for Family Support does expect that the project will require it to employ 33 additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and The Center for Family Support, the actual Debt Service Coverage for Fiscal Year 2012 and the Pro Forma Debt Service Coverage (which includes The Center for Family Support's Allocable Portion of the Series 2013A Bonds) are as follows:

	2012 Actual	**2012 Pro Forma**
Revenues	$27,323,818	$27,323,818
Expenses	27,007,155	27,007,155
Total Net Revenue	316,663	316,663
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	0	0
Plus Depreciation and Amortization	617,904	617,904
Plus Current Interest Expense	424,678	424,678
New PPA Program Revenues	0	154,500
Total Net Revenues Available for Debt Service	1,359,245	1,513,745
Maximum Annual Debt Service	1,236,267	1,392,614
Total Debt Service Coverage Ratio	1.099	1.087

Financials. Audited financials for The Center for Family Support for the fiscal year ended June 30, 2010 were prepared by Loeb & Troper LLP. Audited financial statements for The Center for Family Support for the fiscal years ended June 30, 2011 and June 30, 2012 were prepared by Withum Smith & Brown PC. Audited financial statements for The Center for Family Support's fiscal years ended June 30, 2010 through June 30, 2012 are attached as Appendix B-VIII. Interim unaudited financial information covering the period from July 1, 2012 through February 28, 2013 is attached as Appendix C-VIII. Significant accounting policies are contained in the audited financial statements.

Management's Summary of Financial Information and Results of Operations.

Summary of Financial Information for Prior Five Fiscal Years – All Funds

The following is a summary of financial information for The Center for Family Support for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by The Center for Family Support and derived from The Center for Family Support's audited financial statements. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-VIII.

Fiscal Year Ended June 30,

	2008	**2009**	**2010**	**2011**	**2012**
Current Assets	$ 5,431,142	$ 5,760,245	$ 7,093,184	$ 7,130,458	$5,817,684
Net Fixed Assets	6,683,301	9,508,728	9,574,712	9,169,250	8,904,421
Other	466,080	466,080	466,080	502,829	502,829
Total	12,580,523	15,753,053	17,133,976	16,802,537	15,224,934
Current Liabilities	3,540,421	4,079,656	4,848,014	5,058,731	3,744,204
Other Liabilities	5,701,544	8,258,731	7,549,976	6,508,401	5,928,662
Net Assets	3,338,558	3,396,666	4,735,986	5,235,405	5,552,068
Total	12,580,523	15,735,053	17,133,976	16,802,537	15,224,934
Operating Revenue:					
Program Revenue	22,634,261	24,485,127	27,477,520	28,340,366	27,255,409
Nonprogram Revenue	152,209	67,225	513,055	119,200	68,409
Total	22,786,470	24,552,352	27,990,575	28,459,566	27,323,818
Operating Expenses	19,628,750	24,494,244	26,651,255	23,989,546	22,933,362
Change in Net Assets	13,609	58,108	1,330,320	499,419	316,663
Net Assets, Beginning of Year	3,324,949	3,338,558	3,396,666	4,735,986	5,235,405
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	3,338,558	3,396,666	4,735,986	5,235,405	5,552,068
Cash & Equivalents	505,564	405,475	1,981,736	2,970,104	2,230,427

Management Discussion of Results of Operations.

(1) Known Trends or Uncertainties Likely to Have an Impact on Liquidity: The Center for Family Support believes that there are no trends or uncertainties that have had or are reasonably likely to have a material impact on The Center for Family Support's short-term or long-term liquidity.

(2) Sources of Liquidity: (a) Internal - The Center for Family Support had current assets of $15,224,934 and $16,802,537 at the end of the fiscal years ending June 30, 2012 and June 30, 2011 respectively. (b) External – The Center for Family Support has available a $2,000,000 working capital line of credit with Israel Discount Bank and a $2,500,000 line of credit with Israel Discount Bank for real estate acquisition and renovation.

(3) Known Trends or Uncertainties Likely to Have Impact on Revenue or Income: The Center for Family Support does not know of or expect any trends or uncertainties that have had or that are reasonably expected to have a material impact on net revenues.

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, membership dues, and interest/investment for fiscal years 2011 and 2012 was $85,800 and $41,092, respectively.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally effects the revenue of this program. Total operations have increased due to expansion of residential and community services programs.

Liquidity and Capital Resources. As of June 30, 2012, The Center for Family Support had $2,230,427 in unrestricted cash and cash equivalents and $3,220,074 in net accounts receivable.

As of October 31, 2012, The Center for Family Support had an available working capital line of credit of $2,000,000 with Israel Discount Bank, carrying a rate of interest at the prime rate. $0 is outstanding as of June 30, 2012 and January 31, 2013. The Center for Family Support also has an available line of credit of $2,500,000 with Israel Discount Bank for real estate acquisition and renovation, carrying a rate of interest at the prime rate. Approximately $1,000,000 is outstanding as of January 31, 2013, all of which is expected to be repaid with proceeds of the Series 2013A Bonds. The lines of credit are secured by a security interest in all revenues, accounts and receipts of The Center for Family Support. Israel Discount Bank has agreed that, upon the issuance of the Series 2013A Bonds, it will release its security interest in the revenues of The Center for Family Support generated by the Facilities, including, without limitation, the Public Funds related to the Facilities.

Long-Term Debt. As of June 30, 2012, The Center for Family Support had $6,421,433 in outstanding long-term indebtedness, which is secured by mortgages and is not secured by a security interest in The Center for Family Support's Public Funds. The Center for Family Support refinanced a mortgage with HSBC Bank and acquired another property through new long-term debt issued by the Build NYC Resource Corporation on October 24, 2012 ($4,700,000 Build NYC Resource Corporation Center for Family Support, Inc. Project Series 2012A and Series 2012B) (the "Build NYC Bonds"), which debt is secured by a mortgage and a security interest in all revenues, accounts and receipts of The Center for Family Support. The holder of the Build NYC Bonds has agreed that, upon the issuance of the Series 2013A Bonds, it will release its security interest in the revenues of The Center for Family Support generated by the Facilities, including, without limitation, the Public Funds related to the Facilities.

Contingencies; Pending or Potential Litigation. In the opinion of Management, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or threatened to challenge the authority or ability of The Center for Family Support to continue to operate its facilities or to challenge title to its properties or seeking damages in excess of applicable insurance coverage or wherein an adverse determination might materially adversely affect the ability of The Center for Family Support to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers: The affairs of The Center for Family Support are governed by a Board of Directors of ten. The officers are comprised of: Lloyd Stabiner, President, Amy Bittenger, Vice President and Patricia McMillan, Treasurer. Other members of the Board of Directors are: Ralph Bumbaca, Norman Greene, Elsie Geltzer, Charles Ruggiero, Jeffrey Benedict, Jose Martin Jara and Tanya Herriott. The Board of Directors meets at least four times a year. Six members or a majority of the members of the Board constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers: Steven Vernikoff is the Executive Director of The Center for Family Support. He holds a Masters in Psychology from The New York School for Social Research. Prior to working at The Center for Family Support, Mr. Vernikoff was the Assistant Executive Director at Adults and Children with Learning and Development Disabilities. The Center for Family Support has several other key employees including Barbara Greenwald, Associate Executive Director and Michael Mazzocco, Assistant Executive Director.

Continuing Disclosure.

The Center for Family Support is in compliance with all of its continuing disclosure undertakings made pursuant to Rule 15c2-12.

LEAKE AND WATTS SERVICES, INC.

General Operations. Leake and Watts Services, Inc. ("Leake and Watts") was founded in 1831 as an orphanage and school for 60 boys. It is one of the oldest child care agencies in New York City. Today, Leake and Watts maintains a 30.5-acre campus in southwest Yonkers, New York and is a multi-service agency whose primary mission is to provide quality care, assistance, support and resources to children and families in need, primarily in New York City. Leake and Watts provides comprehensive social services including family stabilization, foster care, child care and Head Start, residential and respite services for children and adults with developmental disabilities, special education, and residential treatment and group homes for youth with emotional and mental health challenges principally in the Bronx and Westchester County. Leake and Watts provides a variety of services to fulfill its mission, including Foster Board Home programs, a Residential Treatment Center, Mother/Infant Residences, Medical and Mental Health Services, Education Programs, Early Childhood Education Programs, Development Disabilities Services, detention services, child care centers, and a family service center. The primary sources of revenue are New York City Administration for Children's Services ("ACS") and various New York State government agencies.

The Foster Boarding Home programs serve children who have experienced abuse and neglect. The goal in all cases is to establish a permanent appropriate living arrangement for the child. The Residential Treatment Center provides 24-hour residential care to youth ages 12-21 requiring therapeutic and educational support. The Mother/Infant residences serve teen mothers in foster care who have experienced multiple failed prior placements in family foster care. In all cases, the focus is on the mothers to identify resources that can provide long-term support for them and their children and concurrently prepare them for adulthood. Medical and Mental Health Services for children and youth in Leake and Watts foster care address the full complement of individual needs from primary medical care to psychiatric and clinical services, and coordination of specialty and hospital-based services. The Education Program is a non-public school providing 12-month specialized educational services for children with social and emotional difficulties and severe academic deficits. The Early Childhood Education Programs serve children ages 18 months to five years old and include child care for low-income families, universal pre-kindergarten services, and preschool special education programs. The Development Disabilities Services include community-based programs such as individualized residential services, individual support apartments, respite/recreation services, enhanced supportive employment, family support services and Medicaid Service Coordination. Woodfield Facility is a secure detention center for youth under the age of 16 who are awaiting court action. Leake and Watts sponsors one NYC EarlyLearn program and one child care program located in the Bronx serving children between two and one-half and five years of age. Lastly, the East Bronx Family Center aims to stabilize at-risk families before they reach a crisis point and thus prevent the need to place children in foster care.

Leake and Watts is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State Law.

Leake and Watts' funding sources for its 2012 Fiscal Year were: OPWDD (15.34%), NYC Department of Education (32.84%), Other school districts (3.51%), ACS (28.83%), Westchester County (8.92%), Other Counties (2.21%), Department of Health (3.66%) and miscellaneous other sources (4.69%).

Description of Facilities and Financing Plan. The Authority will lend Leake and Watts approximately $4,035,000 from the proceeds of the Series 2013B Bonds which amount will be used to finance or refinance debt incurred in connection with the facilities (the "Facilities") listed below:

- 1035 E. 233rd Street, Bronx, New York ("233rd Street")- approximately $838,572 for the renovation and construction of a 3,100 square-foot three-story building to be used as a residence for six developmentally disabled individuals.

- 634 East 241st Street, Bronx, New York ("241st Street") - approximately $512,830 for the renovation and construction of a 2,968 square-foot three-story building to be used as a residence for six developmentally disabled individuals.

- 954 East 211th Street, Bronx, New York ("211th Street") - approximately $481,710 for the renovation and construction of a 2,016 square-foot three-story building to be used as a residence for six developmentally disabled individuals.

- 1623 Glover Street, Bronx, New York ("Glover Street") - approximately $627,870 for the renovation and construction of a 2,975 square-foot three-story building to be used as a residence for six developmentally disabled individuals.

- 4316 Van Cortland Parkway East, Bronx, New York ("Van Cortland Parkway") - approximately $561,420 for the renovation and construction of a 3,494 square-foot three-story building to be used as a residence for eight developmentally disabled individuals.

- 450 Castle Hill Avenue, Bronx, New York – ("Castle Hill Avenue") approximately $489,276 for the renovation and construction of a 22,410 square-foot three-story building to be used for adult group day habilitation and pre-vocational services for 36 developmentally disabled individuals.

The remaining Series 2013B Bond proceeds to be loaned in the amount of approximately $523,322 will be used for legal fees, capitalized interest, original issue discount, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OPWDD and the Facilities are supported by PPAs, which Leake and Watts has received. This means the Facilities are pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the renovation and furnishing of the Facilities and financing or refinancing costs incurred in connection therewith. The Facilities have received an Operating Certificate and a Certificate of Occupancy except as follows: 233rd Street needs both an Operating Certificate and a Certificate of Occupancy, Castle Hill needs a Certificate of Occupancy and Glover Street needs a Certificate of Occupancy. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Leake and Watts owns the Facilities, and will grant to the Authority a second priority mortgage on each of the Facilities. Leake and Watts will also grant the Authority a subordinate lien on the Public Funds attributable to the Facilities. (See the information in this Official Statement entitled "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS – Security for the Series 2013 Bonds – Series 2013B Intercreditor Agreement.")

Other Properties. Leake and Watts also owns three other properties and leases another three properties for educational and foster care programs in the Boroughs of New York City and in Westchester County.

Employees. Leake and Watts employs 771 full-time and 232 part-time employees in New York City. Leake and Watts expects that the operation of the Facilities will require it to employ 30 additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and Leake and Watts, the actual Debt Service Coverage for Fiscal Year 2012 and the Pro Forma Debt Service Coverage are as follows:

	2012 Actual	**2012 Pro Forma**
Revenues	$69,257,932	$69,257,932
Expenses	68,311,694	68,311,694
Total Net Revenue	946,238	946,238
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	0	0
Plus Depreciation and Amortization	2,677,809	2,677,809
Plus Current Interest Expense	1,727,324	1,727,324
New PPA Program Revenues	0	375,488
Total Net Revenues Available for Debt Service	5,351,371	5,726,859
Maximum Annual Debt Service	4,030,587	4,304,566
Total Debt Service Coverage Ratio	1.328	1.330

Financials. Audited financial statements for Leake and Watts' fiscal years ended June 30, 2010 through June 30, 2012 were prepared by Loeb & Troper, LLP and are attached as Appendix B-IV. Interim unaudited financial information prepared by Leake and Watts' Management covering the period from July 1, 2012 through March 31, 2013 is attached as Appendix C-IV. Significant accounting policies are contained in the audited financial statements.

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Management's Summary of Financial Information and Results of Operations.

Summary of Financial information for Prior Five Fiscal Years — All Funds

The following is a summary of financial information for Leake and Watts for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by Leake and Watts' Management and derived from Leake and Watts' audited financial statements. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-IV.

Fiscal Year Ended June 30,

	2008	**2009**	**2010**	**2011**	**2012**
Current Assets	$19,795,804	$15,444,323	$17,882,815	$25,279,212	$22,668,407
Net Fixed Assets	32,195,175	34,740,964	34,611,662	35,514,139	33,277,555
Other	14,668,920	11,983,716	14,412,464	10,140,739	10,030,921
Total	66,623,899	64,478,193	64,597,751	70,934,090	65,976,883
Current Liabilities	33,706,178	20,889,647	22,856,510	27,256,292	22,786,381
Other Liabilities	19,116,903	34,255,886	32,182,801	30,035,501	28,601,967
Net Assets	13,800,818	9,248,015	9,438,882	13,642,297	14,588,535
Total	66,623,899	64,393,548	64,478,193	70,934,090	65,976,883
Operating Revenue:					
Program Revenue	65,902,771	56,027,222	53,328,149	60,429,865	68,238,859
Nonprogram Revenue	2,049,136	83,179	299,865	12,571	30,851
Total	67,951,907	56,110,401	53,628,014	60,442,436	68,269,710
Operating Expenses	70,791,057	59,857,628	56,618,650	62,447,376	68,311,694
Change in Net Assets	(2,189,924)	(5,990,928)	190,867	2,027,228	946,238
Net Assets, Beginning of Year	17,428,867	15,238,943	9,248,015	11,615,069	13,642,297
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	15,238,943	9,248,015	11,615,069	13,642,297	14,588,535
Cash & Equivalents	834,343	130,177	157,782	1,924,603	1,143,258

Management Discussion of Results of Operations.

(1) Known Trends or Uncertainties Likely to Have an Impact on Liquidity: Leake and Watts believes that there are no trends or uncertainties that have had or are reasonably likely to have a material impact on Leake and Watts' short-term or long-term liquidity.

(2) Sources of Liquidity: (a) Internal – Leake and Watts had current assets of $22,668,407 and $25,279,212 at the end of the fiscal years of 2012 and 2011, respectively. (b) External – Leake and Watts has available a $9 million revolving line of credit with The Bank of New York Mellon for working capital, and a $5 million revolving line of credit with The Bank of New York Mellon for capital improvements as of June 30, 2012.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: Leake and Watts is not aware of any trends or uncertainties that have had or that are reasonably expected to have a material impact on its net revenues. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS.")

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund-raising, and interest for fiscal years 2011 and 2012 were $3,936,347 and $1,088,576, respectively. See APPENDIX C-IV for interim unaudited financial information through March 31, 2013.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally affect the revenue of the program. Leake and Watts' total operations have increased due to expansion of residential services provided. Please see item (3) above.

Liquidity and Capital Resources. As of June 30, 2012, Leake and Watts had $1,143,258 in unrestricted cash and cash equivalents and $7,207,888 in net accounts receivable.

As of June 30, 2012, Leake and Watts had available a $9 million revolving line of credit with The Bank of New York Mellon for working capital and a $5 million revolving line of credit with The Bank of New York Mellon for capital improvements. Each loan bears interest at a respective rate indexed to the LIBOR rate plus an additional percentage point, with interest rates increasing upon drawdown of funds above certain thresholds. The working capital loan is collateralized by assets held by The Bank of New York Mellon in the custodial accounts of Leake and Watts. The improvement loan is an unsecured note. Both loans mature on May 10, 2013. Principal and interest payments in the amount of $103,000 are due monthly. As of June 30, 2012 and 2011, the working capital loan balance outstanding was $8,500,000 and $9,280,339, respectively, and the improvement loan balance was $4,684,807 and $4,990,000, respectively, for a total balance outstanding as of June 30, 2012 and 2011 of $13,184,807 and $14,270,339, respectively. The interest rates on the various lines of credit as of June 30, 2012 and 2011 ranged from 1.26% to 3.25% and from 1.70% to 3.30%, respectively. As of January 31, 2013 the working capital loan balance outstanding was $7,895,214 and the improvement loan balance outstanding was $4,675,727, for a total outstanding balance of $12,570,941.

Long-Term Debt. As of June 30, 2012, Leake and Watts had $28,601,967 in outstanding long-term indebtedness. Of this amount, $25,380,000 is secured by a security interest in certain receivables of Leake and Watts, which may (and which, in the case of the $21,815,000 that is the subject of the Series 2013B Intercreditor Agreement, does) include Leake and Watts' Public Funds. See Note 8 of Leake and Watts' Audited Financial Statements under title "Bonds Payable" and "Security for the Series 2013 Bonds – Series 2013B Intercreditor Agreement" in the forepart of this Official Statement

Contingencies; Pending or Potential Litigation. Except as discussed below under "Recent OPWDD Review" below, in the opinion of Management, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or threatened to challenge the authority or ability of Leake and Watts to continue to operate its facilities or to challenge title to its properties or seeking damages in excess of applicable insurance coverage wherein an adverse determination might materially adversely affect the ability of Leake and Watts to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement.

OPWDD Review. Leake and Watts received a letter dated November 17, 2010 from OPWDD (the "Letter") scheduling a Limited Fiscal Review of Leake and Watts pursuant to Section 16.11 of the Mental Hygiene Law (the "Review"). According to the Letter, the scope of the Review may encompass the following areas: oversight of Leake and Watts by its Board of Directors; an assessment of Leake and Watts' financial position; a review of selected financial transactions; and a review of documentation supporting non-waiver eligible services. The Letter also stated that the Review is to determine whether (i) Leake and Watts is financially viable; (ii) the Board of Directors has provided adequate fiscal oversight; (iii) resources are used for Leake and Watts' purposes; and (iv) billings for services are adequately documented. The opening conference for the Review occurred on December 8, 2010 and the results from the Review were issued on March 20, 2012.

The results of the Review are summarized as follows: (1) Leake and Watts was determined to be fiscally viable; (2) there were no findings in the areas of Maintenance of Financial Books, Corporate Compliance, Personal Allowance and Non-Waiver Eligible Billing and Claim Documentation; (3) Leake and Watts did not apply for Health Care Enhancement; and (4) there were minor findings in the areas of Reporting of Operating Results, Board Governance, and Internal Controls and Use of Agency Resources. Copies of the full OPWDD results from the Review are available to potential investors upon request to the Underwriter.

Management.

Directors and Officers: The affairs of Leake and Watts are governed by a Board of Directors of 18. The officers are comprised of: G. Crossan Seybolt, Jr., President, Margery E. Ames, Esq., Vice President, Elizabeth M. Renyi, Vice President, Joseph C. Hoopes, Jr., Treasurer and Frances R. Olivieri, Secretary. Other members of the Board are: Susan S. Benedict, Carol Chen, Joyce R. Coppin-Mondesire, Kelsey R. Doherty, William H. Evans, Anita-Agnes O. Hassell, Jose Martin Jara, Ernesto Loperena, Matthew Mayer, Brian D. Obergfell, Lawrence B. Thompson, Andrew van der Vord, and Jeffrey Varsalone. The Board of Directors meets at least eleven times a year. Nine members of the Board constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers: Alan Mucatel is Executive Director of Leake and Watts. He holds Masters degrees in Business Administration and Politics from New York University, and Bachelor of Arts degree in Government from Wesleyan University. Prior to working at Leake and Watts, Mr. Mucatel was the Executive Director of Cerebral Palsy North Jersey. Leake and Watts has several other key employees including Belinda M. Conway, Associate Executive Director, Carlton L. Mitchell, Assistant Executive Director and Uday Ray, Chief Financial Officer.

Continuing Disclosure.

Leake and Watts is in compliance with all of its continuing disclosure undertakings made pursuant to Rule 15c2-12.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF SERIES 2013 PARTICIPANTS

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APPENDIX B-I

AABR, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2012, JUNE 30, 2011 AND JUNE 30, 2010)

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AABR Management, Inc.
and Affiliates

Combining Financial Statements
Year Ended June 30, 2012

AABR Management, Inc.
and Affiliates

Combining Financial Statements
Year Ended June 30, 2012

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

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AABR Management, Inc. and Affiliates

Contents

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100 Park Avenue
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Independent Auditors' Report

Board of Directors of
AABR Management, Inc. and Affiliates
College Point, New York

We have audited the accompanying combining statement of financial position of AABR Management, Inc. and Affiliates as of June 30, 2012, and the related combining statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2011 is presented for comparative purposes only and was extracted from the combining financial statements of AABR Management, Inc. and Affiliates for that year, on which we expressed an unqualified opinion, dated April 9, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AABR Management, Inc. and Affiliates' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 combining financial statements referred to above present fairly, in all material respects, the financial position of AABR Management, Inc. and Affiliates as of June 30, 2012, 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 United States of America.

BDO USA, LLP

April 4, 2013

AABR Management, Inc. and Affiliates

Combining Statement of Financial Position
(with comparative totals for 2011)

June 30,	AABR Management, Inc.	AABR, Inc.	AABR Realty Facilities Holding Corporation	AABR Foundation, Inc.	Eliminations	Total 2012	Total 2011
Assets							
Cash and cash equivalents (Notes 3 and 13)	$45,662	$ 1,952,768	$ 259,302	$6,034,181	$ -	**$ 8,291,913**	$ 6,359,892
Investments at fair value (Notes 3 and 4)	-	-	-	797,620	-	**797,620**	789,241
Accounts receivable from third-party payors (Notes 3 and 13)	-	3,996,434	-	-	-	**3,996,434**	4,289,024
Prepaid expenses and other assets	-	184,534	-	-	-	**184,534**	372,390
Debt service reserve fund (Notes 5 and 8)	-	210,023	-	-	-	**210,023**	210,023
Consumer funds (Note 3)	-	132,277	-	-	-	**132,277**	64,152
Due from affiliates (Note 11)	114	2,046,798	-	538,948	(2,585,860)	**-**	-
Fixed assets, net (Notes 3, 6 and 8)	-	2,785,907	7,523,310	-	-	**10,309,217**	10,834,196
	$45,776	**$11,308,741**	**$7,782,612**	**$7,370,749**	**$(2,585,860)**	**$23,922,018**	**$22,918,918**
Liabilities and Net Assets							
Liabilities:							
Accounts payable and accrued expenses	$ -	$ 498,071	$ -	$ -	$ -	**$ 498,071**	$ 163,856
Accrued payroll and compensated absences	-	3,654,564	-	-	-	**3,654,564**	4,315,122
Accrued pension obligation (Note 10)	-	2,781,485	-	-	-	**2,781,485**	1,681,069
Due to third-party payors	-	147,033	-	-	-	**147,033**	147,999
Due to affiliates (Note 11)	-	-	2,585,860	-	(2,585,860)	**-**	-
Due to governmental agency (Note 7)	-	3,473,392	-	-	-	**3,473,392**	577,003
Consumer funds (Note 3)	-	132,277	-	-	-	**132,277**	64,152
Mortgages and loans payable (Note 8)	-	2,223,010	4,306,401	-	-	**6,529,411**	7,425,365
Interest rate swap liability (Notes 4 and 9)	-	42,032	-	-	-	**42,032**	-
Total Liabilities	-	12,951,864	6,892,261	-	(2,585,860)	**17,258,265**	14,374,566
Commitments and Contingencies (Notes 9, 10, 12, 13 and 16)							
Net Assets (Note 3):							
Unrestricted	45,776	(1,643,123)	890,351	7,276,256	-	**6,569,260**	8,451,853
Temporarily restricted (Note 14)	-	-	-	38,677	-	**38,677**	36,683
Permanently restricted (Note 15)	-	-	-	55,816	-	**55,816**	55,816
Total Net Assets	45,776	(1,643,123)	890,351	7,370,749	-	**6,663,753**	8,544,352
	$45,776	**$11,308,741**	**$7,782,612**	**$7,370,749**	**$(2,585,860)**	**$23,922,018**	**$22,918,918**

See accompanying notes to combining financial statements.

AABR Management, Inc. and Affiliates

Combining Statement of Activities
(with comparative totals for 2011)

Year ended June 30,	AABR Management, Inc.	AABR, Inc.	AABR Realty Facilities Holding Corporation	AABR Foundation, Inc.	Eliminations	Total 2012	Total 2011
Change in Unrestricted Net Assets:							
Support and revenue:							
Medicaid	$ -	$12,005,441	$ -	$ -	$ -	**$12,005,441**	$12,898,883
New York State Office of Mental Retardation and Developmental Disabilities and Home and Community-Based Waiver Services	-	20,138,491	-	-	-	**20,138,491**	19,686,757
New York State Education Department	-	1,449,726	-	-	-	**1,449,726**	1,490,782
Food stamp revenue	-	198,681	-	-	-	**198,681**	191,385
Supplemental Security Income and Social Security Administration	-	971,135	-	-	-	**971,135**	934,037
Special events income, net of direct cost to donors of $234,832 in 2012	-	-	-	118,800	-	**118,800**	118,420
Contributions	-	-	-	245,058	-	**245,058**	462,448
Rental income	-	-	1,025,610	-	(970,001)	**55,609**	13,001
Dividend and interest income	-	-	-	13,096	-	**13,096**	17,914
Net realized and unrealized gains on investments	-	-	-	11,846	-	**11,846**	81,336
Management fee income (Note 11)	-	307,399	-	-	(307,399)	**-**	-
Other income	46	74,680	189	-	-	**74,915**	60,405
Total Support and Revenue	46	35,145,553	1,025,799	388,800	(1,277,400)	**35,282,798**	35,955,368
Expenses:							
Program services:							
Day services	-	10,510,053	-	-	-	**10,510,053**	11,191,443
Intermediate care facilities	-	9,682,708	160,497	-	(160,497)	**9,682,708**	9,990,581
Individualized residential alternatives	-	9,005,133	818,125	-	(818,125)	**9,005,133**	9,035,441
Education	-	1,529,676	-	-	-	**1,529,676**	1,536,771
Community residences	-	1,124,970	10,561	-	(10,561)	**1,124,970**	1,006,698
Medicaid service coordination	-	599,143	-	-	-	**599,143**	560,872
At-home residential habilitation	-	505,395	-	-	-	**505,395**	468,379
Other programs	-	87,419	-	-	-	**87,419**	161,997
Contribution expense	-	-	-	30,623	-	**30,623**	37,955
Total Program Services	-	33,044,497	989,183	30,623	(989,183)	**33,075,120**	33,990,137
Supporting services:							
Management and general	-	2,844,312	102,875	64,008	(288,217)	**2,722,978**	2,246,661
Fundraising	-	-	-	213,596	-	**213,596**	164,545
Total Supporting Services	-	2,844,312	102,875	277,604	(288,217)	**2,936,574**	2,411,206
Total Expenses	-	35,888,809	1,092,058	308,227	(1,277,400)	**36,011,694**	36,401,343
Change in Unrestricted Net Assets From Current Year Operations Before Prior Period Revenue, Loss on Fair Value of Interest Rate Swap and Other Changes in Plan Assets and Benefit Obligations	46	(743,256)	(66,259)	80,573	-	**(728,896)**	(445,975)
Prior Period Revenue	-	170,708	-	-	-	**170,708**	224,202
Loss on Fair Value of Interest Rate Swap	-	(42,032)	-	-	-	**(42,032)**	-
Other Changes in Plan Assets and Benefit Obligations (Note 10)	-	(1,282,373)	-	-	-	**(1,282,373)**	653,635
Increase (Decrease) in Unrestricted Net Assets	46	(1,896,953)	(66,259)	80,573	-	**(1,882,593)**	431,862
Changes in Temporarily Restricted Net Assets:							
Dividends and interest income	-	-	-	171	-	**171**	460
Net realized and unrealized gains on investments	-	-	-	1,823	-	**1,823**	14,223
Increase in Temporarily Restricted Net Assets	-	-	-	1,994	-	**1,994**	14,683
Increase (Decrease) in Net Assets	46	(1,896,953)	(66,259)	82,567	-	**(1,880,599)**	446,545
Net Assets, Beginning of Year	45,730	253,830	956,610	7,288,182	-	**8,544,352**	8,097,807
Net Assets, End of Year	$45,776	$ (1,643,123)	$ 890,351	$7,370,749	$ -	**$ 6,663,753**	$ 8,544,352

See accompanying notes to combining financial statements.

AABR Management, Inc. and Affiliates

Combining Statement of Functional Expenses
(with comparative totals for 2011)

Year ended June 30,

	AABR, Inc. — Program Services: Day Services	Intermediate Care Facilities	Individualized Residential Alternative	Education	Community Residences	Medicaid Service Coordination	At-Home Residential Habilitation	Other Programs	Total Program Services	Supporting Services: Management and General	Total	AABR Realty Facilities Holding Corporation	AABR Management, Inc.	AABR Foundation	Eliminations	2012 Total	2011 Total
Salaries and Related Expenses:																	
Salaries	$ 5,086,667	$5,376,729	$5,091,144	$ 921,082	$ 638,827	$418,019	$382,338	$47,679	$17,962,485	$1,228,320	$19,190,805	$ -	$-	$ -	$ -	$19,190,805	$19,365,519
Payroll taxes and employee benefits	2,087,428	1,826,084	1,865,144	302,498	287,815	147,276	115,834	18,496	6,650,575	763,756	7,414,331	-	-	-	-	7,414,331	7,355,816
Total Salaries and Related Expenses	7,174,095	7,202,813	6,956,288	1,223,580	926,642	565,295	498,172	66,175	24,613,060	1,992,076	26,605,136	-	-	-	-	26,605,136	26,721,335
Other Expenses:																	
Professional fees	-	3,627	-	-	-	-	-	-	3,627	198,482	202,109	-	-	-	-	202,109	226,953
Contracted services	95,062	85,286	34,321	24,968	1,735	-	-	-	241,372	64,739	306,111	-	-	-	-	306,111	281,401
Insurance	87,012	76,310	71,369	8,457	8,254	3,449	-	1,310	256,161	47,999	304,160	-	-	-	-	304,160	321,317
Utilities	206,131	180,712	188,549	27,364	9,748	4,771	-	8,517	625,792	67,130	692,922	-	-	-	-	692,922	692,917
Telephone	32,056	123,311	18,678	4,663	3,249	6,660	-	29	188,646	66,441	255,087	-	-	-	-	255,087	148,724
Transportation	1,676,416	253,807	24,958	8,506	6,661	8,639	6,111	-	1,985,098	12,374	1,997,472	-	-	-	-	1,997,472	2,140,502
Program supplies	66,739	145,622	141,935	6,638	29,545	13	-	5,345	395,837	2,274	398,111	-	-	-	-	398,111	415,991
Office expense	96,419	41,804	28,844	57,392	5,111	2,756	-	752	233,078	176,711	409,789	-	-	-	-	409,789	397,849
Data processing	-	-	-	-	-	-	-	-	-	70,418	70,418	-	-	-	-	70,418	77,867
Clothing and incidentals	2,302	21,060	27,044	-	3,092	62	618	15	54,193	-	54,193	-	-	-	-	54,193	54,804
Food	103,020	252,940	370,355	4,867	38,606	47	362	1,291	771,488	4,091	775,579	-	-	-	-	775,579	781,812
Staff recruitment	-	11,177	-	1,656	-	-	-	-	12,833	-	12,833	-	-	-	-	12,833	90,204
Advertising and community relations	256	16,282	13,018	-	1,607	180	-	-	31,343	10,167	41,510	-	-	-	-	41,510	41,167
Repairs and maintenance	296,630	155,946	155,717	46,961	19,935	1,427	-	3,525	680,141	37,374	717,515	60,418	-	-	-	777,933	769,152
Vehicle and equipment rentals	83,055	134,242	124,327	7,857	17,002	5,844	-	-	372,327	27,503	399,830	-	-	-	-	399,830	345,140
Facility rental	304,896	266,314	788,183	93,714	53,487	-	-	-	1,506,594	55,609	1,562,203	-	-	-	(970,001)	592,202	532,515
Interest expense	140,453	3,906	353	-	-	-	-	-	144,712	-	144,712	275,625	-	-	-	420,337	493,818
Facility tax expense	-	634,077	-	-	-	-	-	-	634,077	-	634,077	-	-	-	-	634,077	674,641
Investment fees	-	-	-	-	-	-	-	-	-	-	-	-	-	11,882	-	11,882	10,597
Contribution expense	-	-	-	-	-	-	-	-	-	-	-	-	-	30,623	-	30,623	37,955
Management fee expense	-	-	-	-	-	-	-	-	-	-	-	46,902	-	260,497	(307,399)	-	-
Miscellaneous expense	10,809	590	1,523	-	-	-	-	-	12,922	500	13,422	365	-	5,225	-	19,012	25,570
Total Expenses Before Depreciation and Amortization	10,375,351	9,609,826	8,945,462	1,516,623	1,124,674	599,143	505,263	86,959	32,763,301	2,833,888	35,597,189	383,310	-	308,227	(1,277,400)	35,011,326	35,282,231
Depreciation and Amortization	134,702	72,882	59,671	13,053	296	-	132	460	281,196	10,424	291,620	708,748	-	-	-	1,000,368	1,119,112
Total Expenses	$10,510,053	$9,682,708	$9,005,133	$1,529,676	$1,124,970	$599,143	$505,395	$87,419	$33,044,497	$2,844,312	$35,888,809	$1,092,058	$-	$308,227	$(1,277,400)	$36,011,694	$36,401,343

See accompanying notes to combining financial statements.

AABR Management, Inc. and Affiliates

Combining Statement of Cash Flows
(with comparative totals for 2011)

Year ended June 30,

	AABR Management, Inc.	AABR, Inc.	AABR Realty Facilities Holding Corporation	AABR Foundation, Inc.	Eliminations	Total 2012	Total 2011
Cash Flows From Operating Activities:							
Increase (decrease) in unrestricted net assets	$ 46	$(1,896,953)	$ (66,259)	$ 82,567	$ -	$(1,880,599)	$ 446,545
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities:							
Depreciation and amortization	-	291,620	708,748	-	-	1,000,368	1,119,112
Other changes in plan assets and benefit obligations	-	1,282,373	-	-	-	1,282,373	(653,635)
Loss on fair value interest swap	-	42,032	-	-	-	42,032	-
Realized gain on investments	-	-	-	(19,115)	-	(19,115)	-
Net realized and unrealized gains on investments	-	-	-	5,446	-	5,446	(95,559)
(Increase) decrease in:				-		-	
Accounts receivable from third-party payors	-	292,590	-	-	-	292,590	774,614
Accrued interest receivable	-	-	-	-	-	-	-
Prepaid expenses and other assets	-	182,542	5,314	-	-	187,856	488,209
Due from affiliates	-	(915,821)	-	778,790	137,031	-	-
Increase (decrease) in:							
Accounts payable and accrued expenses	-	334,215	-	-	-	334,215	(718,600)
Accrued payroll and compensated absences	-	(660,558)	-	-	-	(660,558)	289,486
Accrued pension obligation	-	(181,957)	-	-	-	(181,957)	(77,651)
Due to third-party payors	-	(966)	-	-	-	(966)	140,215
Due to governmental agency	-	2,896,389	-	-	-	2,896,389	(374,807)
Due to affiliates	-	-	137,031	-	(137,031)	-	-
Net Cash Provided By Operating Activities	46	1,665,506	784,834	847,688	-	3,298,074	1,337,929
Cash Flows From Investing Activities:							
Purchases of fixed assets	-	(399,049)	(76,341)	-	-	(475,390)	(580,651)
Purchases of investments	-	-	-	(107,551)	-	(107,551)	(97,733)
Proceeds from sale of investments	-	-	-	112,841	-	112,841	98,354
Net Cash Provided By (Used In) Investing Activities	-	(399,049)	(76,341)	5,290	-	(470,100)	(580,030)
Cash Flows From Financing Activities:							
Repayment of mortgages and notes payable	-	(276,134)	(619,819)	-	-	(895,953)	(1,155,303)
Net Increase (Decrease) in Cash and Cash Equivalents	46	990,323	88,674	852,978	-	1,932,021	(397,404)
Cash and Cash Equivalents, Beginning of Year	45,616	962,445	170,628	5,181,203	-	6,359,892	6,757,296
Cash and Cash Equivalents, End of Year	$45,662	$ 1,952,768	$ 259,302	$6,034,181	$ -	$ 8,291,913	$ 6,359,892
Supplemental Disclosure of Cash Flow Information:							
Cash paid during the year for interest	$ -	$ 144,712	$ 275,625	$ -	$ -	$ 420,337	$ 493,516

See accompanying notes ta combining financial statements.

1. Principles of Combination

The accompanying combining financial statements include AABR Management, Inc. (the "Organization"), AABR, Inc., AABR Realty Facilities Holding Corporation (the "Holding Corporation") and AABR Foundation, Inc. (the "Foundation") (collectively the "Organization and Affiliates"). The Organization and Affiliates are related through common board membership and substantially identical management.

2. Nature of Organizations

(a) The Organization is a nonprofit organization designed to serve as the parent entity for AABR, Inc., the Holding Corporation and the Foundation.

(b) AABR, Inc. is a voluntary nonprofit corporation. AABR, Inc. provides services for the multiple handicapped, severely retarded and blind individuals. AABR, Inc. operates two five-day per week Day Habilitation Centers, eight Intermediate Care Facilities, two Community Residences, and twelve Individualized Residential Alternatives under contract with the New York State Office for People With Developmental Disabilities ("OPWDD"). In addition, AABR, Inc. provides Medicaid service coordination, day and residential habilitation services, respite and individualized support services. AABR, Inc. also operates a preschool and school-age program for autistic children.

(c) The Holding Corporation is a nonprofit organization that owns condominiums, cooperatives and other real property. These facilities are leased to AABR, Inc. for the operation and administration of its programs.

(d) The Foundation is a nonprofit corporation formed under the laws of the State of New York to provide specialized educational opportunities, community support and facilities for children who experience difficulties due to damage to or dysfunction or deficiency of the nervous or biochemical systems. Additionally, the Foundation will solicit and raise funds to be used to support and achieve the foregoing goals and objectives.

3. Summary of Significant Accounting Policies

(a) Financial Statement Presentation

The financial statements of the Organization and Affiliates have been prepared on an accrual basis. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in the combining statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the combining statement of activities.

Income from investment gains and losses, including unrealized gains and losses, dividends, interest and other investments should be reported as increases (or decreases) in unrestricted net assets unless the use of the income received is limited by donor-imposed restrictions.

These classes are defined as follows:

(i) **Permanently Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the Organization and Affiliates is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

(ii) **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the Organization and Affiliates is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

(iii) **Unrestricted** - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(b) Cash and Cash Equivalents

Cash equivalents represent short-term investments with original maturities of three months or less.

(c) Consumer Funds

Consumer funds consist of cash deposits held by AABR, Inc. on behalf of its residents for the residents' personal use.

(d) Investment Valuation and Income Recognition

Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures", defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or unobservable. ASC 820 established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The standard requires that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and their placement within the fair value hierarchy. The Organization and Affiliates classify fair value balances based on the fair value hierarchy defined by ASC 820 as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Investments consist of certificates of deposit, mutual funds and equity securities.

Investments are valued at fair value in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

(e) Investment Impairment

The Foundation's investments consist of certificates of deposit, mutual funds and equity securities. At June 30, 2012, the Foundation has deemed that all securities, which were in an unrealized loss position, were temporarily impaired. Positive evidence considered in reaching the Foundation's conclusion that the investments in an unrealized loss position are not other-than temporarily impaired consisted of:

(1) there were no specific events which caused concerns;

(2) the Foundation's ability and intent to retain the investment for a sufficient amount of time to allow an anticipated recovery in value; and

(3) the Foundation also determined that the changes in market value were considered normal in relation to overall fluctuations in market conditions.

(f) Fixed Assets

The cost of fixed assets is depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold and building improvements are amortized over the lesser of the life of the lease or asset. The estimated useful lives of the assets are as follows:

Leasehold improvements	3-20 years
Buildings	25 years
Building improvements	5-20 years
Equipment	3-15 years
Furniture and fixtures	5-10 years

(g) Income Taxes

The Organization, AABR, Inc. and the Foundation were incorporated in the State of New York and are exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore have made no provision for income taxes in the accompanying financial statements. The Organization, AABR, Inc. and the Foundation have been determined by the Internal Revenue Service not to be "private foundations" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2012.

The Holding Corporation is a tax-exempt organization that is exempt from Federal, state and local income taxes under Section 501(c)(2) of the Internal Revenue Code (the "Code"), and therefore has made no provision for income taxes in the accompanying financial statements. In addition, the Holding Corporation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for the year ended June 30, 2012.

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The Organization and Affiliates adopted the provisions of ASC 740, "Income Taxes", on July 1, 2009. Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained upon examination by a taxing authority. The implementation of ASC 740 had no impact on the Organization and Affiliates' financial statements. The Organization and Affiliates do not believe they have taken any material uncertain tax positions and, accordingly, they have not recorded any liability for unrecognized tax benefits. The Organization and Affiliates have filed for and received income tax exemptions in the jurisdictions where they are required to do so. Additionally, the Organization and Affiliates have filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the year ended June 30, 2012, there was no interest or penalties recorded or included in the statement of activities. The Organization and Affiliates were subject to routine audits by a taxing authority. As of June 30, 2012, the Organization and Affiliates were not subject to any examination by a taxing authority. Management believes it is no longer subject to income tax examination for the years prior to 2009.

(h) Contributions and Promises to Give

Contributions and promises to give are recorded as revenue when either unsolicited cash is received or when donors make a promise to give. Contributions and promises to give are classified as either unrestricted, temporarily restricted, or permanently restricted support.

(i) Third-Party Reimbursements and Revenue Recognition

AABR, Inc. receives substantially all its revenue for services provided to approved individuals from third-party reimbursement agencies; primarily Medicaid, OPWDD and the New York State Education Department. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary.

(j) Provisions for Doubtful Accounts

AABR, Inc. does not provide an allowance for doubtful accounts. Doubtful accounts are written off as they are deemed by management to be uncollectible. All accounts receivable, as stated in the financial statements, are deemed by AABR, Inc.'s management to be fully collectible.

(k) Use of Estimates

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

(l) Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on an individual basis in the statement of activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

(m) Comparative Financial Information

The combining financial statements include certain prior year summarized comparative information. With respect to the statement of financial position, statement of activities and statement of cash flows, the prior year amounts are presented on a combined basis rather than by affiliate. With respect to the combining statement of functional expenses, the prior year expenses are presented by expense classification in total rather than functional category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization and Affiliates' financial statements for the year ended June 30, 2011, from which the summarized information was derived.

(n) Net Asset Classifications

The Foundation adopted ASC 958-205, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for all Endowment Funds". ASC 958-205 requires that disclosures be made on the Foundation's endowments by net asset classifications.

On September 17, 2010, New York State enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). This law, which is a modified version of UPMIFA, makes significant changes to the rules governing how New York not-for-profit organizations may manage, invest and spend their endowment funds. The new law is designed to allow organizations to cope more easily with fluctuations in the value of their endowments and to afford them greater access to funds needed to support their programs and services in difficult financial times. This should provide some relief to organizations that, due to the recent economic downturn, have found themselves with underwater endowments. It also expands the options available to organizations seeking relief from donor restrictions on funds that have become obsolete, impracticable or wasteful. NYPMIFA applies to New York not-for-profit, education and religious corporations, associations organized and operated exclusively for charitable purposes, and certain trusts.

4. Investments at Fair Value

The following table shows, by level within the fair value hierarchy, AABR, Inc. and the Foundation's financial assets and liabilities that are accounted for at fair value on a recurring basis as of June 30, 2012. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. AABR, Inc. and the Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the asset or liability's placement within the fair value hierarchy levels.

Below sets forth a table of assets measured at fair value on a recurring basis at June 30, 2012:

	Fair Value Measurement at Reporting Date Using			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of June 30, 2012
Assets				
Certificate of deposit	$377,832	$ -	$ -	$377,832
Mutual funds	65,415	-	-	65,415
Equity securities\common stock	354,373	-	-	354,373
	$797,620	$ -	$ -	$797,620
Liabilities:				
Interest rate swap	$ -	$42,032	$ -	$ 42,032

June 30, 2012

	Cost	Fair Value
Certificates of deposit	$377,832	$377,832
Mutual funds	99,499	65,415
Equity securities\common stock	343,884	354,373
	$821,215	$797,620

5. Debt Service Reserve Fund

Debt service reserve fund represents funds held by the OPWDD. These funds will be applied to the last payment required on the mortgage with the Facilities Development Corporation. This reserve earns interest, which will be used to offset AABR, Inc.'s payment obligation under the mortgage.

6. Fixed Assets, Net

Fixed assets, net, stated at cost, consists of the following:

June 30, 2012

	AABR, Inc.	Holding Corporation	Combined
Land	$ 172,110	$ 2,507,895	$ 2,680,005
Leasehold improvements	1,595,871	-	1,595,871
Buildings and improvements	7,037,727	10,687,346	17,725,073
Equipment	934,291	155,519	1,089,810
Furniture and fixtures	214,705	-	214,705
Total fixed assets	9,954,704	13,350,760	23,305,464
Less: Accumulated depreciation and amortization	(7,616,452)	(5,827,450)	(13,443,902)
Construction-in-progress	447,655	-	447,655
Fixed assets, net	$ 2,785,907	$ 7,523,310	$ 10,309,217

7. Due to Governmental Agency

AABR, Inc. has entered into contracts with OPWDD for the operation of its facilities. As part of the agreement, OPWDD advances funds to AABR, Inc. for pre-operational start-up costs, facility acquisitions and facility improvements. AABR, Inc. has agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid. This amount is being liquidated through monthly recoupments until the balance is paid in full. The balance as of June 30, 2012 was $3,473,392.

8. Mortgages and Loans Payable

Mortgages and loans payable consist of the following:

June 30, 2012	
AABR, Inc.:	
Mortgage due the Facilities Development Corporation payable in semi-annual installments of $8,179, including interest at 7.52% per annum and administrative fees of approximately 4% per annum. The mortgage matures August 15, 2015 and is secured by substantially all real and personal property located at the Grand Avenue facility.	$ 42,588
Mortgage due the Facilities Development Corporation payable in semi-annual principal and administrative fee payments ranging from $46,714 to $128,714, plus interest at an average annual coupon rate of 5.9801%. The mortgage matures August 15, 2021 and is secured by all real and personal property and pledged revenues for the St. Albans facility.	1,966,950
Mortgage due to a bank payable in monthly installments of $2,153, including interest at 9.07% per annum. The mortgage matures July 1, 2012 and is secured by real property and improvements at the Hillside facility located in Jamaica, NY.	1,826
Mortgage due to a bank payable in monthly installments of $7,020 including interest at 5.48%. The mortgage matures May 15, 2015 and is secured by related property.	211,646
Total AABR, Inc.	$2,223,010

June 30, 2012	
AABR Realty Facilities Holding Corporation:	
A mortgage payable to a bank in monthly installments of $2,066 through August 2023, including interest at 7.875% per annum. The mortgage is secured by related property located in Mattituck, New York.	$ 184,782
A mortgage payable to a bank in monthly installments of $2,002 through July 2013, including interest at 8.66% per annum. The mortgage is secured by related property located in New York, New York.	27,197
A mortgage payable to a lending institution in monthly installments of $1,485 through October 2028, including interest at 6.75% per annum. The mortgage is secured by related property in Staten Island, New York.	141,008
A mortgage payable to a bank in monthly installments of $2,706 through August 13, 2014, including interest at 5.84% per annum. The mortgage is secured by related property in Queens, New York.	65,670
A mortgage payable to a bank in monthly installments of $1,399 through August 2014, including interest at 5.84% per annum. The mortgage is secured by related property in Queens, New York.	33,888
Loan payable to a bank in monthly installments totaling $819 through July 2013, including interest at 5.99% per annum. The loan is unsecured.	12,938

June 30, 2012	
AABR Realty Facilities Holding Corporation:	
A mortgage payable to a bank in monthly incremental principal payments ranging from $1,782 to $5,590 and interest at 175 basis points above the stated LIBOR rate (which was 1.98% as of June 30, 2012). The mortgage matures April 2016 and is secured by related property located in the Bronx, New York. The mortgage is related to an interest rate swap agreement (see Note 6).	$ 253,309
A mortgage payable to a bank in monthly installments of $4,797, including interest at 6.25% per annum. The mortgage matures July 2018 and is secured by related property located in Queens, New York.	289,943
A mortgage payable to a bank in monthly installments of $4,557, including interest at 6.25% per annum. The mortgage matures July 2018 and is secured by related property located in Queens, New York.	271,599
A mortgage payable to a bank, in monthly installments of $6,225 through July 2019, including interest at 6.54% per annum. The mortgage is secured by related property located in Queens, New York.	422,552
A mortgage payable to a bank in monthly installments of $2,732 through December 2019, including interest at 6.82% per annum. The mortgage is secured by related property located in New York, New York.	191,370
A mortgage payable to a bank, in monthly installments of $9,605 through August 2015, including interest at 4.82% per annum. The mortgage is secured by related property located in Queens, New York.	318,536
A mortgage payable to a bank, in monthly installments of $1,942 through May 2016, including interest at 7.09% per annum. The mortgage is secured by related property located in Queens, New York.	232,024
A mortgage payable to a bank, in monthly installments of $11,769 through April 2012, including interest at 6.77% per annum. The mortgage is secured by related property located in Bronx, New York.	66
A mortgage payable to a bank due April 2024 payable in monthly installments of $7,635, including interest at 4.92% per annum. The loan is secured by related property located in Bronx, New York.	817,313
A mortgage payable to a bank, in monthly installments of $5,690 through November 2019, including interest at 5.86% per annum. The mortgage is secured by related property located in Queens, New York.	409,882
A mortgage payable to a bank, in monthly installments of $5,453 through August 2025, including interest at 4.82% per annum. The mortgage is secured by related property located in Queens, New York.	634,324
Total AABR Realty Facilities Holding Corporation	$4,306,401

Principal payments over the next five years are as follows:

June 30, 2012

	AABR, Inc.	Holding Corporation	Total
2013	$ 280,319	$ 480,066	$ 760,385
2014	287,347	471,236	758,583
2015	272,555	454,248	726,803
2016	219,838	665,191	885,029
2017	230,050	364,621	594,671
Thereafter	932,901	1,871,039	2,803,940
	$2,223,010	$4,306,401	$6,829,411

9. Derivative Financial Instruments

AABR, Inc. entered into an interest rate swap agreement with Bank of America to limit the effects of increases in interest rates on variable rate mortgages. The differential is accrued as interest rates change and is recorded in interest expense.

The terms of the swap agreement are summarized below:

June 30, 2012

	Notional Amount	Fair Value
Interest rate swap agreement with Bank of America with a fixed rate of 9.6%. The bank pays a variable rate of interest based on US LIBOR. The swap matures in April 2016.	$251,344	$(42,032)

10. Pension Plan

Tax Deferred Annuity Plan

AABR, Inc. has an established tax deferred annuity plan. All employees are eligible to participate at their discretion. Once in the plan, AABR, Inc. or the employee can make voluntary contributions up to a maximum of 20% of the employee's gross earnings. For the year ended June 30, 2012, there were no contributions by AABR, Inc. to the tax deferred annuity plan.

Defined Benefit Pension Plan

AABR, Inc. had a Defined Benefit Pension Plan (the "Plan") for all non-union employees who had attained the age of twenty-one by the end of the initial plan year and had completed one year of service. For years after the initial plan year, non-union employees must have worked and been paid a minimum of 1,000 hours during the plan year to be eligible. Effective June 30, 2007 the Plan was frozen for remaining eligible employees.

The net periodic pension cost for the year ended June 30, 2012 is comprised of the following:

Service cost	$ 15,986
Interest cost	373,991
Actual return on Plan assets	(102,330)
Net amortization and deferral	(229,604)
Net periodic pension cost	$ 58,043

Included in other changes in Plan assets and benefit obligations is a net loss of $1,282,373, which is not reflected in net periodic pension cost at June 30, 2012. Included in accrued pension obligation as of June 30, 2012 is a cumulative net loss of $3,031,008, which was not reflected in net periodic pension cost.

A reconciliation of the changes in the Plan's benefit obligations and fair value of assets during 2012 and a statement of the funded status of the Plan as of June 30, 2012 is as follows:

June 30, 2012

Change in projected benefit obligation:	
Projected benefit obligation at beginning of the year	$7,456,900
Service cost	15,986
Interest costs	373,991
Actuarial loss	43,565
Benefits disbursed	(300,909)
Expense charges	(17,208)
Change in assumptions	1,009,204
Projected benefit obligation at June 30, 2012	$8,581,529

June 30, 2012

Change in Plan assets:	
Fair value of Plan assets at beginning of the year	$5,775,831
Actual return on Plan assets	102,330
Employer contributions	240,000
Benefits disbursed from Plan assets (including expense charges)	(318,117)
Fair value of Plan assets at the end of the year	$5,800,044

The funded status of the Plan at June 30, 2012 is as follows:

Benefit obligation	$8,581,529
Fair value of Plan assets	5,800,044
Accrued pension obligation at June 30, 2012	$2,781,485

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

Year ending June 30,	
2013	$ 760,000
2014	314,000
2015	510,000
2016	338,000
2017	750,000
2018-2021	2,435,000
	$5,107,000

Employer contributions expected to be paid in fiscal year ending June 30, 2013 are $240,000.

Investment Policy

The Plan assets shall be managed with a long-term asset mix guideline of 50% equity alternatives and 50% fixed income alternatives. The investment objective for Plan assets shall be to achieve an average annual rate of return over a three-to-five year period which exceeds the average annual rate of return that would have been achieved in the same period by a composite market index comprised of the S&P 500 Composite Stock Price Index, the Lehman Aggregate Bond Index and 90-day U.S. Treasury Bills.

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Plan assets as of June 30, 2012 consist of:

	Total	%
Equity	$2,904,570	50%
Fixed income	2,011,135	35
General accounts	884,339	15
	$5,800,044	100%

The Plan's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2 for a discussion of the Plan's policies regarding this hierarchy.

A description of the valuation techniques applied to the Plan's major categories of assets and liabilities measured at fair value are as follows:

General Account

The value of the general account or interest accumulation account is equal to the interest credited to the account less withdrawals and other deductions. All contributions allocated to the interest accumulation account are credited with interest at the current rate of interest. The interest credited to the account must result in an annual effective yield between 1.00% and 3.00% and is reviewed annually for resetting. As of June 30, 2012, the crediting interest rate was 2.00%. The general account is classified as Level 2 in the hierarchy.

AABR Management, Inc. and Affiliates

Notes to Combining Financial Statements

Pooled Separate Account

The Plan's assets are invested in variable investment funds. The variable funds are in a pooled separate account that invests directly in designated mutual funds or, in some cases, collective investment trusts. The separate account owns and holds the underlying mutual fund or collective trust shares which are valued daily at their net asset values ("NAV"). Plans and participants hold "units of participation" in the separate account. The "accumulation unit value" ("AUV") is the value of each unit in the separate account and the separate account is valued daily as the number of accumulation units held multiplied by the AUV. The AUV is first established when a new fund starts and is then determined daily based on the net asset value of the shares of the underlying fund, the fund's dividends and the contract's separate account charges. Since the AUV is determined based on a combination of the fund NAV and the separate account charges, management believes that the most appropriate classification for these investments is Level 2.

Below sets forth a table of the Plan assets measured at fair value as of June 30, 2012:

	Assets at Fair Value			
Description	Level 1	Level 2	Level 3	Total
Investment contract with insurance company:				
General account	$ -	$ 884,339	$ -	$ 884,339
Pooled separate account	-	4,915,705	-	4,915,705
	$ -	$5,800,044	$ -	$5,800,044

The discount rate, expected long-term rate of return on assets and the rates of increase in future compensation levels used to determine the projected benefit obligation at June 30, 2012 were 4.00%, 7.50% and 4.50%, respectively. The weighted average discount rate used to determine net periodic pension cost for the year ended June 30, 2012 was 6.50%.

The expected long-term rate of return on Plan assets assumption of 7.5% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 - Selection Economic Assumptions for Measuring Pension Obligations. Based on AABR, Inc.'s investment allocation for the pension plan in effect as of the beginning of fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 6.55% - 8.71%. A rate of 7.50% which is near the midpoint of the best estimate range was selected.

11. Transactions With Affiliates

(a) AABR, Inc. rents eighteen facilities from the Holding Corporation, an affiliate through common board membership. Rental payments, which include maintenance, utilities and occupancy costs, amounted to $1,015,610 for the year ended June 30, 2012. AABR, Inc. charged the Holding Corporation a management fee of $46,902 for the year ended June 30, 2012. In addition, the assets of AABR, Inc. guarantee secured notes held by the Holding Corporation for space occupied by the programs of AABR, Inc.

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(b) The Foundation is related to AABR, Inc. through common board membership. Intercompany transactions consist of funds raised by the Foundation on behalf of AABR, Inc., and fundraising related expenses paid by AABR, Inc. on behalf of the Foundation. For the year ended June 30, 2012, AABR, Inc. charged the Foundation a management fee of $260,497. In addition, the assets of the Foundation guarantee secured notes held by the Holding Corporation for space occupied by the programs of AABR, Inc.

(c) The Organization is related to AABR, Inc. through common board membership. The Organization's primary purpose is to serve as the parent entity to AABR, Inc., the Holding Corporation, and the Foundation. There were no intercompany transactions between the Organization and AABR, Inc. in the fiscal year ended June 30, 2012. In addition, the assets of the Organization guarantee secured notes held by the Holding Corporation for space occupied by the programs of AABR, Inc.

Noninterest-bearing advances due on demand (to)/from affiliates were as follows:

June 30, 2012	
Holding Corporation	$(2,585,860)
Foundation	538,948
AABR, Inc.	2,046,798
Organization	114
Total	$ -

Intercompany transactions have been eliminated upon combination.

12. Rentals Under Operating Leases

AABR, Inc. leases various facilities from unrelated parties under leases classified as operating leases. AABR, Inc. is obligated for certain other operating costs at these sites. The future minimum commitments to all nonrelated parties are as follows:

2013	$ 490,871
2014	420,969
2015	432,623
2016	359,794
2017	353,459
Thereafter	1,125,280
	$3,182,996

Rental expense the year ended June 30, 2012 was $506,527.

13. Commitments and Contingencies

(a) Litigation

AABR, Inc. is involved in various lawsuits which it is defending vigorously. The ultimate outcomes of the matters cannot be determined at this time. Management and legal counsel have estimated that the outcomes would have an immaterial effect on the financial statements at June 30, 2012. Accordingly, no provision for any liability that may result has been made in these financial statements.

(b) Concentrations

Financial instruments which potentially subject AABR, Inc., the Holding Corporation, and the Foundation to concentration of credit risk consist primarily of temporary cash investments and accounts receivable. As of June 30, 2012, AABR, Inc., the Holding Corporation, and the Foundation have cash deposits which exceeded the FDIC insurance limit in place at various financial institutions.

Substantially all of AABR, Inc.'s accounts receivable are from OPWDD, Medicaid and the New York State Education Department.

14. Temporarily Restricted Net Assets

The Foundation's temporarily restricted net assets are available for the following purpose at June 30, 2012:

Education Program	$36,683
General operating expenses	1,994
Total	$38,677

15. Permanently Restricted Net Assets

The Board of Directors of the Foundation has adopted the rules of NYPMIFA requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Endowment Fund is classified as permanently restricted net assets and includes the original value of gifts donated to the permanent endowment.

NYPMIFA further requires all endowment income to be classified as temporarily restricted until appropriated for use by the governing board. As such, endowment income that was previously recorded as unrestricted has been reclassified and recorded as temporarily restricted during the year ended June 30, 2012.

The Endowment Fund is invested in a manner that is intended to produce results that exceed the price and yield results of the Triple A rated short-term money market instruments for the cash and cash equivalent investments and the Barclay's Intermediate Government/Corporate Bonds Index for the fixed income investments. The Foundation appropriates the actual interest income return from the restricted asset and supplements nonrestricted funds for training and other programs. In establishing this policy, the Foundation considered the long- term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow annually.

For the fiscal year ended June 30, 2012, all assets included in the Foundation's Endowment Fund are as follows:

June 30, 2012	
Mutual funds	$65,415

The following table provides a reconciliation of beginning and ending balances as of June 30, 2012:

June 30, 2012	
Permanently restricted net assets as of July 1, 2011	$55,816
Investment income	1,994
Transfers to temporarily restricted net assets	(1,994)
Permanently restricted net assets as of June 30, 2012	$55,816

Permanently restricted net assets consist of the following at June 30, 2012:

June 30, 2012	
General operating support	$55,816

16. Subsequent Events

(a) The Organization and Affiliates have evaluated events and transactions occurring subsequent to June 30, 2012 for items that should potentially be recognized or disclosed in these financial statements. This evaluation was conducted through April 4, 2013, the date these financial statements were available to be issued.

(b) In February 2012, AABR, Inc. enacted a plan of merger by which the Organization and the Holding Corporation merged into AABR, Inc. as the surviving corporation. As a result of the merger, all assets and liabilities of the Organization and the Holding Corporation became assets and liabilities of AABR, Inc. No consideration was paid to the Organization or the Holding Corp. with respect to the merger.

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AABR Management, Inc.
and Affiliates

Combining Financial Statements
Year Ended June 30, 2011

AABR Management, Inc.
and Affiliates

Combining Financial Statements
Year Ended June 30, 2011

AABR Management, Inc. and Affiliates

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Independent Auditors' Report

Board of Directors of
AABR Management, Inc. and Affiliates

We have audited the accompanying combining statement of financial position of AABR Management, Inc. and Affiliates as of June 30, 2011, and the related combining statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2010 is presented for comparative purposes only and was extracted from the combining financial statements of AABR Management, Inc. and Affiliates for that year, on which we expressed an unqualified opinion, dated April 18, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 combining financial statements referred to above present fairly, in all material respects, the financial position of AABR Management, Inc. and Affiliates as of June 30, 2011, 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 United States of America.

BDO USA, LLP

April 9, 2012

AABR Management, Inc. and Affiliates

Combining Statement of Financial Position
(with comparative totals for 2010)

June 30,

	AABR Management, Inc.	Association for the Advancement of Blind and Retarded, Inc.	AABR Realty Facilities Holding Corporation	AABR Foundation, Inc.	Eliminations	Total 2011	Total 2010
Assets							
Cash and cash equivalents (Notes 3 and 13)	$45,616	$ 962,445	$ 170,628	$5,181,203	$ -	**$ 6,359,892**	$ 6,757,296
Investments at fair value (Notes 3 and 4)	-	-	-	789,241		**789,241**	694,303
Accounts receivable from third-party payors (Notes 3 and 13)	-	4,289,024	-	-	-	**4,289,024**	5,063,638
Accrued interest receivable	-	-	-	-	-	**-**	-
Prepaid expenses and other assets	-	367,076	5,314	-	-	**372,390**	860,599
Debt service reserve fund (Notes 5 and 8)	-	210,023	-	-	-	**210,023**	210,023
Consumer funds (Note 3)	-	64,152	-	-	-	**64,152**	39,969
Due from affiliates (Note 11)	114	1,130,977	-	1,317,738	(2,448,829)	**-**	-
Fixed assets, net (Notes 3, 6 and 8)	-	2,678,478	8,155,718	-		**10,834,196**	11,372,657
	$45,730	**$9,702,175**	**$8,331,660**	**$7,288,182**	**$(2,448,829)**	**$22,918,918**	**$24,998,485**
Liabilities and Net Assets							
Liabilities:							
Accounts payable and accrued expenses	$ -	$ 163,856	$ -	$ -	$ -	**$ 163,856**	$ 882,456
Accrued payroll and compensated absences	-	4,315,122	-	-	-	**4,315,122**	4,025,636
Accrued pension obligation (Note 10)	-	1,681,069	-	-	-	**1,681,069**	2,412,355
Due to third-party payors		147,999	-	-	-	**147,999**	7,784
Due to affiliates (Note 11)	-	-	2,448,829	-	(2,448,829)	**-**	-
Due to governmental agency (Note 7)	-	577,003	-	-	-	**577,003**	951,810
Consumer funds (Note 3)	-	64,152	-	-	-	**64,152**	39,969
Mortgages and loans payable (Note 8)	-	2,499,144	4,926,221	-	-	**7,425,365**	8,580,668
Total Liabilities	-	9,448,345	7,375,050	-	(2,448,829)	**14,374,566**	16,900,678
Commitments and Contingencies (Notes 9, 10, 12, 13 and 16)							
Net Assets (Note 3):							
Unrestricted	45,730	253,830	956,610	7,195,683	-	**8,451,853**	8,019,991
Temporarily restricted (Note 14)	-	-	-	36,683		**36,683**	22,000
Permanently restricted (Note 15)	-	-	-	55,816	-	**55,816**	55,816
Total Net Assets	45,730	253,830	956,610	7,288,182	-	**8,544,352**	8,097,807
	$45,730	**$9,702,175**	**$8,331,660**	**$7,288,182**	**$(2,448,829)**	**$22,918,918**	$24,998,485

See accompanying notes to combining financial statements.

AABR Management, Inc. and Affiliates

Combining Statement of Activities
(with comparative totals for 2010)

Year ended June 30,

	AABR Management, Inc.	Association for the Advancement of Blind and Retarded, Inc.	AABR Realty Facilities Holding Corporation	AABR Foundation, Inc.	Eliminations	Total 2011	Total 2010
Change in Unrestricted Net Assets:							
Support and revenue:							
Medicaid	$ -	$12,898,883	$ -	$ -	$ -	**$12,898,883**	$12,803,625
New York State Office of Mental Retardation and Developmental Disabilities and Home and Community-Based Waiver Services	-	19,686,757	-	-	-	**19,686,757**	19,831,387
New York State Education Department	-	1,490,782	-	-	-	**1,490,782**	1,648,681
Food stamp revenue	-	191,385	-	-	-	**191,385**	188,532
Supplemental Security Income and Social Security Administration	-	934,037	-	-	-	**934,037**	877,860
Special events income, net of direct cost to donors of $223,780 in 2011	-	-	-	118,420	-	**118,420**	49,500
Contributions	-	-	-	462,448	-	**462,448**	419,861
Rental income	-	-	997,337	-	(984,336)	**13,001**	-
Dividend and interest income	-	-	-	17,914	-	**17,914**	34,179
Net realized and unrealized gains on investments	-	-	-	81,336	-	**81,336**	24,193
Management fee income (Note 11)	-	239,834	-	-	(239,834)	**-**	-
Other income	46	60,092	267	-	-	**60,405**	58,387
Total Support and Revenue	46	35,501,770	997,604	680,118	(1,224,170)	**35,955,368**	35,936,205
Expenses:							
Program services:							
Day services	-	11,191,443	-	-	-	**11,191,443**	10,992,123
Intermediate care facilities	-	9,990,655	152,988	-	(153,062)	**9,990,581**	9,966,074
Individualized residential alternatives	-	8,995,299	805,246	-	(765,104)	**9,035,441**	8,195,822
Education	-	1,536,771	-	-		**1,536,771**	1,576,947
Community residences	-	1,006,698	10,561	-	(10,561)	**1,006,698**	905,859
Medicaid service coordination	-	560,872	-	-	-	**560,872**	600,064
At-home residential habilitation	-	468,379	-	-	-	**468,379**	459,483
Other programs	-	161,997	-	-	-	**161,997**	202,510
Contribution expense	-	-	-	37,955	-	**37,955**	22,900
Total Program Services	-	33,912,114	968,795	37,955	(928,727)	**33,990,137**	32,921,782
Supporting services:							
Management and general	-	2,394,393	95,212	52,499	(295,443)	**2,246,661**	2,493,188
Fundraising	-	-	-	164,545	-	**164,545**	123,122
Total Supporting Services	-	2,394,393	95,212	217,044	(295,443)	**2,411,206**	2,616,310
Total Expenses	-	36,306,507	1,064,007	254,999	(1,224,170)	**36,401,343**	35,538,092
Change in Unrestricted Net Assets From Current Year Operations	46	(804,737)	(66,403)	425,119	-	**(445,975)**	398,113
Prior Period Revenue	-	224,202	-	-	-	**224,202**	1,580,739
Other Changes in Plan Assets and Benefit Obligations (Note 10)	-	653,635	-	-	-	**653,635**	(295,388)
Increase (Decrease) in Unrestricted Net Assets	46	73,100	(66,403)	425,119	-	**431,862**	1,683,464
Changes in Temporarily Restricted Net Assets:							
Dividends and interest income	-	-	-	460	-	**460**	-
Net realized and unrealized gains on investments	-	-	-	14,223	-	**14,223**	-
Increase in Temporarily Restricted Net Assets	-	-	-	14,683	-	**14,683**	-
Increase (Decrease) in Net Assets	46	73,100	(66,403)	439,802	-	**446,545**	1,683,464
Net Assets, Beginning of Year	45,684	180,730	1,023,013	6,848,380	-	**8,097,807**	6,414,343
Net Assets, End of Year	**$45,730**	**$ 253,830**	**$ 956,610**	**$7,288,182**	**$ -**	**$ 8,544,352**	$ 8,097,807

See accompanying notes to combining financial statements.

AABR Management, Inc. and Affiliates

Combining Statement of Functional Expenses
(with comparative totals for 2010)

Year ended June 30,

	Association for the Advancement of Blind and Retarded, Inc.																
	Program Services									Supporting Services							
	Day Services	Intermediate Care Facilities	Individualized Residential Alternative	Education	Community Residences	Medicaid Service Coordination	At-Home Residential Habilitation	Other Programs	Total Program Services	Management and General	Total	AABR Realty Facilities Holding Corporation	AABR Management, Inc.	AABR Foundation	Eliminations	**2011 Total**	2010 Total
Salaries and Related Expenses:																	
Salaries	$ 5,121,512	$5,600,627	$5,149,259	$ 949,803	$595,247	$422,274	$352,053	$108,260	$18,299,035	$1,066,484	$19,365,519	$ -	$ -	$ -	$ -	**$19,365,519**	$18,972,823
Payroll taxes and employee benefits	2,330,910	1,916,280	1,777,253	286,879	230,234	105,408	108,587	32,111	6,787,662	568,154	7,355,816	-	-	-	-	**7,355,816**	6,790,551
Total Salaries and Related Expenses	7,452,422	7,516,907	6,926,512	1,236,682	825,481	527,682	460,640	140,371	25,086,697	1,634,638	26,721,335	-	-	-	-	**26,721,335**	25,763,374
Other Expenses:																	
Professional fees	-	1,236	-	-	-	-	-	-	1,236	225,717	226,953	-	-	-	-	**226,953**	203,895
Contracted services	125,238	92,550	29,664	19,440	1,900	-	-	-	268,792	12,609	281,401	-	-	-	-	**281,401**	437,991
Insurance	90,616	87,931	73,261	9,078	7,989	4,112	-	1,405	274,392	46,925	321,317	-	-	-	-	**321,317**	350,081
Utilities	216,310	171,610	192,831	27,476	9,624	6,277	-	7,590	631,718	61,199	692,917	-	-	-	-	**692,917**	570,421
Telephone	18,104	67,679	16,339	4,527	3,135	6,685	-	-	116,469	32,255	148,724	-	-	-	-	**148,724**	130,909
Transportation	1,921,014	137,361	44,818	3,776	8,694	9,000	5,902	550	2,131,115	9,387	2,140,502	-	-	-	-	**2,140,502**	2,165,361
Program supplies	78,052	158,496	148,593	9,462	16,532	107	-	3,872	415,114	877	415,991	-	-	-	-	**415,991**	425,659
Office expense	111,243	55,733	32,576	47,875	4,546	1,774	541	891	255,179	142,670	397,849	-	-	-	-	**397,849**	370,552
Data processing	1,734	-	-	-	-	-	-	-	1,734	76,133	77,867	-	-	-	-	**77,867**	78,606
Clothing and incidentals	2,745	21,815	26,244	-	3,067	239	694	-	54,804	-	54,804	-	-	-	-	**54,804**	54,993
Food	98,951	259,019	372,523	4,932	42,300	43	379	3,497	781,644	168	781,812	-	-	-	-	**781,812**	798,688
Staff recruitment	-	52,081	-	963	-	-	-	-	53,044	37,160	90,204	-	-	-	-	**90,204**	105,919
Advertising and community relations	128	20,346	12,958	-	997	125	-	-	34,554	6,613	41,167	-	-	-	-	**41,167**	47,661
Repairs and maintenance	250,316	194,777	175,611	48,259	17,990	293	91	3,361	690,698	14,606	705,304	63,848	-	-	-	**769,152**	760,856
Vehicle and equipment rentals	77,377	119,207	104,284	6,901	10,058	4,535	-	-	322,362	22,778	345,140	-	-	-	-	**345,140**	384,501
Facility rental	296,016	255,153	764,126	92,184	53,763	-	-	-	1,461,242	55,609	1,516,851	-	-	-	(984,336)	**532,515**	518,426
Interest expense	161,087	4,748	2,451	-	-	-	-	-	168,286	-	168,286	325,532	-	-	-	**493,818**	532,788
Facility tax expense	-	674,641	-	-	-	-	-	-	674,641	-	674,641	-	-	-	-	**674,641**	673,698
Investment fees	-	-	-	-	-	-	-	-	-	-	-		-	10,597	-	**10,597**	5,140
Contribution expense	-	-	-	-	-	-	-	-	-	-	-		-	37,955	-	**37,955**	22,900
Management fee expense	-	-	-	-	-	-	-	-	-	-	-	37,961	-	201,873	(239,834)	**-**	-
Miscellaneous expense	11,894	-	1,523	-	335	-	-	-	13,752	5,602	19,354	1,642	-	4,574	-	**25,570**	36,416
Total Expenses Before Depreciation and Amortization	10,913,247	9,891,290	8,924,314	1,511,555	1,006,411	560,872	468,247	161,537	33,437,473	2,384,946	35,822,419	428,983	-	254,999	(1,224,170)	**35,282,231**	34,438,835
Depreciation and Amortization	278,196	99,365	70,985	25,216	287	-	132	460	474,641	9,447	484,088	635,024	-	-	-	**1,119,112**	1,099,257
Total Expenses	**$11,191,443**	**$9,990,655**	**$8,995,299**	**$1,536,771**	**$1,006,698**	**$560,872**	**$468,379**	**$161,997**	**$33,912,114**	**$2,394,393**	**$36,306,507**	**$1,064,007**	**$ -**	**254,999**	**$(1,224,170)**	**$36,401,343**	$35,538,092

See accompanying notes to combining financial statements.

AABR Management, Inc. and Affiliates

Combining Statement of Cash Flows
(with comparative totals for 2010)

Year ended June 30,

	AABR Management, Inc.	Association for the Advancement of Blind and Retarded, Inc.	AABR Realty Facilities Holding Corporation	AABR Foundation, Inc.	Eliminations	Total 2011	Total 2010
Cash Flows From Operating Activities:							
Increase (decrease) in unrestricted net assets	$46	$ 73,100	$ (66,403)	$ 439,802	$ -	**$ 446,545**	$ 1,683,464
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities:							
Depreciation and amortization	-	484,089	635,024	-	-	**1,119,113**	1,098,899
Other changes in plan assets and benefit obligations	-	(653,635)	-	-	-	**(653,635)**	295,388
Net realized and unrealized gains on investments	-	-	-	(95,559)	-	**(95,559)**	(24,193)
(Increase) decrease in:				-	-	**-**	
Accounts receivable from third-party payors	-	774,614	-	-	-	**774,614**	(733,228)
Accrued interest receivable	-	-	-	-	-	**-**	-
Prepaid expenses and other assets	-	487,959	250	-	-	**488,209**	(243,249)
Consumer funds	-	-	-	-	-	**-**	72,547
Due from affiliates	-	-	-	(105,203)	105,203	**-**	-
Increase (decrease) in:							
Accounts payable and accrued expenses	-	(718,600)	-	-	-	**(718,600)**	(123,084)
Accrued payroll and compensated absences	-	289,486	-	-	-	**289,486**	385,572
Accrued pension obligation	-	(77,651)	-	-	-	**(77,651)**	(53,405)
Due to third-party payors	-	140,215	-	-	-	**140,215**	(206,050)
Due to affiliates	-	432,212	(327,009)	-	(105,203)	**-**	-
Due to governmental agency	-	(374,807)	-	-		**(374,807)**	(413,454)
Consumer funds	-	-	-	-	-	**-**	(72,547)
Net Cash Provided By Operating Activities	46	856,982	241,862	239,040	-	**1,337,930**	1,666,660
Cash Flows From Investing Activities:							
Purchases of fixed assets	-	(136,333)	(444,319)	-	-	**(580,652)**	(1,243,445)
Purchases of investments	-	-	-	(97,733)	-	**(97,733)**	(974,402)
Proceeds from sale of investments	-	-	-	98,354	-	**98,354**	1,112,658
Net Cash Provided By (Used In) Investing Activities	-	(136,333)	(444,319)	621	-	**(580,031)**	(1,105,189)
Cash Flows From Financing Activities:							
Repayment of mortgages and notes payable	-	(408,579)	(746,724)	-	-	**(1,155,303)**	(1,003,758)
Proceeds from mortgages and notes payable	-	-	-	-	-	**-**	1,549,011
Net Cash Provided By (Used In) Financing Activities	-	(408,579)	(746,724)	-	-	**(1,155,303)**	545,253
Net Increase (Decrease) in Cash and Cash Equivalents	46	312,070	(949,181)	239,661	-	**(397,404)**	1,106,724
Cash and Cash Equivalents, Beginning of Year	45,570	650,375	1,119,809	4,941,542	-	**6,757,296**	5,650,572
Cash and Cash Equivalents, End of Year	$45,616	$ 962,445	$ 170,628	$5,181,203	$ -	**$ 6,359,892**	$ 6,757,296
Supplemental Disclosure of Cash Flow Information:							
Cash paid during the year for interest	$ -	$ 167,984	$ 325,532	$ -	$ -	**$ 493,516**	$ 532,788

See accompanying notes to combining financial statements.

1. Principles of Combination

The accompanying combining financial statements include AABR Management, Inc. (the "Organization") and Affiliates, Association for the Advancement of Blind and Retarded, Inc. (the "Association"), AABR Realty Facilities Holding Corporation (the "Holding Corporation") and AABR Foundation, Inc. (the "Foundation"). AABR Management, Inc. and its affiliates are related through common board membership and substantially identical management.

2. Nature of Organizations

(a) The Organization is a nonprofit organization designed to serve as the parent entity for the Association, the Holding Corporation and the Foundation.

(b) The Association is a voluntary nonprofit corporation. The Association provides services for the multiple handicapped, severely retarded and blind individuals. The Association operates two five-day per week Day Habilitation Centers, eight Intermediate Care Facilities, two Community Residences, and twelve Individualized Residential Alternatives under contract with the New York State Office of People With Developmental Disabilities ("OPWDD"). In addition, the Association provides Medicaid service coordination, day and residential habilitation services, respite and individualized support services. The Association also operates a preschool and school-age program for autistic children.

(c) The Holding Corporation is a nonprofit organization that owns condominiums, cooperatives and other real property. These facilities are leased to the Association for the operation and administration of its programs.

(d) The Foundation is a nonprofit corporation formed under the laws of the State of New York to provide specialized educational opportunities, community support and facilities for children who experience difficulties due to damage to or dysfunction or deficiency of the nervous or biochemical systems. Additionally, the Foundation will solicit and raise funds to be used to support and achieve the foregoing goals and objectives.

3. Summary of Significant Accounting Policies

(a) Financial Statement Presentation

The financial statements of the Organization and Affiliates have been prepared on an accrual basis. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in the combining statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the combining statement of activities.

Income from investment gains and losses, including unrealized gains and losses, dividends, interest and other investments should be reported as increases (or decreases) in unrestricted net assets unless the use of the income received is limited by donor-imposed restrictions.

These classes are defined as follows:

(i) **Permanently Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the Organization and Affiliates is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

(ii) **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the Organization and Affiliates is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

(iii) **Unrestricted** - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(b) Cash and Cash Equivalents

Cash equivalents represent short-term investments with original maturities of three months or less.

(c) Consumer Funds

Consumer funds consist of cash deposits held by the Association on behalf of its residents for the residents' personal use.

(d) Investments at Fair Value

Investments consist of certificates of deposit, mutual funds and equity securities.

Investments are valued at fair value in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

(e) Investment Impairment

The Foundation's investments consist of certificates of deposit, mutual funds and equity securities. At June 30, 2011, the Foundation has deemed that all securities, which were in an unrealized loss position, were temporarily impaired. Positive evidence considered in reaching the Foundation's conclusion that the investments in an unrealized loss position are not other-than temporarily impaired consisted of:

(a) there were no specific events which caused concerns;

(b) the Foundation's ability and intent to retain the investment for a sufficient amount of time to allow an anticipated recovery in value; and

(c) the Foundation also determined that the changes in market value were considered normal in relation to overall fluctuations in market conditions.

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(f) Fair Value Measurements

The Foundation adopted Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures". This statement defines fair value and establishes a hierarchy for inputs used in measuring fair value that maximized the use of observable inputs and minimized the use of unobservable inputs, requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as the Foundation would use in pricing the Foundation's asset or liability based on independently derived and observable market data. Unobservable inputs are inputs that can not be sourced from a broad active market in which assets or liabilities identical or similar to those of the Foundation are traded. The Foundation estimates the price of any assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers for each investment based on best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 – Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples include equity that is actively traded on a major exchange.

Level 2 - Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date. Most debt securities, preferred stocks, certain equity securities, short-term investments and derivatives are model priced using observable inputs and are classified with Level 2.

Level 3 – Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value. Examples include limited partnerships and private equity investments, and limited liability investment companies.

(g) Fixed Assets

The cost of fixed assets is depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold and building improvements are amortized over the lesser of the life of the lease or asset. The estimated useful lives of the assets are as follows:

Leasehold improvements	3-20 years
Buildings	25 years
Building improvements	5-20 years
Equipment	3-15 years
Furniture and fixtures	5-10 years

(h) Income Taxes

The Organization, the Association and the Foundation were incorporated in the State of New York and are exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore have made no provision for income taxes in the accompanying financial statements. The Organization, the Association and the Foundation have been determined by the Internal Revenue Service not to be "private foundations" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2011.

The Holding Corporation is a tax-exempt organization that is exempt from Federal, state and local income taxes under Section 501(c)(2) of the Internal Revenue Code (the "Code"), and therefore has made no provision for income taxes in the accompanying financial statements. In addition, the Holding Corporation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for the year ended June 30, 2011.

The Organization and affiliates adopted the provisions of ASC 740, "Income Taxes", on July 1, 2009. Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained upon examination by a taxing authority. The implementation of ASC 740 had no impact on the Organization and affiliates' financial statements. The Organization and affiliates do not believe they have taken any material uncertain tax positions and, accordingly, they have not recorded any liability for unrecognized tax benefits. The Organization and affiliates have filed for and received income tax exemptions in the jurisdictions where they are required to do so. Additionally, the Organization and Affiliates have filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the year ended June 30, 2011, there was no interest or penalties recorded or included in the statement of activities. The Organization and affiliates were subject to routine audits by a taxing authority. As of June 30, 2011, the Organization and affiliates were not subject to any examination by a taxing authority. Management believes it is no longer subject to income tax examination for the years prior to 2007.

(i) Contributions and Promises to Give

Contributions and promises to give are recorded as revenue when either unsolicited cash is received or when donors make a promise to give. Contributions and promises to give are classified as either unrestricted, temporarily restricted, or permanently restricted support.

(j) Third-Party Reimbursements and Revenue Recognition

The Association receives substantially all its revenue for services provided to approved individuals from third-party reimbursement agencies; primarily Medicaid, OPWDD and the New York State Education Department. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary.

(k) Provisions for Doubtful Accounts

The Association does not provide an allowance for doubtful accounts. Doubtful accounts are written off as they are deemed by management to be uncollectible. All accounts receivable, as stated in the financial statements, are deemed by the Association's management to be fully collectible.

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(l) Use of Estimates

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

(m) Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on an individual basis in the statement of activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

(n) Comparative Financial Information

The combining financial statements include certain prior year summarized comparative information. With respect to the statement of financial position, statement of activities and statement of cash flows, the prior year amounts are presented on a combined basis rather than by affiliate. With respect to the combining statement of functional expenses, the prior year expenses are presented by expense classification in total rather than functional category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization and Affiliates' financial statements for the year ended June 30, 2010, from which the summarized information was derived.

(o) Net Asset Classifications

The Foundation adopted ASC 958-205 (formerly SFAS No. 117-1), "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for all Endowment Funds" ("FSP SFAS 117-1"), during fiscal 2009. ASC 958-205 requires that disclosures be made on the Foundation's endowments by net asset classifications.

On September 17, 2010, New York State enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). This law, which is a modified version of UPMIFA, makes significant changes to the rules governing how New York not-for-profit organizations may manage, invest and spend their endowment funds. The new law is designed to allow organizations to cope more easily with fluctuations in the value of their endowments and to afford them greater access to funds needed to support their programs and services in difficult financial times. This should provide some relief to organizations that, due to the recent economic downturn, have found themselves with underwater endowments. It also expands the options available to organizations seeking relief from donor restrictions on funds that have become obsolete, impracticable or wasteful. NYPMIFA applies to New York not-for-profit, education and religious corporations, associations organized and operated exclusively for charitable purposes, and certain trusts.

(a) New Accounting Standards to be Adopted

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements", which amends ASC 820. This ASU requires additional disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in ASC 820. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Foundation does not expect the implementation of ASU 2010-06 to have a material impact on its financial statements.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". ASU 2011-04 amended ASC 820 to provide a consistent definition of fair value and improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. Some of the amendments clarify the application of existing fair value measurement and disclosure requirements, while other amendments change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Management is currently evaluating the effect that the provisions of ASU 2011-04 will have on the financial statements.

4. Investments at Fair Value

The following table shows, by level within the fair value hierarchy, the Foundation's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2011. The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the asset or liability's placement within the fair value hierarchy levels.

	Recurring Fair Value Measurements by Level at June 30, 2011		
	Level 1	Level 2	Level 3
Assets			
Certificate of deposit	$377,832	$-	$-
Mutual funds	63,421	-	-
Equity securities	347,988	-	-
	$789,241	$-	$-

Below sets forth a table of assets measured at fair value at June 30, 2011:

June 30, 2011	Cost	Fair Value
Certificates of deposit	$377,832	$377,832
Mutual funds	97,676	63,421
Equity securities	332,053	347,988
	$807,561	$789,241

5. Debt Service Reserve Fund

Debt service reserve fund represents funds held by the OPWDD. These funds will be applied to the last payment required on the mortgage with the Facilities Development Corporation. This reserve earns interest, which will be used to offset the Association's payment obligation under the mortgage.

6. Fixed Assets, Net

Fixed assets, net, stated at cost, consists of the following:

June 30, 2011	Association	Holding Corporation	Combined
Land	$ 172,110	$ 2,507,895	$ 2,680,005
Leasehold improvements	1,595,871	-	1,595,871
Buildings and improvements	7,024,927	10,541,229	17,566,156
Equipment	928,439	146,768	1,075,207
Furniture and fixtures	214,705	78,527	293,232
Total fixed assets	9,936,052	13,274,419	23,210,471
Less: Accumulated depreciation and amortization	(7,324,829)	(5,118,701)	(12,443,530)
Construction-in-progress	67,255	-	67,255
Fixed assets, net	$ 2,678,478	$ 8,155,718	$ 10,834,196

Construction-in-progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. The estimated costs to complete construction are approximately $332,000.

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7. Due to Governmental Agency

The Association has entered into contracts with OPWDD for the operation of its facilities. As part of the agreement, OPWDD advances funds to the Association for pre-operational start-up costs, facility acquisitions and facility improvements. The Association has agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid. This amount is being liquidated through monthly recoupments until the balance is paid in full. The balance as of June 30, 2011 was $577,003.

8. Mortgages and Loans Payable

Mortgages and loans payable consist of the following:

June 30, 2011	
Association for the Advancement of the Blind and Retarded, Inc.:	
Mortgage due the Facilities Development Corporation payable in semi-annual installments of $8,179, including interest at 7.52% per annum and administrative fees of approximately 4% per annum. The mortgage matures August 15, 2015 and is secured by substantially all real and personal property located at the Grand Avenue facility.	$ 54,712
Mortgage due the Facilities Development Corporation payable in semi-annual principal and administrative fee payments ranging from $46,714 to $128,714, plus interest at an average annual coupon rate of 5.9801%. The mortgage matures August 15, 2021 and is secured by all real and personal property and pledged revenues for the St. Albans facility.	2,138,375
Mortgage due to a bank payable in monthly installments of $2,153, including interest at 9.07% per annum. The mortgage matures July 1, 2012 and is secured by real property and improvements at the Hillside facility located in Jamaica, NY.	19,862
Mortgage due to the Facilities Development Corporation in semi- annual principal and administrative fee payments ranging from $14,762 to $25,362, plus interest at an average annual coupon rate of 5.47%. The mortgage matures August 15, 2012 and is secured by substantially all real and personal property located at the Quencer Road facility.	11,200
Mortgage due to a bank payable in monthly installments of $7,078 including interest at 5.48%. The mortgage matures May 15, 2015 and is secured by related property.	274,995
Total Association for the Advancement of Blind and Retarded, Inc.	$2,499,144

June 30, 2011	
AABR Realty Facilities Holding Corporation:	
A mortgage payable to a bank in monthly installments of $2,066 through August 2023, including interest at 7.875% per annum. The mortgage is secured by related property located in Mattituck, New York.	$193,763
A mortgage payable to a bank in monthly installments of $2,002 through July 2013, including interest at 8.66% per annum. The mortgage is secured by related property located in New York, New York.	46,311
A mortgage payable to a lending institution in monthly installments of $1,485 through October 2028, including interest at 6.75% per annum. The mortgage is secured by related property in Staten Island, New York.	148,336
A mortgage payable to a bank in monthly installments of $2,706 through August 13, 2014, including interest at 5.84% per annum. The mortgage is secured by related property in Queens, New York.	102,871
A mortgage payable to a bank in monthly installments of $1,399 through August 2014, including interest at 5.84% per annum. The mortgage is secured by related property in Queens, New York.	38,664
Loan payable to a bank in monthly installments totaling $819 through July 2013, including interest at 5.99% per annum. The loan is unsecured.	21,689
A mortgage payable to a bank in monthly incremental principal payments ranging from $1,782 to $5,590 and interest at 175 basis points above the stated LIBOR rate (which was 1.87% as of June 30, 2011). The mortgage matures April 2016 and is secured by related property located in the Bronx, New York. The mortgage is related to an interest rate swap agreement (see Note 6).	307,451
A mortgage payable to a bank in monthly installments of $4,797, including interest at 6.25% per annum. The mortgage matures June 2018 and is secured by related property located in Queens, New York.	327,770
A mortgage payable to a bank in monthly installments of $4,557, including interest at 6.25% per annum. The mortgage matures June 2018 and is secured by related property located in Queens, New York.	307,767
A mortgage payable to a bank, in monthly installments of $6,225 through July 2019, including interest at 6.54% per annum. The mortgage is secured by related property located in Queens, New York.	466,117
A mortgage payable to a bank in monthly installments of $2,732 through December 2019, including interest at 6.82% per annum. The mortgage is secured by related property located in New York, New York.	210,165
A mortgage payable to a bank, in monthly installments of $5,690 through November 2019, including interest at 5.86% per annum. The mortgage is secured by related property located in Queens, New York.	448,839
A mortgage payable to a bank, in monthly installments of $1,942 through May 2016, including interest at 7.09% per annum. The mortgage is secured by related property located in Queens, New York.	237,844
A mortgage payable to a bank, in monthly installments of $7,749 through April 2011, including interest at 8.03% per annum. The mortgage is secured by related property located in Queens, New York.	-

June 30, 2011	
AABR Realty Facilities Holding Corporation (continued):	
A mortgage payable to a bank, in monthly installments of $6,599 through November 2011, including interest at 6.81% per annum. The mortgage is secured by related property located in Queens, New York.	$ 25,606
A mortgage payable to a bank, in monthly installments of $11,769 through April 2012, including interest at 6.77% per annum. The mortgage is secured by related property located in Queens, New York.	101,526
A mortgage payable to a bank due April 2024 payable in monthly installments of $7,635, including interest at 4.92% per annum. The loan is secured by related property located in New Rochelle, New York.	866,695
A mortgage payable to a bank, in monthly installments of $9,065 through August 2015, including interest at 4.82% per annum. The mortgage is secured by related property located in Queens, New York.	448,150
A mortgage payable to a bank, in monthly installments of $5,453 through August 2025, including interest at 4.82% per annum. The mortgage is secured by related property located in Queens, New York.	626,657
Total AABR Realty Facilities Holding Coprporation	$4,926,221

Principal payments over the next five years are as follows:

June 30, 2011	Association	Holding Corporation	Total
2012	$ 283,251	$ 574,743	$ 857,994
2013	272,979	477,594	750,573
2014	287,708	464,356	752,064
2015	271,093	460,872	731,965
2016	220,087	664,285	884,372
Thereafter	1,164,026	2,284,371	3,448,397
	$2,499,144	$4,926,221	$7,425,365

9. Derivative Financial Instruments

The Holding Corporation entered into an interest rate swap agreement with Bank of America to limit the effects of increases in interest rates on variable rate mortgages. The differential is accrued as interest rates change and is recorded in interest expense.

The swap agreement expires in April 2016 and has a notional amount of $307,451 as of June 30, 2011. The effect of this agreement limits the interest rate exposure to 9.6% on a mortgage payable (Note 8).

10. Pension Plan

Tax Deferred Annuity Plan

The Association has an established tax deferred annuity plan. All employees are eligible to participate at their discretion. Once in the plan, the Association or the employee can make voluntary contributions up to a maximum of 20% of the employee's gross earnings. For the year ended June 30, 2011, there were no contributions by the Association to the tax deferred annuity plan.

Defined Benefit Pension Plan

The Association had a Defined Benefit Pension Plan (the "Plan") for all non-union employees who had attained the age of twenty-one by the end of the initial plan year and had completed one year of service. For years after the initial plan year, non-union employees must have worked and been paid a minimum of 1,000 hours during the plan year to be eligible. Effective June 30, 2007 the Plan was frozen for remaining eligible employees.

The net periodic pension cost for the year ended June 30, 2011 is comprised of the following:

Service cost	$ 16,166
Interest cost	351,190
Actual return on Plan assets	(847,031)
Net amortization and deferral	642,024
Net periodic pension cost	$162,349

Included in other changes in Plan assets and benefit obligations is a net loss of $653,635, which is not reflected in net periodic pension cost at June 30, 2011. Included in accrued pension obligation as of June 30, 2011 is a cumulative net loss of $1,748,635, which was not reflected in net periodic pension cost.

A reconciliation of the changes in the Plan's benefit obligations and fair value of assets during 2011 and a statement of the funded status of the Plan as of June 30, 2011 is as follows:

June 30, 2011	
Change in projected benefit obligation:	
Projected benefit obligation at beginning of the year	$7,324,172
Service cost	16,166
Interest costs	351,190
Actuarial gain	(26,645)
Benefits disbursed	(203,470)
Expense charges	(19,547)
Change in assumptions	15,034
Projected benefit obligation at June 30, 2011	$7,456,900

AABR Management, Inc. and Affiliates

Notes to Combining Financial Statements

June 30, 2011	
Change in Plan assets:	
Fair value of Plan assets at beginning of the year	$4,911,817
Actual return on Plan assets	847,031
Employer contributions	240,000
Benefits disbursed from Plan assets (including expense charges)	(223,017)
Fair value of Plan assets at the end of the year	$5,775,831

The funded status of the Plan at June 30, 2011 is as follows:

Benefit obligation	$7,456,900
Fair value of Plan assets	5,775,831
Accrued pension obligation at June 30, 2011	$1,681,069

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

Year ending June 30,	
2012	$1,274,000
2013	165,000
2014	268,000
2015	488,000
2016	288,000
2017-2021	2,539,000
	$5,022,000

Employer contributions expected to be paid in fiscal year ending June 30, 2012 are $240,000.

Investment Policy

The Plan assets shall be managed with a long-term asset mix guideline of 50% equity alternatives and 50% fixed income alternatives. The investment objective for Plan assets shall be to achieve an average annual rate of return over a three-to-five year period which exceeds the average annual rate of return that would have been achieved in the same period by a composite market index comprised of the S&P 500 Composite Stock Price Index, the Lehman Aggregate Bond Index and 90-day U.S. Treasury Bills.

Plan assets as of June 30, 2011 consist of:

	Total	%
Equity	$2,941,902	51
Fixed income	1,299,105	23
General accounts	1,534,824	26
	$5,775,831	100

The Plan's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2 for a discussion of the Plan's policies regarding this hierarchy.

A description of the valuation techniques applied to the Plan's major categories of assets and liabilities measured at fair value are as follows:

General Account

The value of the general account or interest accumulation account is equal to the interest credited to the account less withdrawals and other deductions. All contributions allocated to the interest accumulation account are credited with interest at the current rate of interest. The interest credited to the account must result in an annual effective yield between 1.00% and 3.00% and is reviewed annually for resetting. As of June 30, 2011, the crediting interest rate was 2.00%. The general account is classified as Level 2 in the hierarchy.

Pooled Separate Account

The Plan's assets are invested in variable investment funds. The variable funds are in a pooled separate account that invests directly in designated mutual funds or, in some cases, collective investment trusts. The separate account owns and holds the underlying mutual fund or collective trust shares which are valued daily at their net asset values ("NAV"). Plans and participants hold "units of participation" in the separate account. The "accumulation unit value" ("AUV") is the value of each unit in the separate account and the separate account is valued daily as the number of accumulation units held multiplied by the AUV. The AUV is first established when a new fund starts and is then determined daily based on the net asset value of the shares of the underlying fund, the fund's dividends and the contract's separate account charges. Since the AUV is determined based on a combination of the fund NAV and the separate account charges, management believes that the most appropriate classification for these investments is Level 2.

Below sets forth a table of the Plan assets measured at fair value as of June 30, 2011:

June 30, 2011	
Investment contract with insurance company:	
General account	$1,534,824
Pooled separate account	4,241,007
	$5,775,831

The discount rate, expected long-term rate of return on assets and the rates of increase in future compensation levels used to determine the projected benefit obligation at June 30, 2011 were 5.25%, 7.50% and 4.50%, respectively. The weighted average discount rate used to determine net periodic pension cost for the year ended June 30, 2011 was 6.50%.

AABR Management, Inc. and Affiliates

Notes to Combining Financial Statements

The expected long-term rate of return on Plan assets assumption of 7.5% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 - Selection Economic Assumptions for Measuring Pension Obligations. Based on the Association's investment allocation for the pension plan in effect as of the beginning of fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 6.42% - 8.55%. A rate of 7.50% which is near the midpoint of the best estimate range was selected.

11. Transactions With Affiliates

(a) The Association rents eighteen facilities from the Holding Corporation, an affiliate through common board membership. Rental payments, which include maintenance, utilities and occupancy costs, amounted to $984,336 for the year ended June 30, 2011. The Association charged the Holding Corporation a management fee of $37,961 for the year ended June 30, 2011. In addition, the assets of the Association guarantee secured notes held by the Holding Corporation for space occupied by the programs of the Association.

(b) The Foundation is related to the Association through common board membership. Intercompany transactions consist of funds raised by the Foundation on behalf of the Association, and fundraising related expenses paid by the Association on behalf of the Foundation. For the year ended June 30, 2011, the Association charged the Foundation a management fee of $201,873. In addition, the assets of the Foundation guarantee secured notes held by the Holding Corporation for space occupied by the programs of the Association.

(c) The Organization is related to the Association through common board membership. The Organization's primary purpose is to serve as the parent entity to the Association, the Holding Corporation, and the Foundation. There were no intercompany transactions between the Organization and the Association in the fiscal year ended June 30, 2011. In addition, the assets of the Organization guarantee secured notes held by the Holding Corporation for space occupied by the programs of the Association.

Noninterest-bearing advances due on demand (to)/from affiliates were as follows:

June 30, 2011	
Holding Corporation	$(2,448,829)
Foundation	1,317,738
Association	1,130,977
Organization	114
Total	$ -

12. Rentals Under Operating Leases

The Association leases various facilities from unrelated parties under leases classified as operating leases (see Note 11 for affiliate leases). The Association is obligated for certain other operating costs at these sites. The future minimum commitments to all nonrelated parties are as follows:

2012	$ 485,519
2013	409,633
2014	420,969
2015	432,623
2016	359,794
Thereafter	1,478,739
	$3,587,277

Rental expense (excluding affiliate leases) for the year ended June 30, 2011 was $494,307.

13. Commitments and Contingencies

(a) Litigation

The Association is involved in various lawsuits which it is defending vigorously. The ultimate outcomes of the matters cannot be determined at this time. Management and legal counsel have estimated that the outcomes would have an immaterial effect on the financial statements at June 30, 2011. Accordingly, no provision for any liability that may result has been made in these financial statements.

(b) Concentrations

Financial instruments which potentially subject the Association, the Holding Corporation, and the Foundation to concentration of credit risk consist primarily of temporary cash investments and accounts receivable. As of June 30, 2011, the Association, the Holding Corporation, and the Foundation have cash deposits which exceeded the FDIC insurance limit in place at various financial institutions.

Substantially all of the Association's accounts receivable are from OPWDD, Medicaid and the New York State Education Department.

14. Temporarily Restricted Net Assets

The Foundation's temporarily restricted net assets are available for the following purpose at June 30, 2011:

Education Program	$22,000
General operating expenses	14,683
Total	$36,683

15. Permanently Restricted Net Assets

The Board of Directors of the Foundation has adopted the rules of NYPMIFA requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Endowment Fund is classified as permanently restricted net assets and includes the original value of gifts donated to the permanent endowment.

NYPMIFA further requires all endowment income to be classified as temporarily restricted until appropriated for use by the governing board. As such, endowment income that was previously recorded as unrestricted has been reclassified and recorded as temporarily restricted during the year ended June 30, 2011.

The Endowment Fund is invested in a manner that is intended to produce results that exceed the price and yield results of the Triple A rated short-term money market instruments for the cash and cash equivalent investments and the Barclay's Intermediate Government/Corporate Bonds Index for the fixed income investments. The Foundation appropriates the actual interest income return from the restricted asset and supplements nonrestricted funds for training and other programs. In establishing this policy, the Foundation considered the long- term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow annually.

For the fiscal year ended June 30, 2011, all assets included in the Foundation's Endowment Fund are as follows:

June 30, 2011	
Mutual funds	$63,421

The following table provides a reconciliation of beginning and ending balances as of June 30, 2011:

June 30, 2011	
Permanently restricted net assets as of July 1, 2010	$55,816
Investment income	14,683
Transfers to temporarily restricted net assets	(14,683)
Permanently restricted net assets as of June 30, 2011	$55,816

Permanently restricted net assets consist of the following at June 30, 2011:

June 30, 2011	
General operating support	$55,816

16. Subsequent Events

The Organization and Affiliates' management has performed subsequent events procedures through April 9, 2012, which is the date the combining financial statements were available to be issued.

AABR Management, Inc. and Affiliates

Combining Financial Statements

Year Ended June 30, 2010

The report accompanying these financial statements was issued by BDO USA, LLP, a New York limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

AABR Management, Inc. and Affiliates

Combining Financial Statements

Year Ended June 30, 2010

AABR Management, Inc. and Affiliates

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Independent Auditors' Report

Board of Directors of
AABR Management, Inc. and Affiliates

We have audited the accompanying combining statement of financial position of AABR Management, Inc. and Affiliates as of June 30, 2010, and the related combining statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2009 is presented for comparative purposes only and was extracted from the combining financial statements of AABR Management, Inc. and Affiliates for that year, on which we expressed an unqualified opinion, dated January 22, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 combining financial statements referred to above present fairly, in all material respects, the financial position of AABR Management, Inc. 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 United States of America.

BDO USA, LLP

April 18, 2011

Combining Statement of Financial Position
(with comparative totals for 2009)

June 30,

	AABR Management, Inc.	Association for the Advancement of Blind and Retarded, Inc.	AABR Realty Facilities Holding Corporation	AABR Foundation, Inc.	Eliminations	Total 2010	Total 2009
Assets							
Cash and cash equivalents (Notes 3 and 13)	$45,570	$ 650,375	$1,119,809	$4,941,542	$ -	**$ 6,757,296**	$ 5,650,572
Investments at fair value (Notes 3 and 4)	-	-	-	694,303	-	**694,303**	808,366
Accounts receivable from third-party payors (Notes 3 and 13)	-	5,063,638	-	-	-	**5,063,638**	4,330,410
Accrued interest receivable	-	-	-	-	-	**-**	-
Prepaid expenses and other assets	-	855,035	5,564	-	-	**860,599**	617,350
Debt service reserve fund (Notes 5 and 8)	-	210,023	-	-	-	**210,023**	210,023
Consumer funds (Note 3)	-	39,969	-	-	-	**39,969**	112,516
Due from affiliates (Note 11)	114	1,563,189	-	1,212,535	(2,775,838)	**-**	-
Fixed assets, net (Notes 3, 6 and 8)	-	3,026,234	8,346,423	-	-	**11,372,657**	11,228,111
	$45,684	**$11,408,463**	**$9,471,796**	**$6,848,380**	**$(2,775,838)**	**$24,998,485**	$22,957,348
Liabilities and Net Assets							
Liabilities:							
Accounts payable and accrued expenses	$ -	$ 882,456	$ -	$ -	$ -	**$ 882,456**	$ 1,005,540
Accrued payroll and compensated absences	-	4,025,636	-	-	-	**4,025,636**	3,640,064
Accrued pension obligation (Note 10)	-	2,412,355	-	-	-	**2,412,355**	2,170,372
Due to third-party payors		7,784	-	-	-	**7,784**	213,834
Due to affiliates (Note 11)	-	-	2,775,838	-	(2,775,838)	**-**	-
Due to governmental agency (Note 7)	-	951,810	-	-	-	**951,810**	1,365,264
Consumer funds (Note 3)	-	39,969	-	-	-	**39,969**	112,516
Mortgages and loans payable (Note 8)	-	2,907,723	5,672,945	-	-	**8,580,668**	8,035,415
Total liabilities	-	11,227,733	8,448,783	-	(2,775,838)	**16,900,678**	16,543,005
Commitments and contingencies (Notes 9, 10, 12, 13 and 16)							
Net assets (Note 3):							
Unrestricted	45,684	180,730	1,023,013	6,770,564	-	**8,019,991**	6,336,527
Temporarily restricted (Note 14)	-	-	-	22,000	-	**22,000**	22,000
Permanently restricted (Note 15)	-	-	-	55,816	-	**55,816**	55,816
Total net assets	45,684	180,730	1,023,013	6,848,380	-	**8,097,807**	6,414,343
	$45,684	**$11,408,463**	**$9,471,796**	**$6,848,380**	**$(2,775,838)**	**$24,998,485**	$22,957,348

See accompanying notes to combining financial statements.

Combining Statement of Activities
(with comparative totals for 2009)

Year ended June 30,

	AABR Management, Inc.	Association for the Advancement of Blind and Retarded, Inc.	AABR Realty Facilities Holding Corporation	AABR Foundation, Inc	Eliminations	Total 2010	Total 2009
Support and revenue:							
Medicaid	$ -	$12,803,625	$ -	$ -	$ -	**$12,803,625**	$11,742,485
New York State Office of Mental Retardation and Developmental Disabilities and Home and Community-Based Waiver Services	-	19,831,387	-	-	-	**19,831,387**	18,388,611
New York State Education Department	-	1,648,681	-	-	-	**1,648,681**	1,521,313
Food stamp revenue		188,532	-	-	-	**188,532**	31,211
Supplemental Security Income and Social Security Administration	-	877,860	-	-	-	**877,860**	845,170
Special events income, net of direct cost to donors of $326,514 in 2009	-	-	-	49,500	-	**49,500**	97,829
Contributions	-	-	-	419,861	-	**419,861**	657,809
Rental income	-	-	1,001,749	-	(1,001,749)	**-**	-
Dividend and interest income	46	610	-	33,523	-	**34,179**	99,109
Net realized and unrealized gains (loss) on investments	-	-	-	24,193	-	**24,193**	(91,930)
Management fee income (Note 11)	-	216,410	-	-	(216,410)	**-**	-
Other income	-	58,137	250	-	-	**58,387**	116,764
Total support and revenue	46	35,625,242	1,001,999	527,077	(1,218,159)	**35,936,205**	33,408,371
Expenses:							
Program services:							
Day services	-	10,992,123	-	-	-	**10,992,123**	10,219,115
Intermediate care facilities	-	9,966,074	186,901	-	(186,901)	**9,966,074**	9,203,389
Individualized residential alternatives	-	8,172,570	768,397		(745,145)	**8,195,822**	7,466,984
Education	-	1,576,947	-	-	-	**1,576,947**	1,445,051
Community residences	-	905,858	13,969	-	(13,968)	**905,859**	808,033
Medicaid service coordination	-	600,064	-	-	-	**600,064**	663,999
At-home residential habilitation	-	459,483	-	-	-	**459,483**	467,408
Other programs	-	202,510	-	-	-	**202,510**	28,117
Contribution expense	-	-	-	22,900	-	**22,900**	39,200
Total program services	-	32,875,629	969,267	22,900	(946,014)	**32,921,782**	30,341,296
Supporting services:							
Management and general	50	2,597,376	109,471	58,436	(272,145)	**2,493,188**	2,438,493
Fundraising	-	-	-	123,122	-	**123,122**	104,467
Total supporting services	50	2,597,376	109,471	181,558	(272,145)	**2,616,310**	2,542,960
Total expenses	50	35,473,005	1,078,738	204,458	(1,218,159)	**35,538,092**	32,884,256
Change in unrestricted net assets from current year operations	(4)	152,237	(76,739)	322,619	-	**398,113**	524,115
Prior period revenue	-	1,580,739	-	-	-	**1,580,739**	109,869
Other changes in plan assets and benefit obligations (Note 10)	-	(295,388)	-	-	-	**(295,388)**	(1,265,322)
Change in unrestricted net assets (deficit)	(4)	1,437,588	(76,739)	322,619	-	**1,683,464**	(631,338)
Net assets (deficit), beginning of year	45,688	(1,256,858)	1,099,752	6,525,761	-	**6,414,343**	7,045,681
Net assets, end of year	**$45,684**	**$ 180,730**	**$1,023,013**	**$6,848,380**	**$ -**	**$ 8,097,807**	$ 6,414,343

See accompanying notes to combining financial statements.

AABR Management, Inc. and Affiliates

Combining Statement of Functional Expenses (with comparative totals for 2009)

Year ended June 30,

Association for the Advancement of Blind and Retarded, Inc. — Program Services

	Day Services	Intermediate Care Facilities	Individualized Residential Alternative	Education	Community Residences	Medicaid Service Coordination	At-Home Residential Habilitation	Other Programs
Salaries and related expenses:								
Salaries	$ 5,253,492	$5,349,871	$4,661,491	$ 952,103	$518,295	$421,909	$340,267	$144,129
Payroll taxes and employee benefits	1,990,115	1,890,547	1,611,924	272,007	199,104	150,019	111,299	28,772
Total salaries and related expenses	7,243,607	7,240,418	6,273,415	1,224,110	717,399	571,928	451,566	172,901
Other expenses:								
Professional fees	2,187	-	1,792	2	-	-	-	-
Contracted services	149,199	203,103	24,832	57,970	2,035	-	-	-
Insurance	97,767	102,460	79,622	9,694	8,755	4,600	-	1,501
Utilities	159,732	154,938	158,560	25,460	7,994	-	-	4,296
Telephone	18,126	58,587	15,057	3,795	2,733	4,857	-	2,116
Transportation	1,940,175	141,595	38,498	5,692	8,612	9,871	6,771	6,532
Program supplies	82,336	214,724	85,019	19,849	16,805	175	31	4,741
Office expense	100,235	43,317	35,625	33,804	5,914	3,440	141	977
Data processing	5,792	-	-	-	-	-	-	-
Clothing and incidentals	3,515	22,576	23,451	-	4,309	254	513	368
Food	117,515	266,762	359,877	5,181	43,021	21	279	4,897
Staff recruitment	-	60,057	2,600	4,864	-	-	-	-
Advertising and community relations	1,528	27,115	15,137	-	1,142	-	-	-
Repairs and maintenance	254,760	186,983	141,187	51,166	21,200	173	160	3,154
Vehicle and equipment rentals	67,251	169,987	101,603	5,692	10,480	4,745	-	567
Facility rental	287,392	293,505	736,468	91,676	55,399	-	-	-
Interest expense	153,921	5,149	4,346	-	-	-	-	-
Facility tax expense	-	673,698	-	-	-	-	-	-
Investment fees	-	-	-	-	-	-	-	-
Contribution expense	-	-	-	-	-	-	-	-
Management fee expense	-	-	-	-	-	-	-	-
Miscellaneous expense	17,897	449	2,636	-	-	-	-	-
Total expenses before depreciation and amortization	10,702,935	9,865,423	8,099,725	1,538,955	905,798	600,064	459,461	202,050
Depreciation and amortization	289,188	100,651	72,845	37,992	60	-	22	460
Total expenses	**$10,992,123**	**$9,966,074**	**$8,172,570**	**$1,576,947**	**$905,858**	**$600,064**	**$459,483**	**$202,510**

	Total Program Services	Management and general	Total	AABR Realty Facilities Holding Corporation	AABR Management, Inc.	AABR Foundation, Inc.	Eliminations	2010	2009
Salaries and related expenses:									
Salaries	$17,641,557	$1,331,266	$18,972,823	$ -	$ -	$ -	$ -	**$18,972,823**	$17,212,359
Payroll taxes and employee benefits	6,253,787	536,764	6,790,551	-	-	-	-	**6,790,551**	5,457,835
Total salaries and related expenses	23,895,344	1,868,030	25,763,374	-	-	-	-	**25,763,374**	22,670,194
Other expenses:									
Professional fees	3,981	199,914	203,895	-	-	-	-	**203,895**	164,808
Contracted services	437,139	852	437,991	-	-	-	-	**437,991**	792,505
Insurance	304,399	45,682	350,081	-	-	-	-	**350,081**	376,647
Utilities	510,980	59,441	570,421	-	-	-	-	**570,421**	632,716
Telephone	105,271	25,638	130,909	-	-	-	-	**130,909**	114,818
Transportation	2,157,746	7,615	2,165,361	-	-	-	-	**2,165,361**	2,259,044
Program supplies	423,680	1,979	425,659	-	-	-	-	**425,659**	389,531
Office expense	223,453	147,099	370,552	-	-	-	-	**370,552**	285,486
Data processing	5,792	72,814	78,606	-	-	-	-	**78,606**	64,778
Clothing and incidentals	54,986	7	54,993	-	-	-	-	**54,993**	37,231
Food	797,553	1,135	798,688	-	-	-	-	**798,688**	659,614
Staff recruitment	67,521	38,398	105,919	-	-	-	-	**105,919**	107,355
Advertising and community relations	44,922	2,739	47,661	-	-	-	-	**47,661**	58,813
Repairs and maintenance	658,783	37,909	696,692	64,164	-	-	-	**760,856**	651,326
Vehicle and equipment rentals	360,325	24,176	384,501	-	-	-	-	**384,501**	364,331
Facility rental	1,464,440	55,735	1,520,175	-	-	-	(1,001,749)	**518,426**	455,404
Interest expense	163,416	-	163,416	369,372	-	-	-	**532,788**	574,400
Facility tax expense	673,698	-	673,698	-	-	-	-	**673,698**	630,936
Investment fees	-	-	-	-	-	5,140	-	**5,140**	8,626
Contribution expense	-	-	-	-	-	22,900	-	**22,900**	39,200
Management fee expense	-	-	-	46,644	-	169,766	(216,410)	**-**	-
Miscellaneous expense	20,982	1,640	22,622	7,092	50	6,652	-	**36,416**	357,834
Total expenses before depreciation and amortization	32,374,411	2,590,803	34,965,214	487,272	50	204,458	(1,218,159)	**34,438,835**	31,695,597
Depreciation and amortization	501,218	6,573	507,791	591,466	-	-	-	**1,099,257**	1,188,659
Total expenses	**$32,875,629**	**$2,597,376**	**$35,473,005**	**$1,078,738**	**$50**	**$204,458**	**$(1,218,159)**	**$35,538,092**	$32,884,256

See accompanying notes to combining financial statements.

AABR Management, Inc. and Affiliates

Combining Statement of Cash Flows (with comparative totals for 2009)

Year ended June 30,

	AABR Management, Inc.	Association for the Advancement of Blind and Retarded, Inc.	AABR Realty Facilities Holding Corporation	AABR Foundation, Inc.	Eliminations	Total 2010	Total 2009
Cash flows from operating activities:							
Change in unrestricted net assets	$ (4)	$ 1,437,588	$ (76,739)	$ 322,619	$ -	**$ 1,683,464**	$ (631,338)
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:							
Depreciation and amortization	-	507,433	591,466	-	-	**1,098,899**	1,188,659
Other changes in plan assets and benefit obligations	-	295,388	-	-	-	**295,388**	1,265,322
Net realized and unrealized losses (gains) on investments	-	-	-	(24,193)	-	**(24,193)**	91,930
(Increase) decrease in:							
Accounts receivable from third-party payors	-	(733,228)	-	-	-	**(733,228)**	77,593
Accrued interest receivable	-	-	-	-	-	**-**	839
Prepaid expenses and other assets	-	(242,127)	(1,122)	-	-	**(243,249)**	(2,273)
Consumer funds	-	72,547	-	-	-	**72,547**	56,450
Due from affiliates	-	-	-	394,835	(394,835)	**-**	-
Increase (decrease) in:							
Accounts payable and accrued expenses	-	(123,084)	-	-	-	**(123,084)**	(1,866)
Accrued payroll and compensated absences	-	385,572	-	-	-	**385,572**	302,675
Accrued pension obligation	-	(53,405)	-	-	-	**(53,405)**	(103,440)
Due to third-party payors	-	(206,050)	-	-	-	**(206,050)**	165,573
Due to affiliates	24	(1,230,879)	836,020	-	394,835	**-**	-
Due to governmental agency	-	(413,454)	-	-	-	**(413,454)**	230,213
Consumer funds	-	(72,547)	-	-	-	**(72,547)**	(56,450)
Net cash provided by (used in) operating activities	20	(376,246)	1,349,625	693,261	-	**1,666,660**	2,583,887
Cash flows from investing activities:							
Purchases of fixed assets	-	(206,416)	(1,037,029)	-	-	**(1,243,445)**	(910,184)
Increase in short-term investments	-	-	-	-	-	**-**	47,679
Purchases of investments	-	-	-	(974,402)	-	**(974,402)**	(695,259)
Proceeds from sale of investments	-	-	-	1,112,658	-	**1,112,658**	683,199
Net cash used in investing activities	-	(206,416)	(1,037,029)	138,256	-	**(1,105,189)**	(874,565)
Cash flows from financing activities:							
Repayment of mortgages and notes payable	-	(347,918)	(655,840)	-	-	**(1,003,758)**	(887,058)
Proceeds from mortgages and notes payable	-	369,050	1,179,961	-	-	**1,549,011**	712,391
Net cash provided by (used in) financing activities	-	21,132	524,121	-	-	**545,253**	(174,667)
Net increase (decrease) in cash and cash equivalents	20	(561,530)	836,717	831,517	-	**1,106,724**	1,534,655
Cash and cash equivalents, beginning of year	45,550	1,211,905	283,092	4,110,025	-	**5,650,572**	4,115,917
Cash and cash equivalents, end of year	**$45,570**	**$ 650,375**	**$ 1,119,809**	**$4,941,542**	**$ -**	**$ 6,757,296**	$5,650,572
Supplemental disclosure of cash flow information:							
Cash paid during the year for interest	**$ -**	**$ 163,416**	**$ 369,372**	**$ -**	**$ -**	**$ 532,788**	$ 574,400

See accompanying notes to combining financial statements.

1. Principles of Combination

The accompanying combining financial statements include AABR Management, Inc. (the "Organization") and Affiliates, Association for the Advancement of Blind and Retarded, Inc. (the "Association"), AABR Realty Facilities Holding Corporation (the "Holding Corporation") and AABR Foundation, Inc. (the "Foundation"). AABR Management, Inc. and its affiliates are related through common board membership and substantially identical management.

2. Nature of Organizations

(a) The Organization is a nonprofit organization designed to serve as the parent entity for the Association, the Holding Corporation and the Foundation.

(b) The Association is a voluntary nonprofit corporation. The Association provides services for the multiple handicapped, severely retarded and blind individuals. The Association operates two five-day per week Day Habilitation Centers, eight Intermediate Care Facilities, two Community Residences, and eleven Individualized Residential Alternatives under contract with the New York State Office of People With Developmental Disabilities ("OPWDD"). In addition, the Association provides Medicaid service coordination, day and residential habilitation services, respite and individualized support services. The Association also operates a preschool and school-age program for autistic children.

(c) The Holding Corporation is a nonprofit organization that owns condominiums, cooperatives and other real property. These facilities are leased to the Association for the operation and administration of its programs.

(d) The Foundation is a nonprofit corporation formed under the laws of the State of New York to provide specialized educational opportunities, community support and facilities for children who experience difficulties due to damage to or dysfunction or deficiency of the nervous or biochemical systems. Additionally, the Foundation will solicit and raise funds to be used to support and achieve the foregoing goals and objectives.

3. Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The combining financial statements have been prepared on the accrual basis. In the combining statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

In June 2009, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Codification ("ASC") effective for certain financial statements issued for interim and annual periods ending after December 15, 2009. The ASC identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States. In accordance with the ASC, references to previously issued accounting standards have been replaced by ASC references. Subsequent revisions to GAAP will be incorporated into the ASC through Accounting Standards Updates ("ASU").

(b) Financial Statement Presentation

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in the combining statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the combining statement of activities.

Income from investment gains and losses, including unrealized gains and losses, dividends, interest and other investments should be reported as increases (or decreases) in unrestricted net assets unless the use of the income received is limited by donor-imposed restrictions.

These classes are defined as follows:

(i) **Permanently Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

(ii) **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

(iii) **Unrestricted** - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(c) Cash and Cash Equivalents

Cash equivalents represent short-term investments with original maturities of three months or less.

(d) Consumer Funds

Consumer funds consist of cash deposits held by the Association on behalf of its residents for the residents' personal use.

(e) Investments at Fair Value

Investments consist of certificates of deposit, mutual funds and equity securities.

Investments are valued at fair value in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

(f) Investment Impairment

The Foundation's investments consist of certificates of deposit, mutual funds and equity securities. At June 30, 2010, the Foundation has deemed that all securities, which were in an unrealized loss position, were temporarily impaired. Positive evidence considered in reaching the Foundation's conclusion that the investments in an unrealized loss position are not other-than temporarily impaired consisted of:

(a) there were no specific events which caused concerns;

(b) the Foundation's ability and intent to retain the investment for a sufficient amount of time to allow an anticipated recovery in value; and

(c) the Foundation also determined that the changes in market value were considered normal in relation to overall fluctuations in market conditions.

(g) Fair Value Measurements

The Foundation adopted ASC 820, "Fair Value Measurements and Disclosures", relevant portions of which were previously addressed in Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements". This statement defines fair value and establishes a hierarchy for inputs used in measuring fair value that maximized the use of observable inputs and minimized the use of unobservable inputs, requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as the Foundation would use in pricing the Foundation's asset or liability based on independently derived and observable market data. Unobservable inputs are inputs that can not be sourced from a broad active market in which assets or liabilities identical or similar to those of the Foundation are traded. The Foundation estimates the price of any assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers for each investment based on best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 – Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples include equity that is actively traded on a major exchange.

Level 2 - Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date. Most debt securities, preferred stocks, certain equity securities, short-term investments and derivatives are model priced using observable inputs and are classified with Level 2.

Level 3 – Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value. Examples include limited partnerships and private equity investments, and limited liability investment companies.

(h) Fixed Assets

The cost of fixed assets is depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold and building improvements are amortized over the lesser of the life of the lease or asset. The estimated useful lives of the assets are as follows:

Leasehold improvements	3-20 years
Buildings	25 years
Building improvements	5-20 years
Equipment	3-15 years
Furniture and fixtures	5-10 years

(i) Income Taxes

The Organization, the Association and the Foundation were incorporated in the State of New York and are exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore have made no provision for income taxes in the accompanying financial statements. The Organization, the Association and the Foundation have been determined by the Internal Revenue Service not to be "private foundations" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2010.

The Holding Corporation is a tax-exempt organization that is exempt from Federal, state and local income taxes under Section 501(c)(2) of the Internal Revenue Code (the "Code"), and therefore has made no provision for income taxes in the accompanying financial statements. In addition, the Holding Corporation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for the year ended June 30, 2010.

The Organization and Affiliates do not believe they have taken any material uncertain tax positions and, accordingly, they have not recorded any liability for unrecognized tax benefits. The Association has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, the Association has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the year ended June 30, 2010, there was no interest or penalties recorded or included in the statement of activities.

(j) Contributions and Promises to Give

Contributions and promises to give are recorded as revenue when either unsolicited cash is received or when donors make a promise to give. Contributions and promises to give are classified as either unrestricted, temporarily restricted, or permanently restricted support.

AABR Management, Inc.
and Affiliates

Notes to Combining Financial Statements

(k) Third-party Reimbursements and Revenue Recognition

The Association receives substantially all its revenue for services provided to approved individuals from third-party reimbursement agencies; primarily Medicaid, OPWDD and the New York State Education Department. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary.

(l) Provisions for Doubtful Accounts

The Association does not provide an allowance for doubtful accounts. Doubtful accounts are written off as they are deemed by management to be uncollectible. All accounts receivable, as stated in the financial statements, are deemed by the Association's management to be fully collectible.

(m) Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

(n) Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on an individual basis in the statement of activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

(o) Comparative Financial Information

The combining financial statements include certain prior year summarized comparative information. With respect to the statement of financial position, statement of activities and statement of cash flows, the prior year amounts are presented on a combined basis rather than by affiliate. With respect to the combining statement of functional expenses, the prior year expenses are presented by expense classification in total rather than functional category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

(p) New Accounting Standards to be Adopted

On September 17, 2010, New York State enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). This law, which is a modified version of the Uniform Prudent Management of Institutional Funds Act, makes significant changes to the rules governing how New York not-for-profit organizations may manage, invest and spend their endowment funds. The new law is designed to allow organizations to cope more easily with fluctuations in the value of their endowments and to afford them greater access to funds needed to support their programs and services in difficult financial times. This should provide some relief to organizations that, due to the recent economic downturn, have found themselves with underwater endowments. It also expands the options available to organizations seeking relief from donor restrictions on funds that have become obsolete, impracticable or wasteful. NYPMIFA applies to New York not-for-profit, education and religious corporations, associations organized and operated exclusively for charitable purposes, and certain trusts. The Foundation does not expect the new law to have a material effect to its financial statements.

AABR Management, Inc.
and Affiliates

Notes to Combining Financial Statements

4. Investments at Fair Value

The following table shows, by level within the fair value hierarchy, the Foundation's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2010. The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the asset or liability's placement within the fair value hierarchy levels.

	Recurring fair value measurements by level at June 30, 2010		
	Level 1	Level 2	Level 3
Assets			
Certificate of deposit	$377,833	$-	$-
Mutual funds	48,737	-	-
Equity securities	267,733	-	-
	$694,303	$-	$-

Below sets forth a table of assets measured at fair value at June 30, 2010:

June 30, 2010	Cost	Fair value
Certificates of deposit	$377,833	$377,833
Mutual funds	82,993	48,737
Equity securities	326,334	267,733
	$787,160	$694,303

5. Debt Service Reserve Fund

Debt service reserve fund represents funds held by the OPWDD. These funds will be applied to the last payment required on the mortgage with the Facilities Development Corporation. This reserve earns interest, which will be used to offset the Association's payment obligation under the mortgage.

6. Fixed Assets, Net

Fixed assets, net, stated at cost, consists of the following:

June 30, 2010	Association	Holding Corporation	Combined
Land	$ 172,110	$ 2,107,895	$ 2,280,005
Leasehold improvements	1,567,371	-	1,567,371
Buildings and improvements	6,982,585	9,529,764	16,512,349
Equipment	922,356	138,763	1,061,119
Furniture and fixtures	214,705	-	214,705
Total fixed assets	9,859,127	11,776,422	21,635,549
Less: Accumulated depreciation and amortization	(6,840,743)	(4,483,679)	(11,324,422)
Construction-in-progress	7,850	1,053,680	1,061,530
Fixed assets, net	$ 3,026,234	$ 8,346,423	$ 11,372,657

Construction-in-progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. The estimated costs to complete construction are approximately $595,000.

7. Due to Governmental Agency

The Association has entered into contracts with OPWDD for the operation of its facilities. As part of the agreement, OPWDD advances funds to the Association for pre-operational start-up costs, facility acquisitions and facility improvements. The Association has agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid. This amount is being liquidated through monthly recoupments until the balance is paid in full. The balance as of June 30, 2010 was $951,810.

8. Mortgages and Loans Payable

Mortgages and loans payable consist of the following:

June 30, 2010	
Association for the Advancement of the Blind and Retarded, Inc.:	
Mortgage due the Facilities Development Corporation payable in semi-annual installments of $8,179, including interest at 7.52% per annum and administrative fees of approximately 4% per annum. The mortgage matures August 15, 2015 and is secured by substantially all real and personal property located at the Grand Avenue facility.	$ 65,475
Mortgage due the Facilities Development Corporation payable in semi-annual principal and administrative fee payments ranging from $15,837 to $18,837, plus interest at an average annual coupon rate of 5.4895%. The mortgage matures February 15, 2010 and is secured by all real and personal property and pledged revenues for the Richmond Hill facility.	250
Mortgage due the Facilities Development Corporation payable in semi-annual principal and administrative fee payments ranging from $46,714 to $128,714, plus interest at an average annual coupon rate of 5.9801%. The mortgage matures August 15, 2021 and is secured by all real and personal property and pledged revenues for the St. Albans facility.	2,298,750

June 30, 2010

Association for the Advancement of the Blind and Retarded, Inc. (cont'd.):	
Mortgage due to a bank payable in monthly installments of $2,153, including interest at 9.07% per annum. The mortgage matures July 1, 2012 and is secured by real property and improvements at the Hillside facility located in Jamaica, NY.	$ 41,040
Mortgage due to the Facilities Development Corporation in semi- annual principal and administrative fee payments ranging from $14,762 to $25,362, plus interest at an average annual coupon rate of 5.47%. The mortgage matures August 15, 2012 and is secured by substantially all real and personal property located at the Quencer Road facility.	59,825
Mortgage due to a bank payable in monthly installments of $6,667 plus interest at prime plus 1% (which was 4.25% at June 30, 2009). The mortgage matures May 2011 and is secured by business assets.	73,333
Mortgage due to a bank payable in monthly installments of $6,667 plus interest at prime plus 1% (which was 4.25% at June 30, 2010). The mortgage matures May 1, 2011 and is secured by business assets. The mortgage is related to an interest rate swap agreement (Note 9).	369,050
Total Association for the Advancement of Blind and Retarded, Inc.	$2,907,723

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June 30, 2010

AABR Realty Facilities Holding Corporation:	
A mortgage payable to a bank in monthly installments of $2,066 through September 2023, including interest at 7.875% per annum. The mortgage is secured by related property located in Mattituck, New York.	$ 202,861
A mortgage payable to a bank in monthly installments of $2,002 through July 2013, including interest at 8.66% per annum. The mortgage is secured by related property located in New York, New York.	65,444
A mortgage payable to a lending institution in monthly installments of $1,485 through November 2023, including interest at 6.75% per annum. The mortgage is secured by related property in Staten Island, New York.	155,838
A mortgage payable to a bank in monthly installments of $2,615 through June 2009, including interest at 5.84% per annum. The mortgage is secured by related property in Queens, New York.	119,437
A mortgage payable to a bank in monthly installments of $1,399 through June 2009, including interest at 5.84% per annum. The mortgage is secured by related property in Queens, New York.	61,684

June 30, 2010	
AABR Realty Facilities Holding Corporation (cont'd.):	
Loan payable to a bank in monthly installments totaling $922 through July 2013, including interest at 8.27% per annum. The loan is unsecured.	$ 29,897
Mortgage payable to a bank in monthly incremental principal payments ranging from $1,782 to $5,590 and interest at 175 basis points above the stated LIBOR rate (which was 3.16% as of June 30, 2007). The mortgage matures April 2016 and is secured by related property located in the Bronx, New York. The mortgage is related to an interest rate swap agreement (see Note 9).	353,942
A mortgage payable to a bank in monthly installments of $4,797, including interest at 6.25% per annum. The mortgage matures June 2018 and is secured by related property located in Queens, New York.	363,333
A mortgage payable to a bank in monthly installments of $4,557, including interest at 6.25% per annum. The mortgage matures June 2018 and is secured by related property located in Queens, New York.	341,768
A mortgage payable to a bank, in monthly installments of $6,225 through July 2019, including interest at 6.54% per annum. The mortgage is secured by related property located in Queens, New York.	508,567

June 30, 2010	
AABR Realty Facilities Holding Corporation (cont'd.):	
A mortgage payable to a bank in monthly installments of $2,732 through December 2019, including interest at 6.82% per annum. The mortgage is secured by related property located in New York, New York.	$ 227,744
A mortgage payable to a bank, in monthly installments of $5,690 through November 2019, including interest at 5.86% per annum. The mortgage is secured by related property located in Queens, New York.	489,232
A mortgage payable to a bank, in monthly installments of $1,942 through May 2016, including interest at 7.09% per annum. The mortgage is secured by related property located in Queens, New York.	243,877
A mortgage payable to a bank, in monthly installments of $7,749 through April 2011, including interest at 8.03% per annum. The mortgage is secured by related property located in Queens, New York.	81,855
A mortgage payable to a bank, in monthly installments of $6,599 through November 2011, including interest at 6.81% per annum. The mortgage is secured by related property located in Queens, New York.	106,653

June 30, 2010	
AABR Realty Facilities Holding Corporation (cont'd.):	
A mortgage payable to a bank, in monthly installments of $11,769 through April 2012, including interest at 6.77% per annum. The mortgage is secured by related property located in Queens, New York.	$ 230,871
A mortgage payable to a bank due April 2024 payable in monthly installments of $7,635, including interest at 4.92% per annum. The loan is secured by related property located in New Rochelle, New York.	913,791
A mortgage payable to a bank, in monthly installments of $9,065 through August 2015, including interest at 4.82% per annum. The mortgage is secured by related property located in Queens, New York.	481,632
A mortgage payable to a bank, in monthly installments of $5,453 through August 2025, including interest at 4.82% per annum. The mortgage is secured by related property located in Queens, New York.	694,519
Total AABR Realty Facilities Holding Corporation	$5,672,945

Principal payments over the next five years are as follows:

June 30, 2010	Association	Holding Corporation	Total
2011	$ 400,576	$ 693,005	$1,093,581
2012	303,865	582,606	886,471
2013	275,053	476,222	751,275
2014	293,411	473,881	767,292
2015	250,680	451,326	702,006
Thereafter	1,384,138	2,995,905	4,380,043
	$2,907,723	$5,672,945	$8,580,668

AABR Management, Inc.
and Affiliates

Notes to Combining Financial Statements

9. Derivative Financial Instruments

The Holding Corporation entered into an interest rate swap agreement with Bank of America to limit the effects of increases in interest rates on variable rate mortgages. The differential is accrued as interest rates change and is recorded in interest expense.

The swap agreement expires in April 2016 and has a notional amount of $353,942 and $398,902 as of June 30, 2010 and 2009, respectively. The effect of this agreement limits the interest rate exposure to 9.6% on a mortgage payable (Note 8).

The Association entered into an interest rate swap agreement with a bank to limit the effects of increases in interest rates on a variable rate mortgage. The differential is accrued as interest rates change and is recorded in interest expense.

The swap agreement expires on May 1, 2011 and has a notional amount of $73,333 as of June 30, 2010. The effect of this agreement limits the interest rate exposure to 9.6% on a mortgage payable (Note 8).

10. Pension Plans

Tax Deferred Annuity Plan

The Association has an established tax deferred annuity plan. All employees are eligible to participate at their discretion. Once in the plan, the Association or the employee can make voluntary contributions up to a maximum of 20% of the employee's gross earnings. For the year ended June 30, 2010, there were no contributions by the Association to the tax deferred annuity plan.

Defined Benefit Pension Plan

The Association had a Defined Benefit Pension Plan (the "Plan") for all non-union employees who had attained the age of twenty-one by the end of the initial plan year and had completed one year of service. For years after the initial plan year, non-union employees must have worked and been paid a minimum of 1,000 hours during the plan year to be eligible. Effective June 30, 2007 the Plan was frozen for remaining eligible employees.

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The net periodic pension cost for the year ended June 30, 2010 is comprised of the following:

Service cost	$ 19,227
Interest cost	373,170
Actual return on Plan assets	(500,646)
Net amortization and deferral	294,844
Net periodic pension cost	$ 186,595

Included in other changes in Plan assets and benefit obligations is a net loss of $295,388, which is not reflected in net periodic pension cost at June 30, 2010. Included in accrued pension obligation as of June 30, 2010 is a cumulative net loss of $2,402,270, which was not reflected in net periodic pension cost.

A reconciliation of the changes in the Plan's benefit obligations and fair value of assets during 2010 and a statement of the funded status of the Plan as of June 30, 2010 is as follows:

June 30, 2010	
Change in projected benefit obligation:	
Projected benefit obligation at beginning of the year	$6,652,548
Service cost	19,227
Interest costs	373,170
Actuarial gain	(106,757)
Benefits disbursed	(298,073)
Expense charges	(12,932)
Change in assumptions	696,989
Projected benefit obligation at June 30, 2010	$7,324,172

June 30, 2010	
Change in Plan assets:	
Fair value of Plan assets at beginning of the year	$4,482,176
Actual return on Plan assets	500,646
Employer contributions	240,000
Benefits disbursed from Plan assets (including expense charges)	(311,005)
Fair value of Plan assets at the end of the year	$4,911,817

The funded status of the Plan at June 30, 2010 is as follows:

Benefit obligation	$(7,324,172)
Fair value of Plan assets	4,911,817
Accrued pension obligation at June 30, 2010	$(2,412,355)

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

Year ended June 30,	
2011	$1,265,000
2012	142,000
2013	160,000
2014	265,000
2015	483,000
2016-2020	2,523,000
Total	$4,838,000

Employer contributions expected to be paid in fiscal year ending June 30, 2011 are $240,000.

Investment Policy

The Plan assets shall be managed with a long-term asset mix guideline of 50% equity alternatives and 50% fixed income alternatives. The investment objective for Plan assets shall be to achieve an average annual rate of return over a three-to-five year period which exceeds the average annual rate of return that would have been achieved in the same period by a composite market index comprised of the S&P 500 Composite Stock Price Index, the Lehman Aggregate Bond Index and 90-day U.S. Treasury Bills.

Plan assets as of June 30, 2010 consist of:

	Total	%
Equity	$2,382,993	49
Fixed income	1,082,648	22
General accounts	1,446,176	29
	$4,911,817	100

The Plan's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2 for a discussion of the Plan's policies regarding this hierarchy.

A description of the valuation techniques applied to the Plan's major categories of assets and liabilities measured at fair value are as follows:

General Account

The value of the general account or interest accumulation account is equal to the interest credited to the account less withdrawals and other deductions. All contributions allocated to the interest accumulation account are credited with interest at the current rate of interest. The interest credited to the account must result in an annual effective yield between 1.00% and 3.00% and is reviewed annually for resetting. As of June 30, 2010, the crediting interest rate was 3.00%. The general account is classified as Level 2 in the hierarchy.

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Pooled Separate Account

The Plan's assets are invested in variable investment funds. The variable funds are in a pooled separate account that invests directly in designated mutual funds or, in some cases, collective investment trusts. The separate account owns and holds the underlying mutual fund or collective trust shares which are valued daily at their net asset values ("NAV"). Plans and participants hold "units of participation" in the separate account. The "accumulation unit value" ("AUV") is the value of each unit in the separate account and the separate account is valued daily as the number of accumulation units held multiplied by the AUV. The AUV is first established when a new fund starts and is then determined daily based on the net asset value of the shares of the underlying fund, the fund's dividends and the contract's separate account charges. Since the AUV is determined based on a combination of the fund NAV and the separate account charges, management believes that the most appropriate classification for these investments is Level 2.

Below sets forth a table of the Plan assets measured at fair value as of June 30, 2010:

June 30, 2010	
Investment contract with insurance company:	
General account	$1,446,176
Pooled separate account	3,465,641
	$4,911,817

The discount rate, expected long-term rate of return on assets and the rates of increase in future compensation levels used to determine the projected benefit obligation at June 30, 2010 were 5.25%, 7.50% and 4.5%, respectively. The weighted average discount rate used to determine net periodic pension cost at June 30, 2010 was 6.25%.

The expected long-term rate of return on Plan assets assumption of 7.50% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 - Selection Economic Assumptions for Measuring Pension Obligations. Based on the Association's investment allocation for the pension plan in effect as of the beginning of fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 7.21% - 8.89%. A rate of 7.50% which is near the midpoint of the best estimate range was selected.

11. Transactions with Affiliates

(a) The Association rents eighteen facilities from the Holding Corporation, an affiliate through common board membership. Rental payments, which include maintenance, utilities and occupancy costs, amounted to $976,572 for the year ended June 30, 2010. The Association charged the Holding Corporation a management fee of $46,644 for the year ended June 30, 2010. In addition, the assets of the Association guarantee secured notes held by the Holding Corporation for space occupied by the programs of the Association.

(b) The Foundation is related to the Association through common board membership. Intercompany transactions consist of funds raised by the Foundation on behalf of the Association, and fundraising related expenses paid by the Association on behalf of the Foundation. For the year ended June 30, 2010, the Association charged the Foundation a management fee of $169,766. In addition, the assets of the Foundation guarantee secured notes held by the Holding Corporation for space occupied by the programs of the Association.

AABR Management, Inc.
and Affiliates

Notes to Combining Financial Statements

(c) The Organization is related to the Association through common board membership. The Organization's primary purpose is to serve as the parent entity to the Association, the Holding Corporation, and the Foundation. There were no intercompany transactions between the Organization and the Association in the fiscal year ended June 30, 2010. In addition, the assets of the Organization guarantee secured notes held by the Holding Corporation for space occupied by the programs of the Association.

Noninterest-bearing advances due on demand (to)/from affiliates were as follows:

June 30, 2010	
Holding Corporation	$(2,775,838)
Foundation	1,212,535
Association	1,563,189
Organization	114
Total	$ -

12. Rentals Under Operating Leases

The Association leases various facilities from unrelated parties under leases classified as operating leases (see Note 11 for affiliate leases). The Association is obligated for certain other operating costs at these sites. The future minimum commitments to all nonrelated parties are as follows:

2011	$ 387,179
2012	399,706
2013	314,043
2014	323,465
2015	333,169
Thereafter	1,821,903
	$3,579,465

Rental expense (excluding affiliate leases) for the year ended June 30, 2010 was $467,233.

13. Commitments and Contingencies

(a) Litigation

The Association is involved in various lawsuits which it is defending vigorously. The ultimate outcomes of the matters cannot be determined at this time. Management and legal counsel have estimated that the outcomes would have an immaterial effect on the financial statements at June 30, 2010. Accordingly, no provision for any liability that may result has been made in these financial statements.

(b) Concentrations

Financial instruments which potentially subject the Association, the Holding Corporation, and the Foundation to concentration of credit risk consist primarily of temporary cash investments and accounts receivable. As of June 30, 2010, the Association, the Holding Corporation, and the Foundation have cash deposits which exceeded the FDIC insurance limit in place at various financial institutions.

Substantially all of the Association's accounts receivable are from OPWDD, Medicaid and the New York State Education Department.

14. Temporarily Restricted Net Assets

The Foundation's temporarily restricted net assets are available for the following purpose at June 30, 2010:

Education Program	$22,000

15. Permanently Restricted Net Assets

The Foundation maintains a donor restricted endowment fund (the "Endowment Fund") that has been classified as permanently restricted net assets. As required by accounting principles generally accepted in the United States, net assets associated with permanently restricted donor funds are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Directors of the Foundation has interpreted the state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Endowment Fund classified as permanently restricted net assets and includes the following:

- the original value of gifts designated as permanently restricted;
- the original value of subsequent gifts designated as permanently restricted; and
- accumulations to the permanently restricted funds made in accordance with the direction of the applicable gift donor

The Endowment Fund is invested in a manner that is intended to produce results that exceed the price and yield results of the Triple A rated short-term money market instruments for the cash and cash equivalent investments and the Barclay's Intermediate Government/Corporate Bonds Index for the fixed income investments. The Foundation appropriates the actual interest income return from the restricted asset and supplements nonrestricted funds for training and other programs. In establishing this policy, the Foundation considered the long- term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow annually.

For the fiscal year ended June 30, 2010, all assets included in the Foundation 's Endowment Fund are as follows:

June 30, 2010	
Mutual funds	$48,737

The following table provides a reconciliation of beginning and ending balances as of June 30, 2010:

June 30, 2010	
Permanently restricted net assets as of July 1, 2009	$ 55,876
Investment loss	(13,630)
Transfers from unrestricted net assets	13,630
Permanently restricted net assets as of June 30, 2010	$ 55,876

Permanently restricted net assets consist of the following at June 30, 2010:

June 30, 2010	
General operating support	$55,876

16. Subsequent Events The Organization and Affiliates' management has performed subsequent events procedures through April 18, 2011 which is the date the financial statements were available to be issued and identified the following item for disclosure:

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APPENDIX B-II

BIRCH FAMILY SERVICES, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2012, JUNE 30, 2011 AND JUNE 30, 2010)

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Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2012

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2012

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Birch Family Services, Inc. and Affiliate

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Independent Auditors' Report

Board of Directors
Birch Family Services, Inc. and Affiliate
New York, New York

We have audited the accompanying combining statement of financial position of Birch Family Services, Inc. and Affiliate ("Birch and Affiliate") as of June 30, 2012, and the related combining statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Birch and Affiliate's management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2011 is presented for comparative purposes only and was extracted from the combined financial statements of Birch Family Services, Inc. and Affiliate for that year, and which we expressed on unqualified opinion, dated December 13, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Birch and Affiliate's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 combining financial statements referred to above present fairly, in all material respects, the financial position of Birch and Affiliate as of June 30, 2012, 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 United States of America.

BDO USA, LLP

December 14, 2012

Birch Family Services, Inc. and Affiliate

Combining Statement of Financial Position
(with comparative totals for 2011)

June 30,

	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined Total 2012	Combined Total 2011
Assets					
Current:					
Cash and cash equivalents (Note 3)	$ 2,979,320	$576,105	$ -	$ 3,555,425	$ 1,543,775
Restricted cash	220,861	-	-	220,861	73,481
Accounts receivable, net of allowance for doubtful accounts of $18,700) (Notes 3 and 9)	3,998,447	-	-	3,998,447	4,676,954
Pledges receivable (Note 3)	-	5,000	-	5,000	10,000
Prepaid expenses and other assets	187,793	3,708	-	191,501	208,901
Due from affiliate (Notes 2 and 15)	12,680	-	(12,680)	-	-
Total Current Assets	7,399,101	584,813	(12,680)	7,971,234	6,513,111
Assets Limited to Use (Note 4)	1,098,001	-	-	1,098,001	747,188
Deferred Bond, Loan Financing and Other Program Costs (Note 3)	238,782	-	-	238,782	216,191
Fixed Assets, Net (Notes 3 and 5)	12,551,359	-	-	12,551,359	12,218,913
	$21,287,243	$584,813	$(12,680)	$21,859,376	$19,695,403
Liabilities and Net Assets					
Current:					
Accounts payable and accrued expenses	$ 1,539,142	$ -	$ -	$ 1,539,142	$ 2,481,384
Accrued compensation	1,297,320	-	-	1,297,320	1,306,922
Deferred revenue	-	-	-	-	3,165
Due to affiliate (Notes 2 and 15)	-	12,680	(12,680)	-	-
Due to governmental agencies (Notes 3 and 6)	4,589,525	-	-	4,589,525	2,423,475
Bonds payable, current portion (Note 7)	500,000	-	-	500,000	200,000
Loans and mortgages payable, current portion (Note 8)	1,396,018	-	-	1,396,018	784,993
Capital leases, current portion (Note 16)	98,369	-	-	98,369	110,223
Line of credit (Note 9)	-	-	-	-	1,051,599
Total Current Liabilities	9,420,374	12,680	(12,680)	9,420,374	8,361,761
Bonds Payable, Net of Current Portion (Note 7)	4,665,186	-	-	4,665,186	2,554,500
Loans and Mortgages Payable, Net of Current Portion (Note 8)	4,101,885	-	-	4,101,885	5,523,874
Capital Leases, Net of Current Portion (Note 16)	70,208	-	-	70,208	92,678
Total Liabilities	18,257,653	12,680	(12,680)	18,257,653	16,532,813
Commitments and Contingencies (Notes 3, 5, 7, 8, 9, 11, 12 and 14)					
Net Assets (Note 3):					
Unrestricted	3,029,590	482,497	-	3,512,087	3,013,028
Temporarily restricted (Note 13)	-	89,636	-	89,636	149,562
	$21,287,243	$584,813	$(12,680)	$21,859,376	$19,695,403

See accompanying notes to combining financial statements.

Birch Family Services, Inc. and Affiliate

Combining Statement of Activities
(with comparative totals for 2011)

Year ended June 30,

	Unrestricted		Temporarily Restricted			
	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined Total 2012	Combined Total 2011
Revenue and Other Support:						
Tuition revenue	$31,619,716	$ -	$ -	$ -	$31,619,716	$29,570,711
Medicaid revenue for community services	15,306,638	-	-	-	15,306,638	14,418,196
Federal and New York State grants	5,210,170	-	-	-	5,210,170	5,894,759
Grants from the Herbert Birch Services Fund (Note 15)	58,968	-	-	(58,968)	-	-
Autism training fees	112,110	-	-	-	112,110	141,334
Contributions	168,957	15,972	5,800	-	190,729	169,586
Donated services	56,034	-	-	-	56,034	141,350
Donated costs (Note 10)	733,921	-	-	-	733,921	735,379
Day care private fees	150,570	-	-	-	150,570	72,401
Special events	-	203,905	-	-	203,905	131,135
Less: Direct costs of special events	-	(20,598)	-	-	(20,598)	(44,973)
Interest income	23,956	3	-	-	23,959	23,995
Other income	39,879	-	-	-	39,879	7,490
Net assets released from restriction (Note 13)	-	65,726	(65,726)	-	-	-
Total Revenue and Other Support	53,480,919	265,008	(59,926)	(58,968)	53,627,033	51,261,363
Expenses:						
Program services:						
Educational services	34,046,395	6,624	-	-	34,053,019	33,579,617
Community services	13,464,527	-	-	-	13,464,527	12,304,849
Grants to Birch Family Services	-	58,968	-	(58,968)	-	-
Total Program Services	47,510,922	65,592	-	(58,968)	47,517,546	45,884,466
Supporting services:						
Management and general	5,633,240	10,016	-	-	5,643,256	5,129,054
Fundraising	-	27,098	-	-	27,098	50,785
Total Expenses	53,144,162	102,706	-	(58,968)	53,187,900	51,064,305
Change in Net Assets	336,757	162,302	(59,926)	-	439,133	197,058
Net Assets, Beginning of Year	2,692,833	320,195	149,562	-	3,162,590	2,965,532
Net Assets, End of Year	$ 3,029,590	$482,497	$ 89,636	$ -	$ 3,601,723	$ 3,162,590

See accompanying notes to combining financial statements.

Birch Family Services, Inc. and Affiliate

Combining Statement of Functional Expenses
(with comparative totals for 2011)

Year ended June 30,

	Program Services							Combined Total	
	Educational Services	Community Services	Total Program Services	Management and General	Total	The Herbert G. Birch Services Fund, Inc.	Eliminations	2012	2011
Salaries and Related Expenses:									
Salaries	$22,208,190	$ 7,578,501	$29,786,691	$2,383,345	$32,170,036	$ -	$ -	$32,170,036	$30,888,950
Payroll taxes and employee benefits	4,636,609	1,627,457	6,264,066	517,909	6,781,975	-	-	6,781,975	6,845,500
Total Salaries and Related Expenses	26,844,799	9,205,958	36,050,757	2,901,254	38,952,011	-	-	38,952,011	37,734,450
Other Expenses:									
Contracted personal services	1,024,396	619,110	1,643,506	429,567	2,073,073	-	-	2,073,073	1,419,305
Advertising	-	-	-	94,540	94,540	-	-	94,540	162,319
Auto expense	2,616	119,429	122,045	5,295	127,340	-	-	127,340	30,819
Donated costs from ACS	733,921	-	733,921	-	733,921	-	-	733,921	735,379
Facility and equipment costs	2,826,263	1,409,608	4,235,871	644,268	4,880,139	2,575	-	4,882,714	4,679,016
Grants to Birch Family Services, Inc.	-	-	-	-	-	58,968	(58,968)	-	-
Food	609,226	338,794	948,020	5,817	953,837	-	-	953,837	926,705
Insurance	888	-	888	65,012	65,900	-	-	65,900	148,858
Interest expense	-	-	-	102,614	102,614	-	-	102,614	137,691
Equipment rental	86,785	44,838	131,623	41,674	173,297	-	-	173,297	140,707
Office supplies, printing and postage	-	-	-	156,953	156,953	-	-	156,953	208,054
Other program expenses	-	-	-	129,872	129,872	-	-	129,872	182,091
Professional fees	17,923	24,798	42,721	545,565	588,286	7,410	-	595,696	621,855
Program operational expenses	981,237	427,941	1,409,178	34,616	1,443,794	-	-	1,443,794	1,181,280
Repairs and maintenance	369,075	300,055	669,130	103,279	772,409	-	-	772,409	666,736
Indirect gala expenses	-	-	-	-	-	20,301	-	20,301	10,649
Staff development	57,566	5,871	63,437	35,045	98,482	-	-	98,482	142,593
Telephone	60,624	42,248	102,872	83,786	186,658	-	-	186,658	153,057
Bad debt expense	-	-	-	-	-	-	-	-	152,330
Transportation	1,816	225,093	226,909	-	226,909	-	-	226,909	286,494
Miscellaneous	100	3,231	3,331	77,642	80,973	13,452	-	94,425	102,117
Total Expenses Before Depreciation and Amortization	33,617,235	12,766,974	46,384,209	5,456,799	51,841,008	102,706	(58,968)	51,884,746	49,822,505
Depreciation and Amortization	429,160	697,553	1,126,713	176,441	1,303,154	-	-	1,303,154	1,241,800
Total Expenses	$34,046,395	$13,454,527	$47,510,922	$5,633,240	$53,144,162	$102,706	$(58,968)	$53,187,900	$51,064,305

See accompanying notes to combining financial statements.

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Birch Family Services, Inc. and Affiliate

Combining Statement of Cash Flows (with comparative totals for 2011)

Year ended June 30,	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined Total 2012	Combined Total 2011
Cash Flows From Operating Activities:					
Change in net assets	$ 336,757	$ 102,376	$ -	$ 439,133	$ 197,058
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,383,101	-	-	1,383,101	1,218,585
Amortization of bond and loan financing costs	23,896	-	-	23,896	23,215
Bad debt expense	-	-	-	-	161,955
(Increase) decrease in:					
Accounts receivable	631,177	47,330	-	678,507	263,593
Pledges receivable	-	5,000	-	5,000	22,941
Prepaid expenses and other assets	21,108	(3,708)	-	17,400	(35,524)
Due from affiliate	149,982	-	(149,982)	-	-
Deferred bond, loan financing and program costs	(46,487)	-	-	(46,487)	577,681
Increase (decrease) in:					
Accounts payable and accrued expenses	(934,292)	(7,950)	-	(942,242)	(1,565,569)
Accrued compensation	(9,602)	-	-	(9,602)	10,773
Deferred revenue	-	(3,165)	-	(3,165)	3,165
Due to affiliate	-	(149,982)	149,982	-	-
Due to governmental agencies	2,166,050	-	-	2,166,050	1,947,715
Net Cash Provided By (Used In) Operating Activities	3,721,690	(10,099)	-	3,711,591	2,825,588
Cash Flows From Investing Activities:					
Purchase of fixed assets	(1,715,547)	-	-	(1,715,547)	(4,617,970)
Change in assets limited to use	(350,813)	-	-	(350,813)	(18,746)
Net Cash Used In Investing Activities	(2,066,360)	-	-	(2,066,360)	(4,636,716)
Cash Flows From Financing Activities:					
Proceeds from bonds payable	2,629,771	-	-	2,629,771	-
Repayment of bonds payable	(219,085)	-	-	(219,085)	(195,000)
Proceeds from loans and mortgages payable	1,877,413	-	-	1,877,413	1,462,270
Repayment of loans and mortgages payable	(2,688,377)	-	-	(2,688,377)	(734,009)
Proceeds from capital lease obligations	86,369	-	-	86,369	162,440
Repayments of capital lease obligations	(120,693)	-	-	(120,693)	(154,210)
Proceeds from line of credit	5,000,000	-	-	5,000,000	3,500,000
Payments on line of credit	(6,051,599)	-	-	(6,051,599)	(3,500,000)
Net Cash Provided By Financing Activities	513,799	-	-	513,799	541,491
Net Increase (Decrease) in Cash and Cash Equivalents	2,169,129	(10,099)	-	2,159,030	(1,269,637)
Cash and Cash Equivalents, Beginning of Year	1,031,052	586,204	-	1,617,256	2,886,893
Cash and Cash Equivalents, End of Year	$ 3,200,181	$ 576,105	$ -	$ 3,776,286	$ 1,617,256
Supplemental Disclosures of Cash Flow Information:					
Cash paid for interest	$ 614,299	$ -	$ -	$ 614,299	$ 628,836
Noncash transactions related to capital leases	86,369	-	-	86,369	162,440

See accompanying notes to combining financial statements.

Birch Family Services, Inc. and Affiliate

Notes to Combining Financial Statements

1. Principles of Combination

The accompanying combining financial statements include Birch Family Services, Inc. ("Birch") and the Herbert G. Birch Services Fund, Inc. (the "Fund") (collectively, "Birch and Affiliate"), which are related through common board membership and substantially identical management.

2. Nature of Organizations

(a) Birch is a not-for-profit organization that operates schools in New York City for preschool and school-age students with various learning disabilities and serious developmental disabilities, as well as for nondisabled children. Birch also operates seven Intermediate Care Facilities ("ICFs"), six Individual Residential Alternative Facilities ("IRAs") and two day habilitation facilities, and provides other services for developmentally disabled individuals varying in age from birth through adulthood.

(b) The Fund operates in support of Birch, which is funded primarily by general public contributions, special events and autism program fees.

3. Summary of Significant Accounting Policies

*(a) **Basis of Presentation***

The combining financial statements of Birch and Affiliate have been prepared on the accrual basis. In the combining statement of financial position, assets and liabilities are presented, on a classified basis, in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

*(b) **Financial Statement Presentation***

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

(i) Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by Birch and Affiliate is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Birch and Affiliate.

(ii) Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by Birch and Affiliate is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Birch and Affiliate pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

(iii) Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

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(c) Cash and Cash Equivalents

Birch and Affiliate consider all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

(d) Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the useful lives of the assets. Leasehold improvements and equipment under capital leases are amortized over the shorter of the lease term or the estimated useful lives of the related assets.

	Estimated Useful Lives
Building and building improvements	25 years
Leasehold improvements	5 - 25 years
Furniture, fixtures and equipment	3 - 20 years
Vehicles	3 years

(e) Deferred Bond, Loan Financing and Other Program Costs

Deferred bond and loan financing costs are stated at cost and amortized on the straight-line basis over the term of the bonds/loans.

Deferred program costs are stated at cost. They are costs related to new programs incurred by Birch and will be amortized once the program commences operations in accordance with applicable New York State guidelines.

(f) Contributions and Promises to Give

Contributions, including unconditional promises to give that are expected to be collected within one year, are recognized as revenues in the period earned and are either classified as permanently restricted, temporarily restricted or unrestricted. Conditional contributions, including conditional promises to give, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

(g) Third-party Reimbursement and Revenue Recognition

Birch and Affiliate receive substantially all its revenue for services provided to approved clients from third-party reimbursement agencies. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or results of operations of Birch and Affiliate.

Revenue is recognized as earned from third parties and when received or pledged for contributions and fundraising activities.

(h) Income Taxes

Birch and Affiliate were incorporated in the State of New York and are exempt from Federal, state and local income taxes under Section 501(c)(3) of the IRC. Birch and Affiliate have been determined by the Internal Revenue Service ("IRS") not to be "private foundations" within the meaning of Section 509(a) of the Internal Revenue Code ("IRC"). As of June 30, 2012, there was no unrelated business income.

Birch Family Services, Inc. and Affiliate

Notes to Combining Financial Statements

(i) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been detailed by expense category on a functional basis in the statement of functional expenses. Direct program and administrative expenses are charged to the cost centers in which they are incurred. Shared costs have been allocated among the various cost centers based upon various allocation methods.

(j) Uncertainty in Income Taxes

Birch and Affiliate adopted the provisions of Accounting Standards Codification ("ASC") 740, "Income Taxes". Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will not be sustained. Then implementation of ASC 740 had no impact on Birch and Affiliate's financial statements. Birch and Affiliate do not believe there are any material uncertain tax positions and, accordingly, they will not recognize any liability for unrecognized tax benefits. Birch and Affiliate have filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, Birch and Affiliate have filed IRS Form 990 tax returns, as required, and all other applicable returns in jurisdictions when it is required. For the year ended June 30, 2012, there was no interest or penalties recorded or included in the combining statement of activities. Birch and Affiliate are subject to routine audits by a taxing authority. As of June 30, 2012, Birch and Affiliate were not subject to any examination by the taxing authority. Management believes that Birch and Affiliate are no longer subject to income tax examinations for years prior to 2009.

(k) Use of Estimates

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

(l) Provision for Doubtful Accounts

Birch and Affiliate provide an allowance for doubtful accounts for accounts receivable which are specifically identified by management as to their uncertainty in regards to collectibility. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

(m) Allocation Methodology

Common costs incurred for the administration of the various programs are allocated directly to respective programs as incurred and/or utilizing predetermined allocation rates established by management.

(n) Concentration of Credit Risk

Financial instruments which potentially subject Birch and Affiliate to concentration of credit risk consist primarily of cash and cash equivalents. At various times Birch and Affiliate have cash deposits at financial institutions, which exceed the Federal Depository Insurance Corporation insurance limits.

4. Assets Limited to Use

Assets limited to use consisting of cash and cash equivalents at June 30, 2012 amount to $1,098,001 and are maintained in the following restricted bond funds:

(a) *Debt Service Reserve Fund* - The Debt Service Reserve Fund was established for the purpose of assuring that Birch will have money for payment of debt service on the bonds in each year that the bonds are outstanding.

(b) *Escrow Funds* - Assets whose use is limited is comprised of assets set aside under the terms of escrow agreements, under the control of the New York City Industrial Development Agency ("NYCIDA"), Birch and the escrow agent, to be used for capital replacements.

5. Fixed Assets, Net

Fixed assets, net, consists of the following:

June 30, 2012

	Birch	Fund	Combined
Land	$ 1,513,261	$ -	$ 1,513,261
Building and building improvements	9,794,598	-	9,794,598
Leasehold improvements	5,338,051	-	5,338,051
Furniture, fixtures and equipment	2,747,338	-	2,747,338
Vehicles and equipment under capital lease obligations	553,058	-	553,058
Total fixed assets	19,946,306	-	19,946,306
Less: Accumulated depreciation	(7,394,947)	-	(7,394,947)
Fixed assets, net	$12,551,359	$ -	$12,551,359

6. Due to Governmental Agencies

Due to governmental agencies at June 30, 2012 consists of the following:

June 30, 2012

Advanced funds by Office of People With Developmental Disabilities ("OPWDD") under various contracts for the construction and rehabilitation of several residencies	$2,320,798
Due to the New York City Education Department	2,061,600
Due to the Administration for Children's Services	207,127
	$4,589,525

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7. Bonds Payable

Issuer	Description	Date of Issuance	Original Amount	Total Payments (1997-2012)	Balance at June 30, 2012	Collateral
NYCIDA	Series 1997B at 8.375% per annum, due February 1, 2022	February 6, 1997	$2,195,000	$(325,000)	$1,870,000	Leasehold mortgage liens and security interests in Washington Heights facility
NYCIDA	Series 1999B-1 at 7.125% per annum, due August 1, 2015	December 9, 1999	300,000	(180,000)	120,000	Leasehold mortgage liens and security interests in Brooklyn IRA facility
NYCIDA	Series 2000A-1 at 8.125% per annum, due July 1, 2015	August 17, 2000	425,000	(230,000)	195,000	Leasehold mortgage liens and security interests in Brooklyn IRA facility
NYCIDA	Series 2012A-1 at 7.5% per annum, due June 1, 2019	February 29, 2012	2,425,000	(18,122)	2,406,878	Leasehold mortgage liens and security interests in St. Nicholas and Wyckoff ICF facilities
NYCIDA	Series 2012A-2 at 7.5% per annum, due June 1, 2019	February 29, 2012	90,000	(30,964)	59,036	Leasehold mortgage liens and security interests in St. Nicholas and Wyckoff ICF facilities
DASNY	Mortgage - semiannual payments of principal plus interest at 6.0157% per annum, due February 15, 2020	April 29, 1996	754,500	(355,000)	399,500	Real property, improvements, gifts, grants and bequests for Flatlands Avenue project
	Subtotal				5,050,414	
	Premium on bonds payable				114,772	
					$5,165,186	

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Required principal and interest payments are as follows:

2013	$ 500,000
2014	570,000
2015	605,000
2016	620,000
2017	630,000
Thereafter	2,240,186
Total	$5,165,186

8. Loans and Mortgages Payable

Loans and mortgages payable consist of:

June 30, 2012	
Loan payable to Citibank, due April 18, 2017, payable in monthly installments of $8,333 including interest of 7.50%, secured by related property	$ 483,333
Loan payable to FJC, Inc. due April 30, 2013, payable upon maturity including interest of the prime rate plus 3%	600,000
Loan payable to Nonprofit Finance Fund, due February 1, 2021, payable in monthly installments including interest of 6.50%, secured by certain receivables from the New York State Education Department which includes reimbursement for the cost of certain renovations and improvements	684,331
Mortgage payable to Citibank, due April 14, 2014, payable in monthly installments including interest of 6.75%, secured by related property	276,798
Mortgage payable to Citibank, due March 11, 2022, payable in monthly installments of $5,082 including interest of 8.00%, secured by related property	589,527
Mortgage payable to Citibank, due May 1, 2024, payable in monthly installments of $3,533 including interest of 6.50%, secured by related property	505,195
Mortgage payable to Citibank, due May 1, 2014, payable in monthly installments of $9,490 including interest of 6.00%, secured by related property	218,265
Mortgage payable to Citibank, due June 10, 2025, payable in monthly installments of $3,393 including interest of 6.80%, secured by related property	529,306
Mortgage payable to Citibank, due June 10, 2015, payable in monthly installments of $1,666 including interest of 5.60%, secured by related property	59,963

June 30, 2012	
Mortgage payable to Citibank, due June 10, 2025, payable in monthly installments of $3,597 including interest of 6.80%, secured by related property	$ 561,095
Mortgage payable to Citibank, due June 10, 2015, payable in monthly installments of $2,774 including interest of 5.00%, secured by related property	99,863
Mortgage payable to Citibank, due September 22, 2020, payable in monthly installments of $5,274 including interest of 5.60%, secured by related property	522,117
Mortgage payable to Citibank, due September 22, 2017, payable in monthly installments of $5,843 including interest of 4.70%, secured by related property	368,110
Total loans and mortgages payable	5,497,903
Less: Current maturities	1,396,018
	$4,101,885

Required principal payments are as follows:

	Birch	Fund	Total
2013	$1,396,018	$ -	$1,396,018
2014	783,778	-	783,778
2015	542,366	-	542,366
2016	489,091	-	489,091
2017	421,431	-	421,431
Thereafter	1,865,219	-	1,865,219
	$5,497,903	$ -	$5,497,903

9. Line of Credit

Birch has a line of credit of $7,000,000 with Citibank. Interest is payable monthly at the greater of the prime rate or one-month LIBOR plus 2% per annum, less .125% in each instance. The interest rate charged during 2012 was 3.125%. The note is secured by the related receivables which are used to determine the borrowing base as defined in the agreement. There was no balance outstanding at June 30, 2012. Subsequent to June 30, 2012, Birch drew down an additional $3,500,000 on their line of credit, which has been repaid.

10. Donated Costs

Birch's contracts with the City of New York and Agency for Child Development (the "Agency") have cost-sharing agreements whereby certain costs are borne by the Agency. City-administered support is included in the accompanying financial statements as donated costs. Total city-administered support at June 30, 2012 has been recorded as follows:

Health insurance	$249,125
Lease/rental - real property	266,017
Pension	67,094
Gas and heating fuel	34,212
Water	6,520
HRA agency insurance package	4,925
Real property taxes	74,435
	$702,328

Additionally, included in donated costs are individual donations in the amount of $31,593.

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11. Leased Facilities

Pursuant to several lease agreements, Birch and Affiliate is obligated for minimum annual rentals payable to nonrelated entities as indicated below. Birch and Affiliate are obligated for certain operating costs at these sites and equipment rentals. The future minimum commitments to all nonrelated parties are as follows:

Year ending June 30,	
2013	$ 2,328,603
2014	2,165,269
2015	2,201,296
2016	2,254,849
2017	2,153,775
Thereafter	2,930,471
Total	$14,034,263

12. Pension Plans

(a) Retirement Plan

Birch's employees are covered under an employer-discretionary, noncontributory, defined contribution profit-sharing plan. To be eligible to participate, an employee must complete one year of service with Birch, have worked 1,000 hours during the plan year, have attained age 21 and be employed on the last day of the plan year, June 30. The entry dates are June 30 and December 31. The minimum required contribution is zero. The contribution percentage used for 2012 was 3.5%, based on employee job classification and length of service. Vesting begins in the first year of participation and increases based upon years of continuous service until a participant is fully vested after the sixth year.

Retirement expense for the year ended June 30, 2012 was $1,200,007.

(b) 403(b) Plan

Birch has a 403(b) tax-deferred annuity plan whereby participants in the plan may elect to defer a portion of their salary and direct Birch to contribute that deferral to the plan on their behalf. Employees become eligible to participate upon date of hire by directing Birch to make the aforementioned salary reduction contributions.

(c) 457(b) Plan

Birch has a Section 457(b) deferred compensation plan for one key employee. The benefit expense related to the 457(b) plan for the year ended June 30, 2012 was $1,373. The fully funded liability related to the plan amounted to approximately $51,086 and is included in accrued compensation in the accompanying combining statement of financial position.

(d) Postretirement Benefit Obligation

Birch provides medical and dental benefits for the founder of the organization. As of June 30, 2012, the accumulated postretirement benefit obligation amounted to $6,000 and is included in accrued compensation in the accompanying combining statement of financial position.

13. Temporarily Restricted Net Assets

The Fund has temporarily restricted net assets that are available for the following purposes:

June 30, 2012	
Educational and training projects	$ 1,981
Domestic violence projects	4,636
Library projects	2,857
Hillcrest Music Fund	41,475
Hillcrest Art and Book Funds	1,358
Hillcrest Parents Fund	21,091
Warner Tech Fund	1,370
Christmas Toys Fund	862
Other	14,006
	$89,636

The Fund's net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

June 30, 2012	
Educational and training projects	$60,753
Hillcrest Parents Fund	645
Christmas Toys Fund	4,328
	$65,726

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14. Commitments and Contingencies

(a) Department of Education

The New York City Department of Education ("DOE") issued a revised reconciliation report covering Birch's education program's enrollment and rates for the years 1995/1996 through 2005/2006. That reconciliation report reflects a net liability owed to the DOE of $2,117,668 as of July 2009. Previously, DOE reconciliations for the same period of time were $1,904,000 less than the current amount. Birch is currently contesting the amount and timing of the proposed reconciliation. Management has set up a reserve of $163,000 as the liability to the DOE for those fiscal years.

(b) Workers' Compensation Trust

Birch participated in a group self-insured workers' compensation trust for the period from 1996 through 2003, for the purposes of providing workers' compensation insurance. The trust voluntarily closed effective December 31, 2010. During 2011, Birch received notification of an assessment from the plan's administrator for $388,383 representing Birch's obligation for the administrator's estimate of the expected losses. In 2012, Birch and the workers' compensation trust agreed to a temporary payment of $3,500 per month for its portion of the liability until a final bill is tallied. Birch's legal counsel is still investigating the liability until a final sale determination is made. Therefore, no provision has been recorded in the accompanying combining financial statements related to the assessment.

15. Transactions With Affiliate

(a) The Fund receives contributions that are restricted for Birch's programs per the instructions of the donor. During the fiscal year ended June 30, 2012, the Fund received $209,730 of contributions that were granted back to Birch to be used for the programs specified by the donor.

(b) Birch charges the Fund for salaries, fringe benefits, rent and other administrative expenses. Total fees charged for the year ended June 30, 2012 were $67,866.

The amount due from the Fund at June 30, 2012 was $12,680.

16. Capital Leases

Birch leases various automobiles and copiers under capital leases that expire at various dates through 2015, which require monthly payments of principal and interest rates ranging from 2.1% - 6.7%. The following is a schedule of the future minimum lease payments including interest under the terms of the leases, together with the present value of the net minimum lease payments as of June 30, 2012.

Birch Family Services, Inc. and Affiliate

Notes to Combining Financial Statements

June 30,	
2013	$ 98,369
2014	58,673
2015	20,568
Total minimum lease payments	177,610
Less: Amount representing interest	9,033
Present value of net minimum lease payments	168,577
Less: Current portion	(98,369)
	$ 70,208

17. Subsequent Events

Birch and Affiliate have performed subsequent event procedures through December 14, 2012, which is the date the combining financial statements were available to be issued. There were no subsequent events requiring adjustment to the combining financial statements.

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Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2011

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2011

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Birch Family Services, Inc. and Affiliate

Contents

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Independent Auditors' Report

Board of Directors
Birch Family Services, Inc. and Affiliate
New York, New York

We have audited the accompanying combining statement of financial position of Birch Family Services, Inc. and Affiliate ("Birch and Affiliate") as of June 30, 2011, and the related combining statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Birch and Affiliate's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Birch and Affiliate's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 combining financial statements referred to above present fairly, in all material respects, the financial position of Birch and Affiliate as of June 30, 2011, 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 United States of America.

BDO USA, LLP

December 13, 2011

Birch Family Services, Inc. and Affiliate

Combining Statement of Financial Position

June 30, 2011

	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined
Assets				
Current:				
Cash and cash equivalents (Note 3)	$ 957,571	$ 586,204	$ -	$ 1,543,775
Restricted cash	73,481	-	-	73,481
Accounts receivable, net of allowance for doubtful accounts of $18,700) (Notes 3 and 9)	4,629,624	47,330	-	4,676,954
Pledges receivable (Note 3)	-	10,000	-	10,000
Prepaid expenses and other assets	208,901	-	-	208,901
Due from affiliate (Notes 2 and 15)	162,662	-	(162,662)	-
Total Current Assets	6,032,239	643,534	(162,662)	6,513,111
Assets Limited to Use (Note 4)	747,188	-	-	747,188
Deferred Bond, Loan Financing and Other Program Costs (Note 3)	216,191	-	-	216,191
Fixed Assets, Net (Notes 3, 5 and 17)	12,218,913	-	-	12,218,913
	$19,214,531	$643,534	$(162,662)	$19,695,403
Liabilities and Net Assets				
Current:				
Accounts payable and accrued expenses	$ 2,473,434	$ 7,950	$ -	$ 2,481,384
Accrued compensation	1,306,922	-	-	1,306,922
Deferred revenue	-	3,165	-	3,165
Due to affiliate (Notes 2 and 15)	-	162,662	(162,662)	-
Due to governmental agencies (Notes 3 and 6)	2,423,475	-	-	2,423,475
Bonds payable, current portion (Note 7)	200,000	-	-	200,000
Loans and mortgages payable, current portion (Note 8)	784,993	-	-	784,993
Capital leases, current portion (Note 16)	110,223	-	-	110,223
Line of credit (Note 9)	1,051,599	-	-	1,051,599
Total Current Liabilities	8,350,646	173,777	(162,662)	8,361,761
Bonds Payable, Net of Current Portion (Note 7)	2,554,500	-	-	2,554,500
Loans and Mortgages Payable, Net of Current Portion (Note 8)	5,523,874	-	-	5,523,874
Capital Leases, Net of Current Portion (Note 16)	92,678	-	-	92,678
Total Liabilities	16,521,698	173,777	(162,662)	16,532,813
Commitments and Contingencies (Notes 3,5,9,11,12 and 14)				
Net Assets (Note 3):				
Unrestricted	2,692,833	320,195	-	3,013,028
Temporarily restricted (Note 13)	-	149,562	-	149,562
	$19,214,531	$643,534	$(162,662)	$19,695,403

See accompanying notes to combining financial statements.

Birch Family Services, Inc. and Affiliate

Combining Statement of Activities

Year ended June 30, 2011

	Unrestricted		Temporarily Restricted		
	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined
Revenue and Other Support:					
Tuition revenue	$29,629,972	$ -	$ -	$ -	$29,629,972
Medicaid revenue for community services	14,418,196	-	-	-	14,418,196
Federal and New York State grants	5,894,759	-	-	-	5,894,759
Grants from the Herbert Birch Services Fund (Note 15)	218,357	-	-	(218,357)	-
Autism training fees	-	141,334	-	-	141,334
Contributions	-	94,553	75,033	-	169,586
Donated services	141,350	-	-	-	141,350
Donated costs (Note 10)	735,379	-	-	-	735,379
Day care private fees	13,140	-	-	-	13,140
Special events	-	128,150	2,985	-	131,135
Less: Direct costs of special events	-	(43,767)	(1,206)	-	(44,973)
Interest income	23,989	6	-	-	23,995
Other income	7,490	-	-	-	7,490
Net assets released from restriction (Note 13)	-	117,107	(117,107)	-	-
Total Revenue and Other Support	51,082,632	437,383	(40,295)	(218,357)	51,261,363
Expenses:					
Program services:					
Educational services	33,559,522	20,095	-	-	33,579,617
Community services	12,304,849	-	-	-	12,304,849
Grants to Birch Family Services	-	218,357	-	(218,357)	-
Total Program Services	45,864,371	238,452	-	(218,357)	45,884,466
Supporting services:					
Management and general	5,116,678	12,376	-	-	5,129,054
Fundraising	-	50,785	-	-	50,785
Total Expenses	50,981,049	301,613	-	(218,357)	51,064,305
Change in Net Assets	101,583	135,770	(40,295)	-	197,058
Net Assets, Beginning of Year	2,591,250	184,425	189,857	-	2,965,532
Net Assets, End of Year	$ 2,692,833	$320,195	$149,562	$ -	$ 3,162,590

See accompanying notes to combining financial statements.

Birch Family Services, Inc. and Affiliate

Combining Statement of Functional Expenses

Year ended June 30, 2011

	Program Services					The Herbert G. Birch		
	Educational Services	Community Services	Total Program Services	Management and General	Total	Services Fund, Inc.	Eliminations	Combined
Salaries and Related Expenses:								
Salaries	$21,940,182	$ 6,632,564	$28,572,746	$2,316,204	$30,888,950	$ -	$ -	$30,888,950
Payroll taxes and employee benefits	4,542,755	1,720,856	6,263,611	581,889	6,845,500	-	-	6,845,500
Total Salaries and Related Expenses	26,482,937	8,353,420	34,836,357	2,898,093	37,734,450	-	-	37,734,450
Other Expenses:								
Contracted personal services	897,917	521,388	1,419,305	-	1,419,305	-	-	1,419,305
Advertising	389	-	389	161,930	162,319	-	-	162,319
Auto expense	154	30,050	30,204	615	30,819	-	-	30,819
Donated costs from ACS	735,379	-	735,379	-	735,379	-	-	735,379
Equipment costs	-	36,884	36,884	9,983	46,867	-	-	46,867
Facility costs	2,476,003	1,179,311	3,655,314	639,279	4,294,593	3,297	-	4,297,890
Grants to Birch Family Services, Inc.	-	-	-	-	-	218,357	(218,357)	-
Food	619,347	307,358	926,705	-	926,705	-	-	926,705
Insurance	60,794	56,236	117,030	31,828	148,858	-	-	148,858
Interest expense	-	-	-	137,691	137,691	-	-	137,691
Equipment rental	65,918	30,603	96,521	44,186	140,707	-	-	140,707
Office supplies, printing and postage	-	-	-	203,831	203,831	4,223	-	208,054
Other program expenses	161,996	-	161,996	-	161,996	20,095	-	182,091
Professional fees	9,005	10,786	19,791	633,589	653,380	32,172	-	685,552
Program operational expenses	1,056,699	371,834	1,428,533	23,309	1,451,842	-	-	1,451,842
Repairs and maintenance	266,724	335,568	602,292	64,444	666,736	-	-	666,736
Indirect gala expenses	-	-	-	-	-	10,649	-	10,649
Staff Development	82,476	36,017	118,493	24,100	142,593	-	-	142,593
Telephone	66,219	41,379	107,598	45,051	152,649	408	-	153,057
Bad debt expense	152,330	-	152,330	-	152,330	-	-	152,330
Transportation	2,261	284,233	286,494	-	286,494	-	-	286,494
Miscellaneous	654	928	1,582	88,123	89,705	12,412	-	102,117
Total Expenses Before Depreciation and Amortization	33,137,202	11,595,995	44,733,197	5,006,052	49,739,249	301,613	(218,357)	49,822,505
Depreciation and Amortization	422,320	708,854	1,131,174	110,626	1,241,800	-	-	1,241,800
Total Expenses	$33,559,522	$12,304,849	$45,864,371	$5,116,678	$50,981,049	$301,613	$(218,357)	$51,064,305

See accompanying notes to combining financial statements.

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Combining Statement of Cash Flows

Year ended June 30, 2011

	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined
Cash Flows From Operating Activities:				
Change in net assets	$ 101,583	$ 95,475	$ -	$ 197,058
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	1,218,585	-	-	1,218,585
Amortization of bond and loan financing costs	23,215	-	-	23,215
Bad debt expense	152,330	9,625	-	161,955
(Increase) decrease in:				
Accounts receivable	272,796	(9,203)	-	263,593
Pledges receivable	-	22,941	-	22,941
Prepaid expenses and other assets	(35,524)	-	-	(35,524)
Due from affiliate	112,590	-	(112,590)	-
Deferred bond, loan financing and program costs	577,681	-	-	577,681
Increase (decrease) in:				
Accounts payable and accrued expenses	(1,566,316)	747	-	(1,565,569)
Accrued compensation	10,773	-	-	10,773
Deferred revenue	-	3,165	-	3,165
Due to affiliate	-	(112,590)	112,590	-
Due to governmental agencies	1,947,715	-	-	1,947,715
Net Cash Provided By Operating Activities	2,815,428	10,160	-	2,825,588
Cash Flows From Investing Activities:				
Purchase of fixed assets	(4,617,970)	-	-	(4,617,970)
Change in assets limited to use	(18,746)	-	-	(18,746)
Net Cash Used In Investing Activities	(4,636,716)	-	-	(4,636,716)
Cash Flows From Financing Activities:				
Repayment of bonds payable	(195,000)	-	-	(195,000)
Proceeds from loans and mortgages payable	1,462,270	-	-	1,462,270
Repayment of loans and mortgages payable	(734,009)	-	-	(734,009)
Proceeds from capital lease obligations	162,440	-	-	162,440
Repayments of capital lease obligations	(154,210)	-	-	(154,210)
Proceeds from line of credit	3,500,000	-	-	3,500,000
Payments on line of credit	(3,500,000)	-	-	(3,500,000)
Net Cash Provided By Financing Activities	541,491	-	-	541,491
Net Increase (Decrease) in Cash and Cash Equivalents	(1,279,797)	10,160	-	(1,269,637)
Cash and Cash Equivalents, Beginning of Year	2,310,849	576,044	-	2,886,893
Cash and Cash Equivalents, End of Year	$1,031,052	$586,204	$ -	$ 1,617,256
Supplemental Disclosures of Cash Flow Information:				
Cash paid for interest	$ 628,836	$ -	$ -	$ 628,836
Noncash transactions related to capital leases	162,440	-	-	162,440

See accompanying notes to combining financial statements.

Notes to Combining Financial Statements

1. Principles of Combination

The accompanying combining financial statements include Birch Family Services, Inc. ("Birch") and the Herbert G. Birch Services Fund, Inc. (the "Fund") (collectively, "Birch and Affiliate"), which are related through common board membership and substantially identical management.

2. Nature of Organizations

(a) Birch is a not-for-profit organization that operates schools in New York City for preschool and school-age students with various learning disabilities and serious developmental disabilities, as well as for nondisabled children. Birch also operates five Intermediate Care Facilities ("ICFs"), six Individual Residential Alternative Facilities ("IRAs") and two day habilitation facilities, and provides other services for developmentally disabled individuals varying in age from birth through adulthood. Two new ICFs were opened in December 2010 and March 2011.

(b) The Fund operates in support of Birch, which is funded primarily by general public contributions, special events and autism program fees.

3. Summary of Significant Accounting Policies

(a) Basis of Presentation

The combining financial statements of Birch and Affiliate have been prepared on the accrual basis. In the combining statement of financial position, assets and liabilities are presented, on a classified basis, in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

(b) Financial Statement Presentation

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

(i) **Permanently Restricted** - Net assets resulting from contributions and other inflows of assets whose use by Birch and Affiliate is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Birch and Affiliate.

(ii) **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by Birch and Affiliate is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Birch and Affiliate pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

(iii) **Unrestricted** - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

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(c) Cash and Cash Equivalents

Birch and Affiliate consider all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

(d) Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the useful lives of the assets. Leasehold improvements and equipment under capital leases are amortized over the shorter of the lease term or the estimated useful lives of the related assets.

	Estimated Useful Lives
Building and building improvements	25 years
Leasehold improvements	5 - 25 years
Furniture, fixtures and equipment	3 - 20 years
Vehicles	3 years

(e) Deferred Bond, Loan Financing and Other Program Costs

Deferred bond and loan financing costs are stated at cost and amortized on the straight-line basis over the term of the bonds/loans.

Deferred program costs are stated at cost. They are costs related to new programs incurred by Birch and will be amortized once the program commences operations in accordance with applicable New York State guidelines.

(f) Contributions and Promises to Give

Contributions, including unconditional promises to give that are expected to be collected within one year, are recognized as revenues in the period earned and are either classified as permanently restricted, temporarily restricted or unrestricted. Conditional contributions, including conditional promises to give, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

(g) Third-party Reimbursement and Revenue Recognition

Birch and Affiliate receive substantially all its revenue for services provided to approved clients from third-party reimbursement agencies. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or results of operations of Birch and Affiliate.

Revenue is recognized as earned from third parties and when received or pledged for contributions and fundraising activities.

(h) Income Taxes

Birch and Affiliate were incorporated in the State of New York and are exempt from Federal, state and local income taxes under Section 501(c)(3) of the IRC. Birch and Affiliate have been determined by the Internal Revenue Service ("IRS") not to be "private foundations" within the meaning of Section 509(a) of the Internal Revenue Code ("IRC"). As of June 30, 2011, there was no unrelated business income.

(i) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been detailed by expense category on a functional basis in the statement of functional expenses. Direct program and administrative expenses are charged to the cost centers in which they are incurred. Shared costs have been allocated among the various cost centers based upon various allocation methods.

(j) Uncertainty in Income Taxes

Birch and Affiliate adopted the provisions of Accounting Standards Codification ("ASC") 740, "Accounting for Uncertainty in Income Taxes". Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. Then implementation of ASC 740 had no impact on Birch and Affiliate's financial statements. Birch and Affiliate do not believe there are any material uncertain tax positions and, accordingly, they will not recognize any liability for unrecognized tax benefits. Birch and Affiliate have filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, Birch and Affiliate have filed IRS Form 990 tax returns, as required, and all other applicable returns in jurisdictions when it is required. For the year ended June 30, 2011, there was no interest or penalties recorded or included in the combining statement of activities. As of June 30, 2011, the years still subject to examination by a taxing authority are 2008 through 2010.

(k) Use of Estimates

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

(l) Provision for Doubtful Accounts

Birch and Affiliate provide an allowance for doubtful accounts for accounts receivable which are specifically identified by management as to their uncertainty in regards to collectibility. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

(m) Allocation Methodology

Common costs incurred for the administration of the various programs are allocated directly to respective programs as incurred and/or utilizing predetermined allocation rates established by management.

(n) Concentration of Credit Risk

Financial instruments which potentially subject Birch and Affiliate to concentration of credit risk consist primarily of cash and cash equivalents. At various times Birch and Affiliate have cash deposits at financial institutions, which exceed the Federal Depository Insurance Corporation insurance limits.

4. Assets Limited to Use

Assets limited to use consisting of cash and cash equivalents at June 30, 2011 amount to $747,188 and are maintained in the following restricted bond funds:

(a) Debt Service Reserve Fund - The Debt Service Reserve Fund was established for the purpose of assuring that Birch will have money for payment of debt service on the bonds in each year that the bonds are outstanding.

(b) Escrow Funds - Assets whose use is limited is comprised of assets set aside under the terms of escrow agreements, under the control of the New York City Industrial Development Agency ("NYCIDA"), Birch and the escrow agent, to be used for capital replacements.

5. Fixed Assets, Net

Fixed assets, net, consists of the following:

June 30, 2011

	Birch	Fund	Combined
Land	$ 1,513,261	$ -	$ 1,513,261
Building and building improvements	11,586,318	-	11,586,318
Leasehold improvements	2,416,391	-	2,416,391
Furniture, fixtures and equipment	2,247,342	-	2,247,342
Vehicles and equipment under capital lease obligations	467,896	-	467,896
Total fixed assets	18,231,208	-	18,231,208
Less: Accumulated depreciation	(6,012,295)	-	(6,012,295)
Fixed assets, net	$12,218,913	$ -	$12,218,913

6. Due to Governmental Agencies

Due to governmental agencies at June 30, 2011 consists of the following:

June 30, 2011

Advanced funds by Office of People With Developmental Disabilities ("OPWDD") under various contracts for the construction and rehabilitation of several residencies	$ 366,839
Due to the New York City Education Department	1,849,509
Due to the Administration for Child Services	207,127
	$2,423,475

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7. Bonds Payable

Issuer	Description	Date of Issuance	Original Amount	Total Payments (1997-2011)	Balance at June 30, 2011	Collateral
NYCIDA	Series 1997A at 7.375% per annum, due February 1, 2009	February 6, 1997	$ 780,000	$(780,000)	$ -	N/A
NYCIDA	Series 1997B at 8.375% per annum, due February 1, 2022	February 6, 1997	2,195,000	(210,000)	1,985,000	Leasehold mortgage liens and security interests in Washington Heights facility
NYCIDA	Series 1999B-2 at 8.750% per annum, due August 1, 2001	December 9, 1999	21,100	(21,100)	-	N/A
NYCIDA	Series 1999B-1 at 7.125% per annum, due August 1, 2005	December 9, 1999	95,000	(95,000)	-	N/A
NYCIDA	Series 1999B-1 at 7.125% per annum, due August 1, 2015	December 9, 1999	300,000	(155,000)	145,000	Leasehold mortgage liens and security interests in Brooklyn IRA facility
NYCIDA	Series 2000A-2 at 9.500% per annum, due July 1, 2002	August 17, 2000	52,000	(52,000)	-	N/A
NYCIDA	Series 2000A-1 at 8.125% per annum, due July 1, 2005	August 17, 2000	130,000	(130,000)	-	N/A
NYCIDA	Series 2000A-1 at 8.125% per annum, due July 1, 2015	August 17, 2000	425,000	(200,000)	225,000	Leasehold mortgage liens and security interests in Brooklyn IRA facility
DASNY	Mortgage - semiannual payments of principal plus interest at 6.0157% per annum, due February 15, 2020	April 29, 1996	754,500	(355,000)	399,500	Real property, improvements, gifts, grants and bequests for Flatlands Avenue project
					$2,754,500	

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Required principal and interest payments are as follows:

2012	$ 200,000
2013	215,000
2014	245,000
2015	260,000
2016	325,000
Thereafter	1,509,500
Total	$2,754,500

8. Loans and Mortgages Payable

Loans and mortgages payable consist of:

June 30, 2011	
Loan payable to Citibank, due April 18, 2017, payable in monthly installments of $8,333 including interest of 7.50%, secured by related property	$ 583,333
Loan payable to FJC, Inc. due April 30, 2013, payable upon maturity including interest of the prime rate plus 3%	1,000,000
Loan payable to Nonprofit Finance Fund, due February 1, 2021, payable in monthly installments including interest of 6.50%, secured by certain receivables from the New York State Education Department which includes reimbursement for the cost of certain renovations and improvements	338,587
Mortgage payable to Citibank, due April 14, 2014, payable in monthly installments including interest of 6.75%, secured by related property	407,277
Mortgage payable to Citibank, due March 11, 2022, payable in monthly installments of $5,082 including interest of 8.00%, secured by related property	650,510
Mortgage payable to Citibank, due March 11, 2012, payable in monthly installments of $4,082 including interest of 6.00%, secured by related property	38,413
Mortgage payable to Citibank, due May 1, 2024, payable in monthly installments of $3,533 including interest of 6.50%, secured by related property	547,588
Mortgage payable to Citibank, due May 1, 2014, payable in monthly installments of $9,490 including interest of 6.00%, secured by related property	332,143
Mortgage payable to Citibank, due June 10, 2025, payable in monthly installments of $3,393 including interest of 6.80%, secured by related property	570,021
Mortgage payable to Citibank, due June 10, 2015, payable in monthly installments of $1,666 including interest of 5.60%, secured by related property	79,951

June 30, 2011	
Mortgage payable to Citibank, due June 10, 2025, payable in monthly installments of $3,597 including interest of 6.80%, secured by related property	$ 604,256
Mortgage payable to Citibank, due June 10, 2015, payable in monthly installments of $2,774 including interest of 5.00%, secured by related property	133,150
Mortgage payable to Citibank, due September 22, 2020, payable in monthly installments of $5,274 including interest of 5.60%, secured by related property	585,412
Mortgage payable to Citibank, due September 22, 2017, payable in monthly installments of $5,843 including interest of 4.70%, secured by related property	438,226
Total loans and mortgages payable	6,308,867
Less: Current maturities	784,993
	$5,523,874

Required principal payments are as follows:

	Birch	Fund	Total
2012	$ 784,993	$ -	$ 784,993
2013	1,761,443	-	1,761,443
2014	749,130	-	749,130
2015	507,791	-	507,791
2016	454,517	-	454,517
Thereafter	2,050,993	-	2,050,993
	$6,308,867	$ -	$6,308,867

9. Line of Credit

Birch has a line of credit of $7,000,000 with Citibank. Interest is payable monthly at the greater of the prime rate or one-month LIBOR plus 2% per annum, less .125% in each instance. The interest rate charged during 2011 was 3.125%. The note is secured by the related receivables which are used to determine the borrowing base as defined in the agreement. The balance outstanding at June 30, 2011 was $1,051,599. Subsequent to June 30, 2011, Birch drew down an additional $2,000,000 on their line of credit, which has been repaid.

10. Donated Costs

Birch's contracts with the City of New York and Agency for Child Development (the "Agency") have cost-sharing agreements whereby certain costs are borne by the Agency. City-administered support is included in the accompanying financial statements as donated costs. Total city-administered support at June 30, 2011 has been recorded as follows:

Health insurance	$325,644
Lease/rental - real property	266,017
Pension	22,052
Gas and heating fuel	34,212
Water	6,520
HRA agency insurance package	6,499
Real property taxes	74,435
	$735,379

11. Leased Facilities

Pursuant to several lease agreements, Birch and Affiliate is obligated for minimum annual rentals payable to nonrelated entities as indicated below. Birch and Affiliate are obligated for certain operating costs at these sites and equipment rentals. The future minimum commitments to all nonrelated parties are as follows:

Year ending June 30,	
2012	$ 3,068,696
2013	3,105,227
2014	2,802,728
2015	2,774,911
2016	1,471,025
Thereafter	6,410,624
Total	$19,633,211

12. Pension Plans

(a) Retirement Plan

Birch's employees are covered under an employer-discretionary, noncontributory, defined contribution profit-sharing plan. To be eligible to participate, an employee must complete one year of service with Birch, have worked 1,000 hours during the plan year, have attained age 21 and be employed on the last day of the plan year, June 30. The entry dates are June 30 and December 31. The minimum required contribution is zero. The contribution percentage used for 2011 was 3.5%, based on employee job classification and length of service. Vesting begins in the first year of participation and increases based upon years of continuous service until a participant is fully vested after the sixth year.

Retirement expense for the year ended June 30, 2011 was $1,000,073.

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Birch Family Services, Inc. and Affiliate

Notes to Combining Financial Statements

(b) 403(b) Plan

Birch has a 403(b) tax-deferred annuity plan whereby participants in the plan may elect to defer a portion of their salary and direct Birch to contribute that deferral to the plan on their behalf. Employees become eligible to participate upon date of hire by directing Birch to make the aforementioned salary reduction contributions.

(c) 457(b) Plan

Birch has a Section 457(b) deferred compensation plan for one key employee. The benefit expense related to the 457(b) plan for the year ended June 30, 2011 was $20,862. The fully funded liability related to the plan amounted to approximately $49,713 and is included in accrued compensation in the accompanying combining statement of financial position.

(d) Postretirement Benefit Obligation

Birch provides medical and dental benefits for the founder of the organization. As of June 30, 2011, the accumulated postretirement benefit obligation amounted to $106,480 and is included in accrued compensation in the accompanying combining statement of financial position.

13. Temporarily Restricted Net Assets

The Fund has temporarily restricted net assets that are available for the following purposes:

June 30, 2011	
Educational and training projects	$ 62,293
Domestic violence projects	4,636
Library projects	2,858
Hillcrest Music Fund	41,475
Hillcrest Art and Book Funds	1,358
Hillcrest Parents Fund	21,486
Warner Tech Fund	1,370
Christmas Toys Fund	862
Other	13,224
	$149,562

The Fund's net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

June 30, 2011	
Educational and training projects	$ 57,687
Family support	12,500
Construction	28,400
Hillcrest Art and Book Funds	1,311
Hillcrest Parents Fund	4,230
Warner Tech Fund	8,069
Christmas Toys Fund	2,989
Other	1,921
	$117,107

14. Commitments and Contingencies

(a) Department of Education

The New York City Department of Education ("DOE") issued a revised reconciliation report covering Birch's education program's enrollment and rates for the years 1995/1996 through 2005/2006. That reconciliation report reflects a net liability owed to the DOE of $2,117,668 as of July 2009. Previously, DOE reconciliations for the same period of time were $1,904,000 less than the current amount. Birch is currently contesting the amount and timing of the proposed reconciliation. Management has set up a reserve of $163,000 as the liability to the DOE for those fiscal years.

(b) Workers' Compensation Trust

Birch participated in a group self-insured workers' compensation trust for the period from 1996 through 2003, for the purposes of providing workers' compensation insurance. The trust voluntarily closed effective December 31, 2010. During 2011, Birch received notification of an assessment from the plan's administrator for approximately $388,383 representing Birch's obligation for the administrator's estimate of the expected losses. The plan administrator has not provided documentation supporting the calculation of the total liability, or Birch's portion of the liability; as such, no provision has been recorded in the accompanying combining financial statements related to the assessment.

15. Transactions With Affiliate

(a) The Fund receives contributions that are restricted for Birch's programs per the instructions of the donor. During the fiscal year ended June 30, 2011, the Fund received $151,666 of contributions that were granted back to Birch to be used for the programs specified by the donor.

(b) Birch charges the Fund for salaries, fringe benefits, rent and other administrative expenses. Total fees charged for the year ended June 30, 2011 were $66,691.

The amount due from the Fund at June 30, 2011 was $162,662.

16. Capital Leases

Birch leases various automobiles and copiers under capital leases that expire at various dates through 2014, which require monthly payments of principal and interest at a rate of 7.55%. The following is a schedule of the future minimum lease payments including interest under the terms of the leases, together with the present value of the net minimum lease payments as of June 30, 2011.

June 30,	
2012	$115,862
2013	66,867
2014	27,500
Total minimum lease payments	210,229
Less: Amount representing interest	(7,328)
Present value of net minimum lease payments	202,901
Less: Current portion	(92,678)
	$110,223

17. Subsequent Events

Birch and Affiliate have performed subsequent event procedures through December 13, 2011, which is the date the combining financial statements were available to be issued. There were no subsequent events requiring adjustment to the combining financial statements.

On July 20, 2011, Birch drew an additional $322,224 from the $716,000 10-year loan agreement with Nonprofit Finance Fund for the purpose of renovations in the Washington Heights facility. The current anticipated rate for the loan is 6.5%, which is subject to review on November 1, 2013, at which time the lender has the right to raise the rate to prime plus 2%.

On August 12, 2011, Birch received an additional $900,000 unsecured loan from FJC, Inc. for the purpose of a renovation of the Grove Street facility in Brooklyn, New York. The terms of the agreement provide for quarterly interest payments at an annual rate of prime plus 3%. The loan shall be due April 30, 2013. The prime rate as of June 30, 2010 was 3.25%, for a total interest rate of 6.25%.

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2010 AND 2009

LOEB & TROPER LLP

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

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Independent Auditor's Report

Board of Directors
Birch Family Services, Inc. and
The Herbert G. Birch Services Fund, Inc.

We have audited the accompanying consolidated balance sheet of Birch Family Services, Inc. and The Herbert G. Birch Services Fund, Inc. as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Birch Family Services, Inc. and The Herbert G. Birch Services Fund, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Birch Family Services, Inc. and The Herbert G. Birch Services Fund, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Birch Family Services, Inc. and The Herbert G. Birch Services Fund, Inc. as of June 30, 2010 and 2009, and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Auditors and Consultants
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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Loeb + Troper LLP

November 22, 2010

EXHIBIT A

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

CONSOLIDATED BALANCE SHEET

JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,886,893	$ 1,892,152
Accounts receivable (net of allowance for doubtful accounts of $30,000 in 2010 and $225,000 in 2009)	4,847,623	6,177,011
Contributions receivable - due within one year	32,941	82,941
Fees receivable	47,752	17,190
Prepaid expenses	54,046	87,257
Total current assets	7,869,255	8,256,551
Fixed assets - net (Note 3)	8,819,528	9,371,194
Limited use assets (Notes 4 and 15)		
Debt service reserve fund	584,220	565,478
Bond escrow	144,222	188,132
Deferred bond, loan financing and other program costs (Note 2)	817,086	559,424
Other assets	119,328	90,850
Total assets	$ 18,353,639	$ 19,031,629
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable, accrued expenses, accrued payroll and benefits	$ 5,343,097	$ 4,714,010
Deferred income		975
Due to OPWDD (Note 7)	268,633	225,725
Current portion of long-term debt and capital leases (Notes 5 and 9)	956,129	2,372,081
Line of credit (Note 6)	1,051,599	3,051,599
Total current liabilities	7,619,458	10,364,390
Long-term debt and capital leases, less current portion (Notes 5 and 9)	7,768,649	6,163,125
Total liabilities	15,388,107	16,527,515
Net assets (Exhibit B)		
Unrestricted	2,775,675	2,373,840
Temporarily restricted (Note 13)	189,857	130,274
Total net assets	2,965,532	2,504,114
Total liabilities and net assets	$ 18,353,639	$ 19,031,629

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

EXHIBIT B

LOEB & TROPER LLP

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support						
Tuition	$ 27,342,817		$ 27,342,817	$ 26,962,942		$ 26,962,942
Medicaid revenue for community services	12,976,305		12,976,305	11,287,674		11,287,674
Federal and New York State grants	6,469,686		6,469,686	5,576,883		5,576,883
Contributions	68,963	$ 157,900	226,863	138,564	$ 165,570	304,134
Donated services (Note 2)	70,043		70,043	71,894		71,894
Donated costs (Notes 2 and 14)	596,094		596,094	620,201		620,201
Day care private fees	9,991		9,991	22,310		22,310
Autism program fees	99,727		99,727	189,341		189,341
Special events	280,978		280,978			
Less: direct costs of special events	(129,692)		(129,692)			
Interest income	23,989		23,989	26,142		26,142
Other income	60,255		60,255	30,401		30,401
Net assets released from restrictions (Note 13)	98,317	(98,317)		70,360	(70,360)	
Total revenues and other support	47,967,473	59,583	48,027,056	44,996,712	95,210	45,091,922
Expenses						
Educational (includes $596,094 and $620,201 of donated costs in 2010 and 2009, respectively, $5,250 of donated services in 2009, and $187,920 and $199,070 of interest expense in 2010 and 2009, respectively)	31,310,213		31,310,213	30,113,063		30,113,063
Community services (includes $299,023 and $249,506 of interest expense in 2010 and 2009, respectively)	10,732,909		10,732,909	9,158,214		9,158,214
Educational and other programs	20,796		20,796	8,114		8,114
Fund raising (including $3,900 of donated services in 2010)	60,524		60,524	100,052		100,052
Management and general (includes $66,143 and $66,644 of donated services in 2010 and 2009, respectively, and $191,160 and $282,802 of interest expense in 2010 and 2009, respectively)	5,441,196		5,441,196	5,417,796		5,417,796
Total expenses (Note 11)	47,565,638		47,565,638	44,797,239		44,797,239
Change in net assets (Exhibit C)	401,835	59,583	461,418	199,473	95,210	294,683
Net assets - beginning of year	2,373,840	130,274	2,504,114	2,174,367	35,064	2,209,431
Net assets - end of year (Exhibit A)	$ 2,775,675	$ 189,857	$ 2,965,532	$ 2,373,840	$ 130,274	$ 2,504,114

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 461,418	$ 294,683
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,062,675	956,444
Amortization of bond, loan financing, and other program costs	19,168	19,168
Decrease (increase) in assets		
Accounts receivable	1,329,388	602,048
Contributions receivable - due within one year	50,000	(17,441)
Fees receivable	(30,562)	59,780
Prepaid expenses	33,211	(62,426)
Other assets	(28,478)	49,151
Increase (decrease) in liabilities		
Accounts payable, accrued expenses, accrued payroll and benefits	629,087	435,234
Deferred income	(975)	(2,325)
Due to OPWDD	42,908	98,450
Net cash provided by operating activities	3,567,840	2,432,766
Cash flows from investing activities		
Capital expenditures	(462,379)	(1,542,929)
Deferred other program costs	(261,584)	(279,683)
Decrease (increase) in limited use assets	25,168	(46,260)
Net cash used by investing activities	(698,795)	(1,868,872)
Cash flows from financing activities		
Loan financing costs	(15,246)	
Principal proceeds from long-term debt	2,524,531	1,205,297
Principal payments on long-term debt	(2,383,589)	(670,364)
Principal proceeds from line of credit		1,000,000
Principal payments on line of credit	(2,000,000)	(1,948,401)
Net cash used by financing activities	(1,874,304)	(413,468)
Net change in cash and cash equivalents	994,741	150,426
Cash and cash equivalents - beginning of year	1,892,152	1,741,726
Cash and cash equivalents - end of year	$ 2,886,893	$ 1,892,152
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 635,844	$ 719,791
Capital leases entered into during the year for equipment	$ 48,630	$ 200,180

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1 - NATURE OF ENTITY

The accompanying consolidated financial statements include the accounts of Birch Family Services, Inc. (BFS) and The Herbert G. Birch Services Fund, Inc., which are related by common members of the Board of Directors.

Birch Family Services, Inc.

BFS, formerly known as The Herbert G. Birch Services, Inc. (until March 23, 2007) is a not-for-profit organization that operates schools in New York City for preschool and school-age students with various learning disabilities and serious developmental disabilities as well as for nondisabled children. BFS also operates three Intermediate Care Facilities (ICFs), six Individual Residential Alternative Facilities (IRAs) and two day habilitation facilities, and provides other services for developmentally disabled individuals varying in age from birth through adulthood. In addition, two new ICFs will be opened in December 2010.

The Herbert G. Birch Services Fund, Inc. (the "Organization")

The Organization operates in support of BFS.

BFS and the Organization are not-for-profit organizations exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. BFS is funded primarily by tuition, and Medicaid revenue for community services and grants. The Organization is funded primarily by general public contributions, special events and autism program fees, which both represent a concentration of revenue for the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The consolidated financial statements have been prepared on the accrual basis of accounting.

Basis of consolidation - The consolidated financial statements include the balance sheet, statement of activities and cash flows of BFS and the Organization. All material intercompany balances and transactions have been eliminated in the consolidation.

-continued-

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FASB Accounting Standards Codification - In July 2009, the FASB released FASB Accounting Standards Codification (ASC) as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. All other accounting literature not included in the Codification is nonauthoritative.

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

Cash and cash equivalents - Cash and cash equivalents include investments in highly liquid instruments with original maturities when acquired of three months or less.

Accounts receivable - Accounts receivable from tuition, Medicaid revenue for community services, government grants and other sources of income are recorded when services are rendered.

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until conditions are substantially met.

Allowance for doubtful accounts - Management determines whether an allowance for uncollectibles should be provided for accounts and contributions receivable. Such estimates are based on management's assessment of the aged basis of its sources, current economic conditions, subsequent collections and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

-continued-

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fees receivable - Fees receivable consist of unpaid fee balances. Fees receivable are presented net of allowances for doubtful accounts. The allowances are based on management's evaluation of the collectibility of the related accounts. Interest is not accrued or recorded on outstanding receivables. As of June 30, 2010 and 2009, the Organization has deemed that an allowance for doubtful accounts is not necessary for fees receivable.

Fixed assets - BFS - Items with a cost of $5,000 and estimated useful life of more than one year are subject to capitalization and are recorded at cost. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets as provided by the New York State Education Department's Consolidated Fiscal Reporting Manual. Amortization of leasehold improvements is provided on the straight-line basis over the lesser of term of the lease or their estimated useful lives.

Fixed assets - Organization - Items with a cost of $500 and an estimated useful life of more than one year are capitalized. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets.

Limited use assets - Limited use assets represent funds deposited and maintained by the Trustee pursuant to the financing agreements (see Note 4). BFS invests in various securities such as money market and guaranteed investment contracts. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the statement of activities.

Deferred bond and loan financing costs - Deferred bond and loan financing costs are stated at cost and amortized on the straight line basis over the term of the bonds/loans.

Deferred program costs - Deferred program costs are stated at cost. They are costs related to new programs and will be amortized once the program commences operations in accordance with applicable New York State guidelines.

Net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time periods or purpose.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tuition and Medicaid revenue for community services - third-party reimbursement and revenue recognition - Revenue for the school's programs are based on reimbursement rates promulgated by New York State and funded by the New York City Department of Education, the Department of Health ("DOH"), and the NYC Administration for Children's Services. Revenue for Community Services are funded by New York State through the Medicaid system and Office for People with Developmental Disabilities (OPWDD).

Revenues and receivables arising from programs funded by government agencies are dependent upon final audit and negotiation between BFS and the agencies. Cost reimbursements applicable to various programs conducted for and on behalf of government agencies are subject to adjustments, if any, based upon the results of audits by the agencies.

Federal and New York State grants - Revenues from government contracts are recognized when reimbursable expenses are incurred under the terms of the contracts. Contract payments in excess of or less than qualified expenses are accounted for as contract advances payable or accounts receivable, respectively.

Contributions - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Autism program fees - Autism program fees are based on established rates and are recorded when services are rendered.

Donated services - BFS and the Organization receive certain contributed services that meet criteria under accounting principles generally accepted in the United States of America for recognition as contributions. Such services (primarily legal, advertising and marketing) are recorded in these financial statements at fair value amounting to $70,043 in 2010 and $71,894 in 2009.

Donated costs - BFS receives certain contributed city-administered support that meets criteria under accounting principles generally accepted in the United States of America for recognition as contributions. Such support, amounting to $596,094 in 2010 and $620,201 in 2009, is recorded in these financial statements at fair value (see Note 14).

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases - Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Capital leases are recorded at the lower of the fair market value of the assets or the present value of the minimum lease payments and are amortized over the lease term or estimated useful life of the assets, whichever is shorter, unless the lease provides for transfer of title or includes a bargain purchase option, in which case the lease is amortized over the estimated useful life of the asset. Operating lease payments are charged to rental expense. Operating lease expense has been recorded on the straight-line basis over the term of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Advertising - All advertising costs are expensed in the year they are incurred. The amount totaled $122,834 in 2010 and $142,542 in 2009.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Uncertainty in income taxes - Effective July 1, 2009, BFS adopted the provision pertaining to uncertain tax positions (ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Subsequent events - Subsequent events are evaluated through the date the financial statements are available to be issued.

-continued-

NOTE 3 - FIXED ASSETS

	2010	2009	Estimated Useful Lives
Land	$ 1,513,261	$ 1,513,261	
Building and building improvements	8,006,897	7,681,880	25 years
Leasehold improvements	2,391,959	2,363,100	5-25 years
Furniture, fixtures and equipment (including capital lease assets of $405,610 in 2010 and $356,980 in 2009)	2,519,863	2,362,730	3-20 years
	14,431,980	13,920,971	
Accumulated depreciation and amortization	(5,612,452)	(4,549,777)	
	$ 8,819,528	$ 9,371,194	

Amortization of capital lease assets was $123,264 during 2010 and $79,100 in 2009.

NOTE 4 - LIMITED USE ASSETS

In connection with the issuance of New York City Industrial Development Agency Revenue Bonds on its behalf, BFS was required to set up debt service reserve funds for the Washington Heights bonds, for the East 45th Street bonds, and for the 94th Street bond. Pursuant to the agreements, these accounts are held in escrow and are invested by BFS. At June 30, 2010 and 2009, the balances on these accounts were $337,600 and $320,668; $39,047 and $39,045; and $207,573 and $205,765, which total $584,220 and $565,478, respectively.

BFS received funds to be held in escrow upon completion of future improvements to the Washington Heights building related to the New York City Industrial Development Agency Revenue Bonds. There was $53,844 withdrawn for improvements to the building during 2010, and no amounts withdrawn during 2009. The balance as of June 30, 2010 and 2009 was $4,430 and $58,220, respectively.

The amount received from the New York City Industrial Development Agency Revenue Bonds for East 45th Street was $75,768, to be held in escrow upon completion of future improvements to the building. As of June 30, 2010 and 2009, the balance was $87,137 and $83,205, respectively.

-continued-

NOTE 4 - LIMITED USE ASSETS (continued)

The 94th Street bond escrow was held with Bank of New York. As of June 30, 2010 and 2009, the balance was $52,655 and $46,707, respectively.

The totals of the above bond escrows were $144,222 in 2010 and $188,132 in 2009.

NOTE 5 - LONG-TERM DEBT

On February 6, 1997, BFS borrowed $2,975,000 from the New York City Industrial Development Agency to acquire and renovate an educational facility located in Washington Heights, New York. The original debt consisted of two separate civic facility revenue bonds:

Series 1997A at 7.375% per annum, due February 1, 2009	$ 780,000
Series 1997B at 8.375% per annum, due February 1, 2022	2,195,000
	$ 2,975,000

The Series 1997A Bonds of $780,000 have been repaid as of June 30, 2009. For Series 1997B, $100,000, was paid during the fiscal year ended June 30, 2010. The balances at June 30, 2010 and 2009 were $2,095,000 and $2,195,000, respectively. BFS has granted one or more leasehold mortgage liens on, and security interests in, the facility as collateral.

On December 9, 1999, BFS borrowed $416,100 from the New York City Industrial Development Agency to acquire and renovate an individualized residential alternative facility (IRA) located in Brooklyn, New York. The original debt consisted of three separate civic facility revenue bonds:

Series 1999B-2 at 8.750% per annum, due August 1, 2001	$ 21,100
Series 1999B-1 at 7.125% per annum, due August 1, 2005	95,000
Series 1999B-1 at 7.125% per annum, due August 1, 2015	300,000
	$ 416,100

The balances at June 30, 2010 and 2009 were $170,000 and $190,000, respectively. BFS has granted one or more leasehold mortgage liens on, and security interests in, the facility as collateral.

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NOTE 5 - LONG-TERM DEBT (continued)

On August 17, 2000, BFS borrowed $607,000 from the New York City Industrial Development Agency to retire the initial financing used in the acquisition of an IRA located in Brooklyn, New York. The original debt consisted of three separate civic facility revenue bonds:

Series 2000A-2 at 9.500% per annum, due July 1, 2002	$ 52,000
Series 2000A-1 at 8.125% per annum, due July 1, 2005	130,000
Series 2000A-1 at 8.125% per annum, due July 1, 2015	425,000
	$ 607,000

The balances at June 30, 2010 and 2009 were $255,000, and $280,000, respectively. BFS has granted one or more leasehold mortgage liens on, and security interests in, the facility as collateral.

On April 29, 1996, BFS received a mortgage from the Dormitory Authority of the State of New York for the facility located at Flatlands Avenue, Brooklyn, New York in the amount of $754,500. The terms of the mortgage require semiannual payments of principal, as defined in the mortgage agreements, plus interest at a rate of 6.0157% per annum through February 15, 2020. The mortgage is secured by the real property, improvements, gifts, grants and bequests for the project and any fees owed to the facility by the State of New York. During 2010 and 2009, principal payments totaling $30,000 were made. The balances at June 30, 2010 and 2009 were $429,500 and $459,500, respectively.

On August 23, 2002, BFS borrowed $400,000 from Citibank N.A. ("Citibank") to upgrade the telecommunication system for all sites and for an energy conservation project. The terms of the loan require monthly payments of $4,800, including principal and interest, through July 2012. The interest rate is fixed for the length of the term at 7.75%. During 2010 and 2009, principal payments totaling $161,300 and $43,266 were made. The balance at June 30, 2009 was $161,300 and was paid off in full on July 28, 2009. The mortgage was secured by security interests covering all of BFS' personal properties, subject only to prior liens in favor of the Lender and as otherwise approved by the Lender.

On September 30, 2003, BFS borrowed $350,000 from Citibank to purchase Navision software. The terms of the loan require monthly payments of $4,487 of principal, not including interest, through April 2010. The interest rate is fixed for the length of the term at 6.00%. During 2010 and 2009, principal payments totaling $44,872 and $53,846 were made. The balance at June 30, 2009 was $44,872 and was paid off in full in April 2010. The mortgage was secured by security interests covering all of BFS' personal properties, subject only to liens disclosed to and accepted by the bank.

-continued-

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 5 - LONG-TERM DEBT (continued)

On April 14, 2004, BFS arranged for financing in the amount of $1,000,000 from Citibank for various facility upgrades. The terms of the loan require monthly payments of principal, plus interest, at a rate of 6.75% per annum through April 14, 2014. The note is secured by BFS and the related personal property. During 2010 and 2009, principal payments of $113,886 and $106,673 were made. The balance at June 30, 2010 and 2009 was $529,206 and $643,092, respectively. The mortgage is secured by security interests covering all of BFS' personal properties, subject only to prior liens in favor of the Lender and as otherwise approved by the Lender.

On May 11, 2006, BFS borrowed $914,786 and $288,108, totaling $1,202,894, from Citibank for the purpose of renovating one of the Far Rockaway properties. The terms of the agreements provide for monthly interest payments at an annual rate of 8% and 6%, respectively. Monthly principal payments commenced in March 2007 and amount to $5,082 and $4,802, respectively, and mature February 2022 and February 2012, respectively. During 2010, principal payments of $60,986 and $57,624, respectively, were made. During 2009, principal payments of $60,986 and $57,620, respectively, were made. The balances at June 30, 2010 were $711,496 and $96,035, totaling $807,531. The balances at June 30, 2009 were $772,482 and $153,659, totaling $926,141. First priority mortgage of BFS covering residential real property generally located in Far Rockaway, NY is secured by collateral assignment of leases and rents of BFS relating to the mortgaged property and security interests covering all of BFS' personal properties relating to the mortgaged property, including all revenue derived from the utilization of the mortgaged property.

As of June 30, 2006, BFS borrowed $1,975,000 from FJC, Inc. for the purchase of three facilities in Far Rockaway, New York. The terms of the agreements provide for quarterly interest payments at an annual rate of prime plus 3%. $600,000 was paid off in March 2008, leaving a balance of $1,375,000, with the maturity date extended to June 30, 2010. The balance was paid off on June 10, 2010. The balance at June 30, 2009 was $1,375,000.

On April 17, 2007, BFS borrowed $1,000,000 from Citibank for the purpose of relocating and renovating its administrative headquarters. The terms of the loan require monthly payments of principal, plus interest at a rate of 7.5% per annum through April 18, 2017. During 2010 and 2009, principal payments of $100,000 were made. The balance at June 30, 2010 and 2009 was $683,333 and $783,333, respectively. The mortgage is secured by security interests covering all of BFS' personal properties, subject only to liens disclosed to and accepted by the bank.

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NOTE 5 - LONG-TERM DEBT (continued)

On July 10, 2007, BFS borrowed $52,905 from Sterling Bank for the purpose of upgrading its internal computer systems. The terms of the unsecured loan require monthly payments of principal, plus interest at a rate of 10.564% per annum through June 10, 2011. During 2010 and 2009, principal payments of $13,966 and $12,572, respectively, were made. The balance at June 30, 2010 and 2009 was $14,159 and $28,125, respectively.

On July 28, 2008, BFS borrowed $635,909 and $569,388, totaling $1,205,297, from Citibank for the purpose of closing on property for a new IRA facility located at 52nd St., Brooklyn. The terms of the agreements provide for monthly interest payments at an annual rate of 6.5% and 6%, and mature May 2024 and May 2014, respectively. During 2010, principal payments of $42,394 and $115,301, respectively, were made. During 2009, principal payments of $3,533 and $8,066, respectively, were made. The balance at June 30, 2010 was $589,982 and $446,021, totaling $1,036,003. The balances at June 30, 2009 were $632,376 and $561,322, totaling $1,193,698. The mortgage is secured by security interests covering all of BFS' personal properties, including all revenue derived from the utilization of the mortgaged property.

On April 7, 2010, BFS received a $1,000,000 unsecured loan from FJC, Inc., for the purpose of a renovation of the Grove Street facility in Brooklyn, New York. The terms of the agreement provide for quarterly interest payments at an annual rate of prime plus 3%. The loan shall be due April 30, 2012. The prime rate as of June 30, 2010 was 3.25%, for a total interest rate of 6.25%. The balance at June 30, 2010 is $1,000,000.

On June 10, 2010, BFS borrowed $647,417 and $166,438, totaling $813,855, from Citibank for the purpose of renovating one of the Far Rockaway properties at Grassmere Street. The terms of the agreements provide for monthly interest payments at an annual rate of 6.8% and 5.6%, respectively. Monthly principal payments commenced in July 2010 and amount to $3,597 and $2,774, respectively, and the loans mature June 2025 and June 2015, respectively. During 2010, no principal payments were made. First priority mortgage of BFS covering residential real property generally located in Far Rockaway, NY is secured by collateral assignment of leases and rents of BFS relating to the mortgaged property and security interests covering all of BFS' personal properties relating to the mortgaged property, including all revenue derived from the utilization of the mortgaged property. The balance at June 30, 2010 is $813,855.

-continued-

NOTE 5 - LONG-TERM DEBT (continued)

On June 10, 2010, BFS borrowed $610,737 and $99,939, totaling $710,676, from Citibank for the purpose of renovating one of the Far Rockaway properties at President Street. The terms of the agreements provide for monthly interest payments at an annual rate of 6.8% and 5.6%, respectively. Monthly principal payments commenced in July 2010 and amount to $3,393 and $1,666, respectively, and the loans mature June 2025 and June 2015, respectively. During 2010, no principal payments were made. First priority mortgage of BFS covering residential real property generally located in Far Rockaway, NY is secured by collateral assignment of leases and rents of BFS relating to the mortgaged property and security interests covering all of BFS' personal properties relating to the mortgaged property, including all revenue derived from the utilization of the mortgaged property. The balance at June 30, 2010 is $710,676.

Aggregate maturities of long-term debt for the years subsequent to June 30, 2010 are as follows:

2011	$ 843,130
2012	1,823,377
2013	809,182
2014	826,856
2015	600,530
Thereafter	3,641,188
	$ 8,544,263

NOTE 6 - LINE OF CREDIT

BFS has a line of credit of $7,000,000 with Citibank. Interest is payable monthly at the greater of the prime rate or one-month LIBOR plus 2% per annum, less .125% in each instance. The interest rate charged during 2010 and 2009 was 3.125% and 3.00%, respectively. The note is secured by BFS and the related receivables which are used to determine the borrowing base as defined in the agreement. The balances outstanding at June 30, 2010 and 2009 were $1,051,599 and $3,051,599, respectively. As of November 22, 2010, the balance outstanding was $1,051,599.

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BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 7 - DUE TO OPWDD

BFS has entered into contracts with OPWDD for the operation of three ICFs, six IRAs and two Day Habilitation facilities. As part of the agreement, OPWDD advanced funds to BFS and expended funds on BFS' behalf for preoperational start-up costs, buildings, equipment, renovations, lease costs, real estate taxes, health care costs and operations. BFS has agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid. Medicaid payments for these costs are withheld from remittances. The amount due to OPWDD as of June 30, 2010 and 2009 was $268,633 and $225,725, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

(a) BFS leases various buildings and equipment under operating leases. The commitments under these leases, which have various expiration dates through 2017, are as follows:

2011	$ 2,522,191
2012	2,489,906
2013	2,511,725
2014	2,201,299
2015	2,164,815
Thereafter	4,280,093
	$ 16,170,029

During 2010 and 2009, rent expense amounted to $2,579,653 and $2,504,357, respectively.

(b) BFS is responsible for reporting to various third parties. Besides SED, the New York City Department of Education, DOH and OPWDD, the New York State Office of the Attorney General and the Internal Revenue Service have the right to audit BFS.

(c) As of the date of this report, audits performed by OPWDD have been completed and resolved through 2007.

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BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued)

(d) The New York City Department of Education issued a revised reconciliation report covering BFS' education program's enrollment and rates for the years 1995/1996 through 2005/2006. That reconciliation report reflects a net liability owed to the New York City Department of Education of $2,117,668 as of July 2009. Previously, New York City Department of Education reconciliations for the same period of time were $1,904,000 less than the current amount. BFS is currently contesting the amount and timing of the proposed reconciliation. Management has set up a reserve of $163,000 as the liability to the New York City Department of Education for those fiscal years.

NOTE 9 - CAPITAL LEASES

During 2010 and 2009, BFS entered into several capital leases on various automobiles and copiers.

The monthly installments on the leases vary. The interest rate was 7.55% for 2010 and 2009.

Required payments are as follows:

2011	$ 122,724
2012	59,593
2013	10,598
	192,915
Less interest	(12,400)
Total	$ 180,515

Interest expense was $18,805 for 2010 and $17,720 for 2009.

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NOTE 10 - RETIREMENT PLAN

BFS' employees are covered under an employer-discretionary, noncontributory, defined contribution profit-sharing plan. To be eligible to participate, an employee must complete one year of service with BFS, have worked 1,000 hours during the plan year, have attained age 21 and be employed on the last day of the plan year, June 30. The entry dates are June 30 and December 31. The minimum required contribution is zero. The contribution percentage used for both 2010 and 2009 was between 3.5% and 7%, based on employee job classification and length of service.

Vesting begins in the first year of participation and increases based upon years of continuous service until a participant is fully vested after the sixth year.

Retirement expense for the years ended June 30, 2010 and 2009 amounted to $1,159,612 and $994,670, respectively.

NOTE 11 - FUNCTIONAL EXPENSES

	2010	2009
Program services		
Educational and community services	$ 42,043,122	$ 39,271,277
Educational and other programs	20,796	8,114
Total program services	42,063,918	39,279,391
Supporting services		
Management and general	5,441,196	5,417,796
Fund raising	60,524	100,052
Total supporting services	5,501,720	5,517,848
Total expenses	$ 47,565,638	$ 44,797,239

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BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 12 - CONCENTRATIONS

Approximately 84% of revenues are derived from the State Education Department and OPWDD.

Financial instruments which potentially subject BFS and the organization to a concentration of credit risk are cash accounts in financial institutions which, from time to time, exceed FDIC insurance limits.

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 and 2009 are available for the following purposes:

	2010	2009
Educational and training projects	$ 26,597	$ 57,093
Family support	12,500	15,000
Domestic violence projects	4,636	4,636
Library projects	2,858	2,858
Other	143,266	50,687
	$ 189,857	$ 130,274

During the years ended June 30, 2010 and 2009, net assets were released from donor restriction by incurring expenses satisfying the following temporarily restricted purposes:

	2010	2009
Educational and training projects	$ 5,049	$ 5,848
Family support	27,500	27,903
Community services	500	13,300
Other	65,268	23,309
	$ 98,317	$ 70,360

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NOTE 14 - DONATED COSTS

BFS' contracts with the City of New York, Agency for Child Development (the "Agency") have cost-sharing agreements whereby certain costs are borne by the Agency. City-administered support is included in the accompanying financial statements as donated costs. Total City-administered support has been recorded as follows:

	2010	2009
Health insurance	$ 185,965	$ 209,481
Lease/rental - real property	266,017	266,017
Pension	22,052	22,052
Gas and heating fuel	34,212	34,212
Water	6,520	6,520
HRA agency insurance package	6,893	7,484
Real property taxes	74,435	74,435
	$ 596,094	$ 620,201

NOTE 15 - FAIR VALUE MEASUREMENTS

Accounting Standards Codification (ASC) Section 820, *Fair Value Measurements*, establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that BFS has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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NOTE 15 - FAIR VALUE MEASUREMENTS (continued)

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2010 and 2009.

Money market funds - Valued at the closing price reported on the active market on which they are traded.

Guaranteed investment contracts - Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations, considering the credit-worthiness of the issuer.

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2010 and 2009:

	2010		
	Level 1	Level 2	Total
Limited use assets:			
Money market funds	$ 442,299	$ -	$ 442,299
Guaranteed investment contracts	-	286,143	286,143
	$ 442,299	$ 286,143	$ 728,442

	2009		
	Level 1	Level 2	Total
Limited use assets:			
Money market funds	$ 467,467	$ -	$ 467,467
Guaranteed investment contracts	-	286,143	286,143
	$ 467,467	$ 286,143	$ 753,610

However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

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BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 22, 2010, which is the date the financial statements were available to be issued.

BFS entered into two new loan agreements with Citibank on September 22, 2010. The first loan, in the amount of $632,870, is for renovating the Hillcrest school to accommodate a Children's Residential Program. The terms of the agreement provide for monthly interest payments at 5.1%. The loan matures September 2020. The second loan, in the amount of $490,813, is for purchasing a system for human resources and attendance, called the Kronos System. The terms of the agreement provide for monthly interest payments at an annual rate of 4%, and mature September 2017.

BFS will be entering into a 10-year loan agreement in the amount of $716,000 for the purpose of renovations in the Washington Heights facility. The current anticipated rate for the loan is 6.5%, which is subject to review on November 1, 2013, at which time the lender has the right to raise the rate to prime plus 2%.

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BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

CONSOLIDATING BALANCE SHEET

JUNE 30, 2010

	Birch Family Services, Inc.	The Herbert G. Birch Services, Fund, Inc.	Eliminations	Consolidated
ASSETS				
Current assets				
Cash and cash equivalents	$ 2,310,849	$ 576,044		$ 2,886,893
Accounts receivable (net of allowance for doubtful accounts of $30,000)	4,847,623			4,847,623
Contributions receivable - due within one year		32,941		32,941
Due from The Herbert G. Birch Services Fund, Inc.	275,255		$ (275,255)	
Fees receivable		47,752		47,752
Prepaid expenses	54,046			54,046
Total current assets	7,487,773	656,737	(275,255)	7,869,255
Fixed assets - net	8,819,528			8,819,528
Limited use assets				
Debt service reserve fund	584,220			584,220
Bond escrow	144,222			144,222
Deferred bond, loan financing and other program costs	817,086			817,086
Other assets	119,328			119,328
Total assets	$ 17,972,157	$ 656,737	$ (275,255)	$ 18,353,639

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BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

CONSOLIDATING BALANCE SHEET

JUNE 30, 2010

	Birch Family Services, Inc.	The Herbert G. Birch Services, Fund, Inc.	Eliminations	Consolidated
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable, accrued expenses, accrued payroll and benefits	$ 5,335,897	$ 7,200		$ 5,343,097
Due to OPWDD	268,633			268,633
Due to Birch Family Services, Inc.		275,255	$ (275,255)	
Current portion of long-term debt and capital leases	956,129			956,129
Line of credit	1,051,599			1,051,599
Total current liabilities	7,612,258	282,455	(275,255)	7,619,458
Long-term debt and capital leases, less current portion	7,768,649			7,768,649
Total liabilities	15,380,907	282,455	(275,255)	15,388,107
Net assets				
Unrestricted	2,591,250	184,425		2,775,675
Temporarily restricted		189,857		189,857
Total net assets	2,591,250	374,282		2,965,532
Total liabilities and net assets	$ 17,972,157	$ 656,737	$ (275,255)	$ 18,353,639

See independent auditor's report.

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

SCHEDULE 2

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

	Unrestricted				Temporarily Restricted	
	Birch Family Services, Inc.	The Herbert G. Birch Services, Fund, Inc.	Eliminations	Total	The Herbert G. Birch Services, Fund, Inc.	Consolidated
Revenues and other support						
Tuition	$ 27,342,817			$ 27,342,817		$ 27,342,817
Medicaid revenue for community services	12,976,305			12,976,305		12,976,305
Federal and New York State grants	6,469,686			6,469,686		6,469,686
Grants from The Herbert G. Birch Services Fund, Inc.	157,103		$ (157,103)			
Contributions		$ 68,963		68,963	$ 157,900	226,863
Donated services	66,143	3,900		70,043		70,043
Donated costs	596,094			596,094		596,094
Day care private fees	9,991			9,991		9,991
Autism program		99,727		99,727		99,727
Special events		280,978		280,978		280,978
Less: direct costs of special events		(129,692)		(129,692)		(129,692)
Interest income	23,987	2		23,989		23,989
Other income	60,255			60,255		60,255
Net assets released from restrictions (Note 13)		98,317		98,317	(98,317)	
Total revenues and other support	47,702,381	422,195	(157,103)	47,967,473	59,583	48,027,056
Expenses						
Educational (includes $596,094 of donated costs and $187,920 of interest expense)	31,310,213			31,310,213		31,310,213
Community services (includes $299,023 of interest expense)	10,732,909			10,732,909		10,732,909
Grants to Birch Family Services, Inc.		157,103	(157,103)			
Educational and other program expenses		20,796		20,796		20,796
Fund raising (includes $3,900 of donated services)		60,524		60,524		60,524
Management and general (includes $66,143 of donated services and $191,160 of interest expense)	5,412,069	29,127		5,441,196		5,441,196
Total expenses (Note 11)	47,455,191	267,550	(157,103)	47,565,638		47,565,638
Change in net assets	247,190	154,645	-	401,835	59,583	461,418
Net assets - beginning of year	2,344,060	29,780		2,373,840	130,274	2,504,114
Net assets - end of year	$ 2,591,250	$ 184,425	$ -	$ 2,775,675	$ 189,857	$ 2,965,532

See independent auditor's report.

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

SCHEDULE 3

CONSOLIDATING SCHEDULE OF CASH FLOWS

YEAR ENDED JUNE 30, 2010

	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Total
Cash flows from operating activities				
Change in net assets	$ 247,190	$ 214,228		$ 461,418
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation and amortization	1,062,675			1,062,675
Amortization of bond, loan financing, and other program costs	19,168			19,168
Decrease (increase) in assets				
Accounts receivable	1,329,388			1,329,388
Contributions receivable		50,000		50,000
Fees receivable		(30,562)		(30,562)
Prepaid expenses	33,211			33,211
Due from The Herbert G. Birch Services Fund, Inc.	(92,961)		$ 92,961	
Other assets	(28,478)			(28,478)
Increase (decrease) in liabilities				
Accounts payable, accrued expenses, accrued payroll and benefits	632,981	(3,894)		629,087
Deferred income		(975)		(975)
Due to Birch Family Services, Inc.		92,961	(92,961)	
Due to OPWDD	42,908			42,908
Net cash provided by operating activities	3,246,082	321,758	-	3,567,840

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LOEB & TROPER LLP

CONSOLIDATING SCHEDULE OF CASH FLOWS

YEAR ENDED JUNE 30, 2010

	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Total
Cash flows from investing activities				
Capital expenditures	$ (462,379)			$ (462,379)
Deferred other program costs	(261,584)			(261,584)
Decrease in limited use assets	25,168			25,168
Net cash used by investing activities	(698,795)			(698,795)
Cash flows from financing activities				
Loan financing costs	(15,246)			(15,246)
Principal proceeds from long-term debt	2,524,531			2,524,531
Principal payments on long-term debt	(2,383,589)			(2,383,589)
Principal payments on line of credit	(2,000,000)			(2,000,000)
Net cash used by financing activities	(1,874,304)			(1,874,304)
Net change in cash and cash equivalents	672,983	$ 321,758	$ -	994,741
Cash and cash equivalents - beginning of year	1,637,866	254,286		1,892,152
Cash and cash equivalents - end of year	$ 2,310,849	$ 576,044	$ -	$ 2,886,893
Supplemental disclosure of cash flow information				
Cash paid during the year for interest	$ 635,844			$ 635,844
Capital leases entered into during the year for equipment	$ 48,630			$ 48,630

See independent auditor's report.

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APPENDIX B-III

HASC CENTER, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2012, JUNE 30, 2011 AND JUNE 30, 2010)

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HASC CENTER, INC.

FINANCIAL STATEMENTS

JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Hasc Center, Inc.
Brooklyn, NY

We have audited the accompanying statements of financial position of Hasc Center, Inc. as of June 30, 2012 and the related statements of activities, functional expenses, and of cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of Hasc Center, Inc. as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

J. Gliksman CPA PC

J. Gliksman CPA PC

December 28, 2012

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012
(With Comparative Totals for June 30, 2011)

Current Assets	2012	2011
Cash and Cash Equivalents	$ 9,988,154	$ 11,546,439
Investments	5,375,728	1,101,982
Accounts Receivable (Less Allowance for Bad Debts $4,000)	136,876	196,179
Management Fees Receivable	101,561	168,326
Medicaid and Grants Receivable	5,510,533	6,075,063
Prepaid Expenses	179,597	196,246
Prepaid Interest	10,880	11,452
Note Receivable - BKFHC	47,955	44,207
Total Current Assets	**$ 21,351,284**	**$ 19,339,894**
Fixed Assets		
Land	$ 2,481,500	$ 2,481,500
Building	13,276,265	11,155,960
Leasehold Improvements	2,747,982	2,736,189
Vehicles	561,806	385,562
Machinery & Equipment	385,562	543,386
Furniture & Fixtures	370,890	331,215
Accumulated Depreciation	(6,536,108)	(5,743,460)
Total Fixed Assets	**$ 13,287,897**	**$ 11,890,352**
Other Assets		
Due from BKFHC	$ 454,281	$ 627,276
Discounted Note Receivable - BKFHC	224,554	207,440
Reserve Funds	994,791	991,138
Security Deposits	84,724	82,976
Retirement Trust Fund	707,973	489,305
Bond Closing Costs (Net of Amortization of $452,879)	604,916	655,587
Total Other Assets	**$ 3,071,239**	**$ 3,053,722**
TOTAL ASSETS	**$ 37,710,420**	**$ 34,283,968**

See notes to financial statements

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012
(With Comparative Totals for June 30, 2011)

Current Liabilities	**2012**	**2011**
Accounts Payable	$ 438,147	$ 457,045
Due to Employees HCI	715,523	1,252,976
Accrued Wages & Taxes	1,346,643	914,717
Accrued Expenses	58,171	78,172
Loans & Leases Payable	1,453,403	55,941
Advances Due OPWDD	58,970	58,970
Mortgages Payable	1,027,196	1,134,345
Mortgage and Interest Payable	743,412	750,537
Total Current Liabilities	**$ 5,841,465**	**$ 4,702,703**
Other Liabilities		
Loans & Leases Payable	$ 10,052	$ 18,142
Advances Due OPWDD	259,174	266,316
Retirement Trust Fund	707,973	489,305
Mortgages Payable	5,661,161	6,705,842
Total Other Liabilities	**$ 6,638,360**	**$ 7,479,605**
TOTAL LIABILITIES	**$ 12,479,825**	**$ 12,182,308**
Net Assets		
Unrestricted Net Assets	$ 25,059,557	$ 21,930,622
Temporarily Restricted Net Assets	47,343	47,343
Board Designated Net Assets	123,695	123,695
Total Net Assets	**$ 25,230,595**	**$ 22,101,660**
TOTAL LIABILITIES AND NET ASSETS	**$ 37,710,420**	**$ 34,283,968**

See notes to financial statements

HASC CENTER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Totals for June 30, 2011)

	Unrestricted 2012	**Unrestricted 2011**
Revenue		
Workshop Sales	$ 104,727	$ 102,139
Grants	68,541	124,292
Program Service Fees	33,202,369	32,595,515
Management Income	134,261	134,366
Other Income	92,708	88,125
Interest Income	435,521	119,387
Total	**$ 34,038,127**	**$ 33,163,824**
Expenses		
Program Expenses	$ 28,634,281	$ 27,647,978
Management & General	2,274,911	2,258,021
Total	**$ 30,909,192**	**$ 29,905,999**
Change in Net Assets	$ 3,128,935	$ 3,257,825
Net Assets Beginning	22,101,660	
Net Assets Beginning as previously reported	-	19,333,140
Prior Period Adjustments	-	(489,305)
Beginning Net Assets Restated		18,843,835
NET ASSETS ENDING	**$ 25,230,595**	**$ 22,101,660**

See notes to financial statements

HASC CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Totals for June 30, 2011)

Expenses	Programs	General & Administrative	Total 2012	Total 2011
Salaries	$16,143,488	$ 1,143,471	$17,286,959	$16,618,414
Taxes & Fringe Benefits	5,420,041	696,018	6,116,059	6,007,757
Total Salaries and Benefits	**$21,563,529**	**$ 1,839,489**	**$23,403,018**	**$22,626,171**
Food	921,231	11,768	932,999	875,607
Repair & Maintenance	194,586	15,201	209,787	197,512
Utilities	476,173	32,395	508,568	501,852
Transportation	1,137,694	14,144	1,151,838	1,204,351
Auto Expense	137,618	5,767	143,385	151,260
Consumer Allowances & Incidental	401,645	-	401,645	351,732
Consumer Recreation	393,375	282	393,657	408,758
Consumer Salaries	52,323	-	52,323	50,891
Staff Training	26,592	679	27,271	18,270
Office Expense	107,605	53,265	160,870	128,684
Supplies	346,029	18,401	364,430	295,480
Postage	33,290	8,268	41,558	40,118
Advertising	6,717	(1,663)	5,054	25,362
Data Processing	94,594	6,518	101,112	99,773
Licenses & Fees	39,389	10,384	49,773	44,017
Professional Fees	88,833	148,926	237,759	227,810
Equipment Lease	39,734	8,770	48,504	58,667
Rent	1,094,176	53,753	1,147,929	1,003,575
Insurance	158,316	32,887	191,203	133,458
Mortgage Fees	4,409	-	4,409	4,410
Interest	488,782	-	488,782	568,008
Depreciation & Amortization	827,641	15,677	843,318	890,233
TOTAL EXPENSES	**$28,634,281**	**$ 2,274,911**	**$30,909,192**	**$29,905,999**

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HASC CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Totals for June 30, 2011)

	2012	2011
Cash Flows from Operations		
Increase in Net Assets	$ 3,128,935	$ 3,257,825
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operations:		
Non-Cash Items:		
Prior Period Adjustment	(489,305)	-
Depreciation & Amortization	843,318	890,233
Increase (Decrease) in Cash Resulting from Changes in Operating Assets and Liabilities:		
Receivables, Prepaids, Etc.	689,978	(740,353)
Payables, Accruals, Etc.	(151,568)	(223,821)
Net Cash Provided by Operations	**$ 4,021,358**	**$ 3,183,884**
Cash Flows from Investing		
Investments	$ (3,784,441)	$ (31,290)
Advance to BKFHC	218,898	(64,078)
Purchase of Fixed Assets	(2,240,864)	(184,736)
Net Cash Used by Investing	**$ (5,806,407)**	**$ (280,104)**
Cash Flows from Financing		
Debt Reserve Fund	$ 28,029	$ (22,568)
Proceeds (Payments) of Loans	1,389,372	(270,943)
Payments of Mortgages	(1,190,637)	(1,043,125)
Net Cash Provided (Used) by Financing	**$ 226,764**	**$ (1,336,636)**
Net Cash (Used) Provided:	**$ (1,558,285)**	**$ 1,567,144**
Cash Balance Beginning	11,546,439	9,979,295
CASH BALANCE ENDING	**$ 9,988,154**	**$ 11,546,439**
Interest Paid	$ 488,782	$ 568,008

HASC CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note A – Nature of Organization

Hasc Center, Inc., (the agency) is a not-for-profit agency that provides an array of services in Brooklyn, NY, to children and adults with developmental disabilities and their families. Approximately 90% of the Agency's revenue is Medicaid received from OPWDD. The services include Day Programming, Residential Services, Employment Services, Service Coordination and Residential Habilitation.

Note B – Accounting Policies

The accounting policies of the agency conform to accounting principles generally accepted as applicable to voluntary health and welfare agencies. The accrual basis of accounting is followed by the agency. Under the accrual basis of accounting, revenues are reported when earned. Expenditures are recorded when the goods are received or services are rendered. Sick and vacation pay is recorded when earned.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation have not been material to the financial statements.

The agency reports investments in equity and debt securities at their fair values in the statements of assets, liabilities and net assets. Interest, dividends, realized and unrealized gains and losses are included in the change in net assets.

All depreciable assets that cost at least $1,000 are recorded at cost and are depreciated on a straight-line basis. Buildings are depreciated over 25 years. Machinery and equipment are depreciated over 3 to 7 years and transportation equipment over 4 years. Leasehold improvements are depreciated over the term of the lease including extensions at the tenant's option.

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note B – Accounting Policies (continued)

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

The agency reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Restricted revenue whose restriction expired during the year is presented as unrestricted revenue.

Information for the year ended June 30, 2011 is presented for comparative purposes only, and was extracted from the financial statements prepared for that year, upon which an unqualified opinion dated December 4, 2011, was expressed. Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

The agency is a tax-exempt organization under the law of New York State and under Internal Revenue Code 501(c) (3) as a non-private foundation.

For purposes of the statements of cash flows, the organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Subsequent events have been evaluated through December 28, 2012, the date of which financial statements were available to be issued.

Note C – Concentrations of Credit Risk

The agency maintains cash balances at Capitol One Bank and Bank of New York Mellon located in New York City. Federal Deposit Insurance Corporation insures all accounts at each institution in full.

Note D – Investments

Investments reported in the statement of financial position are made up of a diversified portfolio of financial instruments with readily determinable fair values based on quoted prices in active markets for identical assets (Level 1) consisting of the following fair values measured on a recurring basis at June 30:

	2012
Equity securities	$1,699,970
U S government and agency bonds	473,564
Stock mutual funds & exchange traded funds	717,125
Fixed income funds	928,169
Cash & money market accounts	310,487
International Funds	110,775
Accrued interest	1,473
Total	$4,241,563

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Additionally, investments includes a J P Morgan Annuity in the amount of $1,107,526, and an insurance policy with a cash value of $26,639. The investments are not insured. The annuity pays 3% interest per year. Interest and dividend income from these holdings for the year ended June 30, 2012 was $254,021. Realized gains in fair market value of the investments for the year ended June 30, 2012 is reported in the statement of activities in the amount of $20,900. Unrealized gains in fair market value of the investments for the year ended June 30, 2012 is reported in the statement of activities in the amount of $170,960. Portfolio management expense for the year ended June 30, 2012 was $10,360.

Note E – Accounts Receivable

Accounts Receivable represents amounts owed to Hasc Center from workshop sales, net of an allowance for bad debts estimated to be $4,000.

Note F – Medicaid and Grants Receivable

All of the Medicaid and Grants Receivable are due from OPWDD.

Note G – Reserve Funds and Closing Costs

Reserve funds represents cash held by Bank of New York, under the New York City Industrial Development Agency financing arrangement and by Dormitory Authority of the State of New York (DASNY) as security for payment of the Bonds and Mortgage loans.

Closing costs represents the costs of obtaining the mortgages payable through the DASNY and New York City Industrial Development Agency. The costs are being amortized over 15 years, which is the life of the mortgages.

Note H – Mortgages Payable

The agency is liable for several mortgage loans from Medical Care Facilities Finance Agency, New York City Industrial Development Agency, JP Morgan Chase, and from Capitol One Bank to finance construction or renovation of the residential sites. The combined original amount of the loans is $14,654,931. Substantially all the agency's real property is pledged as collateral to the mortgages. Certain of the agreements provide for restrictions on the Agency's guarantees, other loans, mergers or other major changes in the business and on cash flow, net assets, and debt to capital ratio. The mortgages are repaid by withholding from Medicaid funds or by monthly payments to the bank trustee. Interest rates range from 4.30% to 8.75%. Interest expense for the year ended June 30, 2012 was $486,756. Principal installments, due in each of the next five years are as follows:

Year ended June 30, 2013	$929,938
Year ended June 30, 2014	654,917
Year ended June 30, 2015	637,383
Year ended June 30, 2016	609,050
Year ended June 30, 2017	505,126

Note I – Loans Payable

The agency is liable for several notes for financing of capitalized equipment and auto leases. The total balance at June 30, 2012 is $17,210. Interest expense at various rates ranging from 1%-13% for the year ended June 30, 2012 was $2,025. Principal installments, due in each of the next five years are as follows:

Year ended June 30, 2013	$17,210

The agency has a line of credit with Capital One Bank in the amount of 1,446,245. The agency expects to retire this loan with permanent financing during 2013.

Note J – Advance from OPWDD

Advance from OPWDD represents amounts advanced by the New York State Office for People With Developmental Disabilities to finance renovation of new sites and start-up of new programs. These amounts are either repaid over five years from the date the new program opens, or are converted to long term debt by inclusion in the mortgage loan from Dormitory Authority of the State of New York.

Note K – Leases

The agency leases space for ten sites in Brooklyn. The leases are for 2 to 10 years. Annual rent is $1,147,928, and future commitments are:

Year ended June 30, 2013	$756,367
Year ended June 30, 2014	732,707
Year ended June 30, 2015	754,689
Year ended June 30, 2016	669,400
Year ended June 30, 2017	689,482

Note L – Equipment Leases

The agency leases various auto and office equipment under 2 to 4-year leases. The gross amount capitalized to date is $408,785. Depreciation to date is $408,785. Interest rates range from 1.9% to 13%. Total amount paid under expensed leases during the year ended June 30, 2012 was $48,504, and future required payments are:

Year ended June 30, 2013	$37,813
Year ended June 30, 2014	28,182
Year ended June 30, 2015	21,099
Year ended June 30, 2016	15,096

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Note M – Due to Employees HCI

This represents the accrued health insurance expense for the unexpended funds received in the year ended June 30, 2012 from New York State OPWDD for the purpose of reimbursing employees for healthcare expenses

Note N – Related Parties

The agency provided management services to Hasc Diagnostic & Treatment Center, Inc. Management fees for the year ended June 30, 2012 was $134,261. The two entities are under common management.

Hasc Center, Inc. purchased transportation services from a Not for Profit entity at a cost of $981,257 and $1,052,274 for the years ended June 30, 2012 and June 30, 2011 respectively. Hasc Center owed the other entity $84,554 and $93,925 as of June 30, 2012, and June 30, 2011 respectively. The two entities are under common management.

Note O – Pension Plan

The agency maintains a 401K pension plan covering all employees who have been employed at least one year. Employees may contribute 15% of salaries to a maximum of $15,500, and an additional $5,000 for employees over fifty years old. The agency

matches 25% of employee contributions. The cost of the plan was $108,432 for the year ended June 30, 2012.

Note P – Board Designated Funds

The agency received funds from New York State OPWDD for the purpose of reimbursing employees for healthcare expenses. Board Designated Funds represents the amount of funds not yet expended in the year ended June 30, 2012.

Note Q – Prior Period Adjustments

The agency formalized a Supplemental Executive Retirement Plan (SERP) and accordingly reclassified payments on the insurance contract as an expense instead of an investment. This is presented as a prior period adjustment on the Statement of Activities. The value of the SERP at June 30, 2012 is $707,973 and is reflected as Retirement Trust Fund on the Statement of Financial Position with a corresponding liability.

HASC CENTER, INC.

FINANCIAL STATEMENTS

JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Hasc Center, Inc.
Brooklyn, NY

We have audited the accompanying statements of financial position of Hasc Center, Inc. as of June 30, 2011 and the related statements of activities, functional expenses, and of cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of Hasc Center, Inc. as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

J. Gliksman CPA PC

December 4, 2011

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011
(With Comparative Totals for June 30, 2010)

Current Assets	2011	2010
Cash and Cash Equivalents	$ 11,546,439	$ 9,979,295
Investments	1,591,287	1,559,997
Accounts Receivable (Less Allowance for Bad Debts $4,000)	196,179	192,138
Management Fees Receivable	168,326	160,452
Medicaid and Grants Receivable	6,075,063	5,455,749
Prepaid Expenses	196,246	37,965
Prepaid Interest	11,452	14,108
Note Receivable - BKFHC	44,207	51,865
Total Current Assets	**$ 19,829,199**	**$ 17,451,569**
Fixed Assets		
Land	$ 2,481,500	$ 2,481,500
Building	11,155,960	11,109,650
Leasehold Improvements	2,736,189	2,684,670
Vehicles	385,562	385,562
Machinery & Equipment	543,386	524,526
Furniture & Fixtures	331,215	316,376
Accumulated Depreciation	(5,743,460)	(4,906,435)
Total Fixed Assets	**$ 11,890,352**	**$ 12,595,849**
Other Assets		
Due from BKFHC	$ 627,276	$ 579,842
Discounted Note Receivable - BKFHC	207,440	191,012
Reserve Funds	991,138	1,000,252
Security Deposits	82,976	68,396
Bond Closing Costs (Net of Amortization of $402,208)	655,587	708,794
Total Other Assets	**$ 2,564,417**	**$ 2,548,296**
TOTAL ASSETS	**$ 34,283,968**	**$ 32,595,714**

See notes to financial statements

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011
(With Comparative Totals for June 30, 2010)

Current Liabilities	2011	2010
Accounts Payable	$ 457,045	$ 452,199
Due to Employees HCI	1,252,976	1,453,657
Accrued Wages & Taxes	914,717	963,169
Accrued Expenses	78,172	4,445
Loans & Leases Payable	55,941	267,000
Advances Due OPWDD	58,970	62,001
Mortgages Payable	1,134,345	1,114,624
Mortgage and Interest Payable	750,537	750,537
Total Current Liabilities	**$ 4,702,703**	**$ 5,067,632**
Other Liabilities		
Loans & Leases Payable	$ 18,142	$ 78,026
Advances Due OPWDD	266,316	316,546
Mortgages Payable	6,705,842	7,800,370
Total Other Liabilities	**$ 6,990,300**	**$ 8,194,942**
TOTAL LIABILITIES	**$ 11,693,003**	**$ 13,262,574**
Net Assets		
Unrestricted Net Assets	$ 22,419,927	$ 19,162,102
Temporarily Restricted Net Assets	47,343	47,343
Board Designated Net Assets	123,695	123,695
Total Net Assets	**$ 22,590,965**	**$ 19,333,140**
TOTAL LIABILITIES AND NET ASSETS	**$ 34,283,968**	**$ 32,595,714**

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See notes to financial statements

HASC CENTER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for June 30, 2010)

	Unrestricted 2011	Unrestricted 2010
Revenue		
Workshop Sales	$ 102,139	$ 115,081
Grants	124,292	328,417
Program Service Fees	32,595,515	31,655,186
Management Income	134,366	130,629
Other Income	88,125	201,474
Interest Income	119,387	152,919
Total	**$ 33,163,824**	**$ 32,583,706**
Expenses		
Program Expenses	$ 27,647,978	$ 27,003,691
Management & General	2,258,021	2,078,276
Total	**$ 29,905,999**	**$ 29,081,967**
Change in Net Assets	$ 3,257,825	$ 3,501,739
Net Assets Beginning	19,333,140	$ 15,831,401
NET ASSETS ENDING	**$ 22,590,965**	**$ 19,333,140**

See notes to financial statements

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HASC CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for June 30, 2010)

Expenses	Programs	General & Administrative	Total 2011	Total 2010
Salaries	$15,532,757	$ 1,085,657	$16,618,414	$16,332,362
Taxes & Fringe Benefits	5,356,773	650,984	6,007,757	5,690,009
Total Salaries and Benefits	**$20,889,530**	**$ 1,736,641**	**$22,626,171**	**$22,022,371**
Food	864,638	10,969	875,607	816,338
Repair & Maintenance	180,864	16,648	197,512	202,414
Utilities	472,871	28,981	501,852	507,871
Transportation	1,190,351	14,000	1,204,351	1,162,651
Auto Expense	147,686	3,574	151,260	142,873
Consumer Allowances & Incidental	351,732	-	351,732	317,866
Consumer Recreation	401,458	7,300	408,758	443,636
Consumer Salaries	50,891	-	50,891	55,859
Staff Training	18,025	245	18,270	30,259
Office Expense	84,617	44,067	128,684	139,946
Supplies	282,947	12,533	295,480	317,015
Postage	29,240	10,878	40,118	18,176
Advertising	18,774	6,588	25,362	42,404
Data Processing	91,733	8,040	99,773	104,194
Licenses & Fees	28,821	15,196	44,017	49,725
Professional Fees	16,105	211,705	227,810	230,557
Equipment Lease	48,922	9,745	58,667	61,440
Rent	921,999	81,576	1,003,575	824,079
Insurance	114,288	19,170	133,458	124,868
Mortgage Fees	4,410	-	4,410	6,654
Interest	568,008	-	568,008	586,582
Depreciation & Amortization	870,068	20,165	890,233	874,189
TOTAL EXPENSES	**$27,647,978**	**$ 2,258,021**	**$29,905,999**	**$29,081,967**

HASC CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for June 30, 2010)

	2011	2010
Cash Flows from Operations		
Increase in Net Assets	$ 3,257,825	$ 3,501,739
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operations:		
Non-Cash Items:		
Depreciation & Amortization	890,233	874,189
Increase (Decrease) in Cash Resulting from Changes in Operating Assets and Liabilities:		
Receivables, Prepaids, Etc.	(740,353)	404,151
Payables, Accruals, Etc.	(223,821)	1,127,853
Net Cash Provided by Operations	**$ 3,183,884**	**$ 5,907,932**
Cash Flows from Investing		
Investments	$ (31,290)	$ (81,064)
Advance to BKFHC	(64,078)	(346,075)
Purchase of Fixed Assets	(184,736)	(357,680)
Net Cash Used by Investing	**$ (280,104)**	**$ (784,819)**
Cash Flows from Financing		
Debt Reserve Fund	$ (22,568)	$ (23,204)
Payments of Loans	(270,943)	(1,809,743)
(Payments) Proceeds of Mortgages	(1,043,125)	1,550,336
Net Cash Used by Financing	**$ (1,336,636)**	**$ (282,611)**
Net Cash Provided:	**$ 1,567,144**	**$ 4,840,502**
Cash Balance Beginning	9,979,295	5,138,793
CASH BALANCE ENDING	**$ 11,546,439**	**$ 9,979,295**
Interest Paid	$ 568,008	$ 586,582

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HASC CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note A – Nature of Organization

Hasc Center, Inc., (the agency) is a not-for-profit agency that provides an array of services in Brooklyn, NY, to children and adults with developmental disabilities and their families. Approximately 90% of the Agency's revenue is Medicaid received from OPWDD. The services include Day Programming, Residential Services, Employment Services, Service Coordination and Residential Habilitation.

Note B – Accounting Policies

The accounting policies of the agency conform to accounting principles generally accepted as applicable to voluntary health and welfare agencies. The accrual basis of accounting is followed by the agency. Under the accrual basis of accounting, revenues are reported when earned. Expenditures are recorded when the goods are received or services are rendered. Sick and vacation pay is recorded when earned.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation have not been material to the financial statements.

The agency reports investments in equity and debt securities at their fair values in the statements of assets, liabilities and net assets. Interest, dividends, realized and unrealized gains and losses are included in the change in net assets.

All depreciable assets that cost at least $1,000 are recorded at cost and are depreciated on a straight-line basis. Buildings are depreciated over 25 years. Machinery and equipment are depreciated over 3 to 7 years and transportation equipment over 4 years. Leasehold improvements are depreciated over the term of the lease including extensions at the tenant's option.

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note B – Accounting Policies (continued)

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

The agency reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Restricted revenue whose restriction expired during the year is presented as unrestricted revenue.

Investments reported in the statement of financial position are made up of a portfolio of financial instruments with readily determinable fair values based on quoted prices in active markets for identical assets (Level 1).

Information for the year ended June 30, 2010 is presented for comparative purposes only, and was extracted from the financial statements prepared for that year, upon which an unqualified opinion dated January 4, 2011, was expressed. Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

The agency is a tax-exempt organization under the law of New York State and under Internal Revenue Code 501(c) (3) as a non-private foundation.

For purposes of the statements of cash flows, the organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Subsequent events have been evaluated through December 4, 2011, the date of which financial statements were available to be issued.

Note C – Concentrations of Credit Risk

The agency maintains cash balances at Capitol One Bank and Bank of New York Mellon located in New York City. Federal Deposit Insurance Corporation insures all accounts at each institution in full.

Investments consist of a J P Morgan Annuity in the amount of $1,074,982 and an insurance policy with a cash value of $516,305. The investments are not insured. The annuity pays 3% interest per year. Interest earned during the year was $31,290.

Subsequent to the financial statement date the agency formalized a Supplemental Executive Retirement Plan (SERP) and accordingly reclassified payments on the insurance contract as an expense instead of an investment.

Note D – Accounts Receivable

Accounts Receivable represents amounts owed to Hasc Center from workshop sales, net of an allowance for bad debts estimated to be $4,000.

Note E – Medicaid and Grants Receivable

All of the Medicaid and Grants Receivable are due from OPWDD.

Note F – Reserve Funds and Closing Costs

Reserve funds represents cash held by Bank of New York, under the New York City Industrial Development Agency financing arrangement and by Dormitory Authority of the State of New York (DASNY) as security for payment of the Bonds and Mortgage loans.

Closing costs represents the costs of obtaining the mortgages payable through the DASNY and New York City Industrial Development Agency. The costs are being amortized over 15 years, which is the life of the mortgages.

Note G – Mortgages Payable

The agency is liable for several mortgage loans from Medical Care Facilities Finance Agency, New York City Industrial Development Agency, JP Morgan Chase, and from Capitol One Bank to finance construction or renovation of the residential sites. The combined original amount of the loans is $14,654,931. Substantially all the agency's real property is pledged as collateral to the mortgages. Certain of the agreements provide for restrictions on the Agency's guarantees, other loans, mergers or other major changes in the business and on cash flow, net assets, and debt to capital ratio. The mortgages are repaid by withholding from Medicaid funds or by monthly payments to the bank trustee. Interest rates range from 4.30% to 8.75%. Interest expense for the year ended June 30, 2011 was $552,545. Principal installments, due in each of the next five years are as follows:

Year ended June 30, 2012	$1,884,882
Year ended June 30, 2013	929,938
Year ended June 30, 2014	654,917
Year ended June 30, 2015	637,383
Year ended June 30, 2016	609,050

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Note H – Loans Payable

The agency is liable for several notes for financing of capitalized equipment and auto leases. The total balance at June 30, 2011 is $74,083. Interest expense at various rates ranging from 1%-13% for the year ended June 30, 2011 was $15,463. Principal installments, due in each of the next five years are as follows:

Year ended June 30, 2012	$55,941
Year ended June 30, 2013	18,142

Note I – Advance from OPWDD

Advance from OPWDD represents amounts advanced by the New York State Office for People With Developmental Disabilities to finance renovation of new sites and start-up of new programs. These amounts are either repaid over five years from the date the new program opens, or are converted to long term debt by inclusion in the mortgage loan from Dormitory Authority of the State of New York.

Note J – Leases

The agency leases space for ten sites in Brooklyn. The leases are for 2 to 10 years. Annual rent is $1,003,575, and future commitments are:

Year ended June 30, 2012	$882,201
Year ended June 30, 2013	756,367
Year ended June 30, 2014	732,707
Year ended June 30, 2015	754,689
Year ended June 30, 2016	669,400

Note K – Equipment Leases

The agency leases various auto and office equipment under 2 to 4-year leases. The gross amount capitalized to date is $408,785. Depreciation to date is $365,912. Interest rates range from 1.9% to 13%. Total amount paid under expensed leases during the year ended June 30, 2011 was $84,935, and future required payments are:

Year ended June 30, 2012	$49,373
Year ended June 30, 2013	28,813
Year ended June 30, 2014	19,182
Year ended June 30, 2015	12,099
Year ended June 30, 2016	6,096

Note L – Due to Employees HCI

This represents the accrued health insurance expense for the unexpended funds received in the year ended June 30, 2011 from New York State OPWDD for the purpose of reimbursing employees for healthcare expenses

Note M – Related Parties

The agency provided management services to Hasc Diagnostic & Treatment Center, Inc. Management fees for the year ended June 30, 2011 was $134,366. The two entities are under common management.
Hasc Center, Inc. purchased transportation services from a Not for Profit entity at a cost of $966,427 and $1,052,274 for the years ended June 30, 2010 and June 30, 2011 respectively. Hasc Center owed the other entity $104,218 and $93,925 as of June 30, 2010, and June 30, 2011 respectively. The two entities are under common management.

Note N – Pension Plan

The agency maintains a 401K pension plan covering all employees who have been employed at least one year. Employees may contribute 15% of salaries to a maximum of $15,500, and an additional $5,000 for employees over fifty years old. The agency matches 25% of employee contributions. The cost of the plan was $114,804 for the year ended June 30, 2011.

Note O – Board Designated Funds

The agency received funds from New York State OPWDD for the purpose of reimbursing employees for healthcare expenses. Board Designated Funds represents the amount of funds not yet expended in the year ended June 30, 2011.

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HASC CENTER, INC.

FINANCIAL STATEMENTS

JUNE 30, 2010

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PEER REVIEW PROGRAM

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Hasc Center, Inc.
Brooklyn, NY

We have audited the accompanying statements of financial position of Hasc Center, Inc. as of June 30, 2010 and the related statements of activities, functional expenses, and of cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of Hasc Center, Inc. as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

J. Gliksman CPA PC

January 4, 2011

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010
(With Comparative Totals for June 30, 2009)

	2010	2009
Current Assets		
Cash and Cash Equivalents	$ 9,979,295	$ 5,138,793
Investments	1,559,997	1,478,933
Accounts Receivable (Less Allowance for Bad Debts $4,000)	192,138	149,836
Management Fees Receivable	160,452	65,380
Medicaid and Grants Receivable	5,455,749	5,915,915
Prepaid Expenses	37,965	37,048
Prepaid Interest	14,108	21,518
Note Receivable - BKFHC	51,865	37,504
Total Current Assets	**$ 17,451,569**	**$ 12,844,927**
Fixed Assets		
Land	$ 2,481,500	$ 2,481,500
Building	11,109,650	11,091,545
Leasehold Improvements	2,684,670	2,442,465
Vehicles	385,562	385,562
Machinery & Equipment	524,526	499,916
Furniture & Fixtures	316,376	295,140
Accumulated Depreciation	(4,906,435)	(4,083,770)
Total Fixed Assets	**$ 12,595,849**	**$ 13,112,358**
Other Assets		
Due from BKFHC	$ 579,842	$ 350,028
Discounted Note Receivable - BKFHC	191,012	184,184
Reserve Funds	1,000,252	977,048
Security Deposits	68,396	68,396
Bond Closing Costs (Net of Amortization of $349,002)	708,794	688,588
Total Other Assets	**$ 2,548,296**	**$ 2,268,244**
TOTAL ASSETS	**$ 32,595,714**	**$ 28,225,529**

See notes to financial statements

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010
(With Comparative Totals for June 30, 2009)

	2010	2009
Current Liabilities		
Accounts Payable	$ 452,199	$ 454,921
Due to Employees HCI	1,453,657	488,071
Accrued Wages & Taxes	963,169	741,040
Accrued Expenses	4,445	3,171
Loans & Leases Payable	267,000	294,461
Advances Due OPWDD	62,001	134,895
Mortgages Payable	1,114,624	888,110
Mortgage and Interest Payable	750,537	719,360
Total Current Liabilities	**$ 5,067,632**	**$ 3,724,029**
Other Liabilities		
Loans & Leases Payable	$ 78,026	$ 1,860,308
Advances Due OPWDD	316,546	302,066
Mortgages Payable	7,800,370	6,507,725
Total Other Liabilities	**$ 8,194,942**	**$ 8,670,099**
TOTAL LIABILITIES	**$ 13,262,574**	**$ 12,394,128**
Net Assets		
Unrestricted Net Assets	$ 19,162,102	$ 15,660,363
Temporarily Restricted Net Assets	47,343	47,343
Board Designated Net Assets	123,695	123,695
Total Net Assets	**$ 19,333,140**	**$ 15,831,401**
TOTAL LIABILITIES AND NET ASSETS	**$ 32,595,714**	**$ 28,225,529**

See notes to financial statements

HASC CENTER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(With Comparative Totals for June 30, 2009)

	Unrestricted 2010	Total 2009
Revenue		
Workshop Sales	$ 115,081	$ 95,400
Grants	328,417	337,858
Program Service Fees	31,655,186	28,492,498
Management Income	130,629	115,511
Other Income	201,474	91,132
Interest Income	152,919	193,160
Total	**$ 32,583,706**	**$ 29,325,559**
Expenses		
Program Expenses	$ 27,003,691	$ 24,606,299
Management & General	2,078,276	1,854,663
Total	**$ 29,081,967**	**$ 26,460,962**
Change in Net Assets	$ 3,501,739	$ 2,864,597
Net Assets Beginning	15,831,401	
Net Assets Beginning as previously reported	-	12,501,245
Prior Period Adjustments	-	465,559
Beginning Net Assets Restated		12,966,804
NET ASSETS ENDING	**$ 19,333,140**	**$ 15,831,401**

See notes to financial statements

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HASC CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010
(With Comparative Totals for June 30, 2009)

Expenses	Programs	General & Administrative	Total 2010	Total 2009
Salaries	$15,261,988	$ 1,070,374	$16,332,362	$14,864,207
Taxes & Fringe Benefits	5,132,830	557,179	5,690,009	4,597,245
Total Salaries and Benefits	**$20,394,818**	**$ 1,627,553**	**$22,022,371**	**$19,461,452**
Food	808,981	7,357	816,338	762,560
Repair & Maintenance	183,036	19,378	202,414	199,365
Utilities	475,176	32,695	507,871	500,217
Transportation	1,155,785	6,866	1,162,651	1,120,545
Auto Expense	139,919	2,954	142,873	233,354
Consumer Allowances & Incidental	317,866	-	317,866	299,146
Consumer Recreation	443,636	-	443,636	447,556
Consumer Salaries	55,859	-	55,859	60,219
Staff Training	30,259	-	30,259	38,396
Office Expense	82,001	57,945	139,946	141,979
Supplies	303,563	13,452	317,015	321,389
Postage	11,068	7,108	18,176	24,589
Advertising	31,454	10,950	42,404	64,324
Data Processing	97,221	6,973	104,194	57,267
Licenses & Fees	35,586	14,139	49,725	59,440
Professional Fees	24,450	206,107	230,557	271,231
Equipment Lease	52,429	9,011	61,440	56,200
Rent	809,524	14,555	824,079	773,754
Insurance	109,424	15,444	124,868	66,484
Mortgage Fees	6,654	-	6,654	6,451
Interest	586,582	-	586,582	627,290
Depreciation & Amortization	848,400	25,789	874,189	867,754
TOTAL EXPENSES	**$27,003,691**	**$ 2,078,276**	**$29,081,967**	**$26,460,962**

See notes to financial statements

HASC CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
(With Comparative Totals for June 30, 2009)

	2010	2009
Cash Flows from Operations		
Increase in Net Assets	$ 3,501,739	$ 2,864,597
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operations:		
Non-Cash Items:		
Depreciation & Amortization	874,189	867,754
Increase (Decrease) in Cash Resulting from Changes in Operating Assets and Liabilities:		
Receivables, Prepaids, Etc.	404,151	(1,569,622)
Payables, Accruals, Etc.	1,127,853	427,278
Net Cash Provided by Operations	**$ 5,907,932**	**$ 2,590,007**
Cash Flows from Investing		
CD Investments	$ -	$ 511,353
Investments	(81,064)	(29,511)
Advance to BKFHC	(346,075)	(51,078)
Purchase of Fixed Assets	(357,680)	(600,008)
Net Cash Used by Investing	**$ (784,819)**	**$ (169,244)**
Cash Flows from Financing		
Debt Reserve Fund	$ (23,204)	$ 3,894
(Payments) Proceeds of Loans	(1,809,743)	40,296
Proceeds (Payments) of Mortgages	1,550,336	(172,415)
Net Cash Used by Financing	**$ (282,611)**	**$ (128,225)**
Net Cash Provided:	**$ 4,840,502**	**$ 2,292,538**
Cash Balance Beginning	5,138,793	2,846,255
CASH BALANCE ENDING	**$ 9,979,295**	**$ 5,138,793**
Interest Paid	$ 586,582	$ 627,290

See notes to financial statements

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HASC CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note A – Nature of Organization

Hasc Center, Inc., (the agency) is a not-for-profit agency that provides an array of services in Brooklyn, NY, to children and adults with developmental disabilities and their families. Approximately 90% of the Agency's revenue is Medicaid received from OPWDD. The services include Day Programming, Residential Services, Employment Services, Service Coordination and Residential Habilitation.

Note B – Accounting Policies

The accounting policies of the agency conform to accounting principles generally accepted as applicable to voluntary health and welfare agencies. The accrual basis of accounting is followed by the agency. Under the accrual basis of accounting, revenues are reported when earned. Expenditures are recorded when the goods are received or services are rendered. Sick and vacation pay is recorded when earned.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation have not been material to the financial statements.

The agency reports investments in equity and debt securities at their fair values in the statements of assets, liabilities and net assets. Interest, dividends, realized and unrealized gains and losses are included in the change in net assets.

All depreciable assets that cost at least $1,000 are recorded at cost and are depreciated on a straight-line basis. Buildings are depreciated over 25 years. Machinery and equipment are depreciated over 3 to 7 years and transportation equipment over 4 years. Leasehold improvements are depreciated over the term of the lease including extensions at the tenant's option.

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note B – Accounting Policies (continued)

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

The agency reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Restricted revenue whose restriction expired during the year is presented as unrestricted revenue.

Investments reported in the statement of financial position are made up of a portfolio of financial instruments with readily determinable fair values based on quoted prices in active markets for identical assets (Level 1).

Information for the year ended June 30, 2009 is presented for comparative purposes only, and was extracted from the financial statements prepared for that year, upon which an unqualified opinion dated December 26, 2009, was expressed. Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

The agency is a tax-exempt organization under the law of New York State and under Internal Revenue Code 501(c) (3) as a non-private foundation.

For purposes of the statements of cash flows, the organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Subsequent events have been evaluated through January 4, 2011, the date of which financial statements were available to be issued.

Note C – Concentrations of Credit Risk

The agency maintains cash balances at Capitol One Bank and Bank of New York Mellon located in New York City. Federal Deposit Insurance Corporation insures all accounts at each institution in full.

Investments consist of a J P Morgan Annuity in the amount of $1,043,692 and an insurance policy with a cash value of $516,305. The investments are not insured. The annuity pays 3% interest per year. Interest earned during the year was $30,318.

Note D – Accounts Receivable

Accounts Receivable represents amounts owed to Hasc Center from workshop sales, net of an allowance for bad debts estimated to be $4,000.

Note E – Medicaid and Grants Receivable

All of the Medicaid and Grants Receivable are due from OPWDD.

Note F – Reserve Funds and Closing Costs

Reserve funds represents cash held by Bank of New York, under the New York City Industrial Development Agency financing arrangement and by Dormitory Authority of the State of New York (DASNY) as security for payment of the Bonds and Mortgage loans.

Closing costs represents the costs of obtaining the mortgages payable through the DASNY and New York City Industrial Development Agency. The costs are being amortized over 15 years, which is the life of the mortgages.

Note G – Mortgages Payable

The agency is liable for several mortgage loans from Medical Care Facilities Finance Agency, New York City Industrial Development Agency, JP Morgan Chase, and from Capitol One Bank to finance construction or renovation of the residential sites. The combined original amount of the loans is $14,654,931. Substantially all the agency's real property is pledged as collateral to the mortgages. Certain of the agreements provide for restrictions on the Agency's guarantees, other loans, mergers or other major changes in the business and on cash flow, net assets, and debt to capital ratio. The mortgages are repaid by withholding from Medicaid funds or by monthly payments to the bank trustee. Interest rates range from 4.30% to 8.75%. Interest expense for the year ended June 30, 2010 was $574,376. Principal installments, due in each of the next five years are as follows:

Year ended June 30, 2011	$1,865,161
Year ended June 30, 2012	1,134,345
Year ended June 30, 2013	929,938
Year ended June 30, 2014	654,917
Year ended June 30, 2015	637,383
Thereafter	4,443,786

Note H – Loans Payable

The agency is liable for several notes for financing of capitalized equipment and auto leases. The total balance at June 30, 2010 is $345,026. Interest expense at various rates ranging from 1%-13% for the year ended June 30, 2010 was $11,284. Principal installments, due in each of the next five years are as follows:

Year ended June 30, 2011	$267,000
Year ended June 30, 2012	57,832
Year ended June 30, 2013	18,142
Year ended June 30, 2014	2052

Note I – Advance from OPWDD

Advance from OPWDD represents amounts advanced by the New York State Office for People With Developmental Disabilities to finance renovation of new sites and start-up of new programs. These amounts are either repaid over five years from the date the new program opens, or are converted to long term debt by inclusion in the mortgage loan from Dormitory Authority of the State of New York.

Note J – Leases

The agency leases space for ten sites in Brooklyn. The leases are for 2 to 10 years. Annual rent is $819,033, and future commitments are:

Year ended June 30, 2011	$756,852
Year ended June 30, 2012	620,846
Year ended June 30, 2013	544,063
Year ended June 30, 2014	519,137
Year ended June 30, 2015	497,088
Thereafter	1,633,602

Note K – Equipment Leases

The agency leases various auto and office equipment under 2 to 4-year leases. The gross amount capitalized to date is $408,785. Depreciation to date is $307,882. Interest rates range from 1.9% to 13%. Total amount paid under expensed leases during the year ended June 30, 2010 was $96,277, and future required payments are:

Year ended June 30, 2011	$84,936
Year ended June 30, 2012	49,373
Year ended June 30, 2013	28,813
Year ended June 30, 2014	19,182
Year ended June 30, 2015	12,099
Thereafter	6,096

Note L – Due to Employees HCI

This represents the accrued health insurance expense for the unexpended funds received in the year ended June 30, 2010 from New York State OPWDD for the purpose of reimbursing employees for healthcare expenses

Note M – Related Parties

The agency provided management services to Hasc Diagnostic & Treatment Center, Inc. Management fees for the year ended June 30, 2010 was $130,629. The two entities are under common management.
Hasc Center, Inc. purchased transportation services from a Not for Profit entity at a cost of $980,281 and $966,427 for the years ended June 30, 2009 and June 30, 2010 respectively. Hasc Center owed the other entity $83,582 and $104,218 as of June 30, 2009, and June 30, 2010 respectively. The two entities are under common management.

Note N – Pension Plan

The agency maintains a 401K pension plan covering all employees who have been employed at least one year. Employees may contribute 15% of salaries to a maximum of $15,500, and an additional $5,000 for employees over fifty years old. The agency matches 25% of employee contributions. The cost of the plan was $161,051 for the year ended June 30, 2010.

Note O – Board Designated Funds

The agency received funds from New York State OPWDD for the purpose of reimbursing employees for healthcare expenses. Board Designated Funds represents the amount of funds not yet expended in the year ended June 30, 2010.

Note P – Prior Period Adjustments

The agency reclassified payments on an insurance contract as an investment instead of an expense.

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APPENDIX B-IV

LEAKE AND WATTS SERVICES, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2012, JUNE 30, 2011 AND JUNE 30, 2010)

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2012 AND 2011

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

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Independent Auditor's Report

Board of Directors
Leake and Watts Services, Inc.
and Affiliate

We have audited the consolidated statement of financial position of Leake and Watts Services, Inc. and Affiliate as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Leake and Watts Services, Inc. and Affiliate's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The Emergency Shelter, Inc., which statements as of June 30, 2012 and 2011 reflect total assets of $2,185,674 and $2,271,742, respectively. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to The Emergency Shelter, Inc., are based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Leake and Watts Services, Inc. and Affiliate's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors
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(212) 867-4000 / Fax (212) 867-9810 / *www.loebandtroper.com*

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Leake and Watts Services, Inc. and Affiliate as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Loeb + Troper LLP

November 9, 2012

EXHIBIT A

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

		2012		2011
ASSETS				
Current assets				
Cash and cash equivalents	$	1,143,258	$	1,924,603
Investments (Note 3)		13,627,294		15,190,042
Investments - certificates of deposit		25,000		25,000
Accounts receivable (net of allowance of $334,000 and $273,000 in 2012 and 2011, respectively)		7,207,888		7,703,425
Contributions receivable (Note 10)		93,199		
Prepaid expenses		508,532		362,660
Accrued investment interest receivable		63,236		73,482
Total current assets		22,668,407		25,279,212
Assets limited as to use - investments (Notes 3 and 8)		5,502,806		5,466,982
Other assets				
Accrued bond interest receivable				80,348
Contributions receivable (Note 10)		82,533		
Investments (Note 3)		2,361,096		2,361,096
Beneficial interest in perpetual trusts (Notes 3 and 15)		1,257,196		1,327,717
Bond issuance costs (Note 8)		827,290		904,596
Fixed assets - net (Note 4)		33,277,555		35,514,139
Total other assets		37,805,670		40,187,896
Total assets	$	65,976,883	$	70,934,090

-continued-

EXHIBIT A
-2-

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

		2012		2011
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$	2,082,893	$	2,257,913
Accrued payroll and employee benefits (Notes 9 and 11)		2,379,828		3,347,894
Accrued expenses and other liabilities (Notes 5)		2,458,679		4,580,461
Accrued interest payable		563,506		605,504
Line of credit and notes payable (Note 6)		13,373,033		14,614,668
Capital leases payable (Note 7)		113,442		114,852
Bonds payable - net (Note 8)		1,815,000		1,735,000
Total current liabilities		22,786,381		27,256,292
Long-term liabilities				
Accrued payroll and employee benefits (Notes 9 and 11)		1,240,816		1,343,531
Line of credit and notes payable (Note 6)		3,615,426		3,213,804
Capital leases payable (Note 7)		161,017		76,841
Bonds payable - net (Note 8)		23,584,708		25,401,325
Total long-term liabilities		28,601,967		30,035,501
Total liabilities		51,388,348		57,291,793
Net assets (Exhibit B)				
Unrestricted		10,639,697		9,855,724
Temporarily restricted (Note 12)		330,546		97,760
Permanently restricted (Note 15)		3,618,292		3,688,813
Total net assets		14,588,535		13,642,297
Total liabilities and net assets	$	65,976,883	$	70,934,090

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues								
Program revenue (Note 5)	$ 68,238,859			$ 68,238,859	$ 60,429,865			$ 60,429,865
Other	30,851			30,851	12,571			12,571
Total operating revenues	68,269,710			68,269,710	60,442,436			60,442,436
Operating expenses (Schedule 3)								
Program services								
Foster care, residential treatment and medical/mental health services	19,551,458			19,551,458	19,081,751			19,081,751
Education and early childhood	24,280,891			24,280,891	21,769,312			21,769,312
Developmental disabilities services	10,548,988			10,548,988	8,250,664			8,250,664
Juvenile justice - Woodfield facility	3,588,616			2,588,616	2,628,046			2,628,046
Day care centers and Head Start	2,556,229			2,556,229	2,406,912			2,406,912
Preventive	2,023,356			2,023,356	1,958,593			1,958,593
Total program services	61,549,538			61,549,538	56,095,278			56,095,278
Supporting services								
Management and general	6,604,062			6,604,062	6,190,647			6,190,647
Development	158,094			158,094	161,451			161,451
Total supporting services	6,762,156			6,762,156	6,352,098			6,352,098
Total operating expenses (includes interest expense of $1,761,015 and $1,838,303 in 2012 and 2011, respectively)	68,311,694			68,311,694	62,447,376			62,447,376
Decrease in net assets from operations	(41,984)			(41,984)	(2,004,940)			(2,004,940)
Nonoperating revenues								
Investment income (loss) (Note 3)	(206,720)			(206,720)	2,964,407			2,964,407
Contributions	635,641	$ 288,818		924,459	278,827	$ 241,031		519,858
Special events	461,887			461,887	561,760			561,760
Direct costs of special events	(91,050)			(91,050)	(109,678)			(109,678)
Change in value of beneficial interest in perpetual trusts			$ (70,521)	(70,521)			$ 95,515	95,515
Loss on disposal of fixed assets	(29,994)			(29,994)				
Miscellaneous income	161			161	306			306
Net assets released from restrictions (Note 12)	56,032	(56,032)			215,157	(215,157)		
Change in net assets (Exhibit C)	783,973	232,786	(70,521)	946,238	1,905,839	25,874	95,515	2,027,228
Net assets - beginning of year	9,855,724	97,760	3,688,813	13,642,297	7,949,885	71,886	3,593,298	11,615,069
Net assets - end of year (Exhibit A)	$ 10,639,697	$ 330,546	$ 3,618,292	$ 14,588,535	$ 9,855,724	$ 97,760	$ 3,688,813	$ 13,642,297

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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EXHIBIT C

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets (Exhibit B)	$ 946,238	$ 2,027,228
Adjustments to reconcile change in net assets to cash provided by operating activities		
Depreciation and amortization	2,677,809	2,283,269
Amortization of bond issuance cost	77,306	77,307
Net amortization of bond discount and premium	(1,617)	(1,619)
Realized gains on investments	(388,908)	(410,584)
Unrealized losses (gains) on investments	946,871	(2,198,572)
Change in value of beneficial interest in trusts	70,521	(95,515)
Donated stocks	(15,770)	(28,476)
Loss on disposal of fixed assets	29,994	
Decrease (increase) in assets		
Accounts receivable	495,537	102,923
Contributions receivable	(175,732)	
Prepaid expenses	(145,872)	9,431
Accrued investment interest receivable	10,246	1,557
Accrued bond interest receivable	80,348	
Increase (decrease) in liabilities		
Accounts payable	(175,020)	1,215,657
Accrued payroll and employee benefits	(1,070,781)	169,409
Accrued expenses and other liabilities	(2,121,782)	168,921
Accrued interest payable	(41,998)	(74,298)
Net cash provided by operating activities	1,197,390	3,246,638

-continued-

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash flows from investing activities		
Purchase of investments	$ (6,264,745)	$ (4,935,367)
Proceeds from sale of investments	7,285,300	5,891,848
Increase in investments limited as to use	(35,824)	(36,337)
Fixed asset acquisitions	(249,684)	(3,185,746)
Net cash provided (used) by investing activities	735,047	(2,265,602)
Cash flows from financing activities		
Repayments of line of credit	(4,585,532)	(8,432,996)
Proceeds from line of credit	3,500,000	11,110,000
Proceeds from notes payable	400,000	
Payments on notes payable	(154,481)	(117,648)
Payments on lease financing	(138,769)	(126,054)
Payments on bonds payable	(1,735,000)	(1,660,000)
Net cash provided (used) by financing activities	(2,713,782)	773,302
Net increase (decrease) in cash and cash equivalents	(781,345)	1,754,338
Cash and cash equivalents - beginning of year	1,924,603	170,265
Cash and cash equivalents - end of year	$ 1,143,258	$ 1,924,603
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,727,324	$ 1,835,294
Financing of equipment costs	$ 221,535	

See independent auditor's report.

The accompanying notes are an integral part of these statements.

NOTE 1 - NATURE OF ORGANIZATION

Leake and Watts Services, Inc. provides comprehensive social services including family stabilization, foster care, child care and Head Start, residential and respite services for children and adults with developmental disabilities, special education, and residential treatment and group homes for youth with emotional and mental health challenges principally in the Bronx and Westchester County. The primary sources of revenue are New York City Administration for Children's Services and various New York State government agencies.

The Emergency Shelter, Inc. alleviates human suffering and distress through programs that feed, house, shelter, and train homeless and unemployed men, women and youth. The primary source of funding is income associated with the organization's beneficial interests in perpetual trusts held by third parties.

Leake and Watts Services, Inc. is related to The Emergency Shelter, Inc. through common board control. Leake and Watts received $75,000 in each of 2012 and 2011 from The Emergency Shelter, Inc. for certain services that Leake and Watts has provided. The Emergency Shelter, Inc. is consolidated in these financial statements. Leake and Watts Services, Inc. and its Affiliate ("Leake and Watts") are each exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

- **Foster Boarding Home programs** serve children who have experienced abuse and neglect. The goal in all cases is to establish a permanent appropriate living arrangement for the child such as reunification with birth parents or adoption. Programs include family foster care, kinship foster care, therapeutic foster care for youth with mental health concerns and challenging behaviors, and specialized medical foster care for children who are considered medically fragile.

- The **Residential Treatment Center**, located on a 30-acre campus in Yonkers, provides 24-hour residential care to youth ages 12-21 requiring therapeutic and educational support. An enriched, structured program of activities coupled with clinical services assists youth with mental health concerns and challenging behaviors to develop the ability to participate fully in the surrounding community and to return to a less restrictive environment.

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NOTE 1 - NATURE OF ORGANIZATION (continued)

- The **Mother/Infant** residences serve teen mothers in foster care who have experienced multiple failed prior placements in family foster care because of serious behavioral issues including aggression, defiance of authority, running away, and/or mental health issues. In all cases, we work with the mothers to identify resources that can provide long-term support for them and their child(ren) as well as concurrently prepare them for adulthood. The focus, as with all foster youth, is on education, skills development (with particular emphasis on parenting and homemaking for these girls), employment, safety and well-being.

- **Medical and Mental Health Services** for children and youth in Leake and Watts foster care address the full complement of individual needs from primary medical care to psychiatric and clinical services, and coordination of specialty and hospital-based services. Leake and Watts' staff includes doctors, nurses, psychiatrists, psychologists, and licensed social workers. Basic medical care includes periodic examinations, health screenings, immunizations, well child and sick visits, and referrals to any specialists the child may require, followed by periodic review of all medical care received.

- The **Education Program** at Carol and Frank Biondi Center is a non-public school providing 12-month specialized educational services for children with social and emotional difficulties and severe academic deficits. Many students have a history of substance abuse, general delinquency, depression, psychotic thinking, suicidal ideation, impulsivity, anxiety and poor social skills. Emphasis is on academic achievement, skills development, and increasing students' ability to remain on task, interact appropriately with peers, and improve behavior so that they can return to their local public school.

- **Early Childhood Education Programs** at the Marion and George Ames Center in Southern Westchester County, the Katherine Dodge Brownell School in the Bronx and Children Learning Center in Manhattan serve children ages 18 months to five years old, and include child care for low-income families, universal pre-kindergarten services, and preschool special education programs.

- **Developmental Disabilities Services** include community-based programs such as individualized residential services (IRA), individual supported apartments (ISS), respite/recreation services, enhanced supportive employment, family support services and Medicaid Service Coordination (MSC). Services aim to address all of the associated emotional, behavioral and psychological disorders to assist consumers to live more fulfilling lives.

-continued-

NOTE 1 - NATURE OF ORGANIZATION (continued)

- **Woodfield Facility** is a secure detention center for youth under the age of 16 who are awaiting court action. These youth are accused of committing crimes, some of which are violent in nature. Services include individual and group counseling, a full-day school program, 24-hour medical services, family outreach, aftercare planning, and religious and spiritual services. These services are offered in a structured setting and a caring, albeit high-security, environment.
- Leake and Watts sponsors three NYC child care centers and one federally funded Head Start program located in the Bronx serving children between 2.5 and 5 years of age. Program components include an early childhood educational curriculum which prepares children for their school years promoting creativity, pre-academic skills, socialization, and independence, bilingual (Spanish) services, parent involvement, and linkage to community and social services.
- The **East Bronx Family Service Center** aims to stabilize at-risk families before they reach a crisis point and thus prevent the need to place children in foster care. Family-driven services include assistance with housing, employment, substance abuse treatment, education, counseling, and assistance in accessing mental health and other community services and resources.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The financial statements of Leake and Watts have been prepared on the accrual basis of accounting.

Consolidated financial statements - All material intercompany transactions and balances are eliminated in the consolidation.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Leake and Watts considers all highly liquid investments with original maturities when acquired of 90 days or less to be cash equivalents.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments - certificates of deposit - Certificates of deposit held for investment that are not debt securities are included in investments - certificates of deposit.

Accounts receivable and program revenue - Accounts receivable from government grants and other sources of income are recorded when services are rendered. Revenues received from government agencies are subject to audit by such agencies. Laws and regulations related to government programs are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the government programs.

Allowance for doubtful accounts - Leake and Watts determines whether an allowance for uncollectibles should be provided for accounts receivable. Such estimates are based on management's assessment of the aged basis of its sources, current economic conditions and historical information. Accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Investments - Investments are recorded at fair value. Leake and Watts invests in various securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the statement of activities. Certain investments which relate to donor-restricted endowment funds are held for long-term purposes and are thus not classified as current assets.

Fair Value Measurements and Disclosures

Fair Value Measurements and Disclosures establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Leake and Watts has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements and Disclosures (continued)

- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012 as compared to those used at June 30, 2011.

- ***Money market funds, fixed income securities, common stocks, and Exchange Traded Funds (ETF)*** - Valued at the closing price reported on the active market on which the individual securities are traded.
- ***Mutual funds*** - Valued at the net asset value (NAV) of shares held at end of year.
- ***Beneficial interests in perpetual trusts*** - Beneficial interests in perpetual trusts is valued at fair value of Leake and Watts' beneficial interest in fair value of underlying assets.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Leake and Watts believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

See Note 3 for the tables that set forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2012 and 2011.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets - Fixed assets having a useful life greater than one year and costing in excess of $5,000, except assets relating to foster care programs, the threshold of which are items costing in excess of $1,000, as per program guidelines, are stated at cost or contributed value. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Capital leases and leasehold improvements are amortized over either the remaining term of the underlying lease or the useful lives of the improvements, whichever is shorter, using the straight-line method.

The estimated useful lives of such assets are as follows:

Building and building improvements	10 to 40 years
Furniture, fixtures and equipment	3 to 20 years
Leasehold improvements	1 to 20 years

Assets limited as to use - Investments whose assets are set aside under the terms of various bond agreements.

Beneficial interests in perpetual trusts - Leake and Watts has beneficial interests in various perpetual trusts. Leake and Watts' interest in these trusts is reported as a contribution in the year received at their fair value. Changes in the fair value of the underlying assets are recorded as revenue adjusting permanently restricted net assets.

Bond issuance costs - The costs associated with the issuance of the Dormitory Authority of the State of New York Series 1994 Bonds and Series 2004 Bonds and those associated with the New York City Industrial Development Agency Series 2007 A-1 and A-2 Bonds have been deferred and are being amortized on the straight-line basis over the term of the bonds.

Net assets - Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Leake and Watts are classified and reported as follows:

Unrestricted - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

Temporarily restricted - Net assets that are subject to donor-imposed stipulations that will be met by either the actions of Leake and Watts and/or the passage of time.

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanently restricted - Net assets that have been restricted by donors to be maintained in perpetuity. Investment income earned in relation to permanently restricted endowments is initially classified as temporarily restricted net assets and is recorded as unrestricted upon expenditure for the program for which the endowment fund was established. Restricted revenue earned and expended in the same fiscal year is reflected as unrestricted revenue.

Contributions - Unconditional contributions, including promises to give cash and other assets, are recorded at fair value at the date the contribution is received. Leake and Watts reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements. Donated fixed assets that are restricted for use in specific programs are released from restriction over the useful lives of the assets.

Contributed costs and revenues - Leake and Watts operates programs where certain costs including facility costs, fringe benefits for staff, and consumable supplies are paid directly by New York City. Leake and Watts reports these amounts as operating revenues and expenses, and recognized $10,871 and $12,865 of contributed costs for the years ended June 30, 2012 and 2011, respectively. Leake and Watts also received voluntary services of $228,089 and $142,996 for the years ended June 30, 2012 and 2011, respectively, and these are reported as operating revenues and expenses.

Measure of operations - Leake and Watts' change in net assets from operations includes revenues and expenses directly related to the provision of child and family care programs. Investment income and loss, contributions, both restricted and unrestricted, special events and related direct costs, loss on disposal of fixed assets, change in value of beneficial interests in perpetual trusts, and miscellaneous income are considered nonoperating.

Operating leases - Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent is recorded if material. Operating lease payments are charged to rental expense.

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications - Certain 2011 line of credit and notes payable amounts have been reclassified from long-term liabilities to current liabilities to conform to the 2012 presentation.

Uncertainty in income taxes - Leake and Watts has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2009 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through November 9, 2012, which is the date the financial statements were issued.

-continued-

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 3 - INVESTMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The following tables set forth by level, within the fair value hierarchy, as described in Note 2, the assets at fair value as of June 30, 2012 and 2011:

	2012				
	Level 1				
	Investments - General	Assets Limited As To Use	Total	Level 3	Total
Cash equivalents		$ 2,113,706	$ 2,113,706		$ 2,113,706
Money market funds	$ 318,308		318,308		318,308
Fixed income securities					
U.S. Government and agency obligations					
U.S. Treasury obligations	2,738,891	3,182,480	5,921,371		5,921,371
Government related	306,263		306,263		306,263
Mortgage-backed securities	26,017	206,620	232,637		232,637
Other	334,225		334,225		334,225
Pooled vehicle	310,275		310,275		310,275
Corporate bonds					
Telecommunications	317,992		317,992		317,992
Energy	197,329		197,329		197,329
Finance	931,580		931,580		931,580
Consumer goods	426,370		426,370		426,370
Services	282,668		282,668		282,668
Mutual funds					
Large cap	5,556,937		5,556,937		5,556,937
Mid cap	777,316		777,316		777,316
Small cap	945,807		945,807		945,807
Small-mid cap	287,742		287,742		287,742
International-developed	1,194,096		1,194,096		1,194,096
Emerging markets	690,209		690,209		690,209
Equity REITs	287,007		287,007		287,007
Exchange traded funds (ETF)	59,358		59,358		59,358
Subtotal	15,988,390	5,502,806	21,491,196		21,491,196
Beneficial interests in perpetual trusts				$ 1,257,196	1,257,196
Total	$15,988,390	$ 5,502,806	$21,491,196	$ 1,257,196	$22,748,392

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 3 - INVESTMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS (continued)

	2011				
	Level 1				
	Investments - General	Assets Limited As To Use	Total	Level 3	Total
Cash equivalents		$ 2,047,471	$ 2,047,471		$ 2,047,471
Money market funds	$ 700,961		700,961		700,961
Fixed income securities					
U.S. Government and agency obligations					
U.S. Treasury obligations	3,203,564	3,212,891	6,416,455		6,416,455
Municipal bonds	266,828		266,828		266,828
Mortgage-backed securities	697,763	206,620	904,383		904,383
Corporate bonds					
Telecommunications	396,974		396,974		396,974
Energy	262,851		262,851		262,851
Finance	1,038,506		1,038,506		1,038,506
Consumer goods	320,122		320,122		320,122
Services	305,307		305,307		305,307
Common stocks					
Energy	729,768		729,768		729,768
Materials	293,754		293,754		293,754
Industrials	773,835		773,835		773,835
Consumer discretionary	586,882		586,882		586,882
Consumer staples	570,646		570,646		570,646
Healthcare	672,164		672,164		672,164
Financials	821,332		821,332		821,332
Information technology	1,207,668		1,207,668		1,207,668
Telecommunications services	79,460		79,460		79,460
Utilities	137,667		137,667		137,667
Mutual funds					
Mid cap	555,077		555,077		555,077
Small cap	421,259		421,259		421,259
International-developed	1,633,105		1,633,105		1,633,105

-continued-

NOTE 3 - INVESTMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS (continued)

	2011				
	Level 1				
	Investments - General	Assets Limited As To Use	Total	Level 3	Total
Emerging markets	$ 424,629		$ 424,629		$ 424,629
Other equity	1,451,016		1,451,016		1,451,016
Subtotal	17,551,138	$ 5,466,982	23,018,120		23,018,120
Beneficial interests in perpetual trusts				$ 1,327,717	1,327,717
Total	$17,551,138	$ 5,466,982	$23,018,120	$ 1,327,717	$24,345,837

Included in investments are $2,361,096 of permanently restricted funds at June 30, 2012 and 2011.

The following table sets forth the changes in Level 3 investments as of June 30, 2012 and 2011:

	2012	2011
Beginning balance	$ 1,327,717	$ 1,232,202
Total gains (losses) (realized/unrealized) included in changes in net assets for the year ended June 30	(70,521)	95,515
Ending balance	$ 1,257,196	$ 1,327,717
The amount of total gains (losses) for the period included in changes in net assets attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date	$ (70,521)	$ 95,515

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NOTE 3 - INVESTMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS (continued)

Investment income consists of the following for the years ended June 30, 2012 and 2011:

	2012	2011
Interest and dividend income	$ 414,097	$ 417,488
Realized gains	388,908	410,584
Unrealized gains (losses)	(946,871)	2,198,572
Investment expenses	(62,854)	(62,237)
Investment income (loss)	$ (206,720)	$ 2,964,407

NOTE 4 - FIXED ASSETS

As of June 30, 2012 and 2011, fixed assets consist of the following:

	2012	2011
Land	$ 38,787	$ 38,787
Building and building improvements	51,506,329	51,771,464
Leasehold improvements	1,421,065	1,421,065
Furniture, fixtures and equipment	6,549,317	6,423,564
Construction in progress	430,788	71,689
Total cost	59,946,286	59,726,569
Less accumulated depreciation and amortization	(26,668,731)	(24,212,430)
Fixed assets - net	$ 33,277,555	$ 35,514,139

Equipment costing $571,599 and $525,863 as of June 30, 2012 and 2011, respectively, and associated accumulated amortization as of June 30, 2012 and 2011 in the amounts of $158,619 and $170,296, respectively, are subject to capital lease agreements as described in Note 7.

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 5 - REVENUE RECOGNITION AND ADJUSTMENTS

Revenues are recognized when earned as services are performed and are based on rates, fees for services and contractual agreements with various Federal, New York State, New York City, Westchester County and other public agencies.

Revenues under third-party-payor agreements are subject to audit and potential retroactive adjustments. Provisions for estimated third-party-payor settlements are recorded in the period when the services are rendered. Differences between the estimated amounts accrued, interim and final settlements are reported in operations in the year of determination.

The eventual liability to governmental entities, if any, upon final settlement of the open years has not been finalized. However, Leake and Watts has recorded estimated provisions of approximately $1,200,000 and $1,900,000 at June 30, 2012 and 2011, respectively, for the eventual settlement of the open cost reporting periods.

Reimbursement methodologies for some of the major programs present at Leake and Watts are as follows:

Education and Early Childhood

Leake and Watts' school programs are regulated and funded by the New York State Education Department. A tuition rate per student is established based upon enrollment, actual cost data, geographic location and other cost "screens" prescribed by the State. Fluctuations in enrollment and costs can have a significant impact on Leake and Watts' receipt of a rate sufficient to cover program costs. Revenue from support payments from the New York City Department of Education is subject to final reconciliation for the fiscal years ended June 30, 2012 and 2011.

Foster Care, Residential Treatment and Medical and Mental Health Services

The principal source of revenue consists of support payments received from the City of New York (the "City") and Westchester County for congregate and foster boarding home care, and health care provided to children referred to Leake and Watts. Such payments, based initially upon per diem rates established annually by the New York State Office of Children and Family Services, the New York City Administration for Children's Services, and the State Department of Health, are finalized after the reported costs and days of care are audited.

Revenue from support payments from the City is subject to audit for the fiscal years ended June 30, 2012 and 2011.

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 5 - REVENUE RECOGNITION AND ADJUSTMENTS (continued)

Developmental Disabilities Services

Developmental Disabilities Services including community-based programs such as group homes and supported apartments, respite/recreation services, supportive employment, day services, and Medicaid Service Coordination are funded through contracts with the New York State Office for People With Developmental Disabilities ("OPWDD") and by Medicaid, based on rates established by OPWDD.

NOTE 6 - LINE OF CREDIT AND NOTES PAYABLE

The Bank of New York Mellon

Leake and Watts maintains a revolving credit agreement with The Bank of New York Mellon (BNY) for a working capital loan of $9,000,000 and an improvement loan of $5,000,000. BNY has authorized Leake and Watts to draw down an additional $500,000 in connection with its working capital loan on a temporary basis. Each loan bears interest at a respective rate indexed to the Libor rate plus an additional percentage point, with interest rates increasing upon drawdown of funds above certain thresholds. The working capital loan is collateralized by assets held by BNY in the custodial investment accounts of Leake and Watts. The improvement loan is an unsecured note. Both loans will mature on December 10, 2012. Principal and interest payments in the amount of $103,000 are due monthly. As of June 30, 2012 and 2011, the working capital loan balance outstanding was $8,500,000 and $9,280,339, respectively, and the improvement loan balance outstanding was $4,684,807 and $4,990,000, respectively, for a total balance outstanding as of June 30, 2012 and 2011 of $13,184,807 and $14,270,339, respectively. The interest rates on the various lines of credit as of June 30, 2012 and 2011 ranged from 1.26% to 3.25% and from 1.70% to 3.30%, respectively.

ADP Commercial Leasing

On August 26, 2009, Leake and Watts entered into an equipment financing agreement with ADP Commercial Leasing in the amount of $7,000. Payments of $292 are due monthly. There is no interest charged and the note is unsecured. The note matured in September 2011. The balance outstanding as of June 30, 2011 was $876.

On October 14, 2009, Leake and Watts entered into a second equipment financing agreement with ADP Commercial Leasing in the amount of $18,500. Payments of $771 are due monthly. There is no interest charged and the note is unsecured. The note matured in November 2011. The balance outstanding as of June 30, 2011 was $3,854.

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NOTE 6 - LINE OF CREDIT AND NOTES PAYABLE (continued)

Castle Combe Associates LLC

On January 5, 2009, Leake and Watts entered into a mortgage financing agreement with Castle Combe Associates LLC for $3,795,737 to purchase a building at 450 Castle Hill Ave., Bronx. The mortgage is secured by the aforementioned property. Payments of $28,300 are due monthly through February 1, 2029. The interest rate is 6.50%. The balance outstanding as of June 30, 2012 and 2011 was $3,441,479 and $3,553,403, respectively.

HVB Leasing Corp.

On December 15, 2011, Leake and Watts entered into a computer equipment financing agreement with HVB Leasing Corp. in the amount of $400,000 to upgrade the computer network. Payments of $7,800 per month are due monthly. The interest rate is 7.49%. The balance outstanding as of June 30, 2012 was $362,173. The note matures in January 2017. HVB Leasing Corp. has a first-priority security interest in the property described above.

Payments for all notes payable and the line of credit over the next five years are as follows:

2013	$ 13,373,033
2014	201,557
2015	215,838
2016	231,135
2017	208,032
Thereafter	2,758,864
	$ 16,988,459

NOTE 7 - CAPITAL LEASES PAYABLE

HVB Leasing Corp.

On June 22, 2007, Leake and Watts entered into a computer equipment financing agreement with HVB Leasing Corp. in the amount of $175,799 to upgrade the organization's computer network. Payments of $3,526 are due monthly. The interest rate is 7.53%. The lease matured in June 2012. The balance outstanding as of June 30, 2011 was $40,629.

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NOTE 7 - CAPITAL LEASES PAYABLE (continued)

On August 22, 2008, Leake and Watts entered into an office equipment financing agreement with HVB Leasing Corp. in the amount of $252,435 to upgrade the copying/printing/scanning/faxing office equipment. Payments of $5,076 are due monthly. The interest rate is 7.65%. The lease expires in August 2013. The balance outstanding as of June 30, 2012 and 2011 was $56,735 and $110,223, respectively.

M&T Credit Services, LLC

On October 19, 2007, Leake and Watts entered into a computer equipment financing agreement with M&T Credit Services, LLC in the amount of $97,629 to upgrade the Citrix software and new servers. Payments of $1,882 are due monthly. The interest rate is 6.09%. The lease expires in May 2013. The balance outstanding as of June 30, 2012 and 2011 was $20,106 and $40,841, respectively.

Baytree National Bank and Trust Company

On February 10, 2012, Leake and Watts entered into a computer equipment financing agreement with Baytree National Bank and Trust Company in the amount of $221,535 to finance the purchase of smart boards and audio equipment. Payments of $4,344 are due monthly. The interest rate is 9.1%. The lease expires in February 2017. The balance outstanding as of June 30, 2012 was $197,618.

Future lease payments are as follows:

2013	$ 133,745
2014	52,128
2015	52,128
2016	52,128
2017	34,756
Total	324,885
Less amount representing interest	(50,426)
Present value of net minimum lease payments	274,459
Less current portion	(113,442)
Long-term obligation under capital lease	$ 161,017

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NOTE 8 - BONDS PAYABLE

Series 2004 Bonds

On December 21, 2004, the Dormitory Authority of the State of New York (the "Authority") issued Series 2004 Bonds aggregating $33,105,000 primarily to refund the Authority's Series 1994 Bonds ("Refunded Bonds"). The Series 1994 Bonds had been used for construction costs of a new school building, children's residential cottages, and renovations to existing buildings. The Series 2004 bonds were sold at a premium (net of discounts) of $1,445,600 and are due in 2023. On January 25, 2005, the entire outstanding balance of the Series 1994 Bonds, totaling $32,880,000, was refunded with a 2% additional call premium of $657,600. Bond proceeds were also used to pay the issuance cost of the Series 2004 Bonds totaling $1,422,200. A major portion of these costs, $1,349,200, was expensed in 2005; the remainder is included in bond issuance costs and are being amortized over the term of the bonds. At June 30, 2012 and 2011, the combined unamortized bond issuance costs relating to the Series 1994 Bonds and the Series 2004 Bonds were $596,667 and $650,911, respectively.

The retirement of the Series 1994 Bonds and the issuance of the Series 2004 Bonds were accounted for as a modification of debt terms in accordance with Emerging Issues Task Force ("EITF") 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments." Accordingly, the unamortized call discount paid on the refunded 1994 Bonds, the unamortized bond discount on the refunded 1994 Bonds, and the premium received on the 2004 Bonds have been aggregated into one account which nets to a credit balance of $38,828 at June 30, 2012 and $42,357 at June 30, 2011. This amount will be amortized as a reduction to interest expense over the life of the Series 2004 Bonds.

The 2004 Bonds loan agreement requires principal payments through July 1, 2023, and the maintenance of certain reserve funds. Principal payments are due once annually. Interest payments are due semiannually. At June 30, 2012 and 2011, the amounts held in the debt service fund were $2,112,751 and $2,046,314, respectively; amounts held in the debt service reserve fund were $2,631,574 and $2,637,777, respectively; and amount held in the construction fund was $36,659 at June 30, 2011. These amounts are reflected as investments limited as to use on the accompanying statement of financial position. The rates of interest on the bonds range from 3.0% to 5.25%. During fiscal 2012 and 2011, interest income earned on funds limited as to use totaled $1,224 and $5,723, respectively.

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NOTE 8 - BONDS PAYABLE (continued)

Series 2004 Bonds (continued)

The Series 2004 Bonds are special revenue obligations of the Authority and are secured by a mortgage on the real property on which the project is located, and by a security interest in certain fixtures, furnishings, and equipment now or hereafter located therein, or used in connection therewith. The Series 2004 Bonds are also secured by a general revenue pledge and Leake and Watts must maintain unrestricted net assets equal to the maximum annual debt service payment. Leake and Watts is permitted to grant subordinate liens, or parity liens with consent, on its Public Funds and Pledged Revenues secured from sources other than the New York City Administration for Children's Services. The Series 2004 Bonds are insured as to scheduled payment of principal and interest by a financial guaranty insurance policy issued by MBIA Insurance Corporation. The principal balance outstanding on Series 2004 Bonds at June 30, 2012 and 2011 was $23,330,000 and $24,775,000, respectively.

Series 2007A-1 and Series 2007A-2 Bonds and Series 1999B Bonds

On February 22, 2007, the New York City Industrial Development Agency ("NYCIDA") issued Series 2007A-1 and Series 2007A-2 Bonds aggregating $3,220,000 to refund Series 1999B Bonds of the NYCIDA, maturing on August 1, 2015. Bond proceeds were held in escrow until August 1, 2009, at which time Series 1999 Bonds were fully refunded.

The Series 2007 Bonds were issued to finance or refinance the costs of the acquisition, construction, equipping and financing of seven group homes, and major renovation of one of the homes. The bonds are secured by a first mortgage lien and a security interest in the facilities. The 2007 Bond loan agreement requires principal payments through July 1, 2022 and the maintenance of certain reserve funds. Principal payments are due once annually. Interest payments are due semiannually. At June 30, 2012 and 2011, the amount held in the debt service reserve fund was $214,920; in the debt service fund was $373,585 and $361,354, respectively, in the construction fund was $169,927 and $169,909, respectively; and in the earnings fund was $49 at June 30, 2012 and 2011. These amounts are reflected as investments limited as to use on the accompanying statement of financial position. The rate of interest on the bonds ranges from 3.80% to 4.65%. During fiscal years 2012 and 2011, interest income earned on funds limited as to use for Series 2007 totaled $7,540 and $7,538, respectively.

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NOTE 8 - BONDS PAYABLE (continued)

Bond proceeds from the Series 2007A-1 and A-2 were also used to pay the cost of issuance of the bonds totaling $343,022 and the bond discount of $24,856. These costs will be amortized as interest expense over the life of the bonds. At June 30, 2012 and 2011, the unamortized bond issuance cost was $230,623 and $253,685, respectively. At June 30, 2012 and 2011, the unamortized bond discount was $19,120 and $21,032, respectively. The Series 2007 Bonds are insured as to scheduled payment of principal and interest by a financial guaranty insurance policy issued by ACA Financial Guaranty Corporation. The principal balance outstanding on the Series 2007 Bonds at June 30, 2012 and 2011 was $2,050,000 and $2,340,000, respectively.

The net unamortized bond discount and premium relating to the above bonds at June 30, 2012 and 2011 was $19,708 and $21,325, respectively.

Annual debt service amounts payable during the next five years and thereafter are as follows:

2013	$ 1,815,000
2014	1,870,000
2015	1,945,000
2016	2,020,000
2017	1,855,000
Thereafter	15,875,000
	25,380,000
Plus net unamortized premium and discount	19,708
Total	$ 25,399,708

NOTE 9 - POSTRETIREMENT BENEFITS

The present value of Leake and Watts' agreement with the former executive director relating to the provision of health benefits on his family's behalf as of June 30, 2012 and 2011 was $118,205 and $132,616, respectively. The liability is included in accrued payroll and employee benefits on the accompanying statements of financial position.

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LEAKE AND WATTS SERVICES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 10 - CONTRIBUTIONS RECEIVABLE

All unconditional contributions receivable have been recorded at fair value. Those receivables that are due in more than one year have been discounted to their present value using an estimated discount rate of 3%.

Receivables are due as follows:

2013	$ 93,199
2014	61,606
2015	24,105
	178,910
Less discount to present value	(3,178)
Total	$ 175,732

NOTE 11 - COMMITMENTS AND CONTINGENCIES

(a) Noncancelable leases principally relate to office space, residential housing, office equipment, and automobiles. These leases expire between March 2013 and April 2020. Minimum payments for the next five years are as follows:

2013	$ 1,407,000
2014	1,234,000
2015	1,166,000
2016	1,183,000
2017	1,075,000
Thereafter	3,190,789
Total	$ 9,255,789

(b) Total rent expense, including in-kind rent, amounted to $1,661,902 and $1,598,705 for the years ended June 30, 2012 and 2011, respectively.

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NOTE 11 - COMMITMENTS AND CONTINGENCIES (continued)

(c) During the period from January 2000 to December 2005, workers' compensation coverage was provided by the Provider Agency Trust for Human Services (the "Trust"). Leake and Watts was informed during 2008 that the Trust's reserves for claims were insufficient, resulting in a revised assessment of $2,394,738. Monthly payments to settle such liability are $18,293, and the interest rate is 7.50%. The balance outstanding as of June 30, 2012 and 2011 is $1,343,531 and $1,547,734, respectively. Payments over the next five years are as follows:

2013	$ 204,203
2014	204,203
2015	204,203
2016	204,203
2017	204,203
Thereafter	322,516
Total	$ 1,343,531

(d) Leake and Watts is involved by third parties in legal matters in which damages and other remedies are sought. However, in the opinion of management, after review with counsel, the eventual disposition of these matters will not have a material adverse effect on Leake and Watts' financial position and results of its operations.

(e) Leake and Watts is responsible for reporting to several third parties. These agencies, as well as the New York State office of the Attorney General, the Internal Revenue Service, the New York State Office of the Medicaid Inspector General and the New York State Department of Charities Registration have the right to audit Leake and Watts (see Note 5).

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NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2012	2011
Fire safety	$ 40,680	$ 54,267
Parent child home program	110,884	42,988
Awarding of educational scholarships	176	505
Strategy Count	175,732	
Peer Leadership	3,074	
	$ 330,546	$ 97,760

Net assets were released from restrictions by satisfying the following:

	2012	2011
Computer literacy (E-Rate)		$ 181,006
Fire safety	$ 13,587	13,586
Tobacco-free school		1,000
Parent child home program	42,104	17,012
Reimbursable expenses of foster parents		118
Awarding of educational scholarships	341	2,435
Total net assets released from restrictions	$ 56,032	$ 215,157

NOTE 13 - FUNCTIONAL EXPENSES

	2012	2011
Program services	$ 61,549,538	$ 56,095,278
Management and general	6,666,916	6,252,884
Development	158,094	161,451
Direct costs of special events	91,050	109,678
Total expenses	$ 68,465,598	$ 62,619,291

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NOTE 14 - CONCENTRATIONS

Leake and Watts' cash accounts are in several financial institutions and, at times, they exceed FDIC insurance limits.

Leake and Watts received $44,141,330 and $40,602,523 from the City of New York, which is 65% and 67% of the agency's revenues in 2012 and 2011, respectively.

100% of Leake and Watts' accounts receivable is from the City of New York, Westchester County, the State of New York and several municipalities within the State in 2012 and 2011.

NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS

A. Endowment Funds

General

Leake and Watts' endowment consists of four individual donor-restricted endowment funds as follows as of June 30, 2012 and 2011:

The **Orphan's Fund** contains the funds formerly held by the Orphans Home and Asylum. The income may be used from time to time as the Board of Directors may designate. Its "historic value" is $1,557,319.

The **Sevilla Fund** contains the funds formerly held by the Sevilla Home for Children. Its "historic value" is $527,479. The income from this fund is for maintenance and education, including religious instruction of orphans, half-orphans and dependent girls.

The **Hopewell Fund** stems from the Hopewell Society of Brooklyn and its "historic value" is $175,826. In brief, the income from this fund is for maintenance and education, including religious instruction of orphans, half-orphans and dependent girls.

The Andrew Peck Memorial Fund (**Peck Fund**) is an endowment created in 1927 with $100,472. The income is to be spent furthering the education and support of the children who are no longer residing at Leake and Watts.

As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS (continued)

A. Endowment Funds **(continued)**

Interpretation of Relevant Law

The Board of Directors of Leake and Watts has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. Leake and Watts is now governed by the NYPMIFA spending policy, which establishes a maximum spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, Leake and Watts classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of Leake and Watts is to generate revenues to support programs, as defined above, while maintaining the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established. Restricted interest earned and expended in the same fiscal year is reflected as unrestricted revenue.

Funds with Deficiencies

Leake and Watts does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of June 30, 2012 and 2011

The endowment net asset composition of $2,361,096 consists of permanently donor-restricted funds for the years 2012 and 2011.

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NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS (continued)

A. **Endowment Funds** (continued)

Changes in Endowment Net Assets for the Year Ended June 30, 2012

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year		$ 2,361,096	$ 2,361,096
Investment income	$ 88,083		88,083
Appropriation of endowment assets for expenditure	(88,083)		(88,083)
Endowment net assets, end of year	$ -	$ 2,361,096	$ 2,361,096

Changes in Endowment Net Assets for the Year Ended June 30, 2011

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year		$ 2,361,096	$ 2,361,096
Investment income	$ 98,028		98,028
Appropriation of endowment assets for expenditure	(98,028)		(98,028)
Endowment net assets, end of year	$ -	$ 2,361,096	$ 2,361,096

B. **Beneficial Interests in Perpetual Trusts**

As of June 30, 2012 and 2011, Leake and Watts holds the following beneficial interests in various perpetual trusts.

	Permanently Restricted	
	2012	2011
Beneficial interests in perpetual trusts	$ 1,257,196	$ 1,327,717

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NOTE 16 - RETIREMENT PLAN

Effective July 1, 1989, Leake and Watts established a defined contribution retirement plan (the "Plan") covering all employees with more than one year of service and who are over age 21. The aggregate annual contribution to the Plan, which is generally based on a percentage of total compensation of eligible employees, as authorized by the Board of Directors, is allocated to participants' accounts in amounts equal to such percentage of their compensation. For the year ended June 30, 2012, there was no allocation to the Plan. In the year ended June 30, 2011, $256,710, representing 1% of eligible employees' compensation, was allocated to the Plan.

NOTE 17 - SUBSEQUENT INVESTMENT INFORMATION - UNAUDITED

On August 20, 2012, Leake and Watts received approval from the New York City Administration for Children's Services (ACS) to operate a 12-bed Non-Secure Placement (NSP) program for a total first-year budgeted revenue of $2,010,000 and one-time start-up revenue of $276,000.

Between July 1 and October 22, 2012, Leake and Watts received approval from OPWDD to provide Adult Community Habilitation services to six (6) consumers for additional anticipated revenues of $218,000.

On October 1, 2012, Leake and Watts began operating an EarlyLearn program at its Randall Avenue site in Bronx, NY with anticipated annual funding of $1,149,000, which replaces the existing Soundview and Highbridge child care programs, such programs having grossed approximately $770,000 in 2012, resulting in estimated increased funding of approximately $379,000.

On October 1, 2012, Leake and Watts was designated as a sponsoring board to operate Seabury Day Care Center in Bronx, NY through a discretionary fund made available by the New York City Council in the anticipated amount of $1,258,000.

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

	2012				2011			
	Leake and Watts Services, Inc.	The Emergency Shelter, Inc.	Eliminations	Total	Leake and Watts Services, Inc.	The Emergency Shelter, Inc.	Eliminations	Total
ASSETS								
Current assets								
Cash and cash equivalents	$ 239,780	$ 903,478		$ 1,143,258	$ 1,005,578	$ 919,025		$ 1,924,603
Investments	13,627,294			13,627,294	15,190,042			15,190,042
Investments - certificates of deposit		25,000		25,000		25,000		25,000
Accounts receivable (net of allowance of $334,000 and $273,000 in 2012 and 2011, respectively)	7,226,638		$ (18,750)	7,207,888	7,722,175		$ (18,750)	7,703,425
Contributions receivable	93,199			93,199				
Prepaid expenses	508,532			508,532	362,660			362,660
Accrued investment interest receivable	63,236			63,236	73,482			73,482
Total current assets	21,758,679	928,478	(18,750)	22,668,407	24,353,937	944,025	(18,750)	25,279,212
Assets limited as to use investments	5,502,806			5,502,806	5,466,982			5,466,982
Other assets								
Accrued bond interest receivable					80,348			80,348
Contribution receivable	82,533			82,533				
Investments	2,361,096			2,361,096	2,361,096			2,361,096
Beneficial interest in perpetual trusts		1,257,196		1,257,196		1,327,717		1,327,717
Bond issuance costs	827,290			827,290	904,596			904,596
Fixed assets - net	33,277,555			33,277,555	35,514,139			35,514,139
Total other assets	36,548,474	1,257,196		37,805,670	38,860,179	1,327,717		40,187,896
Total assets	$ 63,809,959	$ 2,185,674	$ (18,750)	$ 65,976,883	$ 68,681,098	$ 2,271,742	$ (18,750)	$ 70,934,090

-continued-

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

	2012				2011			
	Leake and Watts Services, Inc.	The Emergency Shelter, Inc.	Eliminations	Total	Leake and Watts Services, Inc.	The Emergency Shelter, Inc.	Eliminations	Total
LIABILITIES AND NET ASSETS								
Current liabilities								
Accounts payable	$ 2,082,893			$ 2,082,893	$ 2,257,913			$ 2,257,913
Accrued payroll and employee benefits	2,379,828			2,379,828	3,347,894			3,347,894
Accrued expenses and other liabilities	2,456,216	$ 21,213	$ (18,750)	2,458,679	4,579,351	$ 19,860	$ (18,750)	4,580,461
Accrued interest payable	563,506			563,506	605,504			605,504
Line of credit and notes payable	13,373,033			13,373,033	14,614,668			14,614,668
Capital leases payable	113,442			113,442	114,852			114,852
Bonds payable - net	1,815,000			1,815,000	1,735,000			1,735,000
Total current liabilities	22,783,918	21,213	(18,750)	22,786,381	27,255,182	19,860	(18,750)	27,256,292
Long-term liabilities								
Accrued payroll and employee benefits	1,240,816			1,240,816	1,343,531			1,343,531
Line of credit and notes payable	3,615,426			3,615,426	3,213,804			3,213,804
Capital leases payable	161,017			161,017	76,841			76,841
Bonds payable - net	23,584,708			23,584,708	25,401,325			25,401,325
Total long-term liabilities	28,601,967			28,601,967	30,035,501			30,035,501
Total liabilities	51,385,885	21,213	(18,750)	51,388,348	57,290,683	19,860	(18,750)	57,291,793
Net assets (Schedule 2)								
Unrestricted	9,732,432	907,265		10,639,697	8,931,559	924,165		9,855,724
Temporarily restricted	330,546			330,546	97,760			97,760
Permanently restricted	2,361,096	1,257,196		3,618,292	2,361,096	1,327,717		3,688,813
Total net assets	12,424,074	2,164,461		14,588,535	11,390,415	2,251,882		13,642,297
Total liabilities and net assets	$ 63,809,959	$ 2,185,674	$ (18,750)	$ 65,976,883	$ 68,681,098	$ 2,271,742	$ (18,750)	$ 70,934,090

See independent auditor's report.

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

SCHEDULE 2

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEARS ENDED JUNE 30, 2012 AND 2011

	2012									
	Leake and Watts Services, Inc.			The Emergency Shelter, Inc.			Total			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Permanently Restricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues										
Program revenue	$ 68,313,859					$ (75,000)	$ 68,238,859			$ 68,238,859
Other	30,851						30,851			30,851
Total operating revenues	68,344,710					(75,000)	68,269,710			68,269,710
Operating expenses										
Program services										
Foster care, residential treatment and medical/mental health services	19,551,458						19,551,458			19,551,458
Education and early childhood	24,280,891						24,280,891			24,280,891
Developmental disabilities services	10,548,988						10,548,988			10,548,988
Juvenile justice - Woodfield facility	2,588,616						2,588,616			2,588,616
Day care centers and Head Start	2,556,229						2,556,229			2,556,229
Preventive	2,023,356			$ 75,000		(75,000)	2,023,356			2,023,356
Total program services	61,549,538			75,000		(75,000)	61,549,538			61,549,538
Supporting services										
Management and general	6,607,262			6,820		(10,020)	6,604,062			6,604,062
Development	158,094						158,094			158,094
Total supporting services	6,765,356			6,820		(10,020)	6,762,156			6,762,156
Total operating expenses	68,314,894			81,820		(85,020)	68,311,694			68,311,694
Decrease in net assets from operations	29,816			(81,820)		10,020	(41,984)			(41,984)
Nonoperating revenues										
Investment income (loss)	(206,787)			10,087		(10,020)	(206,720)			(206,720)
Contributions	580,969	$ 288,818		54,672			635,641	$ 288,818		924,459
Special events	461,887						461,887			461,887
Direct costs of special events	(91,050)						(91,050)			(91,050)
Change in value of beneficial interest in perpetual trusts					$ (70,521)				$ (70,521)	(70,521)
Loss on disposal of fixed assets	(29,994)						(29,994)			(29,994)
Miscellaneous income				161			161			161
Net assets released from restrictions	56,032	(56,032)					56,032	(56,032)		
Change in net assets	800,873	232,786		(16,900)	(70,521)		783,973	232,786	(70,521)	946,238
Net assets - beginning of year	8,931,559	97,760	$ 2,361,096	924,165	1,327,717		9,855,724	97,760	3,688,813	13,642,297
Net assets - end of year	$ 9,732,432	$ 330,546	$ 2,361,096	$ 907,265	$ 1,257,196	$ -	$ 10,639,697	$ 330,546	$ 3,618,292	$ 14,588,535

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

SCHEDULE 2
-2-

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEARS ENDED JUNE 30, 2012 AND 2011

	2011									
	Leake and Watts Services, Inc.			The Emergency Shelter, Inc.			Total			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Permanently Restricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues										
Program revenue	$ 60,504,865					$ (75,000)	$ 60,429,865			$ 60,429,865
Other	12,571						12,571			12,571
Total operating revenues	60,517,436					(75,000)	60,442,436			60,442,436
Operating expenses										
Program services										
Foster care, residential treatment and medical/mental health services	19,081,751						19,081,751			19,081,751
Education and early childhood	21,769,312						21,769,312			21,769,312
Developmental disabilities services	8,250,664						8,250,664			8,250,664
Juvenile justice - Woodfield facility	2,628,046						2,628,046			2,628,046
Day care centers and Head Start	2,406,912						2,406,912			2,406,912
Preventive	1,958,593			$ 75,000		(75,000)	1,958,593			1,958,593
Total program services	56,095,278			75,000		(75,000)	56,095,278			56,095,278
Supporting services										
Management and general	6,188,234			2,413			6,190,647			6,190,647
Development	161,451						161,451			161,451
Total supporting services	6,349,685			2,413			6,352,098			6,352,098
Total operating expenses	62,444,963			77,413		(75,000)	62,447,376			62,447,376
Decrease in net assets from operations	(1,927,527)			(77,413)		-	(2,004,940)			(2,004,940)
Nonoperating revenues										
Investment income (loss)	2,960,012			4,395			2,964,407			2,964,407
Contributions	225,935	$ 241,031		52,892			278,827	$ 241,031		519,858
Special events	561,760						561,760			561,760
Direct costs of special events	(109,678)						(109,678)			(109,678)
Change in value of beneficial interest in perpetual trusts					$ 95,515				$ 95,515	95,515
Miscellaneous income				306			306			306
Net assets released from restrictions	215,157	(215,157)					215,157	(215,157)		
Change in net assets	1,925,659	25,874		(19,820)	95,515		1,905,839	25,874	95,515	2,027,228
Net assets - beginning of year	7,005,900	71,886	$ 2,361,096	943,985	1,232,202		7,949,885	71,886	3,593,298	11,615,069
Net assets - end of year	$ 8,931,559	$ 97,760	$ 2,361,096	$ 924,165	$ 1,327,717	$ -	$ 9,855,724	$ 97,760	$ 3,688,813	$ 13,642,297

See independent auditor's report.

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2012 AND 2011

2012

	Program Services							Supporting Services				
	Foster Care, Residential Treatment and Medical/ Mental Health Services	Education and Early Childhood	Developmental Disabilities Services	Juvenile Justice - Woodfield Facility	Day Care Centers and Head Start	Preventive	Total	Management and General	Development	Direct Costs of Special Events	Total	Total
Employee compensation and benefits												
Salaries and wages	$ 9,526,399	$ 14,732,919	$ 6,133,369	$ 1,603,024	$ 1,710,793	$ 1,044,920	$ 34,751,424	$ 2,974,229	$ 93,173		$ 3,067,402	$ 37,818,826
Fringe benefits	2,263,288	3,590,063	1,479,834	388,416	341,669	258,930	8,322,200	662,584	26,231		688,815	9,011,015
Total employee compensation and benefits	11,789,687	18,322,982	7,613,203	1,991,440	2,052,462	1,303,850	43,073,624	3,636,813	119,404		3,756,217	46,829,841
Specific assistance to individuals												
Payments to foster parents	3,222,328						3,222,328					3,222,328
Food	238,079	408,437	203,948	171,479	116,027		1,137,970					1,137,970
Children's allowances and activities	410,720	122,352	58,675	9,829	13,365	13,048	627,989					627,989
Consumer incidentals	197,515	6,522	6,998	19,107			230,142					230,142
Clothing	47,874		17,926		150		65,950					65,950
Total specific assistance to individuals	4,116,516	537,311	287,547	200,415	129,542	13,048	5,284,379					5,284,379
Occupancy												
Interest expense	401,445	606,269	170,995				1,178,709	361,555	2,411		363,966	1,542,675
Rent	231,214	844,640	128,658		143,984	120,247	1,468,743	3,700			3,700	1,472,443
Utilities	186,868	490,445	184,433			17,715	879,461	146,674	484		147,158	1,026,619
Maintenance and repairs	98,069	235,388	111,990	18,572	2,175	4,586	473,780	96,305	1,786		98,091	571,871
Security	53,634	65,110	39,911	7,161	657	6,490	182,963	50,539	765		51,304	234,267
Janitorial services	38,861	67,047	18,386			1,306	125,600	37,803	165		37,968	163,568
Total occupancy	1,020,091	2,311,899	654,373	25,733	146,816	150,344	4,309,256	696,576	5,611		702,187	5,011,443
Professional fees												
Clinical services	424,082	885,133	36,170	95,237	19,574		1,460,201					1,460,201
Legal and audit	279,584	23,107	7,699		10,646	6,704	327,740	283,201			283,201	610,941
Other independent contractors	226,326	238,521	483,461	83,790	24,007	446,134	1,502,239	210,231	3,289	$ 79,350	292,870	1,795,109
Total professional fees	929,992	1,146,766	527,330	179,027	54,227	452,838	3,290,180	493,432	3,289	79,350	576,071	3,866,251
Other												
Supplies	514,632	506,859	172,923	87,072	107,437	18,866	1,407,789	104,295	4,480	11,700	120,475	1,528,264
Transportation and other travel-related expenses	212,870	43,240	183,088	2,291	7,356	22,973	471,848	71,838	1,358		73,196	545,044
Insurance	97,007	155,835	63,452	34,132	11,217	9,182	370,825	206,438	327		206,765	577,590
Telephone	78,077	205,900	95,907	4,947	18,512	6,730	410,073	120,068	4,817		124,885	534,958
Vehicle rentals, repairs and replacement	51,902	13,072	142,528	1,753		919	210,174	20,630			20,630	230,804
Equipment/furniture rentals, repairs and replacement	128,696	130,563	74,891	17,053	16,117	6,236	375,556	20,609	2,447		23,056	398,612
Staff development	52,317	70,957	44,007	41,306	3,845	7,204	219,636	33,355	691		34,046	253,682
Staff recruitment	33,188	58,713	11,947		200	2,963	107,011	12,584	377		12,961	119,972
Printing, postage, subscriptions, publications	3,221	16,293	89	2,341	111	1,820	23,875	55,912	10,834		66,746	90,621
Dues, licenses, permits	821	13,866	4,985	482	6,222		26,376	68,465	25		68,490	94,866
Line of credit interest expense			65,367				65,367	152,973			152,973	218,340
Investment management fees								62,854			62,854	62,854
Miscellaneous	6,176	3,823	11,146	236	135	24,363	45,879	94,374	15		94,389	140,268
Total other	1,178,907	1,219,121	870,330	191,613	173,182	101,256	3,734,409	1,024,395	25,371	11,700	1,061,466	4,795,875
Total expenses before depreciation and amortization	19,035,193	23,538,079	9,952,783	2,588,228	2,556,229	2,021,336	59,691,848	5,851,216	153,675	91,050	6,095,941	65,787,789
Depreciation and amortization	516,265	742,812	596,205	388		2,020	1,857,690	815,700	4,419		820,119	2,677,809
Total expenses	19,551,458	24,280,891	10,548,988	2,588,616	2,556,229	2,023,356	61,549,538	6,666,916	158,094	91,050	6,916,060	68,465,598
Less expenses deducted directly from revenues on the statement of activities												
Investment management fees								(62,854)			(62,854)	(62,854)
Direct cost of special events										(91,050)	(91,050)	(91,050)
Total expenses reported by function on the statement of activities	$ 19,551,458	$ 24,280,891	$ 10,548,988	$ 2,588,616	$ 2,556,229	$ 2,023,356	$ 61,549,538	$ 6,604,062	$ 158,094	$ -	$ 6,762,156	$ 68,311,694

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2012 AND 2011

2011

	Program Services							Supporting Services				
	Foster Care, Residential Treatment and Medical/ Mental Health Services	Education and Early Childhood	Developmental Disabilities Services	Juvenile Justice - Woodfield Facility	Day Care Centers and Head Start	Preventive	Total	Management and General	Development	Direct Costs of Special Events	Total	Total
Employee compensation and benefits												
Salaries and wages	$ 8,644,236	$ 12,918,238	$ 4,770,952	$ 1,680,985	$ 1,689,998	$ 1,134,118	$ 30,838,527	$ 2,842,900	$ 90,082		$ 2,932,982	$ 33,771,509
Fringe benefits	2,056,544	3,285,617	1,275,579	398,294	178,689	258,552	7,453,275	759,959	29,622		789,581	8,242,856
Total employee compensation and benefits	10,700,780	16,203,855	6,046,531	2,079,279	1,868,687	1,392,670	38,291,802	3,602,859	119,704		3,722,563	42,014,365
Specific assistance to individuals												
Payments to foster parents	3,518,324						3,518,324					3,518,324
Food	227,621	305,644	140,912	152,800	114,762		941,739					941,739
Children's allowances and activities	402,791	102,314	88,692	8,309	15,811	17,871	635,788					635,788
Consumer incidentals	463,658	8,417	3,752	22,068			497,895					497,895
Clothing	66,390		14,813		75		81,278					81,278
Total specific assistance to individuals	4,678,784	416,375	248,169	183,177	130,648	17,871	5,675,024					5,675,024
Occupancy												
Interest expense	389,196	683,529	175,195				1,247,920	334,118	2,479		336,597	1,584,517
Rent	241,601	857,205	94,398		145,269	131,545	1,470,018	3,370			3,370	1,473,388
Utilities	177,770	417,633	126,707			17,322	739,432	74,702	572		75,274	814,706
Maintenance and repairs	99,054	145,102	47,295	143	3,386	6,638	301,618	64,891	662		65,553	367,171
Security	58,898	72,870	37,355	11,710	1,095	9,630	191,558	78,959	1,187		80,146	271,704
Janitorial services	41,688	51,078	12,606	3,375		3,485	112,232	16,948	143		17,091	129,323
Total occupancy	1,008,207	2,227,417	493,556	15,228	149,750	168,620	4,062,778	572,988	5,043		578,031	4,640,809
Professional fees												
Clinical services	542,379	1,015,347	60,119	93,190	17,199		1,728,234					1,728,234
Legal and audit	304,276	37,067	12,350		13,638	9,520	376,851	171,805			171,805	548,656
Other independent contractors	233,195	220,919	441,653	88,642	23,034	259,477	1,266,920	175,990	3,884	$ 96,710	276,584	1,543,504
Total professional fees	1,079,850	1,273,333	514,122	181,832	53,871	268,997	3,372,005	347,795	3,884	96,710	448,389	3,820,394
Other												
Supplies	519,434	463,152	159,762	66,188	128,070	26,376	1,362,982	99,360	1,417	12,968	113,745	1,476,727
Transportation and other travel-related expenses	204,079	40,183	144,289	8,357	2,161	41,303	440,372	52,753	6,130		58,883	499,255
Insurance	125,188	174,178	44,994	36,321	2,268	11,395	394,344	214,817	489		215,306	609,650
Telephone	99,046	142,246	51,253	3,600	18,336	9,272	323,753	88,175	3,253		91,428	415,181
Vehicle rentals, repairs and replacement	38,386	3,371	92,007	4,041		386	138,191	12,419			12,419	150,610
Equipment/furniture rentals, repairs and replacement	46,920	84,367	34,896	11,974	6,607	1,576	186,340	26,344	1,325		27,669	214,009
Staff development	7,793	48,491	11,683	34,282	2,470	2,212	106,931	6,008	2,365		8,373	115,304
Staff recruitment	38,791	37,411	7,563	460		2,468	86,693	5,749	299		6,048	92,741
Printing, postage, subscriptions, publications	2,755	14,677	197	2,189	115	919	20,852	57,404	11,126		68,530	89,382
Dues, licenses, permits	580	16,741	6,119	729	4,116		28,285	66,516	235		66,751	95,036
Line of credit interest expense								253,786			253,786	253,786
Investment management fees								62,237			62,237	62,237
Miscellaneous	1,140	3,200	4,043		39,813	11,661	59,857	49,805	1,850		51,655	111,512
Total other	1,084,112	1,028,017	556,806	168,141	203,956	107,568	3,148,600	995,373	28,489	12,968	1,036,830	4,185,430
Total expenses before depreciation and amortization	18,551,733	21,148,997	7,859,184	2,627,657	2,406,912	1,955,726	54,550,209	5,519,015	157,120	109,678	5,785,813	60,336,022
Depreciation and amortization	530,018	620,315	391,480	389		2,867	1,545,069	733,869	4,331		738,200	2,283,269
Total expenses	19,081,751	21,769,312	8,250,664	2,628,046	2,406,912	1,958,593	56,095,278	6,252,884	161,451	109,678	6,524,013	62,619,291
Less expenses deducted directly from revenues on the statement of activities												
Investment management fees								(62,237)			(62,237)	(62,237)
Direct cost of special events										(109,678)	(109,678)	(109,678)
Total expenses reported by function on the statement of activities	$ 19,081,751	$ 21,769,312	$ 8,250,664	$ 2,628,046	$ 2,406,912	$ 1,958,593	$ 56,095,278	$ 6,190,647	$ 161,451	$ -	$ 6,352,098	$ 62,447,376

See independent auditor's report.

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2011 AND 2010

LOEB & TROPER LLP

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

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Independent Auditor's Report

Board of Directors
Leake and Watts Services, Inc.
and Affiliate

We have audited the consolidated statement of financial position of Leake and Watts Services, Inc. and Affiliate as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Leake and Watts Services, Inc. and Affiliate's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The Emergency Shelter, Inc., which statements as of June 30, 2011 and 2010 reflect total assets of $2,271,742 and $2,196,047, respectively. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to The Emergency Shelter, Inc., are based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Leake and Watts Services, Inc. and Affiliate's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Leake and Watts Services, Inc. and Affiliate as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Loeb & Troper LLP

October 31, 2011

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

ASSETS	2011	2010 (Restated)
Current assets		
Cash and cash equivalents	$ 1,924,603	$ 170,265
Investments (Note 3)	15,190,042	13,008,771
Investments - certificates of deposit	25,000	525,120
Accounts receivable (net of allowance of $273,000 and $232,000 in 2011 and 2010, respectively)	7,703,425	7,806,348
Prepaid expenses	362,660	372,091
Accrued interest receivable	73,482	75,039
Total current assets	25,279,212	21,957,634
Assets limited as to use		
Investments (Notes 3 and 8)	5,466,982	5,430,645
Other assets		
Accrued bond interest receivable	80,348	80,348
Investments (Note 3)	2,361,096	2,361,096
Beneficial interests in perpetual trusts (Notes 3 and 15)	1,327,717	1,232,202
Bond issuance costs (Note 8)	904,596	981,903
Fixed assets - net (Note 4)	35,514,139	34,611,662
Total other assets	40,187,896	39,267,211
Total assets	$ 70,934,090	$ 66,655,490

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

LIABILITIES AND NET ASSETS	2011	2010 (Restated)
Current liabilities		
Accounts payable	$ 2,257,913	$ 1,042,256
Accrued payroll and employee benefits (Notes 9 and 11)	3,347,894	2,974,283
Accrued expenses and other liabilities (Note 5)	4,580,461	4,411,540
Accrued interest payable	605,504	679,802
Line of credit and notes payable (Note 6)	9,979,533	11,963,685
Capital leases payable (Note 7)	114,852	126,054
Bonds payable - net of unamortized discount and premium of $21,325 and $22,944 in 2011 and 2010, respectively (Note 8)	1,735,000	1,660,000
Total current liabilities	22,621,157	22,857,620
Long-term liabilities		
Accrued payroll and employee benefits (Notes 9 and 11)	1,343,531	1,547,733
Line of credit and notes payable (Note 6)	7,848,939	3,305,431
Capital leases payable (Note 7)	76,841	191,693
Bonds payable - net of unamortized discount and premium of $21,325 and $22,944 in 2011 and 2010, respectively (Note 8)	25,401,325	27,137,944
Total long-term liabilities	34,670,636	32,182,801
Total liabilities	57,291,793	55,040,421
Net assets (Exhibit B)		
Unrestricted	9,855,724	7,949,885
Temporarily restricted (Note 12)	97,760	71,886
Permanently restricted (Note 15)	3,688,813	3,593,298
Total net assets	13,642,297	11,615,069
Total liabilities and net assets	$ 70,934,090	$ 66,655,490

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011				2010 (Restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues								
Program revenue (Note 5)	$ 60,429,865			$ 60,429,865	$ 53,253,149			$ 53,253,149
Other	12,571			12,571	299,865			299,865
Total operating revenues	60,442,436			60,442,436	53,553,014			53,553,014
Operating expenses (Schedule 3)								
Program services								
Foster care, residential treatment and medical/ mental health services	19,081,751			19,081,751	19,375,544			19,375,544
Education and early childhood	21,769,312			21,769,312	18,791,126			18,791,126
Developmental disabilities services	8,250,664			8,250,664	4,248,738			4,248,738
Juvenile justice - Woodfield facility	2,628,046			2,628,046	2,620,045			2,620,045
Day care centers and Head Start	2,406,912			2,406,912	2,613,241			2,613,241
Preventive	1,958,593			1,958,593	2,158,347			2,158,347
Total program services	56,095,278			56,095,278	49,807,041			49,807,041
Supporting services								
Management and general	6,190,647			6,190,647	6,547,752			6,547,752
Development	161,451			161,451	276,770			276,770
Total supporting services	6,352,098			6,352,098	6,824,522			6,824,522
Total operating expenses (includes interest expense of $1,838,303 and $1,863,460 in 2011 and 2010, respectively)	62,447,376			62,447,376	56,631,563			56,631,563
Decrease in net assets from operations	(2,004,940)			(2,004,940)	(3,078,549)			(3,078,549)
Nonoperating revenues								
Investment income (Note 3)	2,964,407			2,964,407	1,470,629			1,470,629
Contributions	278,827	$ 241,031		519,858	1,273,429	$ 87,270		1,360,699
Special events	561,760			561,760	514,360			514,360
Direct costs of special events	(109,678)			(109,678)	(98,049)			(98,049)
Change in beneficial interests in perpetual trusts			$ 95,515	95,515			$ 171,883	171,883
Loss on sale of fixed assets					(15,629)			(15,629)
Miscellaneous income	306			306	158			158
Net assets released from restrictions (Note 12)	215,157	(215,157)			129,131	(129,131)		
Change in net assets (Exhibit C)	1,905,839	25,874	95,515	2,027,228	195,480	(41,861)	171,883	325,502
Net assets - beginning of year, as previously stated	7,949,885	71,886	3,593,298	11,615,069	6,773,172	113,747	2,361,096	9,248,015
Restatement (Note 2)					981,233		1,060,319	2,041,552
Net assets - beginning of year, restated	7,949,885	71,886	3,593,298	11,615,069	7,754,405	113,747	3,421,415	11,289,567
Net assets - end of year (Exhibit A)	$ 9,855,724	$ 97,760	$ 3,688,813	$ 13,642,297	$ 7,949,885	$ 71,886	$ 3,593,298	$ 11,615,069

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010 (Restated)
Reconciliation of change in net assets to net cash provided (used) by operating activities		
Change in net assets (Exhibit B)	$ 2,027,228	$ 325,502
Adjustments to reconcile change in net assets to cash provided (used) by operating activities		
Depreciation and amortization	2,283,269	2,387,233
Amortization of bond issuance cost	77,307	135,437
Amortization of bond discount	40,978	40,978
Amortization of bond premium	(42,597)	(42,595)
Realized (gains) losses on investments	(410,584)	136,675
Unrealized gains on investments	(2,198,572)	(1,229,520)
Change in value of beneficial interests in perpetual trusts	(95,515)	(171,883)
Donated stocks	(28,476)	(16,213)
Loss on sale of fixed assets		15,629
Decrease (increase) in assets		
Accounts receivable	102,923	(753,933)
Prepaid expenses	9,431	99,551
Accrued interest receivable	1,557	6,153
Increase (decrease) in liabilities		
Accounts payable	1,215,657	159,101
Accrued payroll and employee benefits	169,409	(508,160)
Accrued expenses and other liabilities	168,921	(1,253,229)
Accrued interest payable	(74,298)	(87,728)
Net cash provided (used) by operating activities	3,246,638	(757,002)
Cash flows from investing activities		
Purchase of investments	(4,935,367)	(7,498,702)
Proceeds from sale of investments	5,891,848	6,571,482
Proceeds from sale of fixed assets		332,922
Decrease (increase) in investments limited as to use	(36,337)	1,659,319
Fixed asset acquisitions	(3,185,746)	(2,580,982)
Net cash used by investing activities	(2,265,602)	(1,515,961)

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010 (Restated)
Cash flows from financing activities		
Payments of line of credit	$ (8,432,996)	$ (14,166,665)
Proceeds from line of credit	11,110,000	19,040,000
Payments on capital leases	(126,054)	(99,833)
Payments on notes payable	(117,648)	(217,794)
Payments on bonds payable	(1,660,000)	(3,200,000)
Net cash provided by financing activities	773,302	1,355,708
Net change in cash and cash equivalents	1,754,338	(917,255)
Cash and cash equivalents - beginning of year	170,265	1,087,520
Cash and cash equivalents - end of year	$ 1,924,603	$ 170,265
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,912,601	$ 1,951,188
Financing of equipment costs	$ -	$ 25,500

See independent auditor's report.

The accompanying notes are an integral part of these statements.

NOTE 1 - NATURE OF ORGANIZATION

Leake and Watts Services, Inc. provides comprehensive social services including family stabilization, foster care, child care and Head Start, residential and respite services for children and adults with developmental disabilities, special education, and residential treatment and group homes for youth with emotional and mental health challenges principally in the Bronx and Westchester County. A substantial portion of its operating revenues and accounts receivable is from the City of New York and from other public agencies.

The Emergency Shelter, Inc. provides shelters for the feeding, sheltering and relief of homeless and unemployed men. The primary source of funding is income associated with the organization's beneficial interests in perpetual trusts held by third parties.

Leake and Watts Services, Inc. is related to The Emergency Shelter, Inc. through common board control. Leake and Watts received $75,000 in 2011 and 2010 from The Emergency Shelter, Inc. for certain services that Leake and Watts has provided. The Emergency Shelter, Inc. is consolidated in these financial statements. Leake and Watts Services, Inc. and its Affiliate ("Leake and Watts") are each exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

- **Foster Boarding Home programs** serve children who have experienced abuse and neglect. The goal in all cases is to establish a permanent appropriate living arrangement for the child such as reunification with birth parents or adoption. Programs include family foster care, kinship foster care, therapeutic foster care for youth with mental health concerns and challenging behaviors, and specialized medical foster care for children who are considered medically fragile.

- The **Residential Treatment Center**, located on a 30-acre campus in Yonkers, provides 24-hour residential care to youth ages 12-21 requiring therapeutic and educational support. An enriched, structured program of activities coupled with clinical services assists youth with mental health concerns and challenging behaviors to develop the ability to participate fully in the surrounding community and to return to a less restrictive environment.

- The **Mother/Infant** residences serve teen mothers in foster care who have experienced multiple failed prior placements in family foster care because of serious behavioral issues including aggression, defiance of authority, running away, and/or mental health issues. In all cases, we work with the mothers to identify resources that can provide long-term support for them and their child(ren) as well as concurrently prepare them for adulthood. The focus, as with all foster youth, is on education, skills development (with particular emphasis on parenting and homemaking for these girls), employment, safety and well-being.

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 1 - NATURE OF ORGANIZATION (continued)

- **Medical and Mental Health Services** for children and youth in Leake and Watts foster care address the full complement of individual needs from primary medical care to psychiatric and clinical services, and coordination of specialty and hospital-based services. Leake and Watts staff includes doctors, nurses, psychiatrists, psychologists, and licensed social workers. Basic medical care includes periodic examinations, health screenings, immunizations, well child and sick visits, and referrals to any specialists the child may require, followed by periodic review of all medical care received.

- The **Education Program** at Carol and Frank Biondi Center is a non-public school providing 12-month specialized educational services for children with social and emotional difficulties and severe academic deficits. Many students have a history of substance abuse, general delinquency, depression, psychotic thinking, suicidal ideation, impulsivity, anxiety and poor social skills. Emphasis is on academic achievement, skills development, and increasing students' ability to remain on task, interact appropriately with peers, and improve behavior so that they can return to their local public school.

- **Early Childhood Education Programs** at the Marion and George Ames Center in Southern Westchester County, the Katherine Dodge Brownell School in the Bronx and Children Learning Center in Manhattan serve children ages 18 months to five years old, and include child care for low-income families, universal pre-kindergarten services, and preschool special education programs.

- **Developmental Disabilities Services** include community-based programs such as individualized residential services (IRA), individual supported apartments (ISS), respite/recreation services, enhanced supportive employment, family support services and Medicaid service coordination (MSC). Services aim to address all of the associated emotional, behavioral and psychological disorders to assist consumers to live more fulfilling lives.

- **Woodfield Facility** is a secure detention center for youth under the age of 16 who are awaiting court action. These youth are accused of committing crimes, some of which are violent in nature. Services include individual and group counseling, a full-day school program, 24-hour medical services, family outreach, aftercare planning, and religious and spiritual services. These services are offered in a structured setting and a caring, albeit high-security, environment.

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NOTE 1 - NATURE OF ORGANIZATION (continued)

- Leake and Watts sponsors three NYC child care centers and one federally funded Head Start program located in the Bronx serving children between 2.5 and 5 years of age. Program components include an early childhood educational curriculum which prepares children for their school years promoting creativity, pre-academic skills, socialization, and independence, bilingual (Spanish) services, parent involvement, and linkage to community and social services.
- The **East Bronx Family Service Center** aims to stabilize at-risk families before they reach a crisis point and thus prevent the need to place children in foster care. Family-driven services include assistance with housing, employment, substance abuse treatment, education, counseling, and assistance in accessing mental health and other community services and resources.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The financial statements of Leake and Watts have been prepared on the accrual basis of accounting.

Consolidated financial statements - All material intercompany transactions and balances are eliminated in the consolidation.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Leake and Watts considers all highly liquid investments with original maturities when acquired of 90 days or less to be cash equivalents.

Investments - certificates of deposit - Certificates of deposit held for investment that are not debt securities are included in investments - certificates of deposit.

Accounts receivable - Accounts receivable from government grants and other sources of income are recorded when services are rendered.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for doubtful accounts - Leake and Watts determines whether an allowance for uncollectibles should be provided for accounts receivable. Such estimates are based on management's assessment of the aged basis of its sources, current economic conditions and historical information. Accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Investments - Investments are recorded at fair value. Leake and Watts invests in various securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the statement of activities. Certain investments which relate to donor-restricted endowment funds are held for long-term purposes and are thus not classified as current assets.

Fair Value Measurements and Disclosures

Fair Value Measurements and Disclosures establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Leake and Watts has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements and Disclosures (continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011.

- ***Money market funds, U.S. Treasury obligations, fixed income, corporate bonds, and common stocks*** - Valued at the closing price reported on the active market on which the individual securities are traded.
- ***Mutual funds*** - Valued at the net asset value (NAV) of shares held at end of year.
- ***Beneficial interests in perpetual trusts*** - Beneficial interests in perpetual trusts is valued at fair value of Leake and Watts's beneficial interest in fair value of underlying assets.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Leake and Watts believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

See Note 3 for the tables that set forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2011 and 2010.

Fixed assets - Fixed assets over $1,000 are stated at cost or contributed value. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as provided by the New York State Standards of Payment for Foster Care of Children and the Consolidated Fiscal Reporting and Claiming Manual. Capital leases and leasehold improvements are amortized over either the remaining term of the underlying lease or the useful lives of the improvements, whichever is shorter, using the straight-line method.

The estimated useful lives of such assets are as follows:

Building and building improvements	10 to 40 years
Furniture, fixtures and equipment	5 to 20 years
Leasehold improvements	1 to 20 years.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets limited as to use - Investments whose assets are set aside under the terms of various bond agreements.

Beneficial interests in perpetual trusts - Leake and Watts has beneficial interests in various perpetual trusts. Leake and Watts' interest in these trusts is reported as a contribution in the year received at their fair value. Changes in the fair value of the underlying assets are recorded as revenue adjusting permanently restricted net assets.

Bond issuance costs - The costs associated with the issuance of the Dormitory Authority of the State of New York Series 1994 Bonds and Series 2004 Bonds and those associated with the New York City Industrial Development Agency Series 2007 A-1 and A-2 Bonds have been deferred and are being amortized over the life of the bonds.

Net assets - Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Leake and Watts are classified and reported as follows:

Unrestricted - Net assets which are expendable for carrying out Leake and Watts' operations and are not subject to donor-imposed stipulations.

Temporarily restricted - Net assets that are subject to donor-imposed stipulations that will be met by either the actions of Leake and Watts and/or the passage of time.

Permanently restricted - Net assets that have been restricted by donors to be maintained in perpetuity.

Revenues from government agencies - Revenues from government agencies are subject to audit by the agencies. Laws and regulations related to government programs are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the government programs.

Contributions - Unconditional contributions, including promises to give cash and other assets, are recorded at fair value at the date the contribution is received. Leake and Watts reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements. Donated fixed assets that are restricted for use in specific programs are released from restriction over the useful lives of the assets.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contribution costs and revenues - Leake and Watts operates programs where certain costs including facility costs, fringe benefits for staff, and consumable supplies are paid directly by New York City. Leake and Watts reports these amounts as operating revenues and expenses, and recognized $12,865 and $576,930 of contributed costs for the years ended June 30, 2011 and 2010, respectively. Leake and Watts also received voluntary services of $142,996 and $30,870 for the years ended June 30, 2011 and 2010, respectively, and these are reported as operating revenues and expenses.

Measure of operations - Leake and Watts' change in net assets from operations includes revenues and expenses directly related to the provision of child and family care programs. Investment income, contributions, both restricted and unrestricted, special events and related direct costs, loss on sale of fixed assets, change in beneficial interests in perpetual trusts, and miscellaneous income are considered nonoperating.

Operating leases - Operating lease expense has been recorded on the straight-line basis over the life of the lease. Operating lease payments are charged to rental expense.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Uncertainty in income taxes - Leake and Watts has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2008 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 31, 2011, which is the date the financial statements were available to be issued.

Reclassifications - Certain amounts have been reclassified from accrued expenses and other liabilities to accounts payable to conform to the current year's presentation. Certain investment amounts have been reclassified from other assets to current assets. Certain liability amounts have been reclassified from current liabilities to long-term liabilities and from long-term liabilities to current liabilities. In addition, certain amounts have been reclassified from line of credit and notes payable to capital leases payable to conform to the current year's presentation.

Restatement - The 2010 opening balances of net assets were restated to reflect the consolidation of The Emergency Shelter, Inc., a related organization. In addition, permanently restricted net assets were also increased due to the inclusion of beneficial interests in perpetual trusts.

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NOTE 3 - INVESTMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The following tables set forth by level, within the fair value hierarchy, as described in Note 2, the assets at fair value as of June 30, 2011 and 2010:

	2011				
	Level 1				
	Investments - General	Assets Limited As To Use	Total	Level 3	Total
Cash equivalents		$ 2,047,471	$ 2,047,471		$ 2,047,471
Money market funds	$ 700,961		700,961		700,961
Fixed income					
U.S. Government and agency obligations					
U.S. Treasury bonds	3,203,564	3,212,891	6,416,455		6,416,455
Municipal bonds	266,828		266,828		266,828
Mortgage-backed securities	697,763	206,620	904,383		904,383
Corporate bonds					
Telecommunications	396,974		396,974		396,974
Energy	262,851		262,851		262,851
Finance	1,038,506		1,038,506		1,038,506
Consumer goods	320,122		320,122		320,122
Services	305,307		305,307		305,307
Common stocks					
Energy	729,768		729,768		729,768
Materials	293,754		293,754		293,754
Industrials	773,835		773,835		773,835
Consumer discretionary	586,882		586,882		586,882
Consumer staples	570,646		570,646		570,646
Healthcare	672,164		672,164		672,164
Financials	821,332		821,332		821,332
Information technology	1,207,668		1,207,668		1,207,668
Telecommunications services	79,460		79,460		79,460
Utilities	137,667		137,667		137,667

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NOTE 3 - INVESTMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS (continued)

	2011				
	Level 1				
	Investments - General	Assets Limited As To Use	Total	Level 3	Total
Mutual funds					
Mid cap	$ 555,077		$ 555,077		$ 555,077
Small cap	421,259		421,259		421,259
International-developed	1,633,105		1,633,105		1,633,105
Emerging markets	424,629		424,629		424,629
Other equity	1,451,016		1,451,016		1,451,016
Subtotal	17,551,138	$ 5,466,982	23,018,120		23,018,120
Beneficial interests in perpetual trusts				$ 1,327,717	1,327,717
Total	$ 17,551,138	$ 5,466,982	$ 23,018,120	$ 1,327,717	$ 24,345,837

	2010				
	Level 1				
	Investments - General	Assets Limited As To Use	Total	Level 3	Total
Cash equivalents		$ 2,043,709	$ 2,043,709		$ 2,043,709
Money market funds	$ 917,272		917,272		917,272
Fixed income					
U.S. Government and agency obligations					
U.S. Treasury bonds	3,055,731	3,180,316	6,236,047		6,236,047
Municipal bonds	103,503		103,503		103,503
Mortgage-backed securities	989,721	206,620	1,196,341		1,196,341
Corporate bonds					
Telecommunications	446,376		446,376		446,376
Energy	157,047		157,047		157,047
Finance	871,934		871,934		871,934
Consumer goods	521,704		521,704		521,704
Services	347,246		347,246		347,246

-continued-

NOTE 3 - INVESTMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS (continued)

	2010				
	Level 1				
	Investments - General	Assets Limited As To Use	Total	Level 3	Total
Common stocks					
Energy	$ 593,781		$ 593,781		$ 593,781
Materials	245,016		245,016		245,016
Industrials	602,591		602,591		602,591
Consumer discretionary	484,156		484,156		484,156
Consumer staples	446,079		446,079		446,079
Healthcare	481,788		481,788		481,788
Financials	476,572		476,572		476,572
Information technology	1,050,449		1,050,449		1,050,449
Telecommunications services	60,386		60,386		60,386
Utilities	138,523		138,523		138,523
Mutual funds					
Mid cap	381,197		381,197		381,197
Small cap	303,064		303,064		303,064
International-developed	1,273,726		1,273,726		1,273,726
Emerging markets	338,264		338,264		338,264
Other equity	1,083,741		1,083,741		1,083,741
Subtotal	15,369,867	$ 5,430,645	20,800,512		20,800,512
Beneficial interests in perpetual trusts				$ 1,327,717	1,327,717
Total	$ 15,369,867	$ 5,430,645	$ 20,800,512	$ 1,327,717	$ 22,128,229

Included in investments is $2,361,096 of permanently restricted funds at June 30, 2011 and 2010.

-continued-

NOTE 3 - INVESTMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS (continued)

The following table sets forth the changes in Level 3 investments as of June 30, 2011 and 2010:

	2011	2010
Beginning balance	$ 1,232,202	
Restatement of beneficial interests in perpetual trusts		$ 1,060,319
Total gains (losses) (realized/unrealized) included in changes in net assets for the year ended June 30	95,515	171,883
Ending balance	$ 1,327,717	$ 1,232,202
The amount of total gains (losses) for the period included in changes in net assets attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date	$ 95,515	$ 171,883

Investment income consists of the following at June 30, 2011 and 2010:

	2011	2010
Interest and dividend income	$ 417,488	$ 458,083
Realized gains (losses)	410,584	(136,675)
Unrealized gains	2,198,572	1,229,520
Investment expenses	(62,237)	(80,299)
Investment income	$ 2,964,407	$ 1,470,629

-continued-

NOTE 4 - FIXED ASSETS

As of June 30, 2011 and 2010, fixed assets consist of the following:

	2011	2010
Land	$ 38,787	$ 38,787
Building and building improvements	51,843,153	50,678,638
Leasehold improvements	1,421,065	1,421,065
Furniture, fixtures and equipment	6,423,564	5,119,372
Total cost	59,726,569	57,257,862
Less accumulated depreciation and amortization	(24,212,430)	(22,646,200)
Fixed assets - net	$ 35,514,139	$ 34,611,662

Equipment costing $1,089,321 and associated accumulated amortization as of June 30, 2011 and 2010 in the amounts of $490,470 and $381,857, respectively, are subject to capital lease agreements as described in Note 9.

NOTE 5 - REVENUE RECOGNITION AND ADJUSTMENTS

Revenues are recognized when earned as services are performed and are based on rates, fees for services and contractual agreements with various Federal, New York State, New York City, Westchester County and other public agencies.

Revenues under third-party-payor agreements are subject to audit and potential retroactive adjustments. Provisions for estimated third-party-payor settlements are recorded in the period when the services are rendered. Differences between the estimated amounts accrued, interim and final settlements are reported in operations in the year of determination.

The eventual liability to governmental entities, if any, upon final settlement of the open years has not been finalized. However, Leake and Watts has recorded estimated provisions of $1,900,000 and $2,400,000 at June 30, 2011 and 2010, respectively, for the eventual settlement of the open cost reporting periods.

-continued-

NOTE 5 - REVENUE RECOGNITION AND ADJUSTMENTS (continued)

Reimbursement methodologies for some of the major programs present at Leake and Watts are as follows:

Education and Early Childhood

Leake and Watts' school programs are regulated and funded by the New York State Education Department. A tuition rate per student is established based upon enrollment, actual cost data, geographic location and other cost "screens" prescribed by the State. Fluctuations in enrollment and costs can have a significant impact on Leake and Watts' receipt of a rate sufficient to cover program costs. Leake and Watts' revenue recognition policy for school programs is to record current-year revenue based upon the known preliminary tuition rate, although that rate may ultimately be changed. If the known preliminary tuition rate results in current operating income, the excess is recorded as a liability as it will eventually be "refunded" to the funding agency through subsequent reimbursement reductions. If the known preliminary tuition rate results in a current operating loss, additional revenue is recorded. Upon a final determination of the rate for a given year, a "tuition" rate adjustment is recorded. Revenue from support payments from the New York City Department of Education is subject to final reconciliation for the fiscal years ended June 30, 2011 and 2010.

Foster Care, Residential Treatment and Medical and Mental Health Services

The principal source of revenue consists of support payments received from the City of New York (the "City") and Westchester County for congregate and foster boarding home care, and health care provided to children referred to Leake and Watts. Such payments, based initially upon per diem rates established annually by the New York State Office of Children and Family Services, the New York City Administration for Children's Services, and the State Department of Health, are finalized after the reported costs and days of care are audited.

Revenue from support payments from the City is subject to audit for the fiscal years ended June 30, 2008 through June 30, 2011.

Developmental Disabilities Services

Developmental Disabilities Services including community-based programs such as group homes and supported apartments, respite/recreation services, supportive employment, day services, and Medicaid Service Coordination, are funded through contracts with the New York State Office for People With Developmental Disabilities ("OPWDD") and by Medicaid, based on rates established by OPWDD.

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NOTE 6 - LINE OF CREDIT AND NOTES PAYABLE

The Bank of New York Mellon

Leake and Watts maintains a revolving credit agreement with The Bank of New York Mellon (BNY) for a working capital loan of $9,000,000 and an improvement loan of $5,000,000. BNY has authorized Leake and Watts to draw down an additional $500,000 in connection with its working capital loan on a temporary basis. Each loan bears an interest rate using the Alternate Base Rate (ABR) or LIBOR rate. The ABR is the higher of (a) the federal funds rate plus ½ of 1%, or (b) the bank's prime rate. Applicable margin with respect to working capital loan for LIBOR advances is the LIBOR rate plus 1.00% and, with respect to improvement loans, it is the LIBOR rate plus 1.5%. The working capital loan is collateralized by assets held by BNY in the custodial investment accounts of Leake and Watts. The improvement loan is an unsecured note. Both loans will mature on January 2, 2012. Principal payments in the amount of $31,333 are due monthly. Interest payments are due quarterly. As of June 30, 2011 and 2010, Leake and Watts has drawn down $9,280,339 and $8,793,335, respectively, from the working capital loan and $4,990,000 and $2,800,000, respectively, from the improvement loan, for a total balance outstanding as of June 30, 2011 and 2010 of $14,270,339 and $11,593,335, respectively. The interest rates on the various lines of credit as of June 30, 2011 and 2010 ranged from 1.7% to 3.3% and from 1.4% to 3.3%, respectively.

ADP Commercial Leasing

On August 26, 2009, Leake and Watts entered into an equipment financing agreement with ADP Commercial Leasing in the amount of $7,000. Payments of $292 are due monthly. There is no interest charged and the note is unsecured. The note matures in September 2011. The balance outstanding as of June 30, 2011 and 2010 was $876 and $4,375, respectively.

On October 14, 2009, Leake and Watts entered into a second equipment financing agreement with ADP Commercial Leasing in the amount of $18,500. Payments of $771 are due monthly. There is no interest charged and the note is unsecured. The note matures in November 2011. The balance outstanding as of June 30, 2011 and 2010 was $3,854 and $13,104, respectively.

Castle Combe Associates LLC

On January 5, 2009, Leake and Watts entered into a mortgage financing agreement with Castle Combe Associates LLC for $3,795,737 to purchase a building at 450 Castle Hill Ave., Bronx. Payments of $28,300 per month are due for 211 months as of June 30, 2011. The interest rate is 6.50%. The balance outstanding as of June 30, 2011 and 2010 was $3,553,403 and $3,658,302, respectively.

-continued-

NOTE 6 - LINE OF CREDIT AND NOTES PAYABLE (continued)

Payments for all notes payable and the line of credit over the next five years are as follows:

2012	$ 9,979,533
2013	691,348
2014	689,499
2015	683,398
2016	659,298
Thereafter	5,125,396
	$ 17,828,472

NOTE 7 - CAPITAL LEASES PAYABLE

HVB Leasing Corp.

On August 1, 2005, Leake and Watts entered into an equipment financing agreement with HVB Leasing Corp. in the amount of $562,640 to upgrade the heating and air conditioning systems in the administration building on the Yonkers campus. Payments of $9,655 are due monthly. The interest rate is 2.38%. The balance outstanding as of June 30, 2010 was $19,249. The lease was fully paid in 2011. HVB Leasing Corp. has a first priority security interest in the property described above.

On June 22, 2007, Leake and Watts entered into a computer equipment financing agreement with HVB Leasing Corp. in the amount of $175,799 to upgrade the computer network. Payments of $3,526 are due monthly. The interest rate is 7.53%. The lease expires in June 2012. The balance outstanding as of June 30, 2011 and 2010 was $40,629 and $78,319, respectively. HVB Leasing Corp. has a first priority security interest in the property described above.

On August 22, 2008, Leake and Watts entered into an office equipment financing agreement with HVB Leasing Corp. in the amount of $252,435 to upgrade the copying/printing/scanning/faxing office equipment. Payments of $5,076 are due monthly. The interest rate is 7.65%. The lease expires in August 2013. The balance outstanding as of June 30, 2011 and 2010 was $110,223 and $159,784, respectively. HVB Leasing Corp. has a first priority security interest in the property described above.

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NOTE 7 - CAPITAL LEASES PAYABLE (continued)

M&T Credit Services, LLC

On October 19, 2007, Leake and Watts entered into a computer equipment financing agreement with M&T Credit Services, LLC in the amount of $97,629 to upgrade the Citrix software and new servers. Payments of $1,882 are due monthly. The interest rate is 6.09%. The lease expires in May 2013. The balance outstanding as of June 30, 2011 and 2010 was $40,841 and $60,395, respectively. As collateral for this arrangement, M&T Credit Services, LLC has an interest in the Citrix software.

Future lease payments are as follows:

2012	$ 125,805
2013	80,626
Total	206,431
Less amount representing interest	(14,738)
Present value of net minimum lease payments	191,693
Less current portion	(114,852)
Long-term obligation under capital lease	$ 76,841

NOTE 8 - BONDS PAYABLE

Series 2004 Bonds

On December 21, 2004, the Dormitory Authority of the State of New York (the "Authority") issued Series 2004 Bonds aggregating $33,105,000 primarily to refund the Authority's Series 1994 Bonds ("Refunded Bonds"). The Series 1994 Bonds had been used for construction costs of a new school building, children's residential cottages, and renovations to existing buildings. The Series 2004 bonds were sold at a premium (net of discounts) of $1,445,600 and are due in 2023. On January 25, 2005, the entire outstanding balance of the Series 1994 Bonds, totaling $32,880,000, was refunded with a 2% additional call premium of $657,600. Bond proceeds were also used to pay the issuance cost of the Series 2004 Bonds totaling $1,422,200. A major portion of these costs, $1,349,200, was expensed in 2005; the remainder is included in bond issuance costs and will be amortized over the life of the bonds. At June 30, 2011 and 2010, the combined unamortized bond issuance costs relating to the Series 1994 Bonds and the Series 2004 Bonds were $650,911 and $705,156, respectively.

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NOTE 8 - BONDS PAYABLE (continued)

Series 2004 Bonds (continued)

The retirement of the Series 1994 Bonds and the issuance of the Series 2004 Bonds were accounted for as a modification of debt terms in accordance with Emerging Issues Task Force ("EITF") 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments." Accordingly, the call premium paid on the refunded 1994 Bonds, the unamortized bond discount on the refunded 1994 Bonds, and the premium received on the 2004 Bonds have been aggregated into one account which nets to a credit balance of $42,357 at June 30, 2011 and $45,888 at June 30, 2010. This amount will be amortized as a reduction to interest expense over the life of the Series 2004 Bonds.

The 2004 Bonds loan agreement requires principal payments through July 1, 2023, and the maintenance of certain reserve funds. Principal payments are due once annually. Interest payments are due semiannually. At June 30, 2011 and 2010, the amounts held in the debt service fund were $2,046,314 and $2,006,903, respectively; amounts held in the debt service reserve fund were $2,637,777 and $2,643,630, respectively; and amounts held in the construction fund were $36,659 and $36,585, respectively. These amounts are reflected as investments limited as to use on the accompanying statement of financial position. The rates of interest on the bonds range from 3.0% to 5.0%. During fiscal 2011 and 2010, interest income earned on funds limited as to use totaled $5,723 and $6,768, respectively. These are recorded as a reduction of bond interest expense.

The Series 2004 Bonds are special revenue obligations of the Authority and are secured by a mortgage on the real property on which the project is located, and by a security interest in certain fixtures, furnishings, and equipment now or hereafter located therein, or used in connection therewith. The Series 2004 Bonds are also secured by a general revenue pledge and Leake and Watts must maintain unrestricted assets equal to the maximum annual debt service payment. Leake and Watts is permitted to grant subordinate liens, or parity liens with consent, on its Public Funds and Pledged Revenues secured from sources other than the New York City Administration for Children's Services. The Series 2004 Bonds are insured as to scheduled payment of principal and interest by a financial guaranty insurance policy issued by MBIA Insurance Corporation. The principal balance outstanding on Series 2004 Bonds at June 30, 2011 and 2010 is $24,775,000 and $26,145,000, respectively.

Series 2007A-1 and Series 2007A-2 Bonds and Series 1999B Bonds

On February 22, 2007, the New York City Industrial Development Agency ("NYCIDA") issued Series 2007A-1 and Series 2007A-2 Bonds aggregating $3,220,000 to refund Series 1999B Bonds of the NYCIDA, maturing on August 1, 2015. Bond proceeds were held in escrow until August 1, 2009, at which time the Series 1999 Bonds were fully refunded.

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NOTE 8 - BONDS PAYABLE (continued)

Series 2007A-1 and Series 2007A-2 Bonds and Series 1999B Bonds (continued)

The Series 2007 Bonds were issued to finance or refinance the costs of the acquisition, construction, equipping and financing of seven group homes, and major new renovation of one of the homes. The bonds are secured by a first mortgage lien and a security interest in the facilities. The 2007 Bond loan agreement requires principal payments through July 1, 2022 and the maintenance of certain reserve funds. Principal payments are due once annually. Interest payments are due semiannually. At June 30, 2011 and 2010, respectively, the amount held in the debt service reserve fund was $214,920 and $220,493, in the debt service fund was $361,354 and $353,093, in the construction fund was $169,909 and $169,891, and in the earnings fund was $49 and $50. These amounts are reflected as investments limited as to use on the accompanying statement of financial position. The rate of interest on the bonds ranges from 3.80% to 4.65%. During fiscal years 2011 and 2010, interest income earned on funds limited as to use for Series 2007 totaled $7,538 and $112, respectively. These are recorded as a reduction of bond interest expense.

Bond proceeds from the Series 2007A-1 and A-2 were also used to pay the cost of issuance of the bonds totaling $343,022 and the bond discount of $24,856. These costs will be amortized as interest expense over the life of the bonds. At June 30, 2011 and 2010, the unamortized bond issuance cost was $253,685 and $276,747, respectively. At June 30, 2011 and 2010, the unamortized bond discount was $21,032 and $22,944, respectively. The Series 2007 Bonds are insured as to scheduled payment of principal and interest by a financial guaranty insurance policy issued by ACA Financial Guaranty Corporation. The principal balance outstanding on the Series 2007 Bonds at June 30, 2011 was $2,340,000 and at June 30, 2010 was $2,630,000.

The net unamortized bond discount and premium relating to the above bonds at June 30, 2011 and 2010 was $21,325 and $22,944, respectively.

Annual debt service amounts payable during the next five years are as follows:

2012	$ 1,735,000
2013	1,815,000
2014	1,870,000
2015	1,945,000
2016	2,020,000
Thereafter	17,730,000
	27,115,000
Plus net unamortized premium and discount	21,325
Total	$ 27,136,325

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NOTE 9 - POSTRETIREMENT BENEFITS

The present value of the separation agreements with the former Executive Director as of June 30, 2011 and 2010 was $132,616 and $352,645, respectively. As of June 30, 2011, severance and deferred compensation commitments have been fully paid and the balance outstanding relates to health benefits payable.

NOTE 10 - RETIREMENT PLAN

Effective July 1, 1989, Leake and Watts established a defined contribution retirement plan (the "Plan") covering all employees with more than one year of service and who are over age 21. The aggregate annual contribution to the Plan, which is generally based on a percentage of total compensation of eligible employees, as authorized by the Board of Directors, is allocated to participants' accounts in amounts equal to such percentage of their compensation. For the year ended June 30, 2011, $256,710, representing 1% of eligible employees' compensation, has been allocated to the Plan. There was no allocation to the Plan in 2010.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

(a) Noncancelable leases principally relate to office space, residential housing, office equipment, and automobiles. These leases expire between March 2013 and April 2020. Minimum payments for the next five years are as follows:

2012	$ 1,396,000
2013	1,350,000
2014	1,178,000
2015	1,127,000
2016	1,161,000
Thereafter	4,254,000
Total	$ 10,466,000

(b) Total rental expense, including in-kind rent, for all operating leases amounted to $1,473,388 and $1,480,641 for the years ended June 30, 2011 and 2010, respectively.

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NOTE 11 - COMMITMENTS AND CONTINGENCIES (continued)

(c) During the period from January 2000 to December 2005, workers' compensation coverage was provided by the Provider Agency Trust for Human Services (the "Trust"). Leake and Watts was informed during 2008 that the Trust's reserves for claims were insufficient, resulting in a revised assessment of $2,394,738. Monthly payments are $18,293, and the interest rate is 7.50%. The balance outstanding as of June 30, 2011 and 2010 is $1,547,734 and $1,751,936, respectively. Payments over the next five years are as follows:

2012	$ 204,203
2013	204,203
2014	204,203
2015	204,203
2016	204,203
Thereafter	526,719
Total	$ 1,547,734

(d) Leake and Watts is involved by third parties in legal matters in which damages and other remedies are sought. However, in the opinion of management, after review with counsel, the eventual disposition of these matters will not have a material adverse effect on Leake and Watts' financial position and results of its operations.

(e) Leake and Watts is responsible for reporting to several third parties. These agencies, as well as the New York State office of the Attorney General, the Internal Revenue Service, the New York State Office of the Medicaid Inspector General and the New York State Department of Charities Registration have the right to audit Leake and Watts (see Note 5).

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2011	2010
Fire safety	$ 54,267	$ 67,853
Tobacco-free school		1,000
Parent child home program	42,988	
Reimbursable expenses of foster parents		118
Awarding of educational scholarships	505	2,915
	$ 97,760	$ 71,886

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NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS (continued)

Net assets were released from restrictions by satisfying the following:

	2011	2010
Computer literacy (E-Rate)	$ 181,006	$ 115,054
Fire safety	13,586	13,587
Tobacco-free school	1,000	
Parent child home program	17,012	
Reimbursable expenses of foster parents	118	
Awarding of educational scholarships	2,435	490
Total net assets released from restrictions	$ 215,157	$ 129,131

NOTE 13 - FUNCTIONAL EXPENSES

	2011	2010
Program services	$ 56,095,278	$ 49,807,041
Management and general	6,252,884	6,628,051
Development	161,451	276,770
Direct costs of special events	109,678	98,049
Total expenses	$ 62,619,291	$ 56,809,911

NOTE 14 - CONCENTRATIONS

Leake and Watts' cash accounts are in several financial institutions and, at times, they exceed FDIC insurance limits.

Leake and Watts received $40,602,523 and $37,915,629 from the City of New York, which is 67% and 71% of the agency's revenues in 2011 and 2010, respectively.

Leake and Watts has 100% of its accounts receivable from the City of New York, Westchester County, the State of New York and several municipalities within the State in 2011 and 2010.

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NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS

A. Endowment Funds

General

Leake and Watts' endowment consists of four individual donor-restricted endowment funds as follows as of June 30, 2011 and 2010:

The **Orphan's Fund** contains the funds formerly held by the Orphans Home and Asylum. The income may be used from time to time as the Board of Directors may designate. Its "historic value" is $1,557,319.

The **Sevilla Fund** contains the funds formerly held by the Sevilla Home for Children. Its "historic value" is $527,479. The income from this fund is for maintenance and education, including religious instruction of orphans, half-orphans and dependent girls.

The **Hopewell Fund** stems from the Hopewell Society of Brooklyn and its "historic value" is $175,826. In brief, the income from this fund is for maintenance and education, including religious instruction of orphans, half-orphans and dependent girls.

The Andrew Peck Memorial Fund (**Peck Fund**) is an endowment created in 1927 with $100,472. The income is to be spent furthering the education and support of the children who are no longer residing at Leake and Watts.

As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Leake and Watts has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as being the relevant sections of the New York State Not-for-Profit Corporations Law (N-PCL) requiring preservation of the fair value of a gift as of the gift date of donor-restricted endowment funds (historic dollar value), absent explicit donor stipulations to the contrary. As a result, and in accordance with the direction of the original donor gift instrument, Leake and Watts classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of any subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any interest, dividends, rents, royalties or other revenue generated by donor-restricted endowment funds is used by Leake and Watts in a manner consistent with the standard of prudence required by law, absent explicit donor stipulations.

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NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS (continued)

A. **Endowment Funds (continued)**

Interpretation of Relevant Law (continued)

Effective September 17, 2010, New York State modified its laws governing the management and investment of charitable gifts by adopting the Uniform Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. Leake and Watts is now governed by the NYPMIFA spending policy, which establishes a maximum spending limit of 7%.

Return Objectives, Strategies Employed and Spending Policy

The objective of Leake and Watts is to maintain the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established. Restricted interest earned and expended in the same fiscal year is reflected as unrestricted revenue.

Funds with Deficiencies

Leake and Watts does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of June 30, 2011 and 2010

The endowment net asset composition of $2,361,096 consists of permanently donor-restricted funds for the years 2011 and 2010.

Changes in Endowment Net Assets for the Years Ended June 30, 2011 and 2010

	Permanently Restricted	
	2011	**2010**
Endowment net assets, beginning of year	$ 2,361,096	$ 2,361,096
Investment income	98,028	106,241
Appropriation of endowment assets for expenditure	(98,028)	(106,241)
Endowment net assets, end of year	$ 2,361,096	$ 2,361,096

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NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS (continued)

B. **Beneficial Interests in Perpetual Trusts**

As of June 30, 2011 and 2010, Leake and Watts holds the following beneficial interests in various perpetual trusts.

	Permanently Restricted	
	2011	**2010**
Beneficial interests in perpetual trusts	$ 1,327,717	$ 1,232,202

NOTE 16 - SUBSEQUENT INVESTMENT INFORMATION - UNAUDITED

As of October 31, 2011, Leake and Watts' investments, not including assets limited as to use, have decreased in value by $1,974,249 to $15,576,889.

On May 31, 2011, Leake and Watts received approval to expand its Adult Day Habilitation program from 20 to 26 consumers, for additional revenues of $235,000.

Effective July 1, 2011, Leake and Watts was awarded an additional $50,000 to expand its Waiver Respite Services in Bronx, New York from 20 to 32 individuals.

On September 23, 2011, Leake and Watts received approval to move five (5) individuals into three (3) apartments funded under an NYS-OPWDD Assistive Support grant for $45,000.

In November 2011, a new Pre-Vocational program for a total capacity of ten (10) consumers with projected annual revenue of $215,000, and a new SEMP (Supported Employment) program for a total capacity of six (6) consumers with projected annual revenue of $53,000, will start operating out of the Castle Hill Ave. building located in the Bronx.

In April 2012, two (2) additional IRAs, one located in Yonkers, New York, and the other located in Bronx, New York, are expected to open with a combined capacity of twelve (12) beds, adding projected annual revenue of $1.6 million.

On May 16, 2011, Leake and Watts received an approval letter for development of a new IRA in Manhattan. A search for a new property is currently underway to add another six (6) beds with projected annual revenue of $800,000.

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 16 - SUBSEQUENT INVESTMENT INFORMATION - UNAUDITED (continued)

On September 1, 2011, Leake and Watts was awarded a member item grant of $895,000 to support the renovation of its facility located at 450 Castle Hill Avenue, in Bronx, New York, which will include the installation of an elevator, construction of new classrooms and multi-purpose rooms.

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

SCHEDULE 1

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	2011				2010 (Restated)			
	Leake and Watts Services, Inc.	The Emergency Shelter, Inc.	Eliminations	Total	Leake and Watts Services, Inc.	The Emergency Shelter, Inc.	Eliminations	Total
ASSETS								
Current assets								
Cash and cash equivalents	$ 1,005,578	$ 919,025		$ 1,924,603	$ 157,782	$ 12,483		$ 170,265
Investments (Note 3)	15,190,042			15,190,042	12,582,529	426,242		13,008,771
Investments - certificates of deposit		25,000		25,000		525,120		525,120
Accounts receivable (net of allowance of $273,000 and $232,000 in 2011 and 2010, respectively)	7,722,175		$ (18,750)	7,703,425	7,825,098		$ (18,750)	7,806,348
Prepaid expenses	362,660			362,660	372,091			372,091
Accrued interest receivable	73,482			73,482	75,039			75,039
Total current assets	24,353,937	944,025	(18,750)	25,279,212	21,012,539	963,845	(18,750)	21,957,634
Assets limited as to use								
Investments (Notes 3 and 8)	5,466,982			5,466,982	5,430,645			5,430,645
Other assets								
Accrued bond interest receivable	80,348			80,348	80,348			80,348
Investments (Note 3)	2,361,096			2,361,096	2,361,096			2,361,096
Beneficial interest in perpetual trusts (Notes 3 and 15)		1,327,717		1,327,717		1,232,202		1,232,202
Bond issuance costs (Note 8)	904,596			904,596	981,903			981,903
Fixed assets - net (Note 4)	35,514,139			35,514,139	34,611,662			34,611,662
Total other assets	38,860,179	1,327,717		40,187,896	38,035,009	1,232,202		39,267,211
Total assets	$ 68,681,098	$ 2,271,742	$ (18,750)	$ 70,934,090	$ 64,478,193	$ 2,196,047	$ (18,750)	$ 66,655,490

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LOEB & TROPER LLP

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

SCHEDULE 1
-2-

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	2011				2010 (Restated)			
	Leake and Watts Services, Inc.	The Emergency Shelter, Inc.	Eliminations	Total	Leake and Watts Services, Inc.	The Emergency Shelter, Inc.	Eliminations	Total
LIABILITIES AND NET ASSETS								
Current liabilities								
Accounts payable	$ 2,257,913			$ 2,257,913	$ 1,042,256			$ 1,042,256
Accrued payroll and employee benefits (Notes 9 and 11)	3,347,894			3,347,894	2,974,283			2,974,283
Accrued expenses and other liabilities (Note 5)	4,579,351	$ 19,860	$ (18,750)	4,580,461	4,410,430	$ 19,860	$ (18,750)	4,411,540
Accrued interest payable	605,504			605,504	679,802			679,802
Line of credit and notes payable (Note 6)	9,979,533			9,979,533	11,963,685			11,963,685
Capital leases payable (Note 7)	114,852			114,852	126,054			126,054
Bonds payable - net of unamortized discount and premium of $21,325 and $22,944 in 2011 and 2010, respectively (Note 8)	1,735,000			1,735,000	1,660,000			1,660,000
Total current liabilities	22,620,047	19,860	(18,750)	22,621,157	22,856,510	19,860	(18,750)	22,857,620
Long-term liabilities								
Accrued payroll and employee benefits (Notes 9 and 11)	1,343,531			1,343,531	1,547,733			1,547,733
Line of credit and notes payable (Note 6)	7,848,939			7,848,939	3,305,431			3,305,431
Capital leases payable (Note 7)	76,841			76,841	191,693			191,693
Bonds payable - net of unamortized discount and premium of $21,325 and $22,944 in 2011 and 2010, respectively (Note 8)	25,401,325			25,401,325	27,137,944			27,137,944
Total long-term liabilities	34,670,636			34,670,636	32,182,801			32,182,801
Total liabilities	57,290,683	19,860	(18,750)	57,291,793	55,039,311	19,860	(18,750)	55,040,421
Net assets (Exhibit B) (Schedule 3)								
Unrestricted	8,931,559	924,165		9,855,724	7,005,900	943,985		7,949,885
Temporarily restricted (Note 12)	97,760			97,760	71,886			71,886
Permanently restricted (Note 15)	2,361,096	1,327,717		3,688,813	2,361,096	1,232,202		3,593,298
Total net assets	11,390,415	2,251,882		13,642,297	9,438,882	2,176,187		11,615,069
Total liabilities and net assets	$ 68,681,098	$ 2,271,742	$ (18,750)	$ 70,934,090	$ 64,478,193	$ 2,196,047	$ (18,750)	$ 66,655,490

See independent auditor's report.

LOEB & TROPER LLP

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

SCHEDULE 2

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011									
	Leake and Watts Services, Inc.			The Emergency Shelter, Inc.			Total			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Permanently Restricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues										
Program revenue (Note 5)	$ 60,504,865					$ (75,000)	$ 60,429,865			$ 60,429,865
Other	12,571						12,571			12,571
Total operating revenues	60,517,436					(75,000)	60,442,436			60,442,436
Operating expenses										
Program services										
Foster care, residential treatment and medical/ mental health services	19,081,751						19,081,751			19,081,751
Education and early childhood	21,769,312						21,769,312			21,769,312
Developmental disabilities services	8,250,664						8,250,664			8,250,664
Juvenile justice - Woodfield facility	2,628,046						2,628,046			2,628,046
Day care centers and Head Start	2,406,912						2,406,912			2,406,912
Preventive	1,958,593			$ 75,000		(75,000)	1,958,593			1,958,593
Total program services	56,095,278			75,000		(75,000)	56,095,278			56,020,278
Supporting services										
Management and general	6,188,234			2,413			6,190,647			6,190,647
Development	161,451						161,451			161,451
Total supporting services	6,349,685			2,413			6,352,098			6,352,098
Total operating expenses	62,444,963			77,413		(75,000)	62,447,376			62,447,376
Decrease in net assets from operations	(1,927,527)			(77,413)		-	(2,004,940)			(2,004,940)
Nonoperating revenues										
Investment income (Note 3)	2,960,012			4,395			2,964,407			2,964,407
Contributions	225,935	$ 241,031		52,892			278,827	$ 241,031		519,858
Special events	561,760						561,760			561,760
Direct costs of special events	(109,678)						(109,678)			(109,678)
Change in value of beneficial interest in perpetual trusts					$ 95,515				$ 95,515	95,515
Miscellaneous income				306			306			306
Net assets released from restrictions (Note 12)	215,157	(215,157)					215,157	(215,157)		
Change in net assets	1,925,659	25,874		(19,820)	95,515	-	1,905,839	25,874	95,515	2,027,228
Net assets - beginning of year	7,005,900	71,886	$ 2,361,096	943,985	1,232,202		7,949,885	71,886	3,593,298	11,615,069
Net assets - end of year	$ 8,931,559	$ 97,760	$ 2,361,096	$ 924,165	$ 1,327,717	$ -	$ 9,855,724	$ 97,760	$ 3,688,813	$ 13,642,297

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	2010 (Restated)									
	Leake and Watts Services, Inc.			The Emergency Shelter, Inc.			Total			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Permanently Restricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues										
Program revenue (Note 5)	$ 53,328,149					$ (75,000)	$ 53,253,149			$ 53,253,149
Other	299,865						299,865			299,865
Total operating revenues	53,628,014					(75,000)	53,553,014			53,553,014
Operating expenses										
Program services										
Foster care, residential treatment and medical/ mental health services	19,375,544						19,375,544			19,375,544
Education and early childhood	18,791,126						18,791,126			18,791,126
Developmental disabilities services	4,248,738						4,248,738			4,248,738
Juvenile justice - Woodfield facility	2,620,045						2,620,045			2,620,045
Day care centers and Head Start	2,613,241						2,613,241			2,613,241
Preventive	2,158,347			$ 75,000		(75,000)	2,158,347			2,158,347
Total program services	49,807,041			75,000		(75,000)	49,807,041			49,807,041
Supporting services										
Management and general	6,534,839			12,913			6,547,752			6,547,752
Development	276,770						276,770			276,770
Total supporting services	6,811,609			12,913			6,824,522			6,824,522
Total operating expenses	56,618,650			87,913		(75,000)	56,631,563			56,631,563
Decrease in net assets from operations	(2,990,636)			(87,913)		-	(3,078,549)			(3,078,549)
Nonoperating revenues										
Investment income (Note 3)	1,468,559			2,070			1,470,629			1,470,629
Contributions	1,224,992	$ 87,270		48,437			1,273,429	$ 87,270		1,360,699
Special events	514,360						514,360			514,360
Direct costs of special events	(98,049)						(98,049)			(98,049)
Change in value of beneficial interest in perpetual trusts					$ 171,883				$ 171,883	171,883
Loss on sale of fixed assets	(15,629)						(15,629)			(15,629)
Miscellaneous income				158			158			158
Net assets released from restrictions (Note 12)	129,131	(129,131)					129,131	(129,131)		
Change in net assets	232,728	(41,861)		(37,248)	171,883	-	195,480	(41,861)	171,883	325,502
Net assets - beginning of year, as previously stated	6,773,172	113,747	$ 2,361,096				6,773,172	113,747	2,361,096	9,248,015
Restatement (Note 2)				981,233	1,060,319		981,233		1,060,319	2,041,552
Net assets - beginning of year, restated	6,773,172	113,747	2,361,096	981,233	1,060,319		7,754,405	113,747	3,421,415	11,289,567
Net assets - end of year	$ 7,005,900	$ 71,886	$ 2,361,096	$ 943,985	$ 1,232,202	$ -	$ 7,949,885	$ 71,886	$ 3,593,298	$ 11,615,069

See independent auditor's report.

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011											
	Program Services							Supporting Services				
	Foster Care, Residential Treatment and Medical/ Mental Health Services	Education and Early Childhood	Developmental Disabilities Services	Juvenile Justice - Woodfield Facility	Day Care Centers and Head Start	Preventive	Total	Management and General	Development	Direct Costs of Special Events	Total	Total
Employee compensation and benefits												
Salaries and wages	$ 8,644,236	$ 12,918,238	$ 4,770,952	$ 1,680,985	$ 1,689,998	$ 1,134,118	$ 30,838,527	$ 2,842,900	$ 90,082		$ 2,932,982	$ 33,771,509
Fringe benefits	2,056,544	3,285,617	1,275,579	398,294	178,689	258,552	7,453,275	759,959	29,622		789,581	8,242,856
Total employee compensation and benefits	10,700,780	16,203,855	6,046,531	2,079,279	1,868,687	1,392,670	38,291,802	3,602,859	119,704		3,722,563	42,014,365
Specific assistance to individuals												
Payments to foster parents	3,518,324						3,518,324					3,518,324
Food	227,621	305,644	140,912	152,800	114,762		941,739					941,739
Children's allowances and activities	402,791	103,314	88,692	8,309	15,811	17,871	635,788					635,788
Consumer incidentals	463,658	8,417	3,752	22,068			497,895					497,895
Clothing	66,390		14,813		75		81,278					81,278
Total specific assistance to individuals	4,678,784	416,375	248,169	183,177	130,648	17,871	5,675,024					5,675,024
Occupancy												
Interest expense	389,196	683,529	175,195				1,247,920	334,118	2,479		336,597	1,584,517
Rent (Note 11)	241,601	857,205	94,398		145,269	131,545	1,470,018	3,370			3,370	1,473,388
Utilities	177,770	417,633	126,707			17,322	739,432	74,702	572		75,274	814,706
Maintenance and repairs	99,054	145,102	47,295	143	3,386	6,638	301,618	64,891	662		65,553	367,171
Security	58,898	72,870	37,355	11,710	1,095	9,630	191,558	78,959	1,187		80,146	271,704
Janitorial services	41,688	51,078	12,606	3,375		3,485	112,232	16,948	143		17,091	129,323
Total occupancy	1,008,207	2,227,417	493,556	15,228	149,750	168,620	4,062,778	572,988	5,043		578,031	4,640,809
Professional fees												
Clinical services	542,379	1,015,347	60,119	93,190	17,199		1,728,234					1,728,234
Legal	292,916				200		293,116	99,970			99,970	393,086
Audit	11,360	37,067	12,350		13,438	9,520	83,735	71,835			71,835	155,570
Other independent contractors	233,195	220,919	441,653	88,642	23,034	259,477	1,266,920	175,990	3,884	$ 96,710	276,584	1,543,504
Total professional fees	1,079,850	1,273,333	514,122	181,832	53,871	268,997	3,372,005	347,795	3,884	96,710	448,389	3,820,394
Other												
Supplies	519,434	463,152	159,762	66,188	128,070	26,376	1,362,982	99,360	1,417	12,968	113,745	1,476,727
Transportation and other travel-related expenses	204,079	40,183	144,289	8,357	2,161	41,303	440,372	52,753	6,130		58,883	499,255
Insurance	125,188	174,178	44,994	36,321	2,268	11,395	394,344	214,817	489		215,306	609,650
Telephone	99,046	142,246	51,253	3,600	18,336	9,272	323,753	88,175	3,253		91,428	415,181
Vehicle rentals, repairs and replacement	28,386	3,371	92,007	4,041		386	138,191	12,419			12,419	150,610
Equipment/furniture rentals, repairs and replacement	46,920	84,367	34,896	11,974	6,607	1,576	186,340	26,344	1,325		27,669	214,009
Staff development	7,793	48,491	11,683	34,282	2,470	2,212	106,931	6,008	2,365		8,373	115,304
Staff recruitment	38,791	37,411	7,563	460		2,468	86,693	5,749	299		6,048	92,741
Printing, postage, subscriptions, publications	2,755	14,677	197	2,189	115	919	20,852	57,404	11,126		68,530	89,382
Dues, licenses, permits	530	16,741	6,119	729	4,116		28,285	66,516	235		66,751	95,036
Line of credit interest expense								253,786			253,786	253,786
Investment management fees								62,237			62,237	62,237
Miscellaneous	1,140	3,200	4,043		39,813	11,661	59,857	49,805	1,850		51,655	111,512
Total other	1,084,112	1,028,017	556,806	168,141	203,956	107,568	3,148,600	995,373	28,489	12,968	1,036,830	4,185,430
Total expenses before depreciation and amortization	18,551,733	21,148,997	7,859,184	2,627,657	2,406,912	1,955,726	54,550,209	5,519,015	157,120	109,678	5,785,813	60,336,022
Depreciation and amortization	530,018	620,315	391,480	389		2,867	1,545,069	733,869	4,331		738,200	2,283,269
Total expenses	19,081,751	21,769,312	8,250,664	2,628,046	2,406,912	1,958,593	56,095,278	6,252,884	161,451	109,678	6,524,013	62,619,291
Less expenses deducted directly from revenues on the statement of activities												
Investment management fees								(62,237)			(62,237)	(62,237)
Direct cost of special events										(109,678)	(109,678)	(109,678)
Total expenses reported by function on the statement of activities (Exhibit B)	$ 19,081,751	$ 21,769,312	$ 8,250,664	$ 2,628,046	$ 2,406,912	$ 1,958,593	$ 56,095,278	$ 6,190,647	$ 161,451	$ -	$ 6,352,098	$ 62,447,376

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LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2011 AND 2010

	2010 (Restated)											
	Program Services							Supporting Services				
	Foster Care, Residential Treatment and Medical/ Mental Health Services	Education and Early Childhood	Developmental Disabilities Services	Juvenile Justice - Woodfield Facility	Day Care Centers and Head Start	Preventive	Total	Management and General	Development	Direct Costs of Special Events	Total	Total
Employee compensation and benefits												
Salaries and wages	$ 8,467,501	$ 10,908,406	$ 2,427,937	$ 1,587,351	$ 1,520,313	$ 1,355,654	$ 26,267,162	$ 2,922,591	$ 185,432		$ 3,108,023	$ 29,375,185
Fringe benefits	2,262,138	2,888,571	711,685	432,802	399,436	372,419	7,067,051	840,211	43,794		884,005	7,951,056
Total employee compensation and benefits	10,729,639	13,796,977	3,139,622	2,020,153	1,919,749	1,728,073	33,334,213	3,762,802	229,226		3,992,028	37,326,241
Specific assistance to individuals												
Payments to foster parents	3,841,216						3,841,216					3,841,216
Food	224,919	291,411	69,964	164,771	99,830		850,895					850,895
Children's allowances and activities	471,855	141,292	55,521	29,157	14,637	27,351	739,813		3,200		3,200	743,013
Consumer incidentals	52,690	7,819	1,388	21,363			83,260					83,260
Clothing	75,323		7,535		75		82,933					82,933
Total specific assistance to individuals	4,666,003	440,522	134,408	215,291	114,542	27,351	5,598,117		3,200		3,200	5,601,317
Occupancy												
Interest expense	395,423	638,282	106,923				1,140,628	570,282	3,428		573,710	1,714,338
Rent (Note 11)	229,463	691,385	70,819		359,229	126,400	1,477,296	3,345			3,345	1,480,641
Utilities	242,396	408,807	69,496			16,063	736,762	112,478	1,022		113,500	850,262
Maintenance and repairs	126,145	145,961	31,040	1,316	8,310	3,052	315,824	75,541	1,257		76,798	392,622
Security	80,086	80,448	20,980	9,726		6,439	197,679	62,119	1,452		63,571	261,250
Janitorial services	70,416	112,323	9,291	18,807		1,549	212,386	34,868	438		35,306	247,692
Total occupancy	1,143,929	2,077,206	308,549	29,849	367,539	153,503	4,080,575	858,633	7,597		866,230	4,946,805
Professional fees												
Clinical services	441,476	33,490	72,325	99,555	16,036		662,882					662,882
Legal	297,110						297,110	150,654			150,654	447,764
Audit	10,564	27,300	9,096		17,510	9,920	74,390	53,774			53,774	128,164
Other independent contractors	342,396	497,466	39,078	84,316	23,789	144,855	1,131,900	268,461	6,537	$ 77,115	352,113	1,484,013
Total professional fees	1,091,546	558,256	120,499	183,871	57,335	154,775	2,166,282	472,889	6,537	77,115	556,541	2,722,823
Other												
Supplies	532,280	358,530	97,074	69,610	101,397	16,453	1,175,344	87,551	4,005	20,934	112,490	1,287,834
Transportation and other travel-related expenses	214,269	55,874	115,728	1,040	10,043	31,963	428,917	38,427	3,376		41,803	470,720
Insurance	167,248	184,644	50,857	35,320	4,869	15,272	458,210	99,873	1,401		101,274	559,484
Telephone	63,100	126,154	31,888	2,895	20,087	8,702	252,826	55,946	3,274		59,220	312,046
Vehicle rentals, repairs and replacement	66,200	619	17,703	5,724		549	90,795	13,428			13,428	104,223
Equipment/furniture rentals, repairs and replacement	44,435	54,756	15,833	13,172	5,702	5,414	139,312	54,102	589		54,691	194,003
Staff development	10,129	151,480	12,280	40,776	7,953	3,783	226,401	10,491	106		10,597	236,998
Staff recruitment	27,557	70,784	5,589			2,303	106,533	2,499	328		2,827	109,360
Printing, postage, subscriptions, publications	1,664	12,061	503	1,522	137	472	16,359	44,200	11,069		55,269	71,628
Dues, licenses, permits	2,375	15,900	4,534	433	3,888		27,130	90,018	185		90,203	117,333
Line of credit interest expense								149,122			149,122	149,122
Investment management fees								80,299			80,299	80,299
Miscellaneous	3,165	6,497	6,248			2,274	18,184	114,144	114		114,258	132,442
Total other	1,132,722	1,037,299	358,237	170,492	154,076	87,185	2,940,011	840,100	24,447	20,934	885,481	3,825,492
Total expenses before depreciation and amortization	18,763,839	17,910,260	4,061,315	2,619,656	2,613,241	2,150,887	48,119,198	5,934,424	271,007	98,049	6,303,480	54,422,678
Depreciation and amortization	611,705	880,866	187,423	389		7,460	1,687,843	693,627	5,763		699,390	2,387,233
Total expenses	19,375,544	18,791,126	4,248,738	2,620,045	2,613,241	2,158,347	49,807,041	6,628,051	276,770	98,049	7,002,870	56,809,911
Less expenses deducted directly from revenues on the statement of activities												
Investment management fees								(80,299)			(80,299)	(80,299)
Direct cost of special events										(98,049)	(98,049)	(98,049)
Total expenses reported by function on the statement of activities (Exhibit B)	$ 19,375,544	$ 18,791,126	$ 4,248,738	$ 2,620,045	$ 2,613,241	$ 2,158,347	$ 49,807,041	$ 6,547,752	$ 276,770	$ -	$ 6,924,522	$ 56,631,563

See independent auditor's report.

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LEAKE AND WATTS SERVICES, INC.

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2010 AND 2009

LOEB & TROPER LLP

LEAKE AND WATTS SERVICES, INC.

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LOEB & TROPER LLP

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Independent Auditor's Report

Board of Directors
Leake and Watts Services, Inc.

We have audited the statement of financial position of Leake and Watts Services, Inc. as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Leake and Watts Services, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Leake and Watts Services, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Leake and Watts Services, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

October 25, 2010

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors

655 Third Avenue, 12th Floor, New York, NY 10017
(212) 867-4000 / Fax (212) 867-9810 / *www.loebandtroper.com*

LEAKE AND WATTS SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

	2010	2009 (Restated)
ASSETS		
Current assets		
Cash and cash equivalents	$ 157,782	$ 130,177
Investments (Note 3)	9,452,805	7,708,897
Accounts receivable (net of allowance of $232,000 and $263,000 in 2010 and 2009, respectively)	7,825,098	7,052,415
Prepaid expenses	372,091	471,642
Accrued investment interest receivable	75,039	81,192
Total current assets	17,882,815	15,444,323
Investments held by bond trustee (Note 7)	5,430,645	7,089,964
Other assets		
Accrued bond interest receivable	80,348	80,348
Investments (Note 3)	5,490,820	6,124,812
Bond issuance costs (Note 7)	981,903	1,117,340
Fixed assets - net (Note 4)	34,611,662	34,740,964
Total other assets	41,164,733	42,063,464
Total assets	$ 64,478,193	$ 64,597,751

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LEAKE AND WATTS SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

	2010	2009 (Restated)
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 1,024,777	$ 883,155
Accrued payroll and employee benefits (Note 8)	4,522,016	5,030,176
Accrued expenses and other liabilities (Notes 5 and 10)	2,880,176	3,707,520
Accrued interest payable (Note 7)	679,802	767,530
Line of credit and notes payable (Note 6)	12,089,739	7,301,266
Bonds payable - net of unamortized discount and premium of $22,944 and $24,561 in 2010 and 2009, respectively (Note 7)	1,660,000	3,200,000
Total current liabilities	22,856,510	20,889,647
Long-term liabilities		
Accrued expenses and other liabilities (Note 10)	1,547,733	1,751,936
Line of credit and notes payable (Note 6)	3,497,124	3,704,389
Bonds payable - net of unamortized discount and premium of $22,944 and $24,561 in 2010 and 2009, respectively (Note 7)	27,137,944	28,799,561
Total long-term liabilities	32,182,801	34,255,886
Total liabilities	55,039,311	55,145,533
Net assets (Exhibit B)		
Unrestricted	7,005,900	6,773,172
Temporarily restricted (Note 11)	71,886	113,747
Permanently restricted (Note 14)	2,361,096	2,361,096
Total net assets	9,438,882	9,248,015
Total liabilities and net assets	$ 64,478,193	$ 64,393,548

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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LEAKE AND WATTS SERVICES, INC. EXHIBIT B

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues								
Program revenue (Note 5)	$ 53,328,149			$ 53,328,149	$ 56,027,222			$ 56,027,222
Other	299,865			299,865	83,179			83,179
Total operating revenues	53,628,014			53,628,014	56,110,401			56,110,401
Operating expenses								
Program services								
Foster care, residential treatment and medical/ mental health services	19,375,544			19,375,544	23,379,105			23,379,105
Education and early childhood	18,791,126			18,791,126	19,910,191			19,910,191
Developmental disabilities services	4,248,738			4,248,738	2,457,096			2,457,096
Juvenile justice - Woodfield facility	2,620,045			2,620,045	2,619,998			2,619,998
Day care centers and Head Start	2,613,241			2,613,241	2,848,955			2,848,955
Preventive	2,158,347			2,158,347	2,060,508			2,060,508
Total program services	49,807,041			49,807,041	53,275,853			53,275,853
Supporting services								
Management and general	6,534,839			6,534,839	6,336,838			6,336,838
Development	276,770			276,770	244,937			244,937
Total supporting services	6,811,609			6,811,609	6,581,775			6,581,775
Total operating expenses	56,618,650			56,618,650	59,857,628			59,857,628
Decrease in net assets from operations	(2,990,636)			(2,990,636)	(3,747,227)			(3,747,227)
Investment gain (loss) (Note 3)	1,468,559			1,468,559	(2,808,364)			(2,808,364)
Nonoperating revenues								
Contributions	1,224,992	$ 87,270		1,312,262	230,753	$ 84,262		315,015
Special events	514,360			514,360	428,313			428,313
Direct costs of special events	(98,049)			(98,049)	(178,665)			(178,665)
Loss on sale of fixed assets	(15,629)			(15,629)				
Net assets released from restrictions (Note 11)	129,131	(129,131)			156,986	(156,986)		
Change in net assets (Exhibit D)	232,728	(41,861)		190,867	(5,918,204)	(72,724)		(5,990,928)
Net assets - beginning of year	6,773,172	113,747	$ 2,361,096	9,248,015	12,691,376	186,471	$ 2,361,096	15,238,943
Net assets - end of year (Exhibit A)	$ 7,005,900	$ 71,886	$ 2,361,096	$ 9,438,882	$ 6,773,172	$ 113,747	$ 2,361,096	$ 9,248,015

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

LEAKE AND WATTS SERVICES, INC. EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010											
	Program Services							Supporting Services				
	Foster Care, Residential Treatment and Medical/ Mental Health Services	Education and Early Childhood	Developmental Disabilities Services	Juvenile Justice - Woodfield Facility	Day Care Centers and Head Start	Preventive	Total	Management and General	Development	Direct Costs of Special Events	Total	Total
Employee compensation and benefits												
Salaries and wages	$ 8,467,501	$ 10,908,406	$ 2,427,937	$ 1,587,351	$ 1,520,313	$ 1,355,654	$ 26,267,162	$ 2,922,591	$ 185,452		$ 3,108,073	$ 29,375,185
Fringe benefits	2,262,138	2,888,571	711,685	432,802	399,436	372,419	7,067,051	840,211	43,794		884,005	7,951,056
Total employee compensation and benefits	10,729,639	13,796,977	3,139,622	2,020,153	1,919,749	1,728,073	33,334,213	3,762,802	229,226		3,992,028	37,326,241
Specific assistance to individuals												
Payments to foster parents	3,841,216						3,841,216					3,841,216
Food	224,919	291,411	69,964	164,771	99,830		850,895					850,895
Children's allowances and activities	471,855	141,292	55,521	29,157	14,637	27,351	739,813		3,200		3,200	743,013
Consumer incidentals	52,690	7,819	1,388	21,363			83,260					83,260
Clothing	75,323		7,535		75		82,933					82,933
Total specific assistance to individuals	4,666,003	440,522	134,408	215,291	114,542	27,351	5,598,117		3,200		3,200	5,601,317
Occupancy												
Interest expense	395,423	638,282	106,925				1,140,628	570,282	3,428		573,710	1,714,338
Rent (Note 10)	229,463	691,385	70,819		359,229	126,400	1,477,296	3,345			3,345	1,480,641
Utilities	242,396	408,807	69,496			16,063	736,762	112,478	1,022		113,500	850,262
Maintenance and repairs	126,145	145,961	31,040	1,316	8,310	3,052	315,824	75,541	1,257		76,798	392,622
Security	80,066	80,448	20,980	9,726		6,439	197,679	62,119	1,452		63,571	261,250
Janitorial services	70,416	112,123	9,291	18,807		1,549	212,386	34,868	438		35,306	247,692
Total occupancy	1,143,929	2,077,206	308,549	29,849	367,539	153,503	4,080,575	858,633	7,597		866,230	4,946,805
Professional fees												
Clinical services	441,476	33,490	72,325	99,555	16,036		662,882					662,882
Legal	297,110						297,110	140,135			140,135	437,245
Audit	10,564	27,300	9,096		17,510	9,920	74,390	52,664			52,664	127,054
Other independent contractors	342,396	497,466	39,078	84,316	23,789	144,855	1,131,900	268,412	6,537	$ 77,115	352,064	1,483,964
Total professional fees	1,091,546	558,256	120,499	183,871	57,335	154,775	2,166,282	461,211	6,537	77,115	544,863	2,711,145
Other												
Supplies	532,280	358,530	97,074	69,610	101,397	16,453	1,175,344	87,551	4,005	20,934	112,490	1,287,834
Transportation and other travel-related expenses	214,269	55,874	115,728	1,040	10,043	31,963	428,917	38,427	3,376		41,803	470,720
Insurance	167,248	184,644	50,857	35,320	4,869	15,272	458,210	98,638	1,401		100,039	558,249
Telephone	65,100	126,154	31,888	2,895	20,087	8,702	252,826	55,946	3,274		59,220	312,046
Vehicle rentals, repairs and replacement	66,200	619	17,703	5,724		549	90,795	13,428			13,428	104,223
Equipment/furniture rentals, repairs and replacement	44,435	54,756	15,833	13,172	5,702	5,414	139,312	54,102	589		54,691	194,003
Staff development	10,129	151,480	12,280	40,776	7,953	3,783	226,401	10,491	106		10,597	236,998
Staff recruitment	27,857	70,784	5,589			2,303	106,533	2,499	328		2,827	109,360
Printing, postage, subscriptions, publications	1,664	12,061	503	1,522	137	472	16,359	44,200	11,069		55,269	71,628
Dues, licenses, permits	2,375	15,900	4,534	433	3,888		27,130	90,018	185		90,203	117,333
Line of credit interest expense								149,122			149,122	149,122
Miscellaneous	3,165	6,497	6,248			2,274	18,184	114,144	114		114,258	132,442
Total other	1,132,722	1,037,299	358,237	170,492	154,076	87,185	2,940,011	758,566	24,447	20,934	803,947	3,743,958
Total expenses before depreciation and amortization	18,763,839	17,910,260	4,061,315	2,619,656	2,613,241	2,150,887	48,119,198	5,841,212	271,007	98,049	6,210,268	54,329,466
Depreciation and amortization	611,705	880,866	187,423	389		7,460	1,687,843	693,627	5,763		699,390	2,387,233
Total expenses	19,375,544	18,791,126	4,248,738	2,620,045	2,613,241	2,158,347	49,807,041	6,534,839	276,770	98,049	6,909,658	56,716,699
Less expenses deducted directly from revenues on the statement of activities												
Direct cost of special events										(98,049)	(98,049)	(98,049)
Total expenses reported by function on the statement of activities (Exhibit B)	$ 19,375,544	$ 18,791,126	$ 4,248,738	$ 2,620,045	$ 2,613,241	$ 2,158,347	$ 49,807,041	$ 6,534,839	$ 276,770	$ -	$ 6,811,609	$ 56,618,650

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LOEB & TROPER LLP

LEAKE AND WATTS SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2010 AND 2009

	2009											
	Program Services							Supporting Services				
	Foster Care, Residential Treatment and Medical/ Mental Health Services	Education and Early Childhood	Developmental Disabilities Services	Juvenile Justice – Woodfield Facility	Day Care Centers and Head Start	Preventive	Total	Management and General	Development	Direct Costs of Special Events	Total	Total
Employee compensation and benefits												
Salaries and wages	$ 10,342,795	$ 11,577,864	$ 1,342,595	$ 1,594,798	$ 1,660,818	$ 1,312,601	$ 27,831,471	$ 3,204,090	$ 151,718		$ 3,365,808	$ 31,197,279
Fringe benefits	2,757,566	3,006,712	341,552	411,980	480,668	339,861	7,338,339	842,968	42,287		885,255	8,223,594
Total employee compensation and benefits	13,100,361	14,584,576	1,684,147	2,006,778	2,141,486	1,652,462	35,169,810	4,047,058	204,005		4,251,063	39,420,873
Specific assistance to individuals												
Payments to foster parents	4,108,866						4,108,866					4,108,866
Food	339,841	261,614	33,194	208,888	127,698		971,235					971,235
Children's allowances and activities	590,599	144,272	27,052	6,775	12,784	29,953	811,435		3,540		3,540	814,975
Consumer incidentals	146,523	940	570	21,657			169,690	1,013			1,013	170,703
Clothing	101,644		3,332		225		105,201					105,201
Total specific assistance to individuals	5,287,473	406,826	64,148	237,320	140,707	29,953	6,166,427	1,013	3,540		4,553	6,170,980
Occupancy												
Interest expense	642,648	642,026	110,262				1,394,936	238,463	4,072		242,535	1,637,471
Rent (Note 10)	237,704	745,649	56,550		368,028	114,894	1,522,825	18,194			18,194	1,541,019
Utilities	377,639	486,911	37,057			18,273	919,880	139,567	1,909		141,476	1,061,356
Maintenance and repairs	204,893	161,379	24,983	260	5,318	4,634	401,467	94,071	1,079		95,150	496,617
Security	138,923	83,297	13,129	10,863	934	7,607	254,753	63,775	1,439		65,214	319,967
Janitorial services	66,085	193,323	2,024	16,500		5,914	283,846	28,393	525		28,918	312,764
Total occupancy	1,667,892	2,312,585	244,005	27,623	374,280	151,322	4,777,707	582,463	9,024		591,487	5,369,194
Professional fees												
Clinical services	657,698	260,629	48,439	104,831	18,306		1,089,903					1,089,903
Legal	342,942						342,942	150,105			150,105	493,047
Audit	13,800	30,000	9,996		12,300	8,712	74,808	70,925			70,925	145,733
Other independent contractors	190,094	469,561	22,326	36,921	22,917	107,619	849,438	339,232	2,647	$ 153,772	495,651	1,345,089
Total professional fees	1,204,534	760,190	80,761	141,752	53,523	116,331	2,357,091	560,262	2,647	153,772	716,681	3,073,772
Other												
Supplies	640,373	405,502	52,613	84,420	95,349	39,918	1,318,175	70,202	5,025	24,893	100,120	1,418,295
Transportation and other travel related expenses	287,017	69,054	85,098	5,994	7,113	35,725	490,001	51,917	4,687		56,604	546,605
Insurance	172,671	162,306	50,369	40,510		5,916	431,772	172,004	631		172,635	604,407
Telephone	56,536	137,574	28,014	1,353	17,531	8,468	249,476	31,765	180		31,945	281,421
Vehicle rentals, repairs and replacement	54,001	2,988	15,434	2,828			75,251	35,194	5		35,199	110,450
Equipment/furniture rentals, repairs and replacement	36,350	44,353	14,770	26,864	10,589	2,092	135,018	27,137	322		27,459	162,477
Staff development	4,906	62,932	17,834	36,351	3,036	606	125,665	2,656	30		2,686	128,351
Staff recruitment	23,219	35,890	5,059		177	8,600	72,945	4,389	102		4,491	77,436
Printing, postage, subscriptions, publications	7,986	12,618	186	2,050	367	622	23,829	50,022	493		50,515	74,344
Dues, licenses, permits	1,709	15,831	2,037	600	4,797		24,974	47,534	3,557		51,091	76,065
Line of credit interest expense				5,101			5,101	101,286			101,286	106,387
Miscellaneous	2,838	4,174	2,323	131		872	10,338	48,067	4,510		52,577	62,915
Total other	1,287,606	953,222	273,737	206,202	138,959	102,819	2,962,545	642,173	19,542	24,893	686,608	3,649,153
Total expenses before depreciation and amortization	22,547,866	19,017,399	2,346,798	2,619,675	2,848,955	2,052,887	51,433,580	5,832,969	238,758	178,665	6,250,392	57,683,972
Depreciation and amortization expense	831,239	892,792	110,298	323		7,621	1,842,273	503,869	6,179		510,048	2,352,321
Total expenses	23,379,105	19,910,191	2,457,096	2,619,998	2,848,955	2,060,508	53,275,853	6,336,838	244,937	178,665	6,760,440	60,036,293
Less expenses deducted directly from revenues on the statement of activities												
Direct cost of special events										(178,665)	(178,665)	(178,665)
Total expenses reported by function on the statement of activities (Exhibit B)	$ 23,379,105	$ 19,910,191	$ 2,457,096	$ 2,619,998	$ 2,848,955	$ 2,060,508	$ 53,275,853	$ 6,336,838	$ 244,937	$ -	$ 6,581,775	$ 59,857,628

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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LEAKE AND WATTS SERVICES, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009 (Restated)
Reconciliation of change in net assets to net cash used by operating activities		
Change in net assets (Exhibit B)	$ 190,867	$ (5,990,928)
Adjustments to reconcile change in net assets to cash used by operating activities		
Depreciation and amortization	2,387,233	2,352,321
Amortization of bond issuance cost	135,437	91,550
Amortization of bond discount	40,978	40,978
Amortization of bond premium	(42,595)	(42,595)
Realized losses on investments	138,567	961,061
Unrealized losses (gains) on investments	(1,229,520)	2,248,183
Donated stocks	(16,213)	(5,316)
Loss on sale of fixed assets	15,629	
Decrease (increase) in assets		
Accounts receivable	(772,683)	222,226
Accrued investment interest receivable	6,153	(5,541)
Prepaid expenses	99,551	(42,695)
Accrued bond interest receivable		(33,929)
Increase (decrease) in liabilities		
Accounts payable	141,622	(322,157)
Accrued payroll and employee benefits	(508,160)	(1,358,458)
Accrued expenses and other liabilities	(1,235,750)	1,121,169
Accrued interest payable	(87,728)	(40,376)
Net cash used by operating activities	(736,612)	(804,507)
Cash flows from investing activities		
Purchase of investments	(6,574,232)	(5,008,407)
Proceeds from sale of investments	6,571,482	5,079,314
Proceeds from sale of fixed assets	332,922	
Decrease in cash and investments held by bond trustee	1,659,319	361,325
Fixed asset acquisitions	(2,580,982)	(4,645,675)
Net cash used by investing activities	(591,491)	(4,213,443)

-continued-

LEAKE AND WATTS SERVICES, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009 (Restated)
Cash flows from financing activities		
Repayments of line of credit	$ (14,166,665)	$ (31,443,000)
Proceeds from line of credit	19,040,000	33,910,000
Proceeds from notes payable		3,795,737
Payments on lease financing	(219,312)	(204,833)
Payments on notes payable	(98,315)	(39,120)
Payments on bonds payable	(3,200,000)	(1,705,000)
Net cash provided by financing activities	1,355,708	4,313,784
Net increase (decrease) in cash and cash equivalents	27,605	(704,166)
Cash and cash equivalents - beginning of year	130,177	834,343
Cash and cash equivalents - end of year	$ 157,782	$ 130,177
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,951,188	$ 1,703,482
Financing of equipment costs	$ 25,500	$ 252,435

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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NOTE 1 - NATURE OF ORGANIZATION

Leake and Watts Services, Inc. ("Leake and Watts") is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Leake and Watts provides comprehensive social services including family stabilization, foster care, child care and Head Start, residential and respite services for children and adults with developmental disabilities, special education, and residential treatment and group homes for youth with emotional and mental health challenges principally in the Bronx and Westchester County. A substantial portion of its operating revenues and accounts receivable is from the City of New York and from other public agencies.

- **Foster Boarding Home programs** serve children who have experienced abuse and neglect. The goal in all cases is to establish a permanent appropriate living arrangement for the child such as reunification with birth parents or adoption. Programs inclnde family foster care, kinship foster care, therapeutic foster care for youth with mental health concerns and challenging behaviors, and specialized medical foster care for children who are considered medically fragile.

- The **Residential Treatment Center**, located on a 30-acre campus in Yonkers, provides 24-hour residential care to youth ages 12-21 requiring therapeutic and educational support. An enriched, structured program of activities coupled with clinical services assists youth with mental health concerns and challenging behaviors to develop the ability to participate fully in the surrounding community and to return to a less restrictive environment.

- The **Mother/Infant** residences serve teen mothers in foster care who have experienced multiple failed prior placements in family foster care because of serious behavioral issues including aggression, defiance of authority, rnnning away, and/or mental health issues. In all cases, we work with the mothers to identify resources that can provide long-term support for them and their child(ren) as well as concurrently prepare them for adulthood. The focus, as with all foster youth, is on education, skills development (with particular emphasis on parenting and homemaking for these girls), employment, safety and well-being.

- **Medical and Mental Health Services** for children and youth in Leake and Watts foster care address the full complement of individual needs from primary medical care to psychiatric and clinical services, and coordination of specialty and hospital-based services. Leake and Watts staff includes doctors, nurses, psychiatrists, psychologists, and licensed social workers. Basic medical care includes periodic examinations, health screenings, immunizations, well child and sick visits, and referrals to any specialists the child may require, followed by periodic review of all medical care received.

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NOTE 1 - NATURE OF ORGANIZATION (continued)

- The **Education Program** at Carol and Frank Biondi Center is a non-public school providing 12-month specialized educational services for children with social and emotional difficulties and severe academic deficits. Many students have a history of substance abuse, general delinquency, depression, psychotic thinking, suicidal ideation, impulsivity, anxiety and poor social skills. Emphasis is on academic achievement, skills development, and increasing students' ability to remain on task, interact appropriately with peers, and improve behavior so that they can return to their local public school.

- **Early Childhood Education Programs** at the Marion and George Ames Center in Southern Westchester County and the Katherine Dodge Brownell School in the Bronx serve children ages 18 months to five years old, and include child care for low-income families, universal pre-kindergarten services, and preschool special education programs.

- **Developmental Disabilities Services** include community-based programs such as individualized residential services (IRA), individual supported apartments (ISS), respite/recreation services, enhanced supportive employment, family support services and Medicaid service coordination (MSC). Services aim to address all of the associated emotional, behavioral and psychological disorders to assist consumers to live more fulfilling lives.

- **Woodfield Facility** is a secure detention center for youth under the age of 16 who are awaiting court action. These youth are accused of committing crimes, some of which are violent in nature. Services include individual and group counseling, a full-day school program, 24-hour medical services, family outreach, aftercare planning, and religious and spiritual services. These services are offered in a structured setting and a caring, albeit high-security, environment.

- Leake and Watts sponsors three NYC child care centers and one federally funded Head Start program located in the Bronx serving children between 2.5 and 5 years of age. Program components include an early childhood educational curriculum which prepares children for their school years promoting creativity, pre-academic skills, socialization, and independence, bilingual (Spanish) services, parent involvement, and linkage to community and social services.

- The **East Bronx Family Service Center** aims to stabilize at-risk families before they reach a crisis point and thus prevent the need to place children in foster care. Family-driven services include assistance with housing, employment, substance abuse treatment, education, counseling, and assistance accessing mental health and other community services and resources.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The financial statements of Leake and Watts have been prepared on the accrual basis of accounting.

FASB Accounting Standards Codification - In July 2009, the FASB released FASB Accounting Standards Codification (ASC) as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* All other accounting literature not included in the Codification is nonauthoritative.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and equivalents - Leake and Watts considers all highly liquid investments with original maturities when acquired of 90 days or less to be cash equivalents.

Accounts receivable - Accounts receivable from government grants and other sources of income are recorded when services are rendered.

Allowance for doubtful accounts - Leake and Watts determines whether an allowance for uncollectibles should be provided for accounts receivable. Such estimates are based on management's assessment of the aged basis of its sources, current economic conditions and historical information. Accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Investments - Investments are recorded at fair value. Leake and Watts invests in various securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the statement of activities. Certain investments which are held for long-term purposes are not classified as current assets.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

In accordance with generally accepted accounting principles, Leake and Watts adopted provisions of *Fair Value Measurements and Disclosures,* which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Leake and Watts has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2010.

- ***Money market funds*** - Valued at the closing price reported on the active market on which the individual securities are traded.
- ***U.S. Treasury obligations*** - Valued at the closing price reported on the active market on which the individual securities are traded.
- ***Fixed income*** - Valued at the closing price on the active markets on which the individual securities are traded.
- ***Corporate bonds*** - Valued at the closing price reported on the active market on which the individual securities are traded.
- ***Common stocks*** - Valued at the closing price on the active markets on which the individual securities are traded.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

- *Mutual funds* - Valued at the net asset value (NAV) of shares held at end of year.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Leake and Watts believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2010 and 2009:

	2010		
	Level 1	**Level 2**	**Total**
Cash and cash equivalents		$ 2,043,709	$ 2,043,709
Money market funds	$ 917,272	-	917,272
U.S. Treasury obligations	2,629,489	3,180,316	5,809,805
Common stocks	4,579,341	-	4,579,341
Mutual funds	3,379,992	-	3,379,992
Fixed income	-	206,620	206,620
Corporate bonds	3,437,531	-	3,437,531
	$ 14,943,625	$ 5,430,645	$ 20,374,270

	2009		
	Level 1	**Level 2**	**Total**
Cash and cash equivalents		$ 3,673,837	$ 3,673,837
Money market funds	$ 724,175	-	724,175
U.S. Treasury obligations	2,802,370	3,209,507	6,011,877
Common stocks	3,982,463	-	3,982,463
Mutual funds	2,940,768	-	2,940,768
Fixed income	-	206,620	206,620
Corporate bonds	3,383,933	-	3,383,933
	$ 13,833,709	$ 7,089,964	$ 20,923,673

However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets - Fixed assets over $1,000 are stated at cost or contributed value. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as provided by the New York State Standards of Payment for Foster Care of Children and the Consolidated Fiscal Reporting and Claiming Manual. The estimated useful lives of such assets are as follows:

Building and building improvements	10 to 40 years
Furniture, fixtures and equipment	5 to 20 years

Amortization of leasehold improvements is provided on the straight-line method over the life of the lease, ranging from 1 to 20 years.

Cash and investments held by bond trustee - Cash and investments whose assets are set aside under the terms of the various bond agreements.

Bond discount, premium and issuance costs - The costs associated with the issuance of the 1994 Series Insured Revenue Bonds and those associated with the Series 1999 and Series 2007 A1 & A2 New York City Industrial Development Agency Bonds have been deferred and are being amortized over the life of the bonds. A portion of the costs associated with the Series 2004 Insured Revenue Bonds has been deferred and is being amortized over the life of the bonds.

Net assets - Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Leake and Watts are classified and reported as follows:

Unrestricted - Net assets which are expendable for carrying out Leake and Watts' operations and are not subject to donor-imposed stipulations.

Temporarily restricted - Net assets that are subject to donor-imposed stipulations that will be met either by actions of Leake and Watts and/or the passage of time.

Permanently restricted - Net assets that have been restricted by donors to be maintained in perpetuity.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions - Leake and Watts reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements. Donated fixed assets that are restricted for use in specific programs are released from restriction over the useful lives of the assets.

Contribution costs and revenues - Leake and Watts operates programs where certain costs including facility costs, fringe benefits for staff, and consumable supplies are paid directly by New York City. Leake and Watts reports these amounts as operating revenues and expenses, and recognized $576,930 and $746,134 of contributed costs for the years ended June 30, 2010 and 2009, respectively. Leake and Watts also received voluntary services of $30,870 and $39,925 for the years ended June 30, 2010 and 2009, respectively, and these are reported as operating revenues and expenses.

Measure of operations - decrease in net assets from operations - Leake and Watts' decrease in net assets includes revenues and expenses directly related to the provision of child and family care programs. Contributions, both restricted and unrestricted, special events and related direct costs, loss on sale of fixed assets and investment gains and losses are considered nonoperating.

Leases - Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Capital leases are recorded at the lower of the fair market value of the assets or the present value of the minimum lease payments and are amortized over the lease term or estimated useful life of the assets, whichever is shorter, unless the lease provides for transfer of title or includes a bargain purchase option, in which case the lease is amortized over the estimated useful life of the asset. Operating lease payments are charged to rental expense.

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Accounting for uncertainty in income taxes - Effective July 1, 2009, Leake and Watts adopted the provision pertaining to uncertain tax positions, ASC Topic 740, and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Certain costs have been allocated to the programs and supporting services which benefited from them.

Subsequent events - In accordance with generally accepted accounting principles, ASC Topic 855, subsequent events (after December 31, 2009) have been evaluated through October 25, 2010, which is the date the financial statements were available to be issued.

Reclassifications - Certain reclassifications have been made to the 2009 amounts to conform with the 2010 presentation.

NOTE 3 - INVESTMENTS

The market value of investments at June 30 is as follows:

	2010	2009
Fixed income		
Money market funds	$ 917,272	$ 724,175
U.S. Treasury obligations	2,629,489	2,802,370
Total fixed income	3,546,761	3,526,545
Equity		
Common stocks	4,579,341	3,982,463
Mutual funds	3,379,992	2,940,768
Total equity	7,959,333	6,923,231
Corporate bonds	3,437,531	3,383,933
Total investments at fair value	$ 14,943,625	$ 13,833,709

Included in investments is $2,361,096 of permanently restricted funds at June 30, 2010 and 2009.

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NOTE 3 - INVESTMENTS (continued)

Investment income consists of the following at June 30:

	2010	2009
Interest and dividend income	$ 457,905	$ 480,119
Realized losses	(138,567)	(961,061)
Unrealized gains (losses)	1,229,520	(2,248,183)
Investment expenses	(80,299)	(79,239)
Investment gain (loss)	$ 1,468,559	$ (2,808,364)

NOTE 4 - FIXED ASSETS

As of June 30, 2010 and 2009, fixed assets consist of the following:

	2010	2009
Land	$ 38,787	$ 38,787
Building and building improvements	50,678,638	49,168,652
Leasehold improvements	1,421,065	1,421,065
Furniture, fixtures and equipment	5,119,372	4,832,888
Total cost	57,257,862	55,461,392
Less accumulated depreciation and amortization	(22,646,200)	(20,720,428)
Fixed assets - net	$ 34,611,662	$ 34,740,964

NOTE 5 - REVENUE RECOGNITION AND ADJUSTMENTS

Revenues are recognized when earned as services are performed and are based on rates, fees for services and contractual agreements with various Federal, New York State, New York City, Westchester County and other public agencies.

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NOTE 5 - REVENUE RECOGNITION AND ADJUSTMENTS (continued)

Revenues under third-party-payors' agreements are subject to audit and potential retroactive adjustments. Provisions for estimated third-party-payors' settlements are recorded in the period when the services are rendered. Differences between the estimated amounts accrued, interim and final settlements are reported in operations in the year of determination.

The eventual liability to governmental entities, if any, upon final settlement of the open years has not been finalized. However, Leake and Watts has recorded estimated provisions of $2,400,000 and $3,500,000 at June 30, 2010 and 2009, respectively, for the eventual settlement of the open cost reporting periods.

Reimbursement methodologies for some of the major programs present at Leake and Watts are as follows:

Education and Early Childhood

Leake and Watts' school programs are regulated and funded by the New York State Education Department. A tuition rate per student is established based upon enrollment, actual cost data, geographic location and other cost "screens" prescribed by the State. Fluctuations in enrollment and costs can have a significant impact on Leake and Watts' receipt of a rate sufficient to cover program costs. Leake and Watts' revenue recognition policy for school programs is to record current-year revenue based upon the known preliminary tuition rate, although that rate may ultimately be changed. If the known preliminary tuition rate results in current operating income, the excess is recorded as a liability as it will eventually be "refunded" to the funding agency through subsequent reimbursement reductions. If the known preliminary tuition rate results in a current operating loss, additional revenue is recorded. Upon a final determination of the rate for a given year, a "tuition" rate adjustment is recorded. Revenue from support payments from the New York City Department of Education is subject to final reconciliation for the fiscal years ended June 30, 2010 and 2009.

Foster Care, Residential Treatment and Medical and Mental Health Services

The principal source of revenue consists of support payments received from the City of New York (the "City") and Westchester County for congregate and foster boarding home care, and health care provided to children referred to Leake and Watts. Such payments, based initially upon per diem rates established annually by the New York State Office of Children and Family Services, the New York City Administration for Children's Services, and the State Department of Health, are finalized after the reported costs and days of care are audited.

Revenue from support payments from the City is subject to audit for the fiscal years ended June 30, 2004 through June 30, 2010.

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NOTE 5 - REVENUE RECOGNITION AND ADJUSTMENTS (continued)

Developmental Disabilities Services

Developmental Disabilities Services including community-based programs such as group homes and supported apartments, respite/recreation services, supportive employment, day services, and Medicaid Service Coordination, are funded through contracts with the New York State Office for People With Developmental Disabilities ("OPWDD") and by Medicaid, based on rates established by OPWDD.

NOTE 6 - LINE OF CREDIT AND NOTES PAYABLE

The Bank of New York Mellon

On September 29, 2009, Leake and Watts entered into a revolving credit agreement with The Bank of New York Mellon for a working capital loan of $9,000,000 and an improvement loan of $4,000,000. Each loan shall bear an interest rate using the Alternate Base Rate (ABR) or LIBOR rate. The ABR is the higher of (a) the federal funds rate plus ½ of 1%, or (b) the bank's prime rate. Applicable margin with respect to working capital loan for LIBOR advances is the LIBOR rate plus 1.00% and, with respect to improvement loans, it is the LIBOR rate plus 1.5%. The working capital loan is collateralized by assets held by The Bank of New York Mellon in the custodial investment accounts of Leake and Watts. The improvement loan is an unsecured note. Both loans will mature on September 28, 2010. On September 29, 2010, this credit agreement was amended to extend the maturity dates to December 29, 2010 as disclosed in Note 15 - Subsequent Events. As of June 30, 2010, Leake and Watts has drawn down $8,793,335 from the working capital loan and $2,800,000 from the improvement loan, for a total balance outstanding as of June 30, 2010 of $11,593,335.

HVB Leasing Corp.

On August 1, 2005, Leake and Watts entered into an equipment financing agreement with HVB Leasing Corp. in the amount of $562,640 to upgrade the heating and air conditioning systems in the administration building on the Yonkers campus. Payments of $9,655 per month are due for two months as of June 30, 2010. The interest rate is 2.38%. The balance outstanding as of June 30, 2010 and 2009 was $19,249 and $133,039, respectively. HVB Leasing Corp. has a first priority security interest in the property described above.

On June 22, 2007, Leake and Watts entered into a computer equipment financing agreement with HVB Leasing Corp. in the amount of $175,799 to upgrade the computer network. Payments of $3,526 per month are due for 24 months as of June 30, 2010. The interest rate is 7.53%. The balance outstanding as of June 30, 2010 and 2009 was $78,319 and $111,459, respectively. HVB Leasing Corp. has a first priority security interest in the property described above.

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NOTE 6 - LINE OF CREDIT AND NOTES PAYABLE (continued)

HVB Leasing Corp. (continued)

On August 22, 2008, Leake and Watts entered into an office equipment financing agreement with HVB Leasing Corp. in the amount of $252,435 to upgrade the copying/printing/scanning/faxing office equipment. Payments of $5,076 per month are due for 38 months as of June 30, 2010. The interest rate is 7.65%. The balance outstanding as of June 30, 2010 and 2009 was $159,784 and $205,705, respectively. HVB Leasing Corp. has a first priority security interest in the property described above.

M&T Credit Services, LLC

On October 19, 2007, Leake and Watts entered into a computer equipment financing agreement with M&T Credit Services, LLC in the amount of $97,629 to upgrade the Citrix software and new servers. Payments of $1,882 per month are due for 35 months as of June 30, 2010. The interest rate is 6.09%. The balance outstanding as of June 30, 2010 and 2009 was $60,395 and $78,835, respectively. As collateral for this arrangement, M&T Credit Services, LLC has an interest in the Citrix software.

ADP Commercial Leasing

On August 26, 2009, Leake and Watts entered into an equipment financing agreement with ADP Commercial Leasing in the amount of $7,000. Payments of $292 per month are due for 15 months as of June 30, 2010. There is no interest being charged and this is unsecured. The balance outstanding as of June 30, 2010 is $4,375.

On October 14, 2009, Leake and Watts entered into a second equipment financing agreement with ADP Commercial Leasing in the amount of $18,500. Payments of $771 are due for 17 months as of June 30, 2010. There is no interest being charged and this is unsecured. The balance outstanding as of June 30, 2010 is $13,104.

Castle Combe Associates LLC

On January 5, 2009, Leake and Watts entered into an unsecured mortgage financing agreement with Castle Combe Associates LLC for $3,795,737 to purchase a building at 450 Castle Hill Ave., Bronx. Payments of $28,300 per month are due for 223 months as of June 30, 2010. The interest rate is 6.50%. The balance outstanding as of June 30, 2010 and 2009 was $3,658,302 and $3,756,617, respectively.

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NOTE 6 - LINE OF CREDIT AND NOTES PAYABLE (continued)

Castle Combe Associates LLC (continued)

Payments for all notes payable and the line of credit over the next five years are as follows:

2011	$ 12,089,739
2012	471,197
2013	421,217
2014	349,753
2015	339,600
Thereafter	1,915,357
	$ 15,586,863

NOTE 7 - BONDS PAYABLE

Series 2004 Bonds

On December 21, 2004, the Dormitory Authority of the State of New York (the "Authority") issued Series 2004 Bonds aggregating $33,105,000 primarily to refund the Authority's Series 1994 Bonds ("Refunded Bonds"). The Series 2004 bonds were sold at a premium (net of discounts) of $1,445,600 and are due in 2023. On January 25, 2005, the entire outstanding balance of the Series 1994 Bonds, totaling $32,880,000, was refunded with a 2% additional call premium of $657,600. Bond proceeds were also used to pay the issuance cost of the Series 2004 Bonds totaling $1,422,200. A major portion of these costs, $1,349,200, was expensed in 2005; the remainder is included in bond issuance costs and will be amortized over the life of the bonds.

The Series 1994 Bonds were used for construction costs of a new school building, children's residential cottages, and renovations to existing buildings. The retirement of the Series 1994 Bonds and the issuance of the Series 2004 Bonds were accounted for as a modification of debt terms in accordance with Emerging Issues Task Force ("EITF") 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments." Accordingly, the call premium paid on the refunded 1994 Bonds, the unamortized bond discount on the refunded 1994 Bonds, and the premium received on the 2004 Bonds have been aggregated into one account, which nets to $45,887 at June 30, 2010 and $49,417 at June 30, 2009. This amount will be amortized as a reduction to interest expense over the life of the Series 2004 Bonds.

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NOTE 7 - BONDS PAYABLE (continued)

Series 2004 Bonds (continued)

The 2004 Bonds loan agreement requires principal payments through July 1, 2023, and the maintenance of certain reserve funds. At June 30, 2010 and 2009, the amounts held in the debt service fund were $2,006,903 and $2,012,043, respectively; amounts held in the debt service reserve fund were $2,643,630 and $2,648,827, respectively; and amounts held in the construction fund were $36,585 and $36,566, respectively. These amounts are reflected as investments held by bond trustees on the accompanying statement of financial position. The rates of interest on the bonds range from 3.0% to 5.0%. During fiscal 2010 and 2009, interest income earned on funds held by bond trustees totaled $6,768 and $50,330, respectively. These are recorded as a reduction of bond interest expense.

The Series 2004 Bonds are special revenue obligations of the Authority and are secured by a mortgage on the real property on which the project is located, and by a security interest in certain fixtures, furnishings, and equipment now or hereafter located therein, or used in connection therewith. The Series 2004 Bonds are also secured by the pledge and assignment of revenues, and the Authority's security interest in the pledged revenues, and Leake and Watts must maintain unrestricted assets equal to the maximum annual debt service payment. The Series 2004 Bonds are insured as to scheduled payment of principal and interest by a financial guaranty insurance policy issued by MBIA Insurance Corporation. The principal balance outstanding on Series 2004 Bonds at June 30, 2010 and 2009 is $26,145,000 and $27,455,000, respectively.

Series 2007A-1 and Series 2007A-2 Bonds and Series 1999B Bonds

On February 22, 2007, the New York City Industrial Development Agency ("NYCIDA") issued Series 2007A-1 and Series 2007A-2 Bonds aggregating $3,220,000 to refund Series 1999B Bonds of the NYCIDA, maturing on August 1, 2015. Bond proceeds were held in escrow until August 1, 2009, at which time the Series 1999 Bonds were fully refunded. Series 1999 Bonds maturing on or after August 1, 2010 were redeemed on August 1, 2009 at 102% of the par amount. The balance held in escrow to refund the Series 1999 Bonds was $1,661,050 in 2009, which is shown as cash and investments held by the bond trustee. The principal balance outstanding on the Series 1999 Bonds as of June 30, 2009 was $1,610,000.

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NOTE 7 - BONDS PAYABLE (continued)

Series 2007A-1 and Series 2007A-2 Bonds and Series 1999B Bonds (continued)

The 2007 Bond loan agreement requires principal payments through July 1, 2022 and the maintenance of certain reserve funds. At June 30, 2010 and 2009, respectively, the amount held in the debt service reserve fund was $220,493 and $216,743, in the debt service fund was $353,093 and $342,155, in the construction fund was $169,891 and $169,888, and in the earnings fund was $50 and $2,692. These amounts are reflected as investments held by bond trustees on the accompanying statement of financial position. The rate of interest on the bonds ranges from 3.80% to 4.65%. During fiscal years 2010 and 2009, interest income earned on funds held by the bond trustee for Series 2007 totaled $112 and $4,380, respectively. These are recorded as a reduction of bond interest expense.

Bond proceeds from the Series 2007A-1 and A-2 were also used to pay the cost of issuance of the bonds totaling $343,022 and the bond discount of $24,856. These costs will be amortized as interest expense over the life of the bonds, with $22,943 and $24,856 remaining as of June 30, 2010 and 2009, respectively.

The Series 2007 Bonds were issued to finance or refinance the costs of the acquisition, construction, equipping and financing of seven group homes, and major new renovation of one of the homes. The bonds are secured by a first mortgage lien and a security interest in the facilities. In addition, Leake and Watts may not create or permit any mortgage, encumbrance, lien, security interest, claim or charges against the facilities without NYCIDA's permission. The Series 2007 Bonds are insured as to scheduled payment of principal and interest by a financial guaranty insurance policy issued by ACA Financial Guaranty Corporation. The principal balance outstanding on the Series 2007 Bonds at June 30, 2010 was $2,630,000 and at June 30, 2009 was $2,910,000.

Annual debt service amounts payable during the next five years are as follows:

2011	$ 1,660,000
2012	1,735,000
2013	1,815,000
2014	1,870,000
2015	1,945,000
Thereafter	19,750,000
	28,775,000
Plus net unamortized premium and discount	22,944
Total	$ 28,797,944

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NOTE 8 - POSTRETIREMENT BENEFITS

The present value of the separation agreements with the former Executive Director as of June 30, 2010 and 2009 was $352,645 and $591,471, respectively. The final payment on these agreements will be made in December 2010.

NOTE 9 - RETIREMENT PLAN

Effective July 1, 1989, Leake and Watts established a defined contribution retirement plan (the "Plan") covering all employees with more than one year of service and who are over age 21. The aggregate annual contribution to the Plan, which is generally based on a percentage of total compensation of eligible employees, as authorized by the Board of Directors, is allocated to participants' accounts in amounts equal to such percentage of their compensation. No contributions were made to the Plan in the last three years.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

(a) Total minimum payments for noncancelable leases (principally for office space, residential housing, office equipment, and automobiles) for the next five years are as follows:

2011	$ 1,056,000
2012	1,016,000
2013	1,006,000
2014	1,002,000
2015	1,002,000
Thereafter	5,286,000
Total	$ 10,368,000

(b) Total rental expense for all operating leases amounted to $1,156,388 and $1,541,019 for the years ended June 30, 2010 and 2009, respectively.

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NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

(c) During the period from January 2000 to December 2005, workers' compensation coverage was provided by the Provider Agency Trust for Human Services (the "Trust"). Leake and Watts was informed during 2008 that the Trust's reserves for claims were insufficient, resulting in a revised assessment of $2,394,738. Monthly payments are $18,293, and the interest rate is 7.50%. The balance outstanding as of June 30, 2010 and 2009 is $1,751,936 and $1,956,139, respectively. Payments over the next five years are as follows:

2011	$ 204,203
2012	204,203
2013	204,203
2014	204,203
2015	204,203
Thereafter	730,921
Total	$ 1,751,936

(d) Leake and Watts is involved by third parties in legal matters in which damages and other remedies are sought. However, in the opinion of management, after review with counsel, the eventual disposition of these matters will not have a material adverse effect on Leake and Watts' financial position and results of its operations.

(e) Leake and Watts is responsible for reporting to several third parties. These agencies, as well as the New York State office of the Attorney General, the Internal Revenue Service, the New York State Office of the Medicaid Inspector General and the New York State Department of Charities Registration have the right to audit Leake and Watts (see Note 5).

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2010	2009
Computer literacy (E-Rate)		$ 27,798
Fire safety	$ 67,853	81,440
Tobacco-free school	1,000	1,000
Awarding of educational scholarships	2,915	3,391
Reimbursable expenses of foster parents	118	118
	$ 71,886	$ 113,747

-continued-

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS (continued)

Net assets were released from restrictions by satisfying the following:

	2010	2009
Computer literacy (E-Rate)	$ 115,054	$ 126,146
Fire safety	13,587	29,586
Awarding of educational scholarships	490	1,254
Total net assets released from restrictions	$ 129,131	$ 156,986

NOTE 12 - EXPENSES

	2010	2009
Program expenses	$ 49,807,041	$ 53,275,853
Supporting services expenses	6,811,609	6,581,775
Investment expenses	80,299	79,239
Direct costs of special events	98,049	178,665
Total expenses	$ 56,796,998	$ 60,115,532

NOTE 13 - CONCENTRATIONS

Leake and Watts' cash accounts are in several financial institutions and, at times, they exceed the FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

Leake and Watts received $37,915,629 and $42,755,996 from the City of New York, which is 71% and 76% of the agency's revenues in 2010 and 2009, respectively.

Leake and Watts has 100% of its accounts receivable from the City of New York and State of New York in 2010 and 2009.

-continued-

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS

General

Leake and Watts' endowment consists of four individual donor-restricted endowment funds as follows as of June 30, 2010 and 2009:

The **Orphan's Fund** contains the funds formerly held by the Orphans Home and Asylum. The income may be used from time to time as the Board of Directors may designate. Its "historic value" is $1,557,319.

The **Sevilla Fund** contains the funds formerly held by the Sevilla Home for Children. Its "historic value" is $527,479. The income from this fund is for maintenance and education, including religious instruction of orphans, half-orphans and dependent girls.

The **Hopewell Fund** stems from the Hopewell Society of Brooklyn and its "historic value" is $175,826. In brief, the income from this fund is for maintenance and education, including religious instruction, of orphans, half-orphans and dependent girls.

The Andrew Peck Memorial Fund **(Peck Fund)** is an endowment created in 1927 with $100,472. The income is to be spent furthering the education and support of the children who are no longer residing at Leake and Watts.

As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Leake and Watts has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as being the relevant sections of the New York State Not-for-Profit Corporations Law (N-PCL) requiring preservation of the fair value of a gift as of the gift date of donor-restricted endowment funds (historic dollar value), absent explicit donor stipulations to the contrary. As a result, and in accordance with the direction of the original donor gift instrument, Leake and Watts classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of any subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any interest, dividends, rents, royalties or other revenue generated by donor-restricted endowment funds is used by Leake and Watts in a manner consistent with the standard of prudence required by law, absent explicit donor stipulations.

-continued-

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS (continued)

Return Objectives, Strategies Employed and Spending Policy

The objective of Leake and Watts is to maintain the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established. Restricted interest earned and expended in the same fiscal year is reflected as unrestricted revenue.

Funds with Deficiencies

Leake and Watts does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of June 30, 2010 and 2009

The endowment net asset composition of $2,361,096 consists of permanently donor-restricted funds for the years 2010 aud 2009.

Changes in Endowment Net Assets for the Year Ended June 30, 2010 and 2009

	Permanently Restricted	
	2010	2009
Endowment net assets, beginning of year	$ 2,361,096	$ 2,361,096
Investment income	106,241	104,736
Appropriation of endowment assets for expenditure	(106,241)	(104,736)
Endowment net assets, end of year	$ 2,361,096	$ 2,361,096

NOTE 15 - SUBSEQUENT EVENTS

The revolving credit agreement with The Bank of New York Mellon for a working capital loan of $9,000,000 and an improvement loan of $4,000,000, as stated in Note 6, has been extended to December 29, 2010.

On September 7, 2010, Leake and Watts successfully completed its acquisition of Children Learning Center from Graham Windham. Located in New York City, Children Learning Center serves 60 preschool children with autism. This acquisition adds $2 million in projected annual revenues.

-continued-

LEAKE AND WATTS SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 15 - SUBSEQUENT EVENTS (continued)

On August 2, 2010, Leake and Watts opened four (4) new IRAs (Individualized Residential Alternatives), one in Westchester County and three in the Bronx, for a total capacity of twenty-one (21) beds with projected annual revenues of $4 million.

On or around January 2011, two more IRAs, located in the Bronx, are expected to be operational with a combined capacity of fourteen (14) beds, adding projected annual revenues of $2 million.

NOTE 16 - RESTATEMENT

The amounts at June 30, 2009 were restated to reflect cash and cash equivalents which were applied to accrued payroll and employee benefits in the amount of $751,666.

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APPENDIX B-V

LIFESPIRE, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2012, JUNE 30, 2011 AND JUNE 30, 2010)

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LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

CONTENTS
June 30, 2012

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lifespire, Inc. and Subsidiary

We have audited the accompanying consolidated statement of financial position of Lifespire, Inc. and Subsidiary (a not-for-profit organization) (the "Agency") as of June 30, 2012, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Agency'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. 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 the Agency as of June 30, 2012, 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 United States of America.

MBAF CPAs, LLC

New York, NY
March 22, 2013

MBAF CPAs
NEW YORK 440 Park Avenue South, 3rd Floor, New York NY 10016 | T 212 576 1400 F 212 576 1414 | www.mbafcpa.com
VALHALLA 400 Columbus Avenue, Suite 200E, Valhalla NY 10595 | T 914 741 0800 F 914 741 1034 | www.mbafcpa.com

June 30, 2012	
Assets:	
Cash and cash equivalents	$ 24,876,092
Cash and cash equivalents related to recoupments payable	11,943,257
Cash and cash equivalents related to debt service escrow	4,073,040
Investments - other	3,168,131
Debt service reserve fund due from New York State	341,585
Accounts receivable, net	452,052
Note receivable	357,500
Accrued income receivable	15,282,545
Due from related parties	969,665
Security deposits and prepaid expenses	773,402
Property and equipment, net	19,301,407
Deferred charges, net	4,170,540
Total Assets	**$ 85,709,216**
Liabilities and Net Assets:	
Liabilities:	
Accounts payable and accrued expenses	$ 8,017,005
Accrued payroll	7,368,732
Accrued compensated absences	3,753,998
Recoupments payable	11,943,257
Deferred income	2,281,470
Due to funding sources	243,684
Mortgages payable - DASNY	2,775,608
Lines of credit	1,914,085
Bonds payable - DASNY	7,580,000
Bonds payable - IDA	8,020,000
Deferred rent	2,904,479
Underfunded pension obligation	12,000,763
Underfunded health insurance obligation	5,838,604
Total Liabilities	74,641,685
Net Assets:	
Unrestricted:	
Undesignated	4,123,898
Residential reserve for replacement	539,518
Property and equipment	5,342,327
Board Designated-program expansion	1,023,172
Total Unrestricted Net Assets	11,028,915
Temporarily Restricted	38,616
Total Net Assets	11,067,531
Total Liabilities and Net Assets	**$ 85,709,216**

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

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LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2012	
Revenue - program operations:	
Program service fees	$ 98,975,018
Participants' share of room and board	3,192,915
Subcontract	489,591
MCFAA and DASNY bond fees	608,247
Subtotal - revenue - program operations	103,265,771
Net assets released from restrictions	23,629
Total revenue - program operations	103,289,400
Expenses:	
Program services	94,562,134
Management and administration	6,619,498
Total expenses	101,181,632
Change in unrestricted net assets before other revenue (expenses) and non-operating pension-related changes	2,107,768
Other revenue (expenses):	
Investment return	182,504
Contributions and fundraising	609
Retroactive rate adjustments	(1,634,126)
Miscellaneous	12,240
Total other revenue (expenses)	(1,438,773)
Change in unrestricted net assets before non-operating pension-related changes	668,995
Pension-related changes other than net periodic pension cost	(8,194,914)
Change in unrestricted net assets	(7,525,919)
Change in temporarily restricted net assets:	
Donors	4,350
Fundraising	572
Net assets released from restrictions	(23,629)
Change in temporarily restricted net assets	(18,707)
Change in net assets	(7,544,626)
Net assets - beginning of year	18,612,157
Net assets - end of year	**$ 11,067,531**

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

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30, 2012	
Unrestricted net assets - beginning of year	$ 18,554,834
Change in unrestricted net assets	(7,525,919)
Unrestricted net assets - end of year	**$ 11,028,915**
Temporarily restricted net assets - beginning of year	$ 57,323
Change in temporarily restricted net assets	(18,707)
Temporarily restricted net assets - end of year	**$ 38,616**

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2012

	Program Services							
	Waiver Services	Vocational Services	Residential	Mental Health	Other Programs	Total Program Services	Management and Administration	Total Expenses
Salaries	$ 17,558,161	$ 44,464	$ 19,413,845	$ 841,711	$ 3,966,570	$ 41,824,751	$ 2,655,662	$ 44,480,413
Payroll taxes and benefits	10,122,492	21,564	10,447,765	437,031	1,987,739	23,016,591	1,373,399	24,389,990
Total personnel costs	27,680,653	66,028	29,861,610	1,278,742	5,954,309	64,841,342	4,029,061	68,870,403
Professional fees and contracted services	758,676	1,147	1,300,031	89,624	3,400,324	5,549,802	665,957	6,215,759
General and professional liability insurance	490,468	40,810	245,890	49,748	36,133	863,049	221,251	1,084,300
Supplies and expenses:								
Food, household supplies and services	184,784	2,184	2,369,861	2,548	12,426	2,571,803	12,030	2,583,833
Rent and real estate taxes	3,031,280	287,122	2,538,785	165,079	188,863	6,211,129	636,543	6,847,672
Transportation	9,501,975	168,671	1,061,559	76,490	116,288	10,924,983	165,847	11,090,830
Utilities and telephone	842,876	50,661	871,106	83,938	218,082	2,066,663	175,078	2,241,741
Maintenance and repair	232,367	9,000	623,136	11,160	36,142	911,805	77,967	989,772
General	947,825	317,387	1,604,431	109,063	993,553	3,972,259	1,069,489	5,041,748
Total expenses before interest, fees, and bond expense, and depreciation and amortization	43,670,904	943,010	40,476,409	1,866,392	10,956,120	97,912,835	7,053,223	104,966,058
Interest, fees, and bond expense	595,313	35,973	1,516,801	-	12,164	2,160,251	8,663	2,168,914
Depreciation and amortization	919,333	88,157	1,103,630	22,432	60,870	2,194,422	47,152	2,241,574
Total Expenses	45,185,550	1,067,140	43,096,840	1,888,824	11,029,154	102,267,508	7,109,038	109,376,546
Less: Pension-related expenses other than periodic pension costs	(3,236,637)	(8,196)	(3,578,710)	(150,640)	(731,191)	(7,705,374)	(489,540)	(8,194,914)
Total Expenses	**$ 41,948,913**	**$ 1,058,944**	**$ 39,518,130**	**$ 1,738,184**	**$ 10,297,963**	**$ 94,562,134**	**$ 6,619,498**	**$ 101,181,632**

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

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LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2012	
Cash flows from operating activities:	
Change in net assets	$ (7,544,626)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	2,241,574
Amortization of bond issue costs	118,015
Unrealized gain on investments - other	(22,040)
Bad debt recovery	(310)
Loss on disposal of assets	72,918
Changes in operating assets and liabilities:	
Accounts receivable	(301,870)
Note receivable	(357,500)
Debt service reserve fund due from New York State	60,290
Accrued income receivable	(229,039)
Due from related parties	276,729
Security deposits and prepaid expenses	589,372
Deferred charges	(173,561)
Accounts payable and accrued expenses	(192,469)
Accrued payroll	1,179,616
Accrued compensated absences	322,367
Recoupments payable	6,947,948
Underfunded pension obligation	8,194,914
Underfunded health insurance obligation	1,415,412
Net cash provided by operating activities	12,597,740
Cash flows from investing activities:	
Purchases of investments - other	(1,655,605)
Proceeds from sales of investments-other	1,116,312
Purchases of property and equipment	(3,060,724)
Net cash used in investing activities	(3,600,017)
Cash flows from financing activities:	
Repayments of mortgages payable - DASNY	(461,629)
Proceeds from bonds payable - DASNY	1,925,000
Repayments of bonds payable - DASNY	(470,000)
Proceeds from lines of credit	1,914,085
Payments on lines of credit	(1,172,919)
Repayments of bonds payable - IDA	(1,005,000)
Net cash provided by financing activities	729,537
Net increase in cash and cash equivalents	9,727,260
Cash and cash equivalents - beginning of year	31,165,129
Cash and cash equivalents - end of year	**$ 40,892,389**
Supplemental Disclosures of Cash Flow Information:	
Cash paid during the year for:	
Interest	$ 896,087
Income taxes	$ -

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

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

1. ORGANIZATION:

Lifespire, Inc. and Subsidiary (collectively, the "Agency") serves individuals with disabilities and their families through various programs which include, but are not limited to, residential, rehabilitation, and day programs. The Agency is funded through government programs, consumer contributions, and gifts. It is the Agency's aim to provide individuals with disabilities the assistance and support necessary to achieve a level of functional behaviors and cognitive skills to enable them to maintain themselves in their community in the most integrated and independent manner possible.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of the Agency's net assets and its support, revenues, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from (a) contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as unrestricted.

Unrestricted – The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Some of these net assets are undesignated but some are designated by the Board of Directors ("Board") as set forth below.

Residential Reserve for Replacement – There is an amount of $539,518 designated as residential reserve for replacement. Such reserve was established by the New York State Office for People With Developmental Disabilities ("OPWDD") for the reimbursement of building renovations and improvements for Agency-owned residential properties. This reimbursement mechanism does not apply to residential properties that are leased. The Agency has the ability to utilize the residential reserve funding for all of its certified residential sites within each class of residences. These funds are not interchangeable among program types.

Property and Equipment – There is a designated amount of $5,342,327 of unrestricted net assets which represents the excess of the net book value of property and equipment over the related debt.

Board Designated-Program Expansion – The Board has designated an amount of $1,023,172 of unrestricted net assets for future programmatic expansion. The monies, which are not segregated, are used to alleviate the ongoing financial pressures on the Agency due to the timing of collections of government funding, the limitations on available government funding, and the limited fund-raising activities undertaken by the Agency. The Agency has minimum monthly operating cash requirements of approximately $8,673,000 to finance its program operations.

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Principles of Consolidation

The consolidated financial statements include the financial activity of Lifespire, Inc. ("Lifespire") and its wholly-owned subsidiary, Manhattan Management Solutions, LLC (the "Organization"). The Organization was established to provide consulting services to other not-for-profit organizations. The Organization is being consolidated since Lifespire has both (i) an economic interest in, and (ii) control over the Organization through a majority voting interest in its governing board. The Organization has no balances on its balance sheet or activity in the profit and loss statement for the year ended June 30, 2012.

Tax Status

The Agency, according to the Internal Revenue Service ("IRS"), was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and under the corresponding provisions of the New York State and New York City income tax laws. Under these provisions, the Agency is exempt from federal and state income taxes and, therefore, has made no provision for income taxes in the accompanying consolidated financial statements.

The Agency follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the consolidated financial statements. It also provides guidance for de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

If applicable, the Agency would classify interest and penalties on underpayments of income tax as miscellaneous expenses. The metropolitan commuter transportation mobility ("MTA") tax for the year ended June 30, 2012 amounted to $149,165.

The Agency is subject to regular audit by tax authorities. In assessing the realizability of tax benefits, management considers whether it is more likely than not that some portion or all of any tax position will not be realized. Management believes that its tax-exempt status would be sustained upon examination. Management believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

The Agency files income tax returns in the United States federal and New York State jurisdictions. With few exceptions, the Agency is no longer subject to U.S. federal or state income tax examinations by tax authorities for fiscal years ended before June 30, 2009.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Agency has evaluated events through March 22, 2013, which is the date the consolidated financial statements were available to be issued.

Cash and Cash Equivalents

The Agency considers all highly liquid investments with an original maturity date of three months or less at the time of purchase to be cash equivalents. Included in cash and cash equivalents as of June 30, 2012 are several amounts of restricted cash which are described in Note 3.

Investments - Other

Investments – other is comprised principally of certificates of deposits with varying maturity dates. These investments are stated at cost, which approximates fair value. Income from investments-other is considered unrestricted net assets unless restricted by a donor.

Accounts Receivable, Net

All known uncollected accounts receivable have been adjusted to net realizable value as of June 30, 2012. The allowance for doubtful accounts, which amounts to $7,127 at June 30, 2012, is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated

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bad debts based on current economic conditions. Management generally uses 5% of total subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts based on historical experience, as adjusted for economical conditions and current analysis.

Note Receivable
The Agency has the intent and ability to hold its note receivable, stated at the outstanding principal balance, for the foreseeable future. Interest on the note is recognized over the term of the note and is calculated using the simple-interest method on principal amounts outstanding.

Program Service Fees and Accrued Income Receivable
The Agency receives a major portion of its program service fees from Medicaid in conjunction with the OPWDD. Program service fees are also received from the Social Security Administration and directly from the OPWDD. Rates of reimbursement derived from cost-based and other methodologies are established annually by the OPWDD. At June 30, 2012, substantially all of the accrued income receivable of $15,282,545 is due from these governmental agencies.

Typically, there are over or under payments on these contracts, which are generally reconciled with OPWDD (and it predecessors). However, the reconciliation process has not been completed for some contracts over the prior years. Once these reconciliations are completed, a timeline and / or methodology will be established as to how and when these amounts will be recouped. It is the policy of the Agency to hold all overpayments pursuant to these contracts until a reconciliation process occurs.

There is no provision within these consolidated financial statements for any possible contingent liability that may result from any disallowances as a result of reimbursement rate adjustments for program service fees relating to the year ended June 30, 2012. Although such possible disallowances could be substantial in amount, in the opinion of management, any actual disallowance would be immaterial.

Property and Equipment
Property and equipment are stated at cost, or at fair market value if donated, less accumulated depreciation and amortization. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized in accordance with funding source guidelines. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the asset. These amounts do not purport to represent replacement or realizable values. The Agency maintains a policy to evaluate for capitalization individual items costing in excess of $5,000.

Impairment
The Agency reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the Agency recognizes an impairment loss. No impairment loss was required to be recognized for the year ended June 30, 2012.

Revenue Recognition
Revenue is recognized on a fee for service basis for service arrangements with various consumers and/or customers. Revenue is recognized based contingent on the services being rendered. The reimbursements received from certain funding sources are subject to reconciliations. The funding sources may request return of reimbursements for noncompliance.

Deferred Income
The Agency records unearned advances for fee for service revenue as deferred revenue until it is expended for the purpose of the funding source, at which time it is recognized as revenue. The balance of deferred revenue of $2,281,470 as of June 30, 2012, represents amounts received for various programmatic operations that will be recognized as revenue in the future, as it is earned.

In-Kind Contributions
In-kind contributions consist of property and services donated by state agencies and individuals. The value placed by the state agencies and individuals are used for valuing the contribution received, not to exceed fair value. These properties were recorded as unrestricted and the related depreciation taken was recorded as unrestricted. If no value is provided by donor, an estimated value is placed by the Agency. There were no in-kind contributions made to the Agency during the year ended June 30, 2012.

Advertising
Advertising costs are expensed as incurred. Advertising expense totaled $49,825 for the year ended June 30, 2012, and is included in general expenses in the accompanying consolidated statement of functional expenses.

Special Events
The direct costs of special events include expenses for the benefit of the donor. For example, meals and facilities rental are considered direct costs of special events. During the year ended June 30, 2012, the Agency did not incur any special events expenses.

Deferred Rents
The Agency leases program and office space whereby the various landlords provide periods of scheduled increases in the minimum amounts charged. Rent expense related to the minimum rentals is recognized on a straight-line basis over the term of the respective leases. The accompanying consolidated statement of

financial position reflects a liability of $2,904,479 at June 30, 2012 relating to deferred rents. The increase in this liability is reflected as a charge to rent expense in the accompanying consolidated statement of functional expenses.

Deferred Charges
Deferred charges comprise the following at June 30, 2012:

Bond Costs
Bond issuance costs, which also reflect bond premiums and discounts, are amortized over the life of the respective bond issue. Such costs amount to $1,266,061 at June 30, 2012, which is net of amortization. Amortization expense of these costs for the year ended June 30, 2012 was $118,015. Such amortization is included in interest, fees and bond expense of $2,168,914 shown in the accompanying consolidated statement of functional expenses.

Deferred Rent Recovery
OPWDD includes in the reimbursement rate paid to service providers a component for rents paid in accordance with lease terms. The Agency recognizes such amounts, however, based upon the future stream of payments for rent that is required to be recognized under U.S. GAAP that is in excess of the rents incurred over their respective lease terms. The difference between the revenue recognized and the rents incurred over their lease terms (which is the reimbursement from OPWDD) is reflected as a deferred charge on the consolidated statement of financial position. This deferred charge represents a timing difference which will accumulate over the earlier periods of the rent expense recognition for a respective lease and will reverse during the latter periods of the rent payments. The deferred charge amounted to $2,904,479 at June 30, 2012. For the year ended June 30, 2012, the addition to deferred rent recovery amounted to $157,698 and is reflected as a recovery of rent expense in the accompanying consolidated statement of functional expenses.

Functional Allocation of Expenses
Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

Reclassification
Certain accounts relating to the prior year have been restated to conform to the current year's presentation. These reclassifications have no effect on the change in net assets.

Fair Value Measurements
Financial Accounting Standards Board ("FASB") Accounting Standards Codification 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This standard establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs to be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Agency's assumption about inputs that market participants would use at the measurement date. The fair value hierarchy is categorized into three levels based on inputs as follows:

Level 1- Valuation based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2- Valuation based on quoted prices for similar assets or liabilities in active markets; for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3- Valuation based on inputs that are unobservable and significant to the overall fair value measurement. Assets and liabilities are measured at fair value based on one or more of the three following approaches noted in accounting pronouncements. The three approaches are as follows:

- Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (i.e. current replacement cost); and
- Income approach - Uses valuation techniques to convert future amounts to a single present discounted amount based on market expectations about those future amounts (including present value techniques, option-pricing models, and lattice models).

New Accounting Pronouncements
In September 2011, FASB issued an accounting standard update which requires employers to provide additional separate quantitative and qualitative disclosures for employers that participate in multiemployer pension plans and multiemployer other postretirement benefit plans. The amendments in this update are effective for annual periods ending after December 15, 2012, with early adoption permitted. This update should be applied retrospectively. The Agency is currently evaluating the effect the update will have on its consolidated financial statements.

In May 2011, the FASB issued an accounting standard update which works to achieve common fair value measurement and disclosures requirements in U.S. GAAP and International Financial Reporting Standards. The update both clarifies the FASB's intent about the application of existing fair value guidance, and also changes certain principles regarding measurement and disclosure. The update is effective prospectively for annual periods beginning after December 15, 2011. Early application is permitted for interim periods beginning after December 15, 2011. Management believes this update will not have a material impact on the Agency's consolidated financial statements

3. CASH AND CASH EQUIVALENTS: Cash and cash equivalents are held in interest-bearing checking and savings accounts at financial institutions. At June 30, 2012, cash and cash equivalents of $24,876,092 includes restricted cash amounts comprised of the following:

June 30, 2012		Restricted Cash Amount
Temporarily restricted contributions	$	38,616
403(b) tax sheltered annuity plan		75,860
Residential Reserve for Replacement		539,518
Health Reimbursement Accounts		2,938,752
	$	3,592,746

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4. CASH AND CASH EQUIVALENTS RELATED TO RECOUPMENTS PAYABLE: The cash and cash equivalents balance of $11,943,257 represents various unsegregated amounts received from funding sources that will be used to pay amounts included within recoupments payable (Note 11).

5. CASH AND CASH EQUIVALENTS RELATED TO DEBT SERVICE ESCROW: The cash and cash equivalents related to debt service escrow of $4,073,040 is comprised of the following:

Debt Service Escrow:		
IDA – Bond 2002	$	867,144
IDA – Bond 2004		1,339,599
IDA – Bond 2008		721,167
DASNY – Bond 2010		881,114
DASNY – Bond 2011		264,016
	$	4,073,040

The Debt Service Escrow – IDA Bonds 2002, 2004 and 2008, in the amounts of $867,144, $1,339,599 and $721,167, respectively, represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts set up with the Bank of New York. The Agency's monthly

payments are deposited into one of these accounts until payments to the bondholders are required to be made pursuant to the bond agreements (Note 16).

The Debt Service Escrow – DASNY Bonds 2010 and 2011 in the amounts of $881,114 and $264,016, respectively, represent a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts set up with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required to be made pursuant to the bond agreement (Note 16).

The amounts from the above earn interest and such interest is applied against the Agency's current year's bond principal pay down obligations. All remaining funds are applied against the last year's principal pay down of the applicable bond issue.

6. DEBT SERVICE RESERVE FUND DUE FROM NEW YORK STATE: The debt service reserve fund due from New York State of $341,585 represents a portion of the loan proceeds retained by the New York State Medical Care Facilities Finance Agency ("MCFFA") under the terms and conditions set forth in the mortgage agreements for the properties listed in Note 14.

7. INVESTMENTS - OTHER: The monies comprising investments - other, are designated to be applied to scheduled debt service payments in the future by OPWDD (Notes 17 and 18). In 1996, the debt service reserve amounts were transferred to the Dormitory Authority of the State of New York ("DASNY").

For the year ended June 30, 2012, total investments-other is comprised of bank certificates of deposit stated at $3,168,131. Investment activity for the year consisted of the following:

		Cost		Fair Value
Bank of America	$	1,575,087	$	1,575,087
Smith Barney		1,193,952		1,205,347
Chase		377,052		387,697
Total	$	3,146,091	$	3,168,131

Activity in Investments - other is as follows for the year ended June 30, 2012:

Investments - other- beginning of year	$	2,606,798
Activity:		
Purchases		1,628,218
Investment returns (reinvested)		27,387
Sales and redemptions (at cost)		(1,109,992)
Withdrawals for operations		(6,320)
		539,293
Net appreciation in fair value of investments: Unrealized gain		22,040
Investments - other- end of year	$	3,168,131

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8. NOTE RECEIVABLE:

The note receivable balance of $357,500 represents an amount owed from the Inter Agency Council of Mental Retardation and Developmental Disabilities, Inc. ("IAC"). Such note bears interest at a rate of 3.0% per annum, is unsecured, and requires the outstanding balance to be paid back in one or more installments on or before June 30, 2014, at the option of IAC.

9. TRANSACTIONS WITH RELATED PARTIES:

Transactions with related parties comprise the following:

Due from related parties
Due from related parties of $969,665 on the accompanying consolidated statement of financial position represents amounts owed from two not-for-profit entities as follows:

An amount of $146,452 is due from the Agency's Housing and Urban Development ("HUD") related party ("affiliate"). This amount includes an unsecured note receivable of $140,203 due from the affiliate dating back a number of years. The Agency is not permitted to charge interest to the affiliate pursuant to HUD rules. There is also an amount of $6,249 representing a non-interest bearing loan, also due from the affiliate, which was used for operational purposes. The Agency expects to be repaid for these amounts when the affiliate has sufficient cash flow available.

The Agency is a related party in that certain staff members of the Agency are also members of the Board of this not-for-profit HUD organization.

$823,213 is due from Lifespire Services, Inc. (the "Parent"), who is the sole member of the Agency. This amount includes three outstanding notes with the

Parent, plus accrued interest thereon, comprised as follows:

- An unsecured note receivable, executed on April 30, 2010 in the amount of $689,901, for funds that was previously loaned to the Parent by the Agency. The Parent is obligated to pay the outstanding indebtedness in twenty-five equal annual installments of $27,596 on or before April 30th of each year. During the current fiscal year, the required payment of $27,596 was made to the Agency. The outstanding balance on this note, which is non-interest bearing as of April 30, 2010, amounted to $607,113.

- An interest only unsecured note receivable in the amount of $55,500 due from the Parent. This note accrues interest at a rate of 6% per annum. The note will be repaid when the Parent has sufficient cash flow to make such payments.

- An interest bearing advance of $80,000 to Parent was repaid on July 1, 2011.

- On June 16, 2011, a $300,000 unsecured note was executed with the Parent, accruing interest at a rate of 6% per annum. During the year ended June 30, 2012, the Parent made a partial repayment of $175,000. The outstanding balance on this note amounts to $125,000 at June 30, 2012. The note will be repaid when the Parent has sufficient cash flow to make such payments.

- Total unpaid accrued interest receivable due from the Parent amounted to $35,600 as of June 30, 2012 relating to the above. Related party interest income amounted to $18,539 for the year ended June 30, 2012.

- Board members of the Parent are also Board members of the Agency.

Other related party transactions
The Agency purchases supplies and services from another related not-for-profit entity. The Agency also receives payment from this related party for the outsourced labor provided to assist with the processing and packaging of the inventory items which the related party sells to the Agency as well as to other non-related entities. During the year ended June 30, 2012, purchases of supplies and services in the amount of $643,591 were made from this not-for-profit related party. During the year ended June 30, 2012, the Agency received fees of $126,031 from this related not-for-profit entity for the provision of labor provided by the Agency. Additionally, as of June 30, 2012, $54,800 was due to this related not-for-profit entity. This amount is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. Additionally, as of June 30, 2012, $13,175 was owed to the Agency for outstanding fees. This amount is included in accounts receivable, net in the accompanying consolidated statement of financial position. The Agency also received $30,049 from the not-for-profit

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related party for reimbursement of its portion of fringe benefits and insurance costs paid on behalf of three of the Agency's employees who provide services to the not-for-profit related party. No reimbursable costs were outstanding as of June 30, 2012. The Agency is a related party in that certain staff members of the Agency are also Board members of this other not-for-profit corporation.

Management periodically reviews the related party accounts and notes receivable amounts to determine if an allowance is necessary. The related party receivables have been adjusted for all known uncollectible accounts. At June 30, 2012, no allowance was necessary because the related party receivables were determined to be fully collectible.

10.PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

June 30, 2012	Cost	Estimated Useful Lives
Land	$ 4,549,267	
Construction in progress	541,044	
Buildings and improvements	25,581,936	5-20 years
Furniture and equipment	3,101,800	5 years
Vehicles	606,618	4 years
Leasehold improvements	7,956,552	Life of lease
	42,337,217	
Less: accumulated depreciation and amortization	(23,035,810)	
	$ 19,301,407	

The above amounts include land and buildings which were donated to the Agency by the OPWDD. The Agency is subject to adherence of certain terms, conditions, and restrictions as to the use and ultimate disposition of these properties as further delineated in the disposition and subordination agreements entered into with the funding source.

Depreciation and amortization expense was $2,241,574 for the year ended June 30, 2012.

11.RECOUPMENTS PAYABLE:

The recoupments payable balance of $11,943,257 represents reimbursements received from certain funding sources in the current year as well as in previous years, which are in excess of amounts earned, and amounts for which the scheduled recoupments differs from the actual recoupments made through June 30, 2012. The funding sources are expected to recover these amounts in the future through the recoupment process.

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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12.DEFERRED INCOME:

The deferred income balance of $2,281,470 represent amounts received from various funding sources over the years for various programmatic operations but not earned as revenue as of June 30, 2012. Some of these liabilities relate to the OPWDD. These liabilities do not bear interest and will be recognized as revenue in the future as it is deemed to be earned.

13.DUE TO FUNDING SOURCES:

The due to funding sources balance of $243,684 is comprised of two balances:

- An amount for $234,718 which represents a liability due to the OPWDD as a result of certain "desk-audits" performed on certain programs by the OPWDD. These "desk-audits" were the result of a statewide requirement by the OPWDD and other governmental agencies, due to the clarification and revisions of certain policies and procedures set forth by the OPWDD and these other governmental agencies.
- An amount for $8,966, which represents various maximum potential contested liabilities for proposed contract adjustments with certain funding sources for prior periods.

14.MORTGAGES PAYABLE – DASNY:

Mortgages payable – DASNY balance of $2,775,608 represents self-liquidating term-notes owed to DASNY, which has as its agent, the OPWDD. Some of these mortgage notes were originally related to the New York State MCFFA improvement bonds borrowed from the Facilities Development Corporation ("FDC"). DASNY is the successor to the MCFFA, and in 1996, FDC projects were transferred to DASNY. In 1996, the MCFFA bonds were Re-funded by the issuance of DASNY Mental Health Services Facilities Improvement Revenue Bonds.

Periodic recoupments are expected to continue to be made by OPWDD from the Agency, for remittance to DASNY to satisfy the debt service and administration fees. The payments are first applied to interest and then to principal. The Agency will receive additional amounts of reimbursement as an increase to its per diem rates to repay these recoupments. The mortgage notes are collateralized by (i) the real property located at each of the sites (ii) all accounts receivable generated from billings related to the respective locations, and (iii) all personal property owned by the Agency located at each of the sites. The Agency is entitled to credits in an amount equal to the past accrued interest earned on the debt service reserve fund due from New York State for some of the above-mentioned liabilities. When such credits are determined and applied to the corresponding mortgages, then those mortgage liabilities will be reduced accordingly.

Additional information for the mortgages payable - DASNY is reflected below.

Property	Maturity Date	Interest Rate	Outstanding at June 30, 2012
Racal Court	2/15/2013	7.37%	$ 60,500
South Avenue	8/15/2015	7.68%	102,491
213-233 48th Street (Sunset I)	2/15/2018	7.34%	568,235
87-21 121st Street (Queens)	2/15/2018	6.41%	1,469,000
Jumel	8/15/2018	6.41%	575,382
Total mortgages payable - DASNY			$ 2,775,608

The mortgage balances for the 213-233 48th Street and 87-21 121st Street locations are for the Day Treatment and Day Habilitation Programs, respectively. Since the year ended June 30, 2004, OPWDD allocates a portion of the bond (mortgage) payable to a separate Day Habilitation Medicaid Management Information System ("MMIS") Provider number for debt recovery purposes. However, the total indebtedness does not change. During the year ended June 30, 2012, three sites that were mortgaged were paid in full under normal amortization terms.

Under the terms of the mortgages payable – DASNY, the Agency is required to fulfill certain financial covenants.

15.LINES OF CREDIT:

Under the terms of a line of credit agreement with Bank of America entered into on March 31, 2012, the Agency may borrow up to $5,000,000 at the bank's prime interest rate plus 0.5% (3.75% at June 30, 2012) through March 31, 2013, when the agreement expires. The Agency's property and leasehold improvements not otherwise encumbered have been pledged as collateral against any advances on the line of credit. As of June 30, 2012, there was an outstanding balance of $1,914,085 on this line of credit. Under the terms of the line of credit, the Agency is required to fulfill certain financial covenants.

The Agency has a line of credit agreement with J.P. Morgan Chase for a maximum amount of $5,000,000 which expires on March 13, 2013. The proceeds of the line of credit are to be used for operating expenses. Interest is charged at the bank's floating rate of prime plus 0.5% (3.75% at June 30, 2012) and is secured by a lien on the Agency's government receivables not otherwise encumbered. The government receivables totaled $15,282,545 at June 30, 2012 and are reflected in the accompanying financial statements as accrued income receivable. There was no outstanding balance on the line of credit as of June 30, 2012.

The Agency anticipates renewing the above lines of credit in the near term.

16.BONDS PAYABLE-DASNY:

Bonds payable – DASNY balance of $7,580,000 represents the following at June 30, 2012:

Series	Due Date	Interest Rate	Principal Due
2010 A-1 and A-2	July 2028	3.00%	$ 5,655,000
2011 A-1 and A-2	June 2026	2.66%	1,925,000
Total Bonds Payable-DASNY			$ 7,580,000

2010 A-1 and A-2

In March 2010, a bond payable – DASNY was issued in the amount of $6,125,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2010A, subseries 2010A-1, and 2010A-2 (the "2010 Bonds"). The Agency used the proceeds from the 2010 Bonds to pay down $5,485,795 of indebtedness on seven properties. The outstanding balance of the 2010 Bonds at June 30, 2012 was $5,655,000.

The interest is payable to the bondholders on a semi-annual basis commencing on August 1, 2010. The principal is payable to the bondholder on an annual basis commencing on August 1, 2011. The cost of the bond issuance amounted to $318,265 of which $51,048 was amortized as of June 30, 2012. The cost of bond discounts amounted to $78,515, of which $12,830 was amortized as of June 30, 2012.

Deposits for interest and principal under the 2010 Bond loan agreement are to be made monthly on the 10th day of each month into the debt service escrow fund by the Agency (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2012	$ 470,000
2013	475,000
2014	495,000
2015	410,000
2016	415,000
Thereafter	3,390,000
	$ 5,655,000

The 2010 Bonds are secured ratably by each applicable mortgage on the properties, the pledge and assignment to the Trustee of the Revenues, and the DASNY's security interest in the pledged revenues subject to prior pledges.

Under the terms of the bonds payable – DASNY, the Agency is required to fulfill certain financial covenants.

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2011 A-1 and A-2
On August 17, 2011, a bond payable – DASNY was issued in the amount of $1,925,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2011A, subseries 2011A-1, and subseries 2011 A-2 (the "2011 Bonds"). The Agency used the proceeds from the 2011 Bonds to pay down $1,182,262 of indebtedness on two properties. Series 2011A allocable portion for subseries 2011 A-1 was $1,840,000 and subseries 2011 A-2 was $85,000.

The interest rate is not to exceed 4.125% on the Series 2011 Bonds. The interest is payable to the bondholders on an annual basis commencing on July 1, 2012. The cost of the bond issuance amounted to $162,053 of which $8,194 was amortized as of June 30, 2012. The cost of the bond discounts amounted to $12,469 of which $700 was amortized during the year ending June 30, 2012.

Deposits for interest and principal under the loan agreement are to be made monthly on the 10th day of each month into the debt service escrow fund by the Agency (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2012	$ 115,000
2013	120,000
2014	125,000
2015	125,000
2016	125,000
Thereafter	1,315,000
	$ 1,925,000

The Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

17.BONDS PAYABLE – IDA: Bonds payable – IDA of $8,020,000 represents the following at June 30, 2012 :

Series	Due Date	Interest Rate	Principal Due
2002 C-1	July 1, 2017	5.50%	$ 1,930,000
2004 A-1 and B-1	July 1, 2023	5.05%	2,885,000
2004 C-1	July 1, 2014	5.25%	365,000
2008 A-1 and A-2	July 1, 2033	6.20%	2,840,000
Total Bonds Payable- IDA			$ 8,020,000

Bonds payable-IDA-2002
The Bonds payable – IDA – 2002 balance of $1,930,000, at June 30, 2012, represents amounts owed relating to the New York City Industrial Development Agency ("IDA") Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2002 C-1.

The interest rate is based on a life average rate of 7.63% on the entire Series 2002 C-1 bond issue. The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2003. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2003. The cost of the bond issuance amounted to $395,027 of which $209,409 was amortized as of June 30, 2012.

Deposits for interest and principal payments for the bond holders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2012	$ 270,000
2013	280,000
2014	280,000
2015	280,000
2016	280,000
Thereafter	540,000
	$ 1,930,000

Bonds payable-IDA-2004
Bonds Payable – IDA – 2004 balance of $3,250,000 at June 30, 2012 represents amounts owed relating to IDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program) Series 2004 A-1 and B-1, and Series 2004 C-1.

Series 2004 A-1 and B-1 Bonds:

The Agency used the Series A-1 and B-1 bond proceeds ($2,885,000 outstanding as of June 30, 2012) to pay down $4,112,273 of indebtedness on four properties in a prior year. The interest rate is based on a life average rate of 8.89% on the entire Series 2004 A-1 and B-1 Bonds. The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2004. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2004.

The cost of the bond issuance amounted to $696,558 of which $250,925 was amortized as of June 30, 2012.

Deposits for interest and principal payments for the bondholders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2012	$ 360,000
2013	215,000
2014	220,000
2015	220,000
2016	220,000
Thereafter	1,650,000
	$2,885,000

Series 2004 C-1 Bonds:

The Agency used the Series C-1 bond proceeds ($365,000 outstanding as of June 30, 2012) to pay down $805,621 of indebtedness on one property and to pay off a balance due on one line of credit in a prior year. The interest rate is based on the life average rate of 5.96% on the entire Series 2004 C-1 Bond. The interest is payable to the bondholders on a semi-annual basis commencing on January 1, 2005. The principal is payable to the bondholders on an annual basis commencing on July 1, 2005. The cost of the bond issuance amounted to $50,095, of which $50,095 was amortized as of June 30, 2012. The cost of bond discounts amounted to $41,281, of which $26,533 was amortized as of June 30, 2012.

Deposits for interest and principal payments for the bondholders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2012	$ 115,000
2013	120,000
2014	130,000
	$ 365,000

Bonds payable-IDA-2008

Bonds payable – IDA – 2008 balance of $2,840,000 as of June 30, 2012 represents amounts owed to IDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2008 A. These bonds are segregated into Series 2008 A-1 and Series 2008 A-2 (taxable).

The interest rate is based on a life average rate and approximates 6% per annum. The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2008. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2008. The cost of the bond issuance amounted to $265,634, of which $91,491 was amortized as of June 30, 2012.

Pursuant to the bond agreement, there is a first lien on the properties being mortgaged except for the facility located at 213 48th Street, Brooklyn, which carries a second lien.

Deposits for interest and principal payments for the bondholders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2012	$ 260,000
2013	260,000
2014	170,000
2015	170,000
2016	175,000
Thereafter	1,805,000
	$ 2,840,000

Bonds Payable – IDA – general terms:
The Agency anticipates that, periodically, OPWDD will adjust the Individualized Residential Alternatives per diem rate to provide the Agency with the appropriate amount of reimbursement to repay the debt principal, related interest, and fees. The Series 2002 C-1, 2004 A-1, B-1, and C-1, as well as Series 2008 A-1 and A-2 bonds will be secured ratably by the IDA's security interest in certain pledged revenues as well as the amounts held in cash and cash equivalents related to the debt service escrow accounts (Note 5).

The underlying properties secure the respective Bonds with first liens except where otherwise noted.

18.MATURITIES OF DEBT TO THIRD PARTIES:

The short-term and long-term third-party debt is comprised of the following:

June 30, 2012		
Mortgages payable – DASNY	$	2,775,608
Lines of credit		1,914,085
Bonds payable – DASNY		7,580,000
Bonds payable – IDA		8,020,000
	$	20,289,693

Approximate maturities of short-term and long-term third-party debt are as follows:

June 30,		
2013	$	3,974,260
2014		1,955,275
2015		1,915,091
2016		1,690,875
2017		1,719,125
Thereafter		9,035,067
	$	20,289,693

The above maturities are not reduced by the funds held in the various debt service escrow accounts (Note 5) for interest earned currently and the last year of a particular bond's obligation are utilized to reduce the Agency's payments thereon.

19.RETROACTIVE RATE ADJUSTMENTS:

The retroactive rate adjustments of $1,634,126 for the year ended June 30, 2012 is primarily comprised of typical retroactive rate adjustments attributable to various programs for various years.

20.DEFINED BENEFIT PENSION PLAN:

The Agency has a defined benefit pension plan (the "Plan") covering all of its eligible employees. The benefits are based on years of service and the employee's highest five years of compensation during the last ten years of employment. The Agency's funding policy is to contribute annually the required amount that should be deducted in accordance with federal income tax guidelines. The Agency's contributions for calendar year 2011 exceeded the minimum funding requirements of ERISA.

The Agency recognized a non-operating expense item of $8,194,914, which has been separately reported in the accompanying consolidated statement of activities as a decrease in unrestricted net assets. This amount represents the increase in the underfunded pension obligation from June 30, 2011 to June 30, 2012.

Contributions are intended to provide not only for benefits attributed to service date, but also for those expected to be earned in the future. The employer contributions amounted to $1,314,197 and the benefits paid amounted to $616,539 during the fiscal year ended June 30, 2012. These amounts are included in the consolidated statement of functional expenses for the year ended June 30, 2012 since they are considered operating expenses. The Agency expects to contribute $1,310,000 to its defined benefit pension plan during the year ended June 30, 2013.

According to actuarial projections, the existing funding policy contribution amount is not sufficient to cover the cost of the Plan over the next several years. During the year ended June 30, 2010, the board of the Agency decided to freeze the pension plan effective December 31, 2010.

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Under the accounting standards, a liability (underfunded pension obligation) is disclosed at fiscal year-end. The underfunded pension obligation is an aggregation of the excess of total past and future amounts expensed to date over past amounts contributed. There is a cumulative amount totaling $12,000,763 of underfunded pension obligation as of June 30, 2012.

The following table sets forth the Plan's funded status and amounts recognized in the Agency's consolidated statement of financial position at June 30, 2012:

	Pension Benefits	
	2010/2011	2011/2012
Reconciliation of benefit obligation:		
Obligation at beginning of year	$ 26,913,789	$ 27,424,471
Service cost	687,251	-
Interest cost	1,701,415	1,642,863
Actuarial (gain)/loss	(1,372,370)	7,622,326
Benefit payments	(505,614)	(616,539)
Obligation at end of year	$ 27,424,471	$ 36,073,121
Reconciliation of fair value of assets:		
Fair value of assets at beginning of year	$ 17,846,936	23,618,622
Actual return on assets	3,580,839	(243,922)
Employer contributions	2,696,461	1,314,197
Benefit payments	(505,614)	(616,539)
Fair value of assets at end of year	$ 23,618,622	$ 24,072,358
Funded status at end of year	$ (3,805,849)	$ (12,000,763)

The accumulated benefit obligations at June 30, 2012 was $36,073,121. The amounts recognized in the consolidated statement of financial position was a liability of $12,000,763, which is net of the prepaid pension cost of $2,032,637.

Net periodic pension cost and other amounts recognized in unrestricted net assets for the year ended June 30, 2012 included the following components:

Interest cost	$ 1,642,863
Expected return on plan assets	(1,914,555)
Amortization of net loss	169,994
Net periodic pension income	$ (101,698)

Assumptions Weighted Average

Discount rate	4.30%
Expected long-term return on plan assets	8.00%
Rate of compensation increase	2.75%

The discount rate was changed from 6.00% to 4.30% which increased in the projected benefit obligation by $7,414,000. The rate of compensation increase is not applicable as the Plan was frozen.

With respect to the Plan assets, investments are to be made consistent with the safeguards and diversity to which a prudent investor would adhere. Following is a description of the investment guidelines used for the Plan's investment funds:

Equities - General assurances by the Plan's Investment Advisor includes criteria that no more than 2% of the equity position of the entire Plan assets portfolio at cost, and 3% at market value, shall be invested in any one company, and no more than 50% of any individual Money Manager's portfolio at cost, and 60% at market value shall be invested in any one company. Investment possibilities includes 1) common stock listed on any U.S. exchange or the over-the-counter market with the requirement that such stock have, in the reasonable opinion of each of the Money Managers, adequate market liquidity relative to the size of the investment, 2) foreign ordinary securities, 3) international investments managed by an International/Global Money Manager which adhere to specific criteria, including a limitation that no more than 20% of the value of the managed international portfolio's total assets, measured at time of purchase may be invested in securities of companies in emerging securities markets throughout the world, and 4) exchange traded funds (not subject to the diversification guidelines above). The Investment Advisor has the limited ability to rebalance the entire Plan portfolio to the recommended Asset Allocation model for the Plan's stated investment objective. The rebalancing process is subject to the Plan Trustee's approval to make available Cash, Fixed Income Assets, or the necessary proceeds from any of the individual Money Managers. Convertible securities, however, must be rated a single A or higher. Furthermore, there are several categories of securities and types of transactions that are not permissible for investments and should not be part of the portfolio, including short sales, put and call options, margin purchases, private placements, commodities, securities of the Investment Advisor or any of the Money Managers, their direct parent or their subsidiaries, penny stocks, and derivatives. In addition, the Agency may identify additional securities to be restricted.

Fixed income – Diversification of the fund includes assurances that no more than 5% of the Plan's portfolio should be invested in bonds of any one issuer, and there shall be no limit on direct obligations of the U.S. government. The Plan should not invest in any fixed-income security carrying a rating less than BBB/Baa by either

Standard & Poor or Moody's. If issues are downgraded so as to violate these guidelines, the Plan's Trustee should judiciously liquidate them. Issues within a quality high yield mutual fund are exempt from this provision. With regards to maturity, the market value weighted average maturity of the bond portfolio should not exceed 15 years, and no holding may have an absolute maturity of more than 30 years at the time of purchase. This provision, however, does not apply to preferred stock issues. The Plan's Trustee may elect to exceed these limits. Generally, fixed income investments includes debt securities guaranteed by the U.S. government, corporate bonds, high quality and high yield mutual funds, international bond mutual funds, indexed notes, Yankee bonds, and preferred stock issues.

Cash equivalents – Cash equivalents shall consist of fixed income securities such as certificates of deposit, commercial paper, U.S. treasury bills, and other similar instruments with less than one year to maturity and/or money market funds.

The pension plan asset allocations, along with respective dollar values and fair value measurements, at June 30, 2012, by asset category are as follows:

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LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

	Total	Quoted Prices in Active Markets For Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)
Money funds	$ 2,297,069	$ -	$ 2,297,069
Equities:			
Basic Materials	287,365	287,365	-
Consumer Goods	209,680	209,680	-
Financials	1,058,264	1,058,264	-
Healthcare	638,851	638,851	-
Industrial Goods	347,356	347,356	-
Oil & Gas	445,746	445,746	-
Services	679,854	679,854	-
Technology	714,279	714,279	-
Telecommunications	18,506	18,506	-
U.S. govt. securities	1,637,788	1,637,788	-
Municipal bonds	329,266	329,266	-
International bonds	213,975	213,975	-
Corporate bonds	3,673,734	3,673,734	-
Mutual funds:			
Mid Cap Growth	605,078	-	605,078
Mid Cap Value	621,048	-	621,048
Small Cap Growth	109,764	-	109,764
Small Cap Value	246,365	-	246,365
Large Cap Foreign	1,721,122	-	1,721,122
Large Cap Growth	3,501,230	-	3,501,230
Large Cap Value	204,660	-	204,660
PIMCO Foreign Bond Fund	421,334	-	421,334
Emerging Markets	1,746,938	-	1,746,938
REITs	745,902	-	745,902
SPDR Barclays High Yield Bond ETF	915,472	-	915,472
Wells Fargo Short Term High Yield Bond Fund	681,712	-	681,712
	$24,072,358	$10,254,664	$13,817,694

There were no level 3 investments nor transfers in or out of level 3.
Corporate bonds: Certain corporate bonds are valued at the closing price reported

in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Equities: Valued at the closing price reported on the major stock exchanges.

Money funds: Prices are received from various pricing services. For instances where pricing sources are not readily available, estimated prices may be generated by a matrix system or market driven pricing model.

Governmental securities: Valued at the closing price reported in active market in which the individual security is traded.

Mutual funds: Prices are received from various pricing services. For instances where pricing sources are not readily available, estimated prices may be generated by a matrix system or market driven pricing model.

Certificate of deposit: Certificates of deposit are stated at cost, which approximates fair value.

Municipal bonds: Valued at the closing price reported in active market in which the individual security is traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Expected Future Benefits

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

June 30,	Pension Benefits expected to be paid
2013	$ 746,840
2014	821,862
2015	886,741
2016	1,011,777
2017	1,134,160
2018-2022	7,506,460
	$ 12,107,840

21. POSTRETIREMENT HEALTH CARE BENEFIT PLAN:

The Agency sponsors a defined benefit postretirement health care benefit plan.

Plan Provisions

Retired Prior to January 1, 2000

For certain long-service employees, the plan will pay the monthly premium for the participant (and eligible spouse) to continue coverage under the pre-2000 postretirement plan.

Retired January 1, 2001 and Later

For employees who retire on or after age 65 with at least 20 years of service, the Agency will enroll the retiree and eligible spouse in an AARP Medicare Supplement plan and contribute the following towards such coverage (for each retiree and eligible spouse):

-- 20 years of service	Plan E	--$130.25 per month
-- 25 years of service	Plan G	--$152.25 per month
-- 30 years of service	Plan I	--$259.00 per month

For employees who retire between ages 62 and 65, with the requisite years of service, the Agency will contribute, as per the above schedule, towards coverage under the current active employee's plan, until Medicare eligibility. At that time, the retiree will be treated in the same fashion as a post-65 retiree.

If an eligible spouse is not Medicare eligible, the Agency will contribute towards coverage under the current active employees' plan in an amount based on the retiree's service as described above.

Determination of the Net Periodic Benefit Cost for the Fiscal Year

July 1, 2011 through June 30, 2012:

Service cost	$ 230,999
Interest cost	263,901
Amortization:	
(a) Transition obligation	-
(b) Prior service cost	63,914
(c) (Gain)/loss	-
(d) Total amortization	63,914
Net periodic benefit cost – July 1, 2011 – June 30, 2012	$ 558,814

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2012:

Accumulated postretirement benefit obligation at June 30, 2012	$ (5,838,604)
Net liability recognized at June 30, 2012	$ (5,838,604)

Net Amount Recognized in Consolidated Statement of Financial Position

Beginning of year	$ (4,423,192)
Service cost	(230,996)
Interest cost	(263,901)
Expected return on plan assets	-
Employer contributions	42,263
Net gain/(loss)	(962,778)
Prior service credit/(cost)	-
End of year	$ (5,838,604)

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Assumptions:

Discount rates:	
Expense year ended June 30, 2012	4.30%
Disclosure for year ended June 30, 2012	4.30%
Mortality:	RP 2000 Separate Annuitants and Non-Annuitants Mortality Table projected to 2012 for males and females
Claim cost:	Monthly premium
Trend:	4.60% - 7.30% – based on the year of retirement
Funding method:	Projected Unit Credit Actuarial Cost Method

a) The discount rate was changed from 6.00% to 4.30% which increased the accumulated postretirement benefit obligation by approximately $1,574,000.

b) Based upon the plan provisions, the Affordable Care Act will have an immaterial effect on the accumulated postretirement benefit obligation and the net periodic benefit cost of the Agency's postretirement health care benefit plan.

	Postretirement Benefits	
	Accumulated Postretirement Benefit Obligation	Service Cost plus Interest Cost
At trend	$ 5,838,607	$ 494,900
At trend + 1%	5,896,447	497,686
Dollar impact	57,840	2,786
Percentage impact	0.99%	56.00%
At trend – 1%	5,789,458	492,513
Dollar impact	(49,149)	(2,387)
Percentage impact	-0.84%	-0.48%

Expected Future Benefit Payments:
The following benefit payments, which reflect expected future service, as appropriate are expected to be paid:

Fiscal Year Ending June 30,	Postretirement Benefits
2012	$ 52,961
2013	64,394
2014	77,999
2015	98,711
2016	113,949
2017-2021	921,268
	$ 1,329,282

22.TEMPORARILY RESTRICTED NET ASSETS:

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2012, which are available for use in future years, were as follows:

	Balance at 6/30/11	Additions	Expenditures	Balance at 6/30/12
Program	$ 57,323	4,922	(23,629)	$ 38,616

The funds released from restrictions were used towards other expenses for some of the Agency's programs.

23.COMMITMENTS AND CONTINGENCIES:

General
Pursuant to the Agency's contractual relationships with certain funding sources, outside agencies have the right to examine the Agency's books and records which pertain to transactions relating to these contracts. The accompanying consolidated financial statements do not include a provision for possible disallowances and reimbursements. Management believes that any actual disallowances, if any, would be immaterial. In addition, certain agreements provide that certain property and equipment owned by or on loan to the Agency (Note 11) be utilized by the Agency for its continued ownership, since the costs of such property and equipment were funded under these agreements ("Reversing assets").

There are certain amounts of real and personal property used by the Agency in its program operations which is owned by New York State and/or other governmental sources. The Agency uses some of these real and personal properties at no cost. The value of the benefit received for use of these real and personal properties is not readily measurable, is not recorded in the accompanying consolidated financial statements, and is consistent with similar industry practices.

The Agency has a number of pending lawsuits and/or claims against them for a variety of reasons. The alleged claims are being handled by legal counsel and/or by its insurance providers. In the opinion of the Agency's legal counsel, and in the opinion of management, there is no basis to establish a liability for any loss contingency due to lack of merit or insurance coverage exceeding expected settlement amounts.

During the year ended June 30, 2010, the Agency entered into a collective bargaining agreement with the Civil Service Employees Association, Inc. ("CSEA"). The collective bargaining agreement expired on June 30, 2012. Negations between management and the union have commenced. It is not possible at this time to determine what the financial impact of a new contract will be on the Agency. Negotiations are ongoing as of the report date. Approximately 74% of the Agency's labor is derived from the CSEA.

The Agency is partially self-insured for its workers compensation commitments. Accordingly, the Agency has provided approximately $1,363,380 in Letters of Credit for performance guarantees, which are secured by Certificates of Deposits in investments – other on the accompanying consolidated statement of financial position.

Operating Leases
The Agency is obligated, pursuant to real property lease agreements, for minimum monthly rentals for its administrative and program operations as follows:

June 30,	
2013	$ 5,940,332
2014	4,757,667
2015	3,774,986
2016	3,347,393
2017	3,271,711
Thereafter	18,070,440
	$ 39,162,529

For the year ended June 30, 2012, rent expense was $6,452,728, which was generally fully reimbursable to the Agency by the funding sources. Such amounts are recovered through fees for service.

A renewal option allows the Agency, at its sole option, the right to extend some of the leases for an additional five-year period with a predetermined rent base amount with annual rent percentage increases. Various leases have rent escalations in which various predetermined annual percentage increases exist throughout the lease periods. A clause exists whereby, in the event that real estate taxes increase during the term of some of the leases, the Agency shall pay any increases in real estate taxes over the base year.

25. 403(b) TAX – SHELTERED ANNUITY PLAN:

The Agency offers a 403(b) tax-sheltered annuity plan for all employees who are eligible and elect to participate. The plan is governed by IRS regulations setting the limits on the amount that employees may contribute and the conditions to withdraw monies from it. The employees each own their individual annuity plan and are responsible for deciding the amount of contributions they wish to make each year (up to the maximum stipulated by the IRS) and how the funds may be invested. There are no employer contributions.

26.CONCENTRATION OF CREDIT RISK:

The Agency has maintained bank balances that often exceed the limit of the Federal Depository Insurance Corporation insurance coverage. The Agency verifies, on a quarterly basis, the equity strength and profitability of the banks it uses in order to minimize the risk.

The Agency earns its revenue and records related receivables primarily from service fees provided to individuals with developmental disabilities within the New York City area. Substantially all of the Agency's revenue and receivables are received from Medicaid.

27.RISKS AND UNCERTAINTIES:

The Agency's pension plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated statement of financial position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the consolidated financial statements.

The Agency is subject to indemnification clauses should they cause any of the tax exempt bonds to lose their tax exempt status.

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LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

CONTENTS
June 30, 2011

MBAF ERE
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lifespire, Inc. and Subsidiary

We have audited the accompanying consolidated statement of financial position of Lifespire, Inc. and Subsidiary (a not-for-profit organization) as of June 30, 2011, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Lifespire, Inc and Subsidiary's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 the Lifespire, Inc. and Subsidiary as of June 30, 2011, and the consolidated changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MBAF-ERE CPAs, LLC

New York, NY
November 29, 2011

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2011

Assets:	
Cash and cash equivalents	$ 22,407,985
Investments	2,685,460
Accounts receivable, net	149,872
Accrued income receivable	15,053,506
Due from related parties	1,246,394
Security deposits and prepaid expenses	1,362,774
Assets restricted to investment in property and equipment	9,080,357
Property, plant and equipment, net	18,555,175
Deferred charges, net	1,210,515
Total Assets	**$ 71,752,038**
Liabilities and Net Assets:	
Liabilities:	
Accounts payable and accrued expenses	$ 8,209,474
Accrued payroll	6,189,116
Accrued compensated absences	3,431,631
Recoupments payable	4,995,309
Deferred income	2,281,470
Due to funding sources	243,684
Mortgages payable - DASNY	3,237,237
Underfunded pension obligation	3,805,849
Underfunded health insurance obligation	4,423,192
Line of credit	1,172,919
Bond payable - DASNY	6,125,000
Bonds payable - IDA	9,025,000
Total Liabilities	53,139,881
Net Assets:	
Unrestricted - undesignated	6,238,777
Unrestricted - board-designated - program expansion	821,082
Unrestricted - board-designated - facilities	4,987,577
Unrestricted - board-designated - related party transactions	1,246,394
Unrestricted - board-designated - pension	5,261,004
Total Unrestricted Net Assets	18,554,834
Temporarily restricted	57,323
Total Net Assets	18,612,157
Total Liabilities and Net Assets	**$ 71,752,038**

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

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2011	
Revenue - program operations:	
Program service fees	$ 98,840,554
Participants' share of room and board	3,129,222
Subcontract	445,675
MCFAA and DASNY bond fees	747,535
Subtotal - revenue - program operations	103,162,986
Net assets released from restrictions	18,876
Total revenue - program operations	103,181,862
Expenses:	
Program services	93,557,970
Management and administration	9,045,575
Total expenses	102,603,545
Change in unrestricted net assets before support revenue, prior period income, and other pension benefit-related changes other than net periodic benefit expense	578,317
Support revenue:	
Investment return	131,827
Contributions and fundraising	7,713
Miscellaneous	12,672
Total support revenue	152,212
Change in unrestricted net assets before prior period income, and other pension benefit-related changes other than net periodic benefit expense	730,529
Prior period income	(407,581)
Change in unrestricted net assets before pension benefit-related changes other than net periodic benefit expense	322,948
Change in temporarily restricted net assets:	
Donors	3,350
Grants	8,000
Fundraising	19,919
Net assets released from restrictions	(18,876)
Change in temporarily restricted net assets	12,393
Change in net assets before pension benefit-related changes other than net periodic benefit expense	335,341
Pension benefit-related changes other than net periodic benefit expense	5,261,004
Change in net assets	5,596,345
Net assets - beginning of year	13,015,812
Net assets - end of year	**$ 18,612,157**

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

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30, 2011	
Unrestricted net assets - beginning of year	$ 12,970,882
Increase in unrestricted net assets	5,583,952
Unrestricted net assets - end of year	**18,554,834**
Temporarily restricted net assets - beginning of year	44,930
Increase in temporarily restricted net assets	12,393
Temporarily restricted net assets - end of year	**$ 57,323**

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2011

	Program Services							
	Waiver Services	**Vocational Services**	**Residential**	**Mental Health**	**Other Programs**	**Total Program Services**	**Management and Administration**	**Total Expenses**
Salaries	$ 19,108,849	$ 61,693	$ 19,205,104	$ 987,847	$ 3,050,465	$ 42,413,958	$ 2,659,533	$ 45,073,491
Payroll taxes and benefits	6,024,449	23,227	5,599,468	231,466	881,873	12,760,483	3,699,940	16,460,423
Total personnel costs	25,133,298	84,920	24,804,572	1,219,313	3,932,338	55,174,441	6,359,473	61,533,914
Professional fees and contracted services	732,708	879	1,050,671	48,370	3,680,668	5,513,296	502,461	6,015,757
General and professional liability insurance	484,317	47,929	242,307	50,939	38,814	864,306	235,206	1,099,512
Supplies and expenses:								
Food, household supplies and services	134,034	1,583	2,124,395	2,637	23,409	2,286,058	342	2,286,400
Rent and real estate taxes	2,980,781	273,775	2,444,101	179,269	158,892	6,036,818	835,685	6,872,503
Transportation	11,130,166	167,616	1,012,988	76,722	206,810	12,594,302	176,429	12,770,731
Utilities and telephone	864,044	44,632	934,914	123,917	73,698	2,041,205	154,386	2,195,591
Maintenance and repair	259,809	13,343	434,357	17,872	35,550	760,931	38,693	799,624
General	899,188	298,935	1,469,190	107,188	838,018	3,612,519	674,109	4,286,628
Total expenses before interest, fees and bond expense and depreciation and amortization	42,618,345	933,612	34,517,495	1,826,227	8,988,197	88,883,876	8,976,784	97,860,660
Interest, fees and bond expense	636,504	39,353	1,771,186	-	12,014	2,459,057	14,123	2,473,180
Depreciation and amortization	912,814	84,098	1,148,094	21,318	48,713	2,215,037	54,668	2,269,705
Total Expenses	**$ 44,167,663**	**$ 1,057,063**	**$ 37,436,775**	**$ 1,847,545**	**$ 9,048,924**	**$ 93,557,970**	**$ 9,045,575**	**$ 102,603,545**

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2011	
Cash flows from operating activities:	
Increase in net assets	$ 5,596,345
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation and amortization	2,269,705
Amortization of bond issue costs	104,736
Unrealized loss on investments	16,581
Bad debt expense	22,963
Loss on disposal of assets	4,603
Pension and other postretirement benefit-related changes other than net periodic benefit expense	(5,261,004)
Changes in operating assets and liabilities:	
Decrease in accounts receivable	167,827
Decrease in accrued income receivable	3,127,053
Increase in due from related parties	(345,679)
Increase in security deposits and prepaid expenses	(571,993)
Decrease in deferred charges	(3,039)
Decrease in accounts payable and accrued expenses	(1,934,037)
Increase in accrued payroll	1,679,484
Increase in accrued compensated absences	742,430
Increase in underfunded health insurance obligation	325,176
Net cash provided by operating activities	5,941,151
Cash flows from investing activities:	
Purchases of investments	(2,628,405)
Proceeds from sales of investments	2,407,286
Withdrawals for operations	318,099
Increase in assets restricted to investment in property, plant and equipment	(601,382)
Purchases of property, plant and equipment	(872,986)
Net cash used in investing activities	(1,377,388)
Cash flows from financing activities:	
Repayments of mortgages payable - DASNY	(486,527)
Proceeds from line of credit	10,737
Repayments of bonds payable - IDA	(1,100,000)
Net cash used in financing activities	(1,575,790)
Net increase in cash and cash equivalents	2,987,973
Cash and cash equivalents - beginning of year	19,420,012
Cash and cash equivalents - end of year	**$ 22,407,985**
Non-Cash Investing and Financing Activities:	
Pension adjustment	$ 5,261,004
Supplemental Disclosures of Cash Flow Information:	
Cash paid during the year for:	
Interest	$ 926,256
Income taxes	$ -

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011

1. ORGANIZATION, TAX STATUS, AND SIGNIFICANT ACCOUNTING POLICIES:

Organization

Lifespire, Inc. and Subsidiary (the "Agency") serves individuals with disabilities and their families through various programs which include, but are not limited to, residential, rehabilitation, and day programs. The Agency is funded through government programs, consumer contributions, and gifts. It is the Agency's aim to provide individuals with disabilities the assistance and support necessary to achieve a level of functional behaviors and cognitive skills to enable them to maintain themselves in their community in the most integrated and independent manner possible.

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, Fair Value Measurements and Disclosures: *"Improving Disclosures about Fair Value Measurement"*, which provides a greater level of disaggregated information and more robust disclosures about valuation techniques and inputs to fair value measurements, transfers in and out of Levels 1 and 2, and the separate presentation of information in Level 3 reconciliations on a gross basis rather than net. New disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009. Level 3 disclosures are effective for fiscal years beginning after December 31, 2010. Adoption of this accounting standard had no effect on the Agency's consolidated financial statements.

In May 2011, the FASB issued an accounting standard update which works to achieve common fair value measurement and disclosures requirements in US GAAP and International Financial Reporting Standards. The update both clarifies the FASB's intent about the application of existing fair value guidance, and also changes certain principles regarding measurement and disclosure. The update is effective prospectively for annual periods beginning after December 15, 2011. Early application is permitted for interim periods beginning after December 15, 2011. Management believes this update will not have an impact on the Agency's consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310): *"Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses."* The objective of this ASU is for an entity to provide disclosures that facilitate financial statement users' evaluation of the following:

- The nature of credit risk inherent in the entity's portfolio of financing receivables;
- How that risk is analyzed and assessed in arriving at the allowance for credit losses;
- The changes and reasons for those changes in the allowance for credit losses.

To achieve these objectives, an entity should provide disclosures on a disaggregated basis on two defined levels: (1) portfolio segment; and (2) class of financing receivable. The ASU makes changes to existing disclosure requirements and includes additional disclosure requirements about financing receivables, including:

- Credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables;
- The aging of past due financing receivables at the end of the reporting period by class of financing receivables; and
- The nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses.

For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The Agency has not yet determined whether the adoption of this standard will have a material impact on its consolidated financial statements.

Principles of Consolidation
The consolidated financial statements include the accounts of the Agency and its wholly-owned subsidiary, Manhattan Management Solutions, LLC (the "Organization"). The Organization was established to provide consulting services to other not-for-profit organizations. The Organization is being consolidated since the Agency has both an economic interest in and control over the Organization through a majority voting interest in its governing board. The Organization has no balances on its balance sheet or activity in the profit and loss statement for the fiscal year ended June 30, 2011.

Tax Status
The Agency is organized under the not-for-profit corporation law of the State of New York. The Agency has been granted exemption from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and is deemed to be a public charity pursuant to the Internal Revenue Service.

The Agency follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

In assessing the likelihood of realization of tax benefits, management considers whether it is more likely than not that some portion or all of any tax position will

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not be realized. The ultimate realization of such tax positions is dependent upon the generation of future income. Management considers projected future income and tax planning strategies in making this assessment.

If applicable, the Agency would classify interest and penalties on underpayments of income tax as miscellaneous expenses.

The Agency does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the year ended June 30, 2011. However, the Agency may be subject to audit by tax authorities. The Agency believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Management believes that its nonprofit status would be sustained upon examination.

The Agency files informational returns in the United States federal and New York state jurisdictions. The Agency is generally no longer subject to U.S. federal or state income tax examinations by tax authorities for fiscal years ended before June 30, 2008.

Financial Statement Presentation
The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The classification of the Agency's net assets and its support, revenues, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from (a) contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Temporarily Restricted – Net assets resulting from (a) contributions and other inflows of assets the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal of actions of the Agency pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets. However, if a restriction is fulfilled in the same time period in which the contributions are received, the Agency reports the support as unrestricted.

Unrestricted – The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Most of these net assets are undesignated but some are designated by the Board as set forth below.

Unrestricted – Board-Designated – Program Expansion – The Board has earmarked certain amounts for future programmatic expansion. The monies are used to alleviate the ongoing financial pressures on the Agency due to the timing of collections of government funding, the limitations on available government funding, and the limited fund-raising activities undertaken by the Agency. The Agency has minimum monthly operating cash requirements of approximately $8,550,000 to finance its program operations.

Unrestricted – Board-Designated – Facilities – The Board has designated amounts of unrestricted net assets to cover the costs of acquisition of facilities and the associated debt.

Unrestricted – Board-Designated – Related Party Transactions – The Board has designated amounts of unrestricted net assets to cover the costs of transactions with related parties who need assistance with cash flow pressures.

Unrestricted – Board-Designated – Pension
The Board has designated amounts of unrestricted net assets to cover future possible increases on the underfunded pension obligation.

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

Subsequent Events
The Agency has evaluated events through November 29, 2011, which is the date the financial statements were available to be issued.

Cash and Cash Equivalents
The Agency considers all highly liquid investments with an original maturity date of three months or less at the time of purchase to be cash equivalents. Included in cash and cash equivalents as of June 30, 2011 are several amounts of restricted cash which are described in Note 2 below.

Investment Valuations and Income Recognition
Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis; dividends are recorded on the ex-dividend date. The Agency presents in the accompanying consolidated statement of activities the net appreciation in the fair value of its investments, which consists of realized gain and losses and the unrealized appreciation/depreciation on those investments. Income from investments is considered unrestricted net assets unless restricted by a donor. Management reviews its investments for declines other than temporary.

Accounts Receivable – Net
All known uncollected accounts receivable have been written down to the collectible value as of June 30, 2011. In addition, there exists a reserve for doubtful accounts of $7,437 as of June 30, 2011 for accounts receivable. The allowance for doubtful accounts is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts based on current economic conditions. Management uses 5% of total subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts.

Accrued Income Receivable and Program Service Fees
The Agency receives a major portion of its program service fees from Medicaid in conjunction with the New York State Office for People With Developmental Disabilities ("OPWDD"). Program service fees are also received from the Social Security Administration and directly from the OPWDD. Rates of reimbursement derived from cost-based methodologies are established annually by the OPWDD. Substantially all of the accrued income receivables of $15,053,506 are due from these governmental agencies.

There is no provision within these financial statements for any possible contingent liability that may result from any disallowances as a result of reimbursement rate adjustments for program service fees relating to the year ended June 30, 2011. Although such possible disallowances could be substantial in amount, in the opinion of management, any actual disallowance would be immaterial.

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Property, Plant, and Equipment
Property, plant, and equipment are recorded at cost, or at fair market value if donated. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized in accordance with funding source guidelines. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the asset. These amounts do not purport to represent replacement of realizable values. For those items that are not paid for by funding sources, the Agency maintains a policy to capitalize those costing in excess of $5,000.

The Agency follows the provision of the fair value measurements standards for certain non-financial assets and liabilities. Under this standard, the Agency reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the Agency recognizes an impairment loss. No impairment loss was recognized for the year ended June 30, 2011.

Deferred Income
The Agency records unearned advances to fee for service revenue as deferred revenue until it is expended for the purpose of the funding source, at which time it is recognized as revenue. The balance in deferred revenue as of June 30, 2011 represents amounts received for various programmatic operations that will be recognized as revenue in the future, as it is earned.

Revenue Recognition
Support and revenue is recognized on a fee for service basis for service arrangements with various consumers and/or customers. Revenue is recognized contingent to services being rendered. The reimbursements received from certain funding sources are subject to reconciliations. The funding sources may request return of reimbursements for noncompliance.

Contributions

Contributions – Contributions are considered to be available for unrestricted use unless specifically raised for special purposes or designated by the donor.

Restricted Contributions – The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the same statement of activities as net assets released from restrictions. If the restriction will be satisfied within one year, then the Agency would record the contribution as temporarily restricted net assets and reallocate to unrestricted net assets when the restriction is satisfied.

In-Kind Contributions
In-kind contributions consist of property and services donated by state agencies and individuals. The value placed by the state agencies and individuals are used for valuing the contribution received. These properties were recorded as unrestricted and the related depreciation taken was recorded as unrestricted. If no value is provided by donor, an estimated value is placed by the Agency.

Contributed Services
Time is donated to the Agency by various volunteers. The value of this time is deemed to be immaterial, and therefore has not been reflected in the accompanying consolidated financial statements.

Start-Up Costs
Certain costs related to the organization of a new entity, a new business line, or product or location, are expensed as incurred. This position is followed by the Agency and the funding source which governs the program for which such start-up expenses were incurred.

Advertising
Advertising costs are expensed as incurred. Advertising expense totaled $16,773 for the year ended June 30, 2011, and is included in general expenses in the accompanying consolidated statement of functional expenses.

Special Events
The direct costs of special events include expenses for the benefit of the donor. For example, meals and facilities rental are considered direct costs of special events. During the fiscal year ended June 30, 2011, the Agency did not incur any special events expenses.

Bond Costs
Bond costs, which reflect bond premiums and discounts, are amortized over the life of the bonds. Amortization expense of these costs for the year ended June 30, 2011 is $104,736. These costs are included in interest, fees and bond expense of $2,473,180 shown in the accompanying consolidated statement of functional expenses.

Functional Allocation of Expenses
Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

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2. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are held in interest-bearing checking and savings accounts at financial institutions. As of June 30, 2011, total cash and cash equivalents of $22,407,985 included restricted cash amounts comprised of the following:

Restricted cash		
Temporarily restricted contributions	$	57,323
403(b) tax sheltered annuity plan		75,860
Health Reimbursement Accounts		3,657,378
	$	3,790,561

3. INVESTMENTS:

For the year ended June 30, 2011, total investments at fair market value comprised of bank certificates of deposit and money market funds valued at $2,685,460. Investment activity for the year consisted of the following:

	Cost	Fair Value
Bank Certificates of Deposit:		
Bank of America	$ 1,070,000	$ 1,070,000
Smith Barney	1,174,000	1,172,877
Chase	368,918	363,921
Total Bank Certificates of Deposit	2,612,918	2,606,798
HSBC Money Market Funds	78,662	78,662
	$ 2,691,580	$ 2,685,460

June 30, 2011		
Fair market value - beginning of year	$	2,799,021
Investment activity:		
Purchases		2,599,365
Sales (at cost)		(2,407,286)
Investment returns		29,040
Withdrawals for operations		(318,099)
		2,702,041
Net decrease in fair value of investments:		
Unrealized loss		(16,581)
Fair market value - end of year	$	2,685,460

4. FAIR VALUE MEASUREMENTS:

FASB Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011

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

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets of liabilities in active markets;
- quoted prices for identical or similar assets of liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborate by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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

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

There have been no changes in the methodologies used at June 30, 2011.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Agency believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

The following table presents, by level within the fair value hierarchy, the Agency's investment assets at fair value, as of June 30, 2011.

	Total	Quoted Market Prices in Active Market Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	$ 2,606,798	$ 2,606,798	$ -	$ -
Money market funds	78,662	78,662	-	-
	$ 2,685,460	$ 2,685,460	$ -	$ -

Following is a description of the valuation methodologies used for assets as fair value:

Certificates of deposit: The market value of a certificate of deposit is estimated using a matrix based on interest rates.

Money market funds: Prices are received from various pricing services. Instances where pricing sources are not readily available, estimated prices may be generated by a matrix system or market-driven pricing model.

Change in Fair Value Levels
The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the year ended June 30, 2011, there were no transfers in or out of levels 1, 2, or 3.

5. DUE FROM RELATED PARTIES:

The Agency is owed several amounts from three not-for-profit related parties as follows:

The first is an amount of $159,124 due from its Housing Urban Development ("HUD") affiliate and includes $18,921 of non-interest bearing loans used for operational purposes. The Agency also has a note receivable of $140,203 due from this related party dating back a number of years. Based on discussion with HUD officials, the Agency was not permitted to charge interest. The Agency expects to be repaid when the entity has sufficient cash flow available. The Agency is a related party in that certain staff members of the Agency are also Board members

of this other not-for-profit HUD organization. The entire balance owed from this entity is included in due from related parties presented in the accompanying consolidated statement of financial position.

For the second entity, there is a note receivable which was executed on April 30, 2010 in an amount of $689,901. This amount represented the aggregate principal and interest as of April 30, 2010, which was previously loaned to the entity by the Agency. There is no further interest to be charged after April 30, 2010. The entity is obligated to pay the outstanding indebtedness in twenty-five equal annual installments of $27,596 on or before April 30th of each year. During the current fiscal year, the required payment of $27,596 was made to the Agency. The total outstanding balance of the note due to the Agency as of June 30, 2011 amounted to $634,709. There is also a loan amount of $55,500 due from this entity as of June 30, 2011 which accrues interest at a rate of 6% per annum. As of June 30, 2011, the related accrued interest owed to the Agency amounted to $12,116. On August 13, 2010, $80,000 was also loaned to the entity to fund various operational items. The principal balance of the loan, which accrued interest at a rate of 6% per annum, was subsequently repaid in full in July 2011. However, as of June 30, 2011, related accrued interest of $4,245 was still owed to the Agency. Additionally, on June 16, 2011, $300,000 was loaned to the entity, accruing interest at a rate of 6% per annum. As of June 30, 2011, this balance remains outstanding, as well as related accrued interest of $700. The Agency is a related party in that the Board members of the entity are also Board members of the Agency. The entire balance owed from this entity is included in due from related parties presented in the accompanying consolidated statement of financial position.

The third entity provides space to the Agency for the operation of one of its community rehabilitation programs. The Agency purchases inventory, at cost, from this entity. During the fiscal year ended June 30, 2011, purchases of $581,109 were made from the entity. Additionally, as of fiscal year-end, approximately $62,000 of accounts payable was due to the related entity. This amount is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. The Agency also receives payment from the entity for the outsourced labor provided to assist with the processing and packaging of the inventory items. During the fiscal year ended June 30, 2011, the Agency received labor fees of $108,474 from the related entity. Additionally, as of June 30, 2011, $7,915 was owed to the Agency for outstanding labor fees. This amount is included in accounts receivable, net in the accompanying consolidated statement of financial position. The Agency also received $24,202 from the entity for reimbursement of its proportion of fringe benefits and insurance costs paid on behalf of three of the Agency's employees who provide services to the entity. The Agency is a related party in that certain staff members of the Agency are also Board members of this other not-for-profit corporation.

Management periodically reviews the related party accounts to determine if an allowance is necessary. The related party receivables have been adjusted for all known uncollectible accounts. For the year ended June 30, 2011, no allowance was necessary because the related party receivables were determined to be fully collectible.

6. ASSETS RESTRICTED TO INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT:

As of June 30, 2011, the Agency had the following assets restricted to investment in property, plant and equipment:

Debt Service Reserve – MCFFA (DASNY)	$	401,875
Debt Service Reserve/Escrow Balance – IDA – Bond 2002		875,754
Debt Service Reserve/Escrow Balance – IDA – Bond 2004		1,268,794
Debt Service Reserve/Escrow Balance – IDA – Bond 2008		707,818
Debt Service Reserve – DASNY – Bond 2010		830,807
Cash – Recoupments Payable		4,995,309
	$	9,080,357

The Debt Service Reserve – MCFFA (DASNY) amount of $401,875 represents a portion of the loan proceeds retained by the New York State Medical Care Facilities Finance Agency ("MCFFA") under the terms and conditions in the loan agreement.

The monies are designated to be applied to scheduled debt service payments in the future. In 1996, the debt service reserve amounts were transferred to the Dormitory Authority of the State of New York ("DASNY").

The Debt Service Reserve/Escrow Balance – IDA – Bond 2002 amount of $875,754 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 14 for more detail).

The Debt Service Reserve/Escrow Balance – IDA – Bond 2004 amount of $1,268,794 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 14 for more detail).

The Debt Service Reserve/Escrow Balance – IDA – Bond 2008 amount of $707,818 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 14 for more detail).

The Debt Service Reserve – DASNY – Bond 2010 amount of $830,807 represents the portion of loan proceeds retained by the DASNY Inter-Agency Council Pooled

Loan Program under the terms and conditions in the loan agreement.

The cash amount of $4,995,309 represents various amounts received from funding sources that will be used to pay amounts included within recoupments payable.

7. PROPERTY, PLANT AND EQUIPMENT:

As of June 30, 2011, property, plant and equipment, at cost, consisted of the following:

		Cost	Estimated Useful Lives
Land	$	4,509,267	
Construction in progress		324,679	
Buildings and improvements		23,209,843	5-20 years
Furniture and equipment		2,825,221	5 years
Vehicles		611,618	4 years
Leasehold improvements		8,267,914	Life of lease
		39,748,542	
Less: accumulated depreciation and amortization		(21,193,367)	
	$	18,555,175	

The above amounts include land and buildings which were donated to the Agency by the OPWDD. The Agency is subject to adherence of certain terms, conditions, and restrictions as to the use and ultimate disposition of these properties as further delineated in the disposition and subordination agreements entered into with the funding source.

Depreciation and amortization expense for the year ended June 30, 2011 is $2,269,705.

8. RECOUPMENTS PAYABLE:

The amount of $4,995,309 consists of amounts of reimbursement received from certain funding sources, which are in excess of amounts earned, and amounts for which the scheduled recoupment differs from the actual recoupment made through June 30, 2011. The funding sources are expected to recover these amounts in the future through the recoupment process.

9. DEFERRED INCOME:

Deferred income of $2,281,470 include amounts received from various funding sources over the years for various programmatic operations but not earned as revenue as of June 30, 2011. Some of these liabilities relate to the OPWDD. These liabilities do not bear interest and will be recognized as revenue periodically in the future as it is deemed to be earned.

10. DUE TO FUNDING SOURCES:

The due to funding sources amount of $243,684 includes an amount of $8,966, which represents various maximum potential contested liabilities for proposed contract adjustments with certain funding sources for prior periods.

The balance of $234,718 represents a liability due to the OPWDD as a result of certain "desk-audits" performed on certain programs by the OPWDD. These "desk-audits" were the result of a statewide requirement by the OPWDD and other governmental agencies, due to the clarification and revisions of certain policies and procedures set forth by the OPWDD and these other governmental agencies.

11. MORTGAGES PAYABLE – DASNY:

Mortgages payable – DASNY amounting to $3,237,237 represents self-liquidating term-notes owed to the DASNY, which has as its agent, the OPWDD. Some of the notes were originally related to the New York State MCFFA improvement bonds loaned to the Facilities Development Corporation ("FDC"). The DASNY is the successor to the MCFFA, and in 1996 FDC projects were transferred to DASNY. In 1996, the MCFFA bonds were refunded by the issuance of DASNY Mental Health Services Facilities Improvement Revenue Bonds.

Periodic recoupments are expected to continue to be made by OPWDD from the Agency, for remittance to FDC to satisfy the debt service and administration fees. The payments are first applied to interest and then to principal. The Agency will receive additional amounts of reimbursement as an increase to its per diem rates to repay these recoupments. The notes are collateralized by (1) the real property located at each of the sites, (2) all accounts receivable generated from billings related to the respective locations, and (3) all personal property owned by the Agency located at each of the sites. The Agency is entitled to credits in an amount equal to the past accrued interest earned on the debt service reserve fund for some of the above-mentioned liabilities. When such credits are determined and applied to the corresponding mortgages, then those mortgage liabilities will be reduced accordingly.

Additional information for the mortgages payable - DASNY is reflected below.

Project Name	Maturity Date	Fixed Interest Rate	Total
208th Street	8/15/2010	5.81%	$ 29,590
94th Street	8/15/2010	5.81%	5,399
Esplanade	2/15/2011	5.44%	10,450
Racal Court	2/15/2013	7.37%	95,000
South Avenue	8/15/2015	7.68%	131,491
213-233 48th Street (Sunset I)	2/15/2018	7.34%	649,460
87-21 121st Street (Queens)	2/15/2018	6.41%	1,676,500
Jumel	8/15/2018	6.41%	639,347
Total mortgages payable - DASNY			$ 3,237,237

The mortgage balances for the 213-233 48th Street and 87-21 121st Street locations are for the Day Treatment and Day Habilitation Programs, respectively. Commencing with the fiscal year ended June 30, 2004, OPWDD allocates a portion of the bond (mortgage) payable to a separate Day Habilitation Medicaid Management Information System ("MMIS") Provider number for debt recovery purposes. However, the total indebtedness does not change.

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12. LINE OF CREDIT:

The Agency has a line of credit agreement with J.P. Morgan Chase for a maximum of $5,000,000 which expires on March 14, 2012. The proceeds of the line of credit are to be used for operating expenses. Interest is charged to the line of credit at the bank's floating rate of prime plus 0.5% and is secured by a lien on the Agency's government receivables. These government receivables totaled $15,053,506 at June 30, 2011. There was no outstanding balance as of June 30, 2011.

Under the terms of a line of credit agreement with Bank of America on March 31, 2011, the Agency may borrow up to $5,000,000 at the bank's prime interest rate plus 0.5% through March 31, 2012, when the agreement expires. The Agency's property has been pledged as collateral against any advances on the line of credit. As of June 30, 2011, there was an outstanding balance of $1,172,919. Total interest paid during the fiscal year amounted to $44,492.

13. BOND PAYABLE – DASNY:

In March 2010, the bond payable – DASNY was issued in the amount of $6,125,000 and is related to the DASNY Inter-Agency Council Pooled Loan Program Revenue Bond Resolution, Series 2010A, subseries 2010A-1, and 2010A-2 (the "Bonds").

The Agency used the proceeds from the Bonds to refinance $5,485,795 of indebtedness on seven properties. The interest rate is not to exceed 7.5% on the Series 2010A Bonds. The interest is payable to the bondholders on a semi-annual basis commencing on August 1, 2010. The cost of the bond issuance amounted to $318,265 of which $25,044 was amortized as of June 30, 2011.

Payments of interest and principal under the loan agreement are to be made monthly on the 10th day of each month into the debt service reserve Fund by the Agency. On August 1, 2010, the principal amount of $470,000 was paid in full by the Agency, as well as all interest and fees associated with the payment, to the bondholders. The Agency satisfied these obligations during June 30, 2011 by virtue of periodic recoupments made by OPWDD from its rates of reimbursement for those programs that are operated at these sites. The principal payment of the consolidated debt owed to the bondholders is as follows:

Due Date	Principal Due
July 1,	
2011	$ 470,000
2012	470,000
2013	475,000
2014	495,000
2015	410,000
Thereafter	3,805,000
	$ 6,125,000

The Series 2010A Bonds will be secured ratably by each applicable mortgage, the pledge and assignment to the Trustee of the Revenues, and the DASNY's security interest in the pledged revenues subject to prior pledges.

The bond payable – DASNY requires the Agency to maintain certain financial covenants. At June 30, 2011, the Agency was determined to be in compliance with these covenants.

14. BONDS PAYABLE – IDA:

Bonds payable – IDA totaling $9,025,000 are made up of the following bonds payable at June 30, 2011:

Series	Due Date	Principal Due
2002 C-1	July 1, 2017	$ 2,200,000
2004 A-1 and B-1	July 1, 2023	3,245,000
2004 C-1	July 1, 2014	475,000
2008 A-1 and A-2	July 1, 2033	3,105,000
Total IDA Bonds Payable		$ 9,025,000

Bonds payable – IDA – 2002 amounting to $2,200,000 represent amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2002 C-1.

The interest rate is based on a life average rate of 7.63176% on the Series 2002 C-1 Bond ($2,200,000). The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2003. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2003. The cost of the bond issuance amounted to $395,027 ($380,027 was incurred when the bond closed and $15,000 was incurred prior to the bond closing), of which $214,504 was amortized as of June 30, 2011. The costs of issuance are being amortized over the term of the bond obligations.

Payments of interest and principal under the loan agreement are to be made monthly and deposited into one of the Agency's debt service reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date	Principal Due
July 1,	
2011	$ 270,000
2012	280,000
2013	280,000
2014	280,000
2015	280,000
Thereafter	810,000
	$ 2,200,000

Bonds Payable – IDA – 2004 amounting to $3,720,000 represents amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2004 A-1 and B-1, and Series 2004 C-1.

The Agency used the Series A-1 and B-1 bond proceeds to refinance $4,112,273 of indebtedness on four properties. The interest rate is based on a life average rate of 8.890508% on the Series 2004 A-1 and B-1 Bonds ($3,245,000). The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2004. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2004.

The cost of the bond issuance amounted to $685,629 ($694,975 was incurred when the bond closed less $9,346 reimbursed after the bond closing), of which $252,600 was amortized as of June 30, 2011. The costs of issuance are being amortized over the term of the bond obligations.

Payments of interest and principal under the loan agreement are to be made monthly and deposited into one of the Agency's debt service reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date		Principal Due
July 1,		
2011	$	360,000
2012		360,000
2013		215,000
2014		220,000
2015		220,000
Thereafter		1,870,000
	$	3,245,000

The Agency used the Series C-1 bond proceeds to finance $805,621 of indebtedness on one property and to pay off a balance due on one line of credit. The interest rate is based on the life average rate of 5.96% on the Series 2004 C-1 Bond ($475,000). The interest is payable to the bondholders on a semi-annual basis commencing on January 1, 2005. The principal is payable to the bondholders on an annual basis commencing on July 1, 2005. The cost of the bond issuance amounted to $50,095, of which $23,149 was amortized as of June 30, 2011. The cost of bond discounts amounted to $41,281, of which $30,151 was amortized as of June 30, 2011. The costs of issuance and discounts are being amortized over the term of the bond obligations.

Payments of interest and principal under the loan agreement are to be made monthly and deposited into one of the Agency's debt service reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date		Principal Due
July 1,		
2011	$	110,000
2012		115,000
2013		120,000
2014		130,000
	$	475,000

Bonds payable – IDA – 2008 amounting to $3,105,000 represent amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2008 A. These bonds are segregated into Series 2008 A-1 and Series 2008 A-2 (taxable).

The interest rate is based on a life average rate and is disclosed in the bond agreement. The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2008. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2008. The cost of the bond issuance amounted to $265,634, of which $84,517 was amortized as of June 30, 2011. The costs of issuance are being amortized over the term of the bond obligations. Pursuant to the bond agreement, there is a first lien on the properties being mortgaged except for the facility located at 213 48th Street, Brooklyn, which carries a second lien.

Payments of interest and principal under the loan agreement are to be made monthly and deposited into one of the Agency's debt service reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date		Principal Due
July 1,		
2011	$	265,000
2012		260,000
2013		260,000
2014		170,000
2015		170,000
Thereafter		1,980,000
	$	3,105,000

The Agency expects that, periodically, OPWDD will adjust the IRA per diem rate to provide the Agency with the appropriate amount of reimbursement to repay the debt principal, related interest, and fees. The Series 2002 C-1, 2004 A-1, B-1, and C-1, as well as Series 2008 A-1 and A-2 bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and the IDA's security interest in the pledged revenues, subject to prior pledges.

The bonds payable IDA requires the Agency to maintain certain financial covenants. At June 30, 2011, the Agency was determined to be in compliance with these covenants.

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15. MATURITIES OF DEBT TO THIRD PARTIES:

The short-term and long-term third-party debt is comprised of the following:

Recoupments payable	$	4,995,309
Deferred income		2,281,470
Due to funding sources		243,684
Mortgages payable – DASNY		3,237,237
Bond payable – DASNY		6,125,000
Bonds payable – IDA		9,025,000
Line of credit		1,172,919
	$	27,080,619

Approximate maturities of short-term and long-term third-party debt are as follows:

June 30,		
2012	$	3,625,767
2013		3,378,094
2014		2,085,025
2015		2,039,766
2016		1,815,875
Thereafter		14,136,092
	$	27,080,619

16. PRIOR PERIOD REVENUE:

Total balance of $407,581 for the fiscal year ended June 30, 2011 is primarily comprised of typical retroactive rate adjustments attributable to various programs.

17. DEFINED BENEFIT PENSION PLAN:

The Agency has a defined benefit pension plan (the "Plan") covering all of its eligible employees. The benefits are based on years of service and the employee's highest five years of compensation during the last ten years of employment. The Agency's funding policy is to contribute annually the required amount that should be deducted in accordance with federal income tax guidelines. The Agency's contributions for calendar year 2010 exceeded the minimum funding requirements of ERISA.

Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. The employer contributions amounted to $2,696,461 and the benefits paid amounted to $505,614 during the fiscal year ended June 30, 2011. The Agency expects to contribute $1,200,000 to its pension plan in the fiscal year ended June 30, 2012.

According to actuarial projections, the existing funding policy contribution amount is not sufficient to cover the cost of the plan over next several years. During the

year ended June 30, 2010, the board of the Agency decided to freeze the pension plan effective December 31, 2010.

Under the accounting standards, a liability (underfunded pension obligation) is disclosed at fiscal year-end. The underfunded pension obligation is a compilation of the excess of total past and future amounts expensed to date over past amounts contributed. There is a cumulative amount totaling $3,805,849 of underfunded pension obligation as of June 30, 2011.

The following table sets forth the plan's funded status and amounts recognized in the Agency's consolidated statement of financial position at June 30, 2011:

	Pension Benefits	
	2009/2010	2010/2011
Reconciliation of benefit obligation		
Obligation at beginning of year	$ 24,266,039	$ 26,913,789
Service Cost	1,115,731	687,251
Interest Cost	1,679,008	1,701,415
Plan amendments	0	0
Actuarial (gain) / loss	5,382,361	(1,372,370)
Acquisitions / (divestitures)	0	0
Benefit payments	(484,707)	(505,614)
Curtailments	(5,044,643)	0
Special termination benefits	0	0
Settlements	0	0
Obligation at end of year	$ 26,913,789	$ 27,424,471
Reconciliation of fair value of assets		
Fair value of assets at beginning of year	$ 15,661,745	$ 17,846,936
Actual return on assets	1,507,381	3,580,839
Acquisitions / (divestitures)	0	0
Employer Contributions	1,162,517	2,696,461
Benefit payments	(484,707)	(505,614)
Settlements	0	0
Fair value of assets at end of year	$ 17,846,936	$ 23,618,622
Funded Status at end of year	$ (9,066,853)	$ (3,805,849)

The accumulated benefit obligations for the year ended June 30, 2011 was $27,424,471.

Net periodic pension cost for the fiscal year ended June 30, 2011 included the

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following components:

Service cost	$	687,251
Interest cost		1,701,415
Expected return on plan assets		(1,514,922)
Amortization of net loss		647,653
Net periodic pension cost	$	1,521,397

Assumptions Weighted Average

Discount rate	6.00%
Expected long-term return on plan assets	8.00%
Rate of compensation increase	2.50%

The discount rate was changed from 5.85% to 6.00% which decreased the accumulated postretirement benefit obligation by $591,000.

With respect to the Plan assets, investments are to be made consistent with the safeguards and diversity to which a prudent investor would adhere. Following is a description of the investment guidelines used for the Plan's investment funds:

Equities – General assurances by the Plan money manager includes criteria that no more than 2% of the equity position of the entire Plan assets portfolio at cost, and 3% at market value, shall be invested in any one company, and no more than 50% of the Plan money manager's portfolio at cost, and 60% at market value shall be invested in any one company. Investment possibilities includes 1) common stock listed on any U.S. exchange or the over-the-counter market with the requirement that such stock have, in the reasonable opinion of the Plan money manager, adequate market liquidity relative to the size of the investment, 2) foreign ordinary securities, 3) international investments managed by the Plan money manager which adhere to specific criteria, the most significant being that no more than 20% of the value of the international portfolio's total assets, measured at time of purchase may be invested in securities of companies in emerging securities markets throughout the world, and 4) exchange traded funds. The Plan money manager is given flexibility to alter the asset mix and security selection to adjust to changing market conditions. Convertible securities, however, must be rated single A or higher. Furthermore, there are several categories of securities and types of transactions that are not permissible for investments and should not be part of the portfolio, including short sales, put and call options, margin purchases, private placements, commodities, securities of the Plan money manager, its direct parent or its subsidiaries, penny stocks, and derivatives. In addition, the Agency may identify additional securities to be restricted.

Fixed income – Diversification of the fund includes assurances that no more than 5% of the Plan's portfolio should be invested in bonds of any one issuer, and there shall be no limit on direct obligations of the U.S. government. The Plan should not

invest in any fixed-income security carrying a rating less than BBB/Baa by either Standard & Poor or Moody's. If issues are downgraded so as to violate these guidelines, the Plan's money manager should judiciously liquidate them. Issues within a quality high yield mutual fund are exempt from this provision. With regards to maturity, the market value weighted average maturity of the bond portfolio should not exceed 15 years, and no holding may have an absolute maturity of more than 30 years at the time of purchase. This provision, however, does not apply to preferred stock issues. The Plan's money manager may elect to exceed these limits. Generally, fixed income investments includes debt securities guarantee by the U.S. government, corporate bonds, high quality and high yield mutual funds, international bond mutual funds, indexed notes, Yankee bonds, and preferred stock issues.

Cash equivalents – Cash equivalents shall consist of fixed income securities such as certificates of deposit, commercial paper, U.S. treasury bills, and other similar instruments with less than one year to maturity and/or money market funds.

The pension plan asset allocations, along with respective dollar values and fair value measurements, at June 30, 2011, by asset category are as follows:

Asset Category	Percentage of Plan Assets		Dollar Amount	Fair Value Measurement
Equity securities	65%	$	15,352,104	Level 1
Fixed income security	22%		5,196,097	Level 2
Other	13%		3,070,421	Level 2
	100%	$	23,618,622	

Following is a description of the valuation methodologies used for assets at fair value.

Corporate bonds: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Equities: Valued at the closing price reported on the major stock exchanges.

Money funds: Prices are received from various pricing services. Instances were pricing sources are not readily available estimated prices may be generated by a matrix system or market driven pricing model

Governmental securities: Valued at the closing price reported in active market in which the individual security is traded.

Mutual funds: Prices are received from various pricing services. For instances where pricing sources are not readily available, estimated prices may be generated by a matrix system or market driven pricing model.

Certificate of deposit: The market value of certificate of deposits is estimated using a matrix based on interest rate.

Municipal bonds: Valued at the closing price reported in active market in which the individual security is traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

FASB Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:
Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets of liabilities in active markets;
- quoted prices for identical or similar assets of liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborate by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to

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LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011

the fair value measurement.

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

Expected Future Benefits
The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year Ending June 30,		Pension Benefits
2012	$	625,020
2013		738,198
2014		876,845
2015		973,351
2016		1,112,258
2017 - 2021		7,406,676
	$	11,732,348

18. POSTRETIREMENT HEALTH CARE BENEFIT PLAN:

The Agency sponsors a defined benefit postretirement health care benefit plan.

Plan Provisions

Retired Prior to January 1, 2000

For certain long-service employees, the plan will pay the monthly premium for the participant (and eligible spouse) to continue coverage under the pre-2000 postretirement plan.

Retired January 1, 2001 and Later

For employees who retire on or after age 65 with at least 20 years of service, the Agency will enroll the retiree and eligible spouse in an AARP Medicare Supplement plan and contribute the following towards such coverage (for each retiree and eligible spouse):

-- 20 years of service	Plan E	--$130.25 per month
-- 25 years of service	Plan G	--$152.25 per month
-- 30 years of service	Plan I	--$259.00 per month

For employees who retire between ages 62 and 65, with the requisite years of service, the Agency will contribute, as per the above schedule, towards coverage under the current active employee's plan, until Medicare eligibility. At that time, the retiree will be treated in the same fashion as a post-65 retiree.

If an eligible spouse is not Medicare eligible, the Agency will contribute towards coverage under the current active employees' plan in an amount based on the retiree's service as described above.

Determination of the Net Periodic Benefit Cost for the Fiscal Year

July 1, 2010 through June 30, 2011:

(1)	Service cost	$ 228,423
(2)	Interest cost	238,420
(3)	Amortization:	
	(a) Transition obligation	-
	(b) Prior service cost	63,914
	(c) (Gain)/loss	-
	(d) Total amortization	63,914
(4)	Net periodic benefit cost – July 1, 2010 – June 30, 2011	$ 530,757

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2011:

(1)	Accumulated postretirement benefit obligation at June 30, 2011	$ (4,423,192)
(2)	Net liability recognized at June 30, 2011	$ (4,423,192)

Net Amount Recognized in Statement of Financial Position

(1)	Beginning of year	$ (4,098,016)
(2)	Service cost	(228,423)
(3)	Interest cost	(238,420)
(4)	Expected return on plan assets	-
(5)	Employer contributions	38,653
(6)	Net gain/(loss)	103,014
(7)	Prior service credit/(cost)	N/A
(8)	End of year	$ (4,423,192)

Assumptions:

Discount rates:	
Expense	6.00%
Disclosure	6.00%
Mortality:	RP 2000 Separate Annuitants and Non-Annuitants Mortality Table projected to 2011 for males and females
Claim cost:	Monthly premium
Trend:	4.40%-7.80% - based on the year of retirement
Funding Method:	Projected Unit Credit Actuarial Cost Method

a. The discount rate was changed from 5.85% to 6.00% which decreased the accumulated postretirement benefit obligation by $115,000.

b. Based upon the plan provisions, the Affordable Care Act will have an immaterial effect on the accumulated postretirement benefit obligation and the net periodic benefit cost of the Lifespire postretirement health care benefit plan.

	Postretirement Benefits	
	Accumulated postretirement Benefit Obligation	Service Cost plus Interest Cost
At trend	$ 4,423,192	$ 446,843
At trend + 1%	4,469,637	469,555
Dollar Impact	46,445	2,712
Percentage Impact	1.05%	0.58%
At trend - 1%	4,383,419	464,723
Dollar Impact	(39,773)	(2,120)
Percentage Impact	-(0.90%)	-(0.45%)

Expected Future Benefit Payments:
The following benefit payments, which reflect expected future service, as appropriate are expected to be paid:

Fiscal Year Ending June 30,	Postretirement Benefits
2011	$ 49,713
2012	69,068
2013	89,053
2014	108,389
2015	130,784
2016 - 2020	1,039,164
	$ 1,486,171

19. TEMPORARILY RESTRICTED NET ASSETS:

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2011, which are available for use in future years, were as follows:

	Balance at 6/30/10	Additions	Expenditures	Balance at 6/30/11
Program	$ 44,930	$ 31,269	$ (18,876)	$ 57,323

The funds released from restrictions were used towards operating expenses for one of the Agency's Intermediate Care Facility properties.

20. COMMITMENTS AND CONTINGENCIES:

General

Pursuant to the Agency's contractual relationships with certain funding sources, outside agencies have the right to examine the Agency's books and records which pertain to transactions relating to these contracts. The accompanying consolidated financial statements do not include a provision for possible disallowances and reimbursements. Management believes that any actual disallowances, if any, would be immaterial. In addition, certain agreements provide that certain property, plant and equipment owned by or on loan to the Agency (see Note 7) be utilized by the Agency for its continued ownership, since the costs of such property and equipment were funded under these agreements.

There are certain amounts of real and personal property used by the Agency in its program operations which is owned by New York State and/or other governmental sources. The Agency uses some of these real and personal properties at no cost. The value of the benefit received for use of these real and personal properties is not readily measurable and is not recorded in the accompanying consolidated financial statements.

The Agency has a number of pending lawsuits against them for a variety of reasons. The alleged claims are being handled by legal counsel and/or by its insurance providers. In the opinion of the Agency's legal counsel, and in the opinion of management, there is no basis to establish a liability for any loss contingency due to lack of merit or insurance coverage exceeding expected settlement amounts. Regardless of the circumstance, the Agency has meritorious defenses and has been directed to defend this matter vigorously.

During the year ended June 30, 2010, the Agency entered into a collective bargaining agreement with the Civil Service Employees Association, Inc. ("CSEA"). This agreement will be effective until June 30, 2012. Additional information regarding the agreement can be obtained by contacting Lifespire, Inc. at 350 Fifth Avenue, Suite 301, New York, NY 10118.

Operating Leases

The Agency is obligated, pursuant to real property lease agreements, for minimum monthly rentals for its administrative and program operations as follows:

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June 30,		
2012	$	6,110,531
2013		4,730,613
2014		3,376,268
2015		2,259,849
2016		1,808,203
Thereafter		13,459,033
	$	31,744,497

For the year ended June 30, 2011, rent expense was $6,525,904, which was fully reimbursable to the Agency by the funding sources. The amounts are recovered through fees for service.

A renewal option allows the Agency, at its sole option, the right to extend some of the leases for an additional five-year period with a predetermined rent base amount with annual rent percentage increases. Various leases have rent escalations in which various predetermined annual percentage increases exist throughout the lease periods. A clause exists whereby, in the event that real estate taxes increase during the term of some of the leases, the Agency shall pay any increases in real estate taxes over the base year.

21. 403(b) TAX – SHELTERED ANNUITY PLAN:

The Agency offers a 403(b) tax-sheltered annuity plan for all employees who are eligible and elect to participate. The plan is governed by IRS regulations setting the limits on the amount that employees may contribute and the conditions to withdraw monies from it. The employees each own their individual annuity plan and are responsible for deciding the amount of contributions they wish to make each year (up to the maximum stipulated by the IRS) and how the funds may be invested. There are no employer contributions.

22. CONCENTRATION OF CREDIT RISK:

The Agency has maintained bank balances that often exceed the limit of the Federal Depository Insurance Corporation ("FDIC") insurance coverage. The Agency verifies, on a quarterly basis, the equity strength and profitability of the banks it uses in order to minimize the risk.

The Agency earns its revenue and records related receivables primarily from service fees provided to individuals with developmental disabilities within the New York City area. Approximately 76% of the Agency's revenue is received from Medicaid and approximately 87% of the Medicaid receivable remains outstanding as of June 30, 2011.

23. RISKS AND UNCERTAINTIES:

The Agency's pension plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated statement of financial position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

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LIFESPIRE, INC. AND SUBSIDIARY
(A NOT-FOR-PROFIT ORGANIZATION)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lifespire, Inc. and Subsidiary

We have audited the accompanying consolidated statement of financial position of Lifespire, Inc., (a non-profit organization) and Subsidiary as of June 30, 2010 and the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of Lifespire, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 Lifespire, Inc. and Subsidiary as of June 30, 2010 and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ERE LLP

New York, NY
November 29, 2010

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30,		**2010**
Assets:		
Cash and cash equivalents	$	19,420,012
Investments		2,799,021
Accounts receivable - net of allowance for doubtful accounts of $18,265		340,662
Accrued income receivables		18,180,559
Due from related parties		900,715
Security deposits and prepaid expenses		790,781
Assets restricted to investment in property, plant and equipment		8,478,975
Property, plant and equipment - net of accumulated depreciation of $18,976,102		19,956,497
Deferred charges - net of accumulated amortization for bond issuance costs of $629,378		1,312,212
Total Assets	**$**	**72,179,434**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$	10,143,511
Accrued payroll		4,509,632
Accrued compensated absences		2,689,201
Recoupments payable		4,995,309
Deferred income		2,281,470
Due to funding sources		243,684
Mortgages payable - DASNY		3,723,764
Underfunded pension obligation		9,066,853
Underfunded health insurance obligation		4,098,016
Notes payable		1,162,182
Bond payable - DASNY		6,125,000
Bonds payable - IDA		10,125,000
Total Liabilities		59,163,622
Net Assets:		
Unrestricted - undesignated		7,688,896
Unrestricted - board designated		1,093,486
Unrestricted - related party receivables		900,715
Unrestricted - property, plant and equipment		3,287,785
Total Unrestricted Net Assets		12,970,882
Temporarily restricted		44,930
Total Net Assets		13,015,812
Total Liabilities and Net Assets	**$**	**72,179,434**

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

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LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30,	2010
Support and revenue - program operations:	
Program service fees	$ 99,181,886
Participants' share of room and board	3,088,060
Subcontract	498,829
MCFAA and DASNY bond fees	802,079
Subtotal - support and revenue - program operations	103,570,854
Net assets released from restrictions	16,652
Total support and revenue - program operations	103,587,506
Expenses:	
Program services	97,140,153
Management and administration	6,430,085
Total expenses	103,570,238
Change in unrestricted net assets before other revenue and prior period revenue	17,268
Other revenue:	
Interest income	226,897
Contributions and fundraising	11,912
Unrealized loss on investments	(3,586)
Miscellaneous	12,672
Total other revenue	247,895
Changes in unrestricted net assets before prior period revenue	265,163
Prior period revenue	1,597,096
Increase in unrestricted net assets	1,862,259
Changes in temporarily restricted net assets:	
Donors	8,025
Grants	10,000
Net assets released from restrictions	(16,652)
Change in temporarily restricted net assets	1,373
Increase in net assets	1,863,632
Net assets - beginning of year	11,152,180
Net assets - end of year	**$ 13,015,812**

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

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30,	2010
Unrestricted net assets - beginning of the year	$ 11,108,623
Increase in unrestricted net assets	1,862,259
Unrestricted net assets - end of year	**12,970,882**
Temporarily restricted net assets - beginning of the year	43,557
Increase in temporarily restricted net assets	1,373
Temporarily restricted net assets - end of year	**$ 44,930**

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2010	Program Services						
	Waiver Services	Residential	Mental Health	Other Programs	Total Program Services	Management and General	Total Expenses
Salaries	$ 18,899,486	$ 18,881,032	$ 973,907	$ 3,314,300	$ 42,068,725	$ 2,603,025	$ 44,671,750
Payroll taxes and benefits	7,747,536	7,247,856	338,034	1,183,087	16,516,513	821,387	17,337,900
Total personnel costs	26,647,022	26,128,888	1,311,941	4,497,387	58,585,238	3,424,412	62,009,650
Professional fees and contracted services	701,946	855,523	2,625	3,778,097	5,338,191	961,444	6,299,635
General and professional liability insurance	826,154	372,521	85,823	182,772	1,467,270	203,926	1,671,196
Supplies and expenses:							
Food, household supplies and services	214,204	2,210,015	2,178	28,551	2,454,948	22,669	2,477,617
Rent and real estate taxes	2,823,217	2,400,179	162,394	417,995	5,803,785	795,939	6,599,724
Transportation	10,901,813	1,135,690	62,041	374,990	12,474,534	164,196	12,638,730
Utilities and telephone	871,431	842,639	133,230	128,477	1,975,777	132,326	2,108,103
Maintenance and repair	257,151	434,747	13,733	32,007	737,638	38,412	776,050
General	788,487	1,325,583	85,861	1,301,476	3,501,407	601,760	4,103,167
Bond related expense	36,566	72,737	-	1,995	111,298	5,706	117,004
Total expenses before interest, fees and bond expense and depreciation and amortization	44,067,991	35,778,522	1,859,826	10,743,747	92,450,086	6,350,790	98,800,876
Interest, fees and bond expense	553,300	1,608,176	-	110,198	2,271,674	17,555	2,289,229
Depreciation and amortization	969,184	1,287,466	15,537	146,206	2,418,393	61,740	2,480,133
Total Expenses	**$ 45,590,475**	**$ 38,674,164**	**$ 1,875,363**	**$ 11,000,151**	**$ 97,140,153**	**$ 6,430,085**	**$ 103,570,238**

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30,		2010
Cash flows from operating activities:		
Increase in net assets	$	1,863,632
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		2,480,133
Amortization of bond issue costs		96,771
Unrealized loss on investments		3,586
Bad debt expense		(841)
Loss on disposal of asset		1,625
Changes in operating assets and liabilities:		
Increase in investments		(53,154)
Increase in accounts receivable		(99,781)
Decrease in accrued income receivables		1,765,586
Increase in due from related parties		(71,091)
Decrease in security deposits and prepaid expenses		272,381
Increase in deferred charges		(393,742)
Increase in accounts payable and accrued expenses		1,742,266
Increase in accrued payroll		2,440,324
Decrease in accrued compensated absences		(106,561)
Increase in underfunded pension obligation		462,559
Increase in underfunded health insurance obligation		775,542
Net cash provided by operating activities		11,179,235
Cash flows from investing activities:		
Purchase of investments		(3,827,026)
Proceeds from sale of investments		3,454,513
Purchase of property, plant and equipment		(757,774)
Reinvested investment activity		(34,794)
Increase in assets restricted to investment in property, plant and equipment		(224,072)
Net cash used in investing activities		(1,389,153)
Cash flows from financing activities:		
Increase in recoupments payable		10,810
Repayments of mortgages payable - DASNY		(489,575)
Proceeds from notes payable		1,425,141
Repayment of notes payable		(5,416,082)
Proceeds from bond payable - DASNY		6,125,000
Repayments of bond payable - DASNY		(30,000)
Repayments of bonds payable - IDA		(1,105,000)
Net cash provided by financing activities		520,294
Net increase in cash and cash equivalents		10,310,376
Cash and cash equivalents, at beginning of year		9,109,636
Cash and cash equivalents, at end of year	$	19,420,012
Non Cash Investing and Financing Activities:		
Unrealized loss on investments	$	3,586
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$	576,212
Income taxes	$	-

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

1. ORGANIZATION, TAX STATUS AND SIGNIFICANT ACCOUNTING POLICIES:

Organization

Lifespire, Inc. (the "Agency") serves individuals with disabilities and their families through various programs which include, but are not limited to, residential, habilitation and day programs. The Agency is funded through government programs, consumer contributions and gifts. It is the Agency's aim to provide individuals with disabilities the assistance and support necessary to achieve a level of functional behaviors and cognitive skills to enable them to maintain themselves in their community in the most integrated and independent manner possible.

Principles of Consolidation

The consolidated financial statements include the accounts of the Agency and its wholly owned subsidiary, Manhattan Management Solutions, LLC (the Organization). Manhattan Management Solutions, LLC was established to provide consulting services to other not-for-profit organizations. The Organization is being consolidated since the Agency has both an economic interest in and control over the Organization through a majority voting interest in its governing board. During the fiscal year ended June 30, 2010, the Organization was dormant with no activity taking place.

Tax Status

The Agency is organized under the not-for-profit corporation law of the State of New York. The Agency has been granted exemption from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and is deemed to be a public charity pursuant to the Internal Revenue Service.

Effective December 15, 2009, the Agency adopted the new accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of the accounting standards did not have an impact on the Agency's financial statements.

In assessing the realizability of tax benefits, management considers whether it is more likely than not that some portion or all of any tax position will not be realized. The ultimate realization of such tax positions is dependent upon the generation of future income. Management considers projected future income, and tax planning strategies in making this assessment. Based upon the level of historical income and projections for future income, management believes it is more likely than not that the Agency will realize all tax benefits. Management believes that its tax-exempt status would be sustained upon examination.

If applicable, the Agency would classify interest and penalties on underpayments of income tax as miscellaneous expenses.

The Agency does not expect a significant increase or decrease to the total amounts

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of unrecognized tax positions during the fiscal year ended June 30, 2010. However, the Agency is subject to regular audit by tax authorities. The Agency believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

The Agency files income tax returns in the United States federal and New York state jurisdictions. With few exceptions, the Agency is no longer subject to U.S. federal or state income tax examinations by tax authorities for fiscal years before 2007.

Financial Statement Presentation
The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

The classification of an organization's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted - Net assets resulting from (a) contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Temporarily Restricted - Net assets resulting from (a) contributions and other inflows of assets the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal of actions of the organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets. However, if a restriction is fulfilled in the same time period in which the contributions are received, the Agency reports the support as unrestricted.

Unrestricted Net Assets - The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
Management has reviewed subsequent events and transactions that occurred after the balance sheet date through the auditors' report date and date of issuance. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

Risks and Uncertainties
The Agency has a Pension Plan (the "Plan") that invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Consolidated Statement of Financial Position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Agency considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents, except for those money market funds and short-term certificates of deposit which are included in investments. Included in cash and cash equivalents as of June 30, 2010 are several amounts of restricted cash.

Investments
The Agency carries its investments at fair value. In accordance with accounting standards, investments have been measured at fair value determined by quoted market prices and realized and unrealized gains and losses are reported in the Consolidated Statement of Activities. Income from investments is considered unrestricted net assets unless restricted by a donor. Management reviews its

investments for declines other than temporary.

Valuation of Investment in Securities at Fair Value-Definition and Hierarchy
Effective January 1, 2008, the Agency adopted fair value measurement standards. Under these standards, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standards establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable units be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Agency. Unobservable inputs reflect the Agency's assumption about inputs market participants at the measurement date. The fair value hierarchy is categorized into three levels based on inputs as follows:

Level 1- Valuation based on quoted prices in active markets for identical assets or liabilities that the Cooperative has the ability to access.

Level 2- Valuation based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3- Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

The Agency's investment consists of bank certificates of deposit and money market funds. The Agency uses the Level 2 fair value hierarchy in the valuation of these securities.

Accounts Receivable - Net
All known uncollected accounts receivable have been written down to the collectible value as of June 30, 2010. In addition, there exists a reserve for doubtful accounts of $18,265 as of June 30, 2010 for accounts receivable. The allowance for doubtful accounts is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts based on current economic conditions. Management uses 5% of subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts.

Accrued Income Receivables and Program Service Fees
The Agency receives a major portion of its program service fees from Medicaid in conjunction with the New York State Office for People With Developmental Disabilities, OPWDD (formally OMRDD). Program service fees are also received from the Social Security Administration and directly from OPWDD (formally OMRDD). Rates of reimbursement derived from cost based methodologies are established annually by OPWDD (formally OMRDD). Substantially all of the

accrued income receivables of $18,180,559 are due from these governmental agencies.

There is no provision within these financial statements for any possible contingent liability that may result from any disallowances as a result of reimbursement rate adjustments for program service fees relating to the year ended June 30, 2010. Although such possible disallowances could be substantial in amount, in the opinion of management, any actual disallowance would be immaterial.

Property, Plant and Equipment
Property and equipment is stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized in accordance with funding source guidelines. For those items that are not paid for by funding sources, the Agency maintains a policy to capitalize those costing in excess of $5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease.

The Agency reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future discounted cash flows is less than the carrying amount of the assets, the Agency recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2010.

Deferred Income
The Agency records unearned advances to fee for service revenue as deferred revenue until it is expended for the purpose of the funding source, at which time it is recognized as revenue. The balance in deferred revenue as of June 30, 2010 represents amounts received for various programmatic operations that will be recognized as revenue in the future, as it is earned.

Bond Costs
Bond costs which reflect bond premiums and discounts are amortized over the life of the bonds. Amortization expense of these costs for the year ended June 30, 2010 is $96,771. These costs are included in interest, fees and bond expense of $2,289,229 shown on the Consolidated Statement of Functional Expenses.

Contributions

Contributions - Contributions are considered to be available for unrestricted use unless specifically raised for special purposes or designated by the donor.

Restricted Contributions - The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the same statement of activities as net assets released from restrictions. If the restriction will be satisfied within one year, then the Agency would record the contribution as temporarily restricted net assets and reallocate to unrestricted net assets when the restriction is satisfied.

In-Kind Contributions
In-kind contributions consist of property and services donated by state agencies and individuals. The value placed by the state agencies and individuals are used for valuing the contribution received. These properties were recorded as unrestricted and the related depreciation taken was recorded as unrestricted. If no value is provided by donor, an estimated value is placed by the Agency.

Start-Up Costs
Certain costs related to the organization of a new entity, a new business line or product or location are expensed as incurred. This position is followed by the Agency and the funding source which governs the program for which such start up expenses were incurred.

Revenue Recognition
Support and revenue is recognized on a fee for service basis for service arrangements with various consumers and/or customers. Revenue is recognized contingent to services being rendered. The reimbursements received from certain funding sources are subject to reconciliations. The funding sources may request return of reimbursements for noncompliance.

Contributed Services
Time is donated to the Agency by various volunteers. The value of this time is deemed to be immaterial, and therefore has not been reflected in the accompanying consolidated financial statements.

Rent Expense
Rent expense is recognized based upon the obligations required by the leases as the funding sources fully reimbursed the Agency for rent expense for the year ended June 30, 2010. This is a departure from generally accepted accounting principles which requires that rent expense be recognized on a straight-line basis over the term of the lease. The dollar value of this difference was deemed to be immaterial and no adjustment was made. Pursuant to the Agency's funding regulations, any amounts recorded result in additional income being recorded to offset the additional rental expense incurred. Rent expense for the year ended June 30, 2010 was $6,345,192.

Advertising
Advertising costs are expensed as incurred. Advertising expense totaled $214 for the year ended June 30, 2010, and is included in general expenses in the accompanying Consolidated Statement of Functional Expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

Special Events
The direct costs of special events include expenses for the benefit of the donor. For example, meals and facilities rental are considered direct costs of special events. During the fiscal year ended June 30, 2010, the Agency did not incur any special events expenses due to no such events being held.

Functional Allocation of Expenses
The costs of providing for the programs are summarized on a functional basis in the statement of functional expenses. Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications using bases determined by management to be reasonable.

2. CASH AND CASH EQUIVALENTS:

The Agency considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are held in interest bearing checking and savings accounts at financial institutions. As of June 30, 2010, total cash and cash equivalents of $19,420,012 included restricted cash amounts comprised of the following:

Restricted cash		6/30/10
Temporarily restricted contributions	$	44,930
403(b) tax sheltered annuity plan		75,860
Health Reimbursement Accounts		3,309,553
	$	3,430,343

3. INVESTMENTS:

For the year ended June 30, 2010, the Agency's investments (including gains and losses on investments bought, sold and held during the year) depreciated in value by $3,586 resulting in a fair market value of $2,799,021 as follows:

		6/30/10		
		Cost		Fair Value
Bank Certificates of Deposit:				
Bank of America	$	903,168	$	903,168
UBS Financial Services		2,483		88
Smith Barney		1,158,825		1,154,468
Chase		341,917		345,083
Total Bank Certificates of Deposit		2,404,143		2,402,807
Chase and HSBC Money Market Funds		396,213		396,214
	$	2,800,356	$	2,799,021

		6/30/10
Fair market value - beginning of year	$	2,342,145
Investment activity:		
Interest/dividends and fees		53,305
Fees		(150)
Reinvestments		34,794
Purchases		3,827,026
Sales (at cost)		(3,454,513)
		2,802,607
Net decrease in fair value of investments:		
Unrealized loss		(3,586)
Total net decrease in fair value of investments		(3,586)
Fair market value - end of year	$	2,799,021

4. FAIR VALUE MEASUREMENTS:

The following tables present by level, within the fair value hierarchy, the Agency's unrestricted investment assets at fair value, as of June 30, 2010. As required by fair value measurement accounting standards, investment assets are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement.

The Agency did not have any investment assets at fair value classified within Level 1 or Level 3 as of June 30, 2010.

	Total	Quoted Market Prices in Active Market Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of Deposit	$ 2,402,807	$ -	$ 2,402,807	$ -
Money Market Funds	396,214	-	396,214	-
	$ 2,799,021	$ -	$ 2,799,021	$ -

Following is a description of the valuation methodologies used for assets as fair value:

Certificate of deposit: The market value of a certificate of deposit is estimated using a matrix based on interest rates.

Money market funds: Prices are received from various pricing services. Instances where pricing sources are not readily available, estimated prices may be generated by a matrix system or market-driven pricing model.

5. DUE FROM RELATED PARTIES:

The Agency is owed $900,715 from three not-for-profit related parties as follows:

The first is an amount of $174,124 due from its HUD affiliate and includes $33,921 of non-interest bearing loans used for operational purposes. An amount of $15,000 was repaid to the Agency in July 2010. The Agency also has a note receivable of $140,203 due from this related party dating back a number of years. Based on discussion with HUD officials, the Agency was not permitted to charge interest. The Agency expects to be repaid when the entity has sufficient cash flow available. This entity paid the Agency a management fee of $12,672 for the year ended June 30, 2010 as required by HUD. The Agency is a related party in that certain staff members of the Agency are also Board members of this other non-for-profit HUD organization.

For the second entity, there is a note receivable which was executed on April 30, 2010 in an amount of $689,901. This amount represents the aggregate principal and interest as of April 30, 2010 which was previously loaned to the entity by the Agency. There is no further interest to be charged after April 30, 2010. The entity is obligated to pay the outstanding indebtedness in twenty-five equal annual installments of $27,596 on or before April 30th of each year. During the current fiscal year, a payment of $27,596 was made to the Agency as a partial repayment. The total outstanding balance of the note due to the Agency as of June 30, 2010 amounted to $662,305. There is also a loan amount of $55,500 due from this entity as of June 30, 2010 which accrues interest at a rate of 6 percent per annum. There is an amount of $8,786 of accrued interest which is owed to the Agency as of June 30, 2010, and is included in this balance. The Agency is a related party in that the Board members of the entity are also Board members of the Agency.

The third entity provides space to the Agency for the operation of one of its community rehabilitation programs. In lieu of rent, the Agency maintains and improves the building, as needed. The entity paid the Agency $35,101 for reimbursement for the salary of three of its employees who provide service to the entity. The entity also sells its inventory to the Agency at cost and pays for outsourced labor to the Agency. The Agency is a related party in that certain staff members of the Agency are also Board members of this other not-for-profit corporation.

Management periodically reviews the related party accounts to determine if an allowance is necessary. The related party receivables have been adjusted for all known uncollectible accounts. For the year ended June 30, 2010, no allowance was necessary because the related party receivables were determined to be fully collectible.

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6. ASSETS RESTRICTED TO INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT:

As of June 30, 2010, the Agency had the following assets restricted to investment in property, plant and equipment:

Debt Service Reserve - MCFFA (DASNY)	$	401,875
Debt Service Reserve/Escrow Balance - IDA - Bond 2002		845,857
Debt Service Reserve/Escrow Balance - IDA - Bond 2004		1,215,363
Debt Service Reserve/Escrow Balance - IDA - Bond 2008		770,769
Debt Service Reserve - DASNY- Bond 2010		249,802
Cash – Recoupment's Payable		4,995,309
	$	8,478,975

The debt service reserve - MCFFA amount of $401,875 represents a portion of the loan proceeds retained by the New York State Medical Care Facilities Finance Agency (MCFFA) under the terms and conditions in the loan agreement.

The monies are designated to be applied to scheduled debt service payments in the future. In 1996, the debt service reserve amounts were transferred to the Dormitory Authority of the State of New York (DASNY).

The debt service reserve/escrow balance - IDA - Bond 2002 amount of $845,857 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 15 for more detail).

The debt service reserve/escrow balance - IDA - Bond 2004 amount of $1,215,363 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 15 for more detail).

The debt service reserve/escrow balance - IDA - Bond 2008 amount of $770,769 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 15 for more detail).

The debt service reserve – DASNY 2010 amount of $249,802 represents the portion of loan proceeds retained by Dormitory Authority of the State of New York (DASNY) InterAgency Council Pooled Loan Program under the terms and conditions in the loan agreement.

The cash amount of $4,995,309 represents various amounts received from funding

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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sources that will be used to pay amounts included within recoupment's payable.

7. TEMPORARILY RESTRICTED NET ASSETS:

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2010, which are available for use in future years, were as follows:

	Balance 07/01/09	Additions	Expenditures	Balance 06/30/10
Program	$ 43,557	$ 18,025	$ (16,652)	$ 44,930

The funds released from restrictions were used towards operating expenses for one of the Agency's Intermediate Care Facility properties.

8. PROPERTY, PLANT AND EQUIPMENT:

As of June 30, 2010, detailed information is as follows:

	Cost	Estimated Useful Lives
Land	$ 4,509,267	-
Buildings and improvements	22,656,552	5-20 Years
Furniture and equipment	2,769,048	5 Years
Vehicles	648,532	4 Years
Leasehold improvements	8,200,909	10-20 Years
	38,784,308	
Less: accumulated depreciation and amortization	(18,976,102)	
Construction in progress	148,291	
	$ 19,956,497	

The above amounts include land and buildings which were donated to the Agency by OPWDD (formally OMRDD). The Agency is subject to adhering to certain terms, conditions and restrictions as to the use and ultimate disposition of these properties as further delineated in the disposition and subordination agreements entered into with the funding source.

Depreciation and amortization expense for the year ended June 30, 2010 is $2,480,133.

9. RECOUPMENTS PAYABLE:

The amount of $4,995,309 consists of amounts of reimbursement received from certain funding sources, which are in excess of amounts earned, and amounts for which the scheduled recoupment differs from the actual recoupment made through June 30, 2010. The funding sources are expected to recover these amounts in the future through the recoupment process.

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10. DEFERRED INCOME: Deferred income of $2,281,470 include amounts received from various funding sources over the years for various programmatic operations but not earned as revenue as of June 30, 2010. Some of these liabilities relate to the New York State Office for People With Developmental Disabilities (OPWDD), (formally OMRDD). These liabilities do not bear interest and will be recognized as revenue periodically in the future as it is deemed to be earned.

11. DUE TO FUNDING SOURCES: The due to funding sources amount of $243,684 includes an amount of $8,966, which represents various maximum potential contested liabilities for proposed contract adjustments with certain funding sources for prior periods.

The balance of $234,718 represents a liability due back to OPWDD (Formally OMRDD) as a result of certain "desk-audits" performed on certain programs by OPWDD (Formally OMRDD). These "desk-audits" were the result of a statewide requirement by OPWDD (Formally OMRDD) and other governmental agencies, due to the clarification and revisions of certain policies and procedures set forth by OPWDD and these other governmental agencies.

12. MORTGAGES PAYABLE - DASNY: Mortgages payable - DASNY amounting to $3,723,764 represent self-liquidating term notes owed to the Dormitory Authority of the State of New York (DASNY) which has as its agent OPWDD (formally OMRDD). Some of the notes were originally related to New York State Medical Care Facilities Finance Agency (MCFFA) improvement bonds loaned to the FDC. The DASNY is the successor to the MCFFA and in 1996 FDC projects were transferred to DASNY. In 1996, the MCFFA bonds were refunded by the issuance of DASNY Mental Health Services Facilities Improvement Revenue Bonds.

Periodic recoupments are expected to continue to be made by OPWDD (Formally OMRDD) from the Agency, for remittance to FDC to satisfy the debt service and administration fees. The payments are first applied to interest and then to principal. The Agency has and/or will receive additional amounts of reimbursement as an increase to its per diem rates to repay these recoupments. The notes are collateralized by (1) the real property located at each of the sites (2) all accounts receivable generated from billings related to the respective locations and (3) all personal property owned by the Agency located at each of the sites. The Agency is entitled to credits in an amount equal to the past accrued interest earned on the Debt Service Reserve Fund for some of the above-mentioned liabilities. When such credits are determined and applied to the corresponding mortgages, then those mortgage liabilities will be reduced accordingly.

Additional information for the mortgages payable - DASNY is reflected below:

Project Name	Maturity Date	Fixed Interest Rate	Total
Racal Court	2/15/13	7.37%	$ 126,750
South Ave.	8/15/15	7.68%	157,741
213-233 48th St. (Sunset I)	2/15/18	7.34%	723,185
87-21 121st St. (Queens)	2/15/18	6.41%	1,870,250
Jumel	8/15/18	6.41%	700,750
Esplanade	2/15/11	5.44%	40,450
208th St.	8/15/10	5.81%	36,589
94th St.	8/15/10	5.81%	68,049
Total Mortgages Payable – DASNY			$ 3,723,764

The Mortgage balances for 213-233 48th Street and 87-21 121st Street locations are for the Day Treatment and Day Habilitation Programs. Commencing with the fiscal year ended June 30, 2004, OPWDD (formally OMRDD) allocates a portion of the bond (mortgage) payable to a separate Day Habilitation MMIS Provider number for debt recovery purposes. However, the total indebtedness does not change.

13. NOTES PAYBLE: The Agency has a line of credit agreement with J.P. Morgan Chase for a maximum of $5,000,000 that is due March 15, 2011. The proceeds of the line of credit were to be used for operating expenses. Interest is charged to the line of credit at the bank's floating rate of prime plus 0.5% and is secured by a lien on Agency government receivables. These government receivables totaled $18,180,559 at June 30, 2010. There was no outstanding balance as of June 30, 2010.

Under the terms of a line of credit agreement with Bank of America on March 31, 2010, the Agency may borrow up to $5,000,000 at the bank's prime interest rate plus 0.5% through March 31, 2011, when the agreement expires. The Agency's property has been pledged as collateral against any advances on the line of credit. As of June 30, 2010, there was an outstanding balance of $1,162,182.

14. BOND PAYABLE-DASNY: Bond payable DASNY amounting to $6,125,000 represent amounts owed relating to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2010A, subseries 2010A-1 and 2010A-2 (the "Bonds"). Please refer to the Bond Offering Statement dated March 31, 2010 for additional information.

The Agency used the Bond proceeds to refinance $5,485,795 of indebtedness on seven properties. The interest rate is not to exceed 7.5 percent on the Series 2010A Bonds. The interest is payable to the bondholders on a semi-annual basis commencing on August 1, 2010. The cost of the Bond issuance amounted to $315,226 which will be amortized over the life of the Bond.

Payments of interest and principal under the Loan Agreement are to be made monthly on the 10th day of each month into the Debt Service Reserve Fund by the Agency. On August 1, 2010, the principal amount of $470,000 will be paid in full by the Agency, as well as all interest and fees associated with the payment, to the bondholders. The Agency satisfied these obligations during June 30, 2010 by virtue of periodic recoupments made by OPWDD (formally OMRDD) from its rates of reimbursement for those programs that are operated at these sites. The principal payment of the consolidated debt owed to the bondholders is as follows:

Due Date		Principal Due
August 1,		
2010	$	470,000
July 1,		
2011		470,000
2012		475,000
2013		495,000
2014		410,000
Thereafter		3,805,000
	$	6,125,000

The Series 2010A Bonds will be secured ratably by each applicable mortgage, the pledge and assignment to the Trustee of the Revenues and the DASNY's security interest in the Pledged Revenues, subject to Prior Pledges. Please refer to the Bond Offering Statement dated March 31, 2010 for additional information.

The bond payable DASNY requires the Agency to maintain certain financial covenants. At June 30, 2010, the Agency was determined to be in compliance with these covenants.

15. BONDS PAYABLE-IDA:

Bonds payable - IDA totaling $10,125,000 are made up of the following bonds payable at June 30, 2010:

Series	Due Date		Principal Due
2002 C-1	July 1, 2017	$	2,465,000
2004 A-1 and B-1	July 1, 2023		3,600,000
2004 C-1	July 1, 2014		585,000
2008 A-1 and A-2	July 1, 2033		3,475,000
Total IDA Bonds Payable		$	10,125,000

Bonds payable - IDA - 2002 amounting to $2,465,000 represent amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2002 C-1.

The interest rate is based on a life average rate of 7.63176% on the Series 2002 C-1

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Bond ($2,465,000). The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2003. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2003. The cost of the bond issuance amounted to $395,027 ($380,027 was incurred when the bond closed and $15,000 was incurred prior to the bond closing), of which $189,019 was amortized as of June 30, 2010. The costs of issuance are being amortized over the term of the bond obligations.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,		Principal Due
2010	$	265,000
2011		270,000
2012		270,000
2013		280,000
2014		280,000
Thereafter		1,100,000
	$	2,465,000

Bonds Payable - IDA - 2004 amounting to $4,185,000 represents amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2004 A-1 and B-1, and Series 2004 C-1.

The Agency used the Series A-1 and B-1 bond proceeds to refinance $4,112,273 of indebtedness on four properties. The interest rate is based on a life average rate of 8.890508% on the Series 2004 A-1 and B-1 ($3,600,000). The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2004. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2004.

The cost of the bond issuance amounted to $685,629 ($694,975 was incurred when the bond closed less $9,346 reimbursed after the bond closing), of which $216,515 was amortized as of June 30, 2010. The costs of issuance are being amortized over the term of the bond obligations.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

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The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2010	$ 355,000
2011	360,000
2012	360,000
2013	215,000
2014	220,000
Thereafter	2,090,000
	$ 3,600,000

The Agency used the Series C-1 bond proceeds to finance $805,621 of indebtedness on one property and to pay off a balance due on one line of credit. The interest rate is based on the life average rate of 5.96% on the Series 2004 C-1 ($585,000). The interest is payable to the bondholders on a semi-annual basis commencing on January 1, 2005. The principal is payable to the bondholders on an annual basis commencing on July 1, 2005. The cost of the bond issuance amounted to $50,095, of which $19,917 was amortized as of June 30, 2010. The cost of bond discounts amounted to $41,281, of which $23,736 was amortized as of June 30, 2010. The costs of issuance and discounts are being amortized over the term of the Bond obligations.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2010	$ 110,000
2011	110,000
2012	115,000
2013	120,000
2014	130,000
Thereafter	0
	$ 585,000

Bonds payable - IDA - 2008 amounting to $3,475,000 represent amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2008 A. These bonds are segregated into Series 2008 A-1 and Series 2008 A-2 (taxable).

The interest rate is based on a life average rate and is disclosed in the bond agreement. The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2008. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2008. The cost of the bond issuance amounted to $265,634 of which $76,753 was amortized as of June 30, 2010. The costs of issuance are being amortized over the term of the bond obligations. Pursuant to the bond agreement, there is a first lien on the properties being mortgaged except for the facility located at 213 48th Street, Brooklyn which carries a second lien.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2010	$ 370,000
2011	265,000
2012	260,000
2013	260,000
2014	170,000
Thereafter	2,150,000
	$ 3,475,000

The Agency expects that, periodically, OPWDD (formally OMRDD) will adjust the IRA per diem rate to provide the Agency with the appropriate amount of reimbursement to repay the debt principal, related interest and fees. The Series 2002 C-1, 2004 A-1, B-1, and C-1, as well as Series 2008 A-1 and A-2 bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and the IDA's security interest in the pledged revenues, subject to Prior Pledges. Please refer to the Bond Offering Statement dated January 10, 2003 for additional information on Series 2002 Bonds, the Bond Offering Statement dated February 27, 2004 for additional information on the 2004 Series A-1 and B-1 bonds, the Bond Offering Statement dated July 15, 2005 for additional information on the Series 2004 C-1 bonds, as well as the Bond Offering Statement dated January 30, 2008 for additional information on the Series 2008 A1 and A-2 bonds.

The bonds payable IDA requires the Agency to maintain certain financial covenants. At June 30, 2010, the Agency was determined to be in compliance with these covenants.

16. MATURITIES OF DEBT TO THIRD PARTIES:

Approximate maturities of short-term and long-term debt are as follows:

June 30,		
2011	$	3,784,879
2012		2,163,725
2013		2,200,175
2014		2,103,025
2015		1,954,766
Thereafter		16,449,839
	$	28,656,409

The short-term and long-term debt is comprised of the following:

Recoupments Payable	$	4,995,309
Deferred Income		2,281,470
Due to Funding Sources		243,684
Mortgages Payable – DASNY		3,723,764
Bonds Payable – DASNY		6,125,000
Bonds Payable – IDA		10,125,000
Notes Payable		1,162,182
	$	28,656,409

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17. BOARD DESIGNATED FUND:

The board designated fund (the Fund) is used to account for certain assets of the Agency which are earmarked for future programmatic expansion purposes. The Fund is used to help alleviate the ongoing financial pressure due to the timing of the collection of government funding, the limitation of available government funding and to supplement fund raising activities. The Agency has minimal monthly cash needs of approximately $8,500,000 to finance its programmatic operations.

18. PRIOR PERIOD REVENUE:

The prior period revenue of $1,597,096 is primarily comprised of typical retroactive rate adjustments attributable to various programs.

19. DEFINED BENEFIT PENSION PLAN:

The Agency has a defined benefit pension plan covering all of its eligible employees. The benefits are based on years of service and the employee's highest five years of compensation during the last ten years of employment. The Agency's funding policy is to contribute annually the required amount that should be deducted in accordance with federal income tax guidelines. The Agency's contributions for calendar year 2009 exceeded the minimum funding requirements of ERISA.

Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The employer contributions amounted to $1,162,517 and the benefits paid amounted to $484,707 during the fiscal year ended June 30, 2010. The Agency expects to contribute $1,160,000 to its pension plan in the fiscal year ended June 30, 2011.

Prior to June 30, 1993, the amount expensed in the employer's financial statements for a qualified defined benefit pension plan was generally equal to the amount contributed. Under new accounting standards, this is no longer true. IRS rules continue to govern the determination of the annual required employer contributions. These accounting standards, completely independent of IRS funding guidelines, now govern the determination of the amount that must be expensed each year. There is no connection between the two sets of requirements. Amounts expensed may be higher or lower than actual dollar contributions.

According to actuarial projections, the existing funding policy contribution amount is not sufficient to cover the cost of the plan over next several years. During the year ended June 30, 2010, the board of the Agency decided to freeze the pension plan effective December 31, 2010. This curtailment resulted in a reduction in the required underfunded pension obligation of $5,044,643 as of June 30, 2010.

Under the accounting standards, a liability (underfunded pension obligation) is disclosed at fiscal year end. The underfunded pension obligation is a compilation of the excess of total past and future amounts expensed to date over past amounts contributed. Since amounts expensed each year were not consistent with the accounting standards' requirements, there is a cumulative amount totaling $9,066,853 of underfunded pension obligation as of June 30, 2010.

The following table sets forth the plan's funded status and amounts recognized in the Agency's statement of financial position at June 30, 2010:

Benefit obligation as of June 30, 2010	$	(26,913,789)
Plan assets at fair value at end of measurement period primarily listed stocks and U.S. bonds		17,846,936
Funded Status at June 30, 2010		(9,066,853)
Underfunded Pension Obligation	$	(9,066,853)

The accumulated benefit obligations for the year ended June 30, 2010 was $26,804,602.

Net pension cost for the fiscal year ended June 30, 2010 included the following components:

Service cost	$	1,115,731
Interest cost		1,679,008
Expected return on plan assets		(1,279,118)
Amortization of loss and prior service cost		615,712
Curtailment loss		421,181
Net periodic pension cost	$	2,552,817

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Assumptions Weighted Average

Discount Rate	5.85%
Expected Long Term Return on Plan Assets	8.00%
Rate of Compensation Increase	2.50%

The pension plan asset allocations, along with respective dollar values and fair value measurements, at June 30, 2010, by asset category are as follows:

Asset Category	Percentage of Plan Assets	Dollar Amount	Fair Value Measurement
Equity securities	62%	$ 11,065,100	Level 1
Fixed income	33%	5,889,489	Level 2
Other	5%	892,347	Level 2
	100%	$ 17,846,936	

Expected Future Benefits
The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year Beginning July 1,	Pension Benefits
2010	$ 581,181
2011	649,504
2012	746,219
2013	866,634
2014	955,911
Thereafter	6,692,559
	$ 10,492,008

20. POSTRETIREMENT HEALTH CARE BENEFIT PLAN:

The Agency sponsors a defined benefit postretirement health care benefit plan.

Plan Provisions

Retired Prior to January 1, 2000

For certain long-service employees, the plan will pay the monthly premium for the participant (and eligible spouse) to continue coverage under the pre-2000 postretirement plan.

Retired January 1, 2001 and Later

For employees who retire on or after age 65 with at least 20 years of service, the Agency will enroll the retiree and eligible spouse in an AARP Medicare Supplement plan and contribute the following towards such coverage (for each retiree and eligible spouse):

-- 20 years of service	Plan E	--$130.25 per month
-- 25 years of service	Plan G	--$152.25 per month
-- 30 years of service	Plan I	--$259.00 per month

For employees who retire between ages 62 and 65, with the requisite years of service, the Agency will contribute, as per the above schedule, towards coverage under the current active employee's plan, until Medicare eligibility. At that time, the retiree will be treated in the same fashion as a post-65 retiree.

If an eligible spouse is not Medicare eligible, the Agency will contribute towards coverage under the current active employees' plan in an amount based on the retiree's service as described above.

Determination of the Net Periodic Benefit Cost for the Fiscal Year

July 1, 2009 through June 30, 2010:

(1)	Service Cost	$ 202,172
(2)	Interest Cost	225,654
(3)	Amortization:	
	(a) Transition obligation	-
	(b) Prior service cost	63,914
	(c) (Gain)/Loss	-
	(d) Total amortization	63,914
(4)	Net periodic benefit cost – July 1, 2009 - June 30, 2010	$ 491,740

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2010:

(1)	Accumulated postretirement benefit obligation at June 30, 2010	(4,098,016)
(2)	Net amount recognized at June 30, 2010	(4,098,016)

Assumptions:

Discount Rates:	
Expense	5.85%
Disclosure	5.85%
Mortality:	RP 2000 Separate Annuitants and Non-Annuitants Mortality Table projected to 2010 for males and females
Claim cost:	Monthly premium
Trend:	None

Expected Future Benefit Payments:
The following benefit payments, which reflect expected future service, as appropriate are expected to be paid:

Fiscal Year Beginning July 1,		Postretirement Health Care
2010	$	41,454
2010		54,630
2011		71,083
2012		88,434
2013		105,977
Thereafter		886,072
	$	1,247,650

21. COMMITMENTS AND CONTINGENCIES:

General
Pursuant to the Agency's contractual relationships with certain funding sources, outside agencies have the right to examine the Agency's books and records which pertain to transactions relating to these contracts. The financial statements do not include a provision for possible disallowances and reimbursements. Management believes that any actual disallowances, if any would be immaterial. In addition, certain agreements provide that certain property, plant and equipment owned by or on loan to the Agency (see Note 8) be utilized by the Agency for its continued ownership, since the costs of such property and equipment were funded under these agreements.

There are certain amounts of real and personal property used by the Agency in its program operations which is owned by New York State and/or other governmental sources. The Agency uses some of these real and personal properties at no cost. The value of the benefit received for use of these real and personal properties is not readily measurable and is not recorded in the financial statements.

The Agency has a number of pending lawsuits against them for a variety of reasons. The alleged claims are being handled by legal counsel and/or by its insurance providers. In the opinion of the Agency's legal counsel, and in the opinion of management, there is no basis to establish a liability for any loss contingency due to lack of merit or insurance coverage exceeding expected settlement amounts. Regardless of the circumstance, the Agency has meritorious defenses and has been directed to defend this matter vigorously.

During current year ended June 30, 2010 the Agency entered into a collective a bargaining agreement with the Civil Service Employees Association, Inc. (CSEA). This agreement will be effective until June 30, 2012. Additional information regarding the agreement can be obtained by contacting Lifespire, Inc. at 350 Fifth Avenue, Suite 301 New York, NY 10118.

Operating Leases
The Agency is obligated pursuant to real property lease agreements for minimum monthly rentals for its administrative and program operations as follows:

June 30,		
2011	$	6,527,763
2012		5,080,969
2013		3,813,412
2014		2,933,548
2015		1,803,523
Thereafter		8,595,606
	$	28,754,821

A renewal option allows the Agency, at its sole option, the right to extend some of the leases for an additional five-year period with a predetermined rent base amount with annual rent percentage increases. Various leases have rent escalations in which various predetermined annual percentage increases exist throughout the lease periods. A clause exists whereby, in the event that real estate taxes increase during the term of some of the leases, the Agency shall pay any increases in real estate taxes over the base year.

22. 403(b) TAX – SHELTERED ANNUITY PLAN:

The Agency offers a 403(b) Tax-Sheltered annuity plan for all employees who are eligible and elect to participate. The plan is governed by IRS regulations setting the limits on the amount that employees may contribute and the conditions to withdraw monies from it. The employees each own their individual annuity plan and are responsible for deciding the amount of contributions they wish to make each year (up to the maximum stipulated by the IRS) and how the funds may be invested.

23. CONCENTRATION OF CREDIT RISK:

The Agency has maintained bank balances that often exceed the limit of the Federal Depository Insurance Corporation (FDIC) insurance coverage. The Agency verifies on a quarterly basis the equity strength and profitability of the banks it uses in order to minimize the risk.

The Agency earns its revenue and records related receivables primarily from service fees provided to individuals with developmental disabilities within the New York City area. Major sources of revenue arise from Medicaid and social security payments and state and local assistance payments.

APPENDIX B-VI

NEW HORIZONS RESOURCES, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010 AND DECEMBER 31, 2009)

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New Horizons Resources, Inc.
Financial Report
(Together with Independent Auditors' Report)
December 31, 2011 and December 31, 2010

NEW HORIZONS RESOURCES, INC.

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Marvin and company, p.c.

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Independent Auditors' Report

To the Board of Directors
New Horizons Resources, Inc.

We have audited the accompanying statements of financial position of New Horizons Resources, Inc. (the "Agency") as of December 31, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Horizons Resources, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Support and Revenue Related to Functional Expenses, and the Schedule of Functional Expenses by Program, shown on pages 13 and 14, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Agency's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Marvin and Company, P.C.

March 30, 2012

NEW HORIZONS RESOURCES, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011 AND DECEMBER 31, 2010

	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 5,870,432	$ 4,235,258
Receivables		
Program	1,874,612	3,654,273
Related party	4,697	68,309
Other	54,331	32,788
Prepaid expenses	93,163	84,537
Total Current Assets	7,897,235	8,075,165
Non Current Assets		
Interest in net assets of Foundation	751,488	846,547
Plant, property and equipment - net	13,347,495	14,197,600
Funded reserves	54,112	54,112
Unamortized mortgage costs, net	370,967	428,452
Deposits	3,748	3,748
Residents' funds	231,586	247,764
Total Non Current Assets	14,759,396	15,778,223
TOTAL ASSETS	$ 22,656,631	$ 23,853,388
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 658,440	$ 939,514
Accrued expenses	902,938	986,762
Current installments of long-term debt	926,490	1,193,021
Current installments of due to NYS OPWDD	327,592	80,341
Deferred revenue	53,454	54,761
Total Current Liabilities	2,868,914	3,254,399
Other Liabilities		
Long-term debt, net of current installments	7,463,699	8,190,553
Due to NYS OPWDD, net of current installments	20,634	36,774
Residents' funds	231,586	247,764
Total Other Liabilities	7,715,919	8,475,091
Total Liabilities	10,584,833	11,729,490
Net Assets		
Board designated	-	201,733
Other unrestricted	10,781,466	10,317,190
Total Unrestricted	10,781,466	10,518,923
Temporarily Restricted	1,240,332	1,554,975
Permanently Restricted	50,000	50,000
Total Net Assets	12,071,798	12,123,898
TOTAL LIABILITIES AND NET ASSETS	$ 22,656,631	$ 23,853,388

See accompanying notes to financial statements.

NEW HORIZONS RESOURCES, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Change in Unrestricted Net Assets		
Support and Revenue		
Program	$ 20,788,978	$ 22,128,738
Nonprogram	376,063	366,762
Net assets released from restrictions or transferred		
Net assets released from usage restriction	3,263	62,647
Net assets release adjustment - DASNY	218,821	(414,961)
Total Unrestricted Support and Revenue	21,387,125	22,143,186
Expenses		
Intermediate Care Facilities	1,542,299	1,554,282
Individual Residential Alternatives	7,049,690	6,967,491
Options for People Through Services	8,728,575	8,430,326
Home Based Services	622,132	640,740
Service Coordination	419,740	541,276
Day Habilitation	493,346	521,089
Other Program Services	99,158	56,762
Administration	2,169,642	2,388,468
Total Expenses	21,124,582	21,100,434
Change in Unrestricted Net Assets	262,543	1,042,752
Change in Temporarily Restricted Net Assets		
Contributions restricted as to use	2,500	-
Net assets released from usage restriction	(3,263)	(62,647)
Net assets release adjustment - DASNY	(218,821)	414,961
Increase (decrease) in interest in net assets of Foundation	(95,059)	57,588
Change in Temporarily Restricted Net Assets	(314,643)	409,902
Change in Net Assets	(52,100)	1,452,654
Net Assets, January 1	12,123,898	10,671,244
Net Assets, December 31	$ 12,071,798	$ 12,123,898

See accompanying notes to financial statements.

NEW HORIZONS RESOURCES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Cash Flows From Operating Activities		
Change in Net Assets	$ (52,100)	$ 1,452,654
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	998,664	1,100,469
Amortization	35,526	36,372
Start-up expense	-	14,322
(Gain) loss on disposal of property, plant and equipment	(11,080)	5,693
Loss on abandoned projects	63,302	-
Bad debt	3,154	7,929
Change in interest in net assets of foundation	95,059	(57,588)
Donated property, plant and equipment	-	(54,188)
(Increase) Decrease in assets:		
Receivables		
Program	1,776,507	(1,281,321)
Related Party	63,612	(13,090)
Other	(21,543)	30,550
Prepaid expenses	(8,626)	21,384
Deposits	-	499
Increase (Decrease) in liabilities:		
Accounts payable	(281,074)	(98,624)
Accrued expenses	(83,824)	(587,846)
Deferred revenue	(1,307)	(122,069)
Net Cash Provided By Operating Activities	2,576,270	455,146
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(224,531)	(592,436)
Proceeds from sale of property, plant and equipment	23,750	5,500
Decrease in funded reserves	-	132,850
(Increase) Decrease in unamortized mortgage costs	21,959	(21,217)
Net Cash Used By Investing Activities	(178,822)	(475,303)
Cash Flows From Financing Activities		
Repayment of long-term debt	(993,385)	(1,508,278)
Proceeds from long-term debt	-	355,945
Net increase in due to NYS OPWDD	231,111	7,558
Net Cash Used By Financing Activities	(762,274)	(1,144,775)
Net Increase (Decrease) in Cash and Cash Equivalents	1,635,174	(1,164,932)
Cash and Cash Equivalents, January 1	4,235,258	5,400,190
Cash and Cash Equivalents, December 31	$ 5,870,432	$ 4,235,258
Supplemental Information		
Interest paid	$ 550,445	$ 603,285

See accompanying notes to financial statements.

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

New Horizons Resources, Inc. (the "Agency") was incorporated in 1974 as a not-for-profit corporation which provides opportunities and support for children and adults with developmental disabilities. The Agency operates residential, service coordination, home based, and day programs in Dutchess and Ulster Counties. The Agency's revenue comes from Medicaid and state fees and grants, participant fees, and individual contributions. The Agency receives the majority of its support from Medicaid.

Recognition of Program Revenue

Income from government agencies is recognized when services are rendered at approved rates. These rates are primarily cost based and determined by allowable expenditures in rate setting periods. Costs are subject to audit by third party payors and changes, if any, are recognized in the year they are known. Included in program revenue are income adjustments of approximately $39,000 and $593,000 for 2011 and 2010, respectively, attributable to prior years.

There are occasions when funding sources grant the Agency funds for capital additions. Included in non-program support and revenue is additional income of approximately $0 and $12,000 for 2011 and 2010, respectively, attributable to such grants.

Participant fees represent the residents' personal contributions towards the cost of goods and services provided by the Agency. Charges are regulated by Federal and State law.

Contributions

The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Agency reports donor restricted contributions as unrestricted support if the restrictions are met at the time the contribution is received.

The Agency reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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Cash Equivalents

Short-term investments with an initial maturity of three months or less are considered cash equivalents for purposes of the statement of cash flows.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property, Plant, Equipment and Depreciation

Property, plant, and equipment are stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. The Agency capitalizes property, plant and equipment with a cost of $1,000 or more and a useful life of greater than one year. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations on a straight-line basis over the following useful lives:

	Years
Buildings and improvements	5-25
Furniture, fixtures and equipment	5-10
Vehicles	4

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property, plant and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Depreciation associated with donated office equipment and software of $23,124 for 2011 and $42,646 for 2010 is included in Administration expenses.

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes

The Agency is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Agency's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Agency qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Under Accounting Standards Codification (ASC) Section 740, the tax status of tax-exempt entities is an uncertain tax position, since events could potentially occur that jeopardize their tax-exempt status. Management of the Agency is not aware of any events that could jeopardize their tax exempt status. Therefore, no liability or provision for income tax has been reflected in the financial statements. The Agency is subject to routine audits by taxation jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2008.

Allocation of Expenses

Administration and other expenses are allocated to individual programs based upon specific allocation methods. Other Program Services include expenses for the maintenance and operation of Briggs Farm and ancillary program grants.

Bad Debts

Bad debts are recognized using the direct write-off method since it does not result in a material difference from the allowance method. The Agency has determined that no allowance for uncollectible accounts is necessary as of December 31, 2011 relative to its receivables. Such estimates are based on management's estimates of current economic conditions, the credit worthiness of government, donors and other resource providers as well as historical information.

Board Designated Funds

As of December 31, 2010 Board designated funds in the amount of $201,733 were set aside by the Agency for the payment of an OPWDD liability related to OPWDD property overpayments. The overpayments, for the rate years 1992-1997, were identified in 2000. Recovery was initiated but not completed by OPWDD, and is considered unlikely. As of December 31, 2011, the OPWDD obligation and Board designation were removed.

2. RECEIVABLES

At December 31, 2011 and December 31, 2010 the Agency's receivables consisted of the following:

	2011	2010
Medicaid	$ 622,103	$ 1,319,678
New York State OPWDD	714,739	1,539,754
Private grants	532,419	787,157
Participant fees	5,351	7,684
Total Program Receivables	$ 1,874,612	$ 3,654,273
Related party	$ 4,697	$ 68,309
Other	$ 54,331	$ 32,788

Bad debt expense related to receivables for the year ended December 31 was $3,154 for 2011 and $7,929 for 2010.

3. PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment consisted of the following at December 31, 2011 and December 31, 2010:

	2011	2010
Buildings and improvements	$ 15,836,327	$ 15,735,095
Land and improvements	3,221,958	3,181,513
Furniture and equipment	1,441,749	1,499,523
Vehicles	1,445,617	1,608,301
	21,945,651	22,024,432
Less accumulated depreciation	8,598,156	7,826,832
Plant, Property and Equipment, net	$ 13,347,495	$ 14,197,600

Depreciation expense for the years ended December 31, 2011 and 2010 was $998,664 and $1,100,469, respectively.

4. FUNDED RESERVES

The debt service reserve represents funds held by OPWDD in the name of the Agency. These funds will be applied to the last payment required on the Unionvale mortgage with the Facilities Development Corporation.

The employee benefit card reserve represents the minimum funding advanced to the third party administrator of the Agency's flexible benefit debit card plan. Employees utilize debit cards to pay for eligible medical expenses, drawing against limits pre-set by the Agency.

The components of funded reserves at December 31, 2011 and December 31, 2010 follow:

	2011	2010
Debt Service Reserve Funds - OPWDD	$ 37,841	$ 37,841
Employee Benefit Card Reserve	16,221	16,221
Dormitory Authority Grant Account	50	50
Total Funded Reserves	$ 54,112	$ 54,112

5. UNAMORTIZED MORTGAGE COSTS

At December 31, 2011 and December 31, 2010 unamortized mortgage costs consisted of the following:

	2011	2010
Mortgage costs	$ 550,430	$ 579,578
Less accumulated amortization	179,463	151,126
Unamortized mortgage costs, net	$ 370,967	$ 428,452

Amortization expense for the years ended December 31, 2011 and 2010 was $35,526 and $36,372, respectively. Start-up expense for the years ended December 31, 2011 and 2010 was $0 and $14,322, respectively. Amortization expense is expected to be $34,000 in each of the next five years.

6. LONG-TERM DEBT

	2011	2010
Note payable - Facilities Development Corporation, secured by mortgage on Unionvale residence, Verbank, interest at 7.375%, payable by recoupments from Medicaid receipts, maturing February 2014.	$ 136,250	$ 192,750
Note payable - KeyBank, secured by mortgage on Overlook Road residence, Poughkeepsie, interest at prime plus 1% (4.25% at December 31, 2011), payable in monthly payments of $1,464, maturing December, 2013.	33,606	49,354
Note payable - KeyBank, secured by mortgage on Morehouse Road residence, Poughkeepsie, interest at prime plus 0.25% (3.50% at December 31, 2011), payable in monthly payments of $3,933, principal balance of $4,271 plus accrued interest due July 2016.	199,637	227,086
Note payable - Rhinebeck Savings Bank, secured by vehicle assigned to Jansen Road residence, interest at 6.69%, payable in monthly payments of $815, matured September 2011.	-	7,150
Note payable - KeyBank, secured by mortgage on Clintondale residence, Lloyd, interest at prime (3.25% at December 31, 2011), payable in monthly payments of $3,300, principal balance of $4,913 plus accrued interest due August 2020.	299,376	328,587
Note payable - KeyBank, secured by 2nd mortgage on Amenia residence, Wassaic, interest at prime (3.25% at December 31, 2011), payable in monthly payments of $1,209, principal balance of $1,718 plus accrued interest due October 2019.	100,459	111,463
Note payable - KeyBank, secured by mortgage on Dwight Street residence, Poughkeepsie, interest at prime (3.25% at December 31, 2011), payable in monthly payments of $3,137, principal balance of $4,517 plus accrued interest due January 2020.	267,826	296,133

6. LONG-TERM DEBT (continued)

	2011	2010
Note payable - KeyBank, secured by mortgage on Tyrrel Road residence, Pleasant Valley, interest at prime (3.25% at December 31, 2011), payable in monthly payments of $3,483, principal balance of $5,016 plus accrued interest due January 2020.	$ 297,403	$ 328,837
Note payable - Rhinebeck Savings Bank, secured by mortgage on Gerry Road residence, Poughkeepsie, interest at 7.00%, payable in monthly payments of $325, matured January 2011.	-	321
Note payable - Rhinebeck Savings Bank, secured by mortgage on Gerry Road residence, Poughkeepsie, interest at 7.25%, payable in monthly payments of $2,739, principal balance of $8,257 plus accrued interest due February 2021.	221,489	237,431
Note payable - M&T Bank, secured by mortgage on Brigg's Farm building, Hyde Park, interest at 7.78%, payable in monthly payments of $1,239, maturing May 2021.	98,547	105,344
Note payable - KeyBank, secured by mortgage on Jansen Road residence, Pine Bush, interest at 7.83%, payable in monthly payments of principal of $3,552, plus interest, maturing November 2022.	465,265	507,885
Note payable - KeyBank, secured by mortgage on Scenic View Lane residence, Poughquag, interest at 7.75%, payable in monthly payments of $2,391, principal balance of $19,641 plus accrued interest due February 2022.	208,263	220,087
Note payable - Rhinebeck Savings Bank, secured by mortgage on Angelo Blvd. residence, Poughkeepsie, interest at 7.12%, payable in monthly payments of $7,852, maturing May 2022.	691,635	734,927
Note payable - KeyBank, secured by mortgage on Albrecht Lane residence, Pleasant Valley, interest at 7.79%, payable in monthly payments of $6,800, principal balance of $22,788 plus accrued interest due April 2023.	616,182	647,746
Note payable - KeyBank, secured by mortgage on Round Hill Road residence, Poughkeepsie, interest at 7.80%, payable in monthly payments of principal of $3,545 plus interest, maturing December 2023.	510,481	553,021
Note payable - Rhinebeck Savings Bank, secured by mortgage on Seaman Road residence, East Fishkill, interest at 7.22%, payable in monthly payments of $6,376, maturing May 2023.	593,835	626,188
Note payable - KeyBank, secured by mortgage on Deer Run residence, Wallkill, interest at 7.30%, payable in monthly payments of principal of $2,611 plus interest, maturing January 2024.	378,570	409,900
Note payable - KeyBank, secured by mortgage on West Road training and administration facility, Pleasant Valley, interest at prime (3.25% as of December 31, 2011), payable in monthly payments of $7,829, principal balance of $337,092 plus accrued interest due January 2023.	1,100,410	1,157,084
Note payable - M&T Bank, secured by equipment (10 laptop computers), interest at 6.45%, payable in monthly payments of $463, matured January 2011.	-	453
Note payable - Rhinebeck Savings Bank, secured by mortgage on Thornwood Drive residence, Poughkeepsie, interest at 7.00%, payable in monthly payments of $6,124, maturing March 2023.	571,094	603,371
Note payable - M&T Bank, secured by 6 vehicles, interest at 6.45%, payable in monthly payments of $4,682, matured May 2011.	-	22,906
Note payable - KeyBank, secured by mortgage on Route 22 residence, Millerton, interest at 6.72%, payable in monthly payments of principal of $1,356, plus interest, maturing November 2024.	210,199	226,473

6. LONG-TERM DEBT (continued)

		2011		2010
Note payable - KeyBank, secured by mortgage on Route 22 residence, Dover Plains, interest at 7.37%, payable in monthly payments of principal of $3,352, plus interest, maturing March 2024.	$	492,710	$	532,932
Deficit payable - Provider Agency Trust for Human Services, et. al. (The PATH Trust), interest at 7.50%, payable in monthly payments of $11,196 through April 2013. Note 11 provides additional information on the Workers' Compensation liability.		166,642		291,624
Note payable - M&T Bank, secured by 4 vehicles, interest at 5.36%, payable in monthly payments of $6,185, maturing March 2012.		18,379		89,496
Note payable - M&T Bank, secured by 6 vehicles, interest at 5.04%, payable in monthly payments of $4,642, maturing May 2012.		22,889		75,942
Note payable - KeyBank, secured by mortgage on North Clove Road residence, Verbank. Payments of interest only (at 5.5%) through July 2010, the construction loan period; then payable in equal installments of principal of $3,592, plus interest at 6.84%, maturing June 2025.		585,425		628,524
Note payable - Rhinebeck Savings Bank, secured by 8 vehicles, interest at 5.5%, payable in monthly payments of $6,737, maturing March 2013.		103,617		170,559
Total Long-Term Debt	$	8,390,189	$	9,383,574
Less Current installments		926,490		1,193,021
Long-Term Debt, net of current installments	$	7,463,699	$	8,190,553

Interest expense for the year ended December 31, 2011 and 2010 was $538,627 and $590,940, respectively.

Long-term debt is payable as follows:

2012	$	926,490
2013		779,087
2014		658,105
2015		673,486
2016		679,143
Thereafter		4,673,878
Total Long-Term Debt	$	8,390,189

The Agency is given additional income intended to be sufficient to provide funds necessary to pay the debt service of the amounts payable to the Facilities Development Corporation ("FDC"). OPWDD makes the periodic payments for the FDC debt. OPWDD then recovers these payments via a deduction from the Agency's Medicaid receipts. Note 7 provides additional information on the balance due to OPWDD for these payments. Note 4 provides additional information on the debt service reserve associated with these payments.

7. DUE NYS OPWDD

		2011		2010
Loans payable to the New York State (NYS) Office for People with Developmental Disabilities (OPWDD), unsecured, non-interest bearing, various payments recouped weekly from Medicaid receipts through 2014.	$	348,226	$	117,115
Less Current Installments		327,592		80,341
Due NYS OPWDD, net of current installments	$	20,634	$	36,774

8. RESIDENTS' FUNDS

The Agency has signature authority over residents' funds. These funds are used for authorized and allowable purchases of participants' personal items.

NEW HORIZONS RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND DECEMBER 31, 2010

9. LINE OF CREDIT

At December 31, 2011 the Agency had an available unsecured line-of-credit of $1,000,000 at KeyBank of New York. Interest is at prime plus 2% (5.25% as of December 31, 2011). There was no outstanding balance at December 31, 2011.

10. CONTRIBUTION IN KIND

The Agency operated four residential facilities, owned by New York State, Taconic Developmental Disabilities Services Office (DDSO), for which it incurred no cost for rent. The facilities were vacated and returned to the DDSO (three in 2008 and one in February, 2010). The individuals served moved to residences purchased by the Agency. The estimated market rental value is reflected as program revenue and expense in the accompanying financial statements. The revenue and expense for the years ended December 31, 2011 and 2010 were $0 and $875 respectively.

In addition, the Agency receives other donated supplies, property and equipment. The revenue is reflected as nonprogram support and the related cost as expenses and as property and equipment in the accompanying financial statements. For the years ended December 31, 2011 and 2010 nonprogram support was $0 and $54,188, respectively; property and equipment was $0 and $54,188, respectively. These amounts represent non-cash transactions.

11. WORKERS COMPENSATION INSURANCE

The Agency incurred costs for workers' compensation insurance as a member of the Provider Agency Trust for Human Services, et. al. (The PATH Trust). The PATH Trust had been established to provide workers' compensation insurance at a lower cost to preferred employers. PATH Trust members are jointly and severally liable for the expenses and obligations of the PATH Trust and for the workers' compensation liability of all participating employers incurred while a member of the PATH Trust.

In 2008 the Agency was assessed a liability of $624,909 for the PATH Trust's underfunded status for years through December 31, 2005. This liability was recorded in the financial statements. Note 6 provides additional information on the assessment repayment agreement. In the event that other members in the PATH Trust are unable to fund their portion of the obligation, the remaining membership will be responsible to increase their obligations to the PATH Trust. The Agency terminated its membership with the PATH Trust effective January 1, 2006. Effective March 1, 2006, the NYS Workers' Compensation Board (The Board) dissolved the PATH Trust and is operating the PATH Trust through the run-off period.

12. TAX DEFERRED ANNUITY PLAN

During the year ended December 31, 1996, pursuant to a collective bargaining agreement, the Agency entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time and part-time employees of New Horizons Resources, Inc. The Agency contributes an amount subject to approval each year by the Board of Directors.

During 2011 the Agency identified corrective contributions due to employees working 1,000 hours or more for the 1996-2004 plan years. Contributions plus accumulated earnings of $49,840 are reflected in the financial statements and were transferred to participant accounts prior to the plan year end, November 30, 2011. There was no contribution to the plan for the years ended December 31, 2011 and 2010.

13. OPERATING LEASES

The Agency leases four apartments for its residential program, fire alarm systems, time clocks, and other household equipment for the residences it owns. Total property lease expense for the years ended December 31, 2011 and 2010 was $44,133 and $47,945, respectively. Total equipment lease expense for the years ended December 31, 2011 and 2010 was $87,288 and $78,006, respectively. Terms of the leases vary from monthly to five years.

Minimum noncancellable lease payments for the next five years are as follows:

2012	$	42,741
2013		14,796
2014		11,394
2015		7,248
2016		2,280
Total	$	78,459

14. CONCENTRATIONS

The Agency maintains its cash accounts in local financial institutions. At times, these balances may exceed FDIC insured amounts, or may not be covered by FDIC Insurance. Financial investments which potentially subject the Agency to credit risk consist primarily of cash accounts. The Agency's concentration of credit risk was $4,755,000 at December 31, 2011.

Approximately 70% of the Agency's full time equivalent employees are covered by a collective bargaining agreement. The current contract, which expires November 15, 2013, stipulates a no strike and no lock-out clause and certain agreements with regard to paid time off and leave policies, work hours and schedules, and personnel policies including grievance, discharge and discipline procedures. As of December 31, 2011, terms governing participation in employer group health and dental plans had been negotiated through November 30, 2011. Negotiations regarding the benefit year ending November 30, 2012 were ongoing. An agreement governing health and dental plans and employee paid time off policies through November 30, 2012 was subsequently ratified on February 24, 2012. The risk related to this agreement is minimal.

15. RELATED PARTY INFORMATION

In 1991, New Horizons Foundation (the Foundation) was organized to raise funds and provide continuous financial assistance to New Horizons Resources, Inc. The Agency is a related party to the Foundation because the Agency has a certain economic beneficial interest in the Foundation and there is commonality of certain Board members.

A summary of significant related party balances and transactions as of December 31, 2011 and December 31, 2010 follows:

	2011	2010
Due from New Horizons Foundation	$ 4,697	$ 68,309
Donations from New Horizons Foundation	210,358	177,534

A summary of the financial information for New Horizons Foundation follows:

Total Assets	$ 757,525	$ 915,060
Total Liabilities	$ 6,037	$ 68,513
Total Net Assets	751,488	846,547
Total Liabilities and Net Assets	$ 757,525	$ 915,060
Total Revenue	$ 163,239	$ 288,414
Total Expenses	258,298	230,826
Change in Net Assets	$ (95,059)	$ 57,588

A member of the Board of Directors also acts as the Agency's insurance broker for policies obtained from Granite State and Illinois National Insurance Companies. Total premiums paid for the July 2010-July 2011 policy year were $168,390. Total premiums to be paid for the July 2011-July 2012 policy year are $165,677.

A member of the Board of Directors is a Senior Vice President for Rhinebeck Savings Bank. Total balances in Rhinebeck Savings Bank accounts were $1,020,967 as of December 31, 2011 and $1,010,467 as of December 31, 2010. Total balances of notes payable to Rhinebeck Savings Bank were $2,181,670 as of December 31, 2011 and $2,379,948 as of December 31, 2010.

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets include the interest in the net assets of the Foundation which are restricted as to time. Also included are contributions received with donor stipulations specifying use. As of December 31, 2011 donor designated donations consisted of $531,179 for the New Horizons Professional Development and Support Center and $7,665 for recreation programs and landscaping at a New Horizons residence.

The $531,179 designated for the Professional Development and Support Center is related to a $750,000 grant awarded to the Agency in 2008 under the Dormitory Authority of the State of New York Economic Development Assistance Program (DASNY EDAP). During 2009 the Agency was apprised of additional restrictions related to the grant. During 2010, the Agency was notified that the grant had been selected for a random audit. The findings of the audit, released to the Agency on January 21, 2011, were that the costs submitted by the Agency for reimbursement did not meet the grant requirements. The Agency contested the audit findings and in September 2011 received partial funding of $218,821. On March 1, 2012, the Agency submitted a proposal to DASNY for use of the balance of the grant. Conditional approval to proceed was received on March 16, 2012.

Permanently restricted net assets represent the interest in the permanently restricted net assets of the Foundation.

17. COMMITMENTS AND CONTINGENCIES

Pursuant to the Agency's and its related party's contractual relationships with certain governmental funding sources, such funding sources have the right to examine the books and records of the Agency involving transactions relating to these matters. The amount of any disallowance by a funding source cannot be determined at this time although management believes that such amounts, if any, would be immaterial.

18. SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through March 30, 2012, which is the date these financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure that have not been incorporated into these financial statements.

NEW HORIZONS RESOURCES, INC.
SCHEDULE OF SUPPORT AND REVENUE RELATED TO FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	Intermediate Care Facilities	Individual Residential Alternatives	Options for People Through Services	Home Based Services	Service Coordination	Day Habilitation	Other Program Services	Adminis-tration	**2011 Total**	2010 Total
Program Support and Revenue										
Medicaid	$ 1,653,944	$ 6,177,691	$ -	$ 687,526	$ 413,494	$ 660,386	$ -	$ -	**$ 9,593,041**	$ 10,042,698
Participant fees	124,260	868,440	1,093,583	925	-	-	-	-	**2,087,208**	2,055,593
NYS Developmental Disabilities	-	13,543	9,054,030	2,346	-	-	-	-	**9,069,919**	9,436,267
Contribution-in-kind	-	-	-	-	-		-	-	**-**	875
Retroactive income	(169,489)	171,775	24,037	12,487	-	-	-	-	**38,810**	593,305
Total Program Support and Revenue	1,608,715	7,231,449	10,171,650	703,284	413,494	660,386	-	-	**20,788,978**	22,128,738
Nonprogram Support and Revenue										
Interest/investment income	-	-	-	-	-	-	-	18,113	**18,113**	15,171
Participant clothing funds	-	16,375	20,375	-	-	-	-	-	**36,750**	36,375
Contributions and fundraising	795	3,719	1,100	2,697	-	-	177,827	107,416	**293,554**	254,867
Gain on sale of pp&e	-	8,100	4,400	-	-	-	200	6,807	**19,507**	-
Capital additions	-	-	-	46	-	-	-	-	**46**	12,377
Grants	-	-	-	-	-	-	-	1,231	**1,231**	38,631
Other income	-	-	-	-	-	-	2,375	4,487	**6,862**	9,341
Total Nonprogram Support and Revenue	795	28,194	25,875	2,743	-	-	180,402	138,054	**376,063**	366,762
Net assets released from restrictions or transferred	-	763	-	-	-	-	-	221,321	**222,084**	(352,314)
Total Unrestricted Support and Revenue	1,609,510	7,260,406	10,197,525	706,027	413,494	660,386	180,402	359,375	21,387,125	22,143,186
Total Functional Expenses	1,726,418	7,862,921	9,711,947	699,188	470,844	551,701	101,563	-	**21,124,582**	21,100,434
Excess(Deficiency) of Support and Revenue over Expenses- 2011	**$ (116,908)**	**$ (602,515)**	**$ 485,578**	**$ 6,839**	**$ (57,350)**	**$ 108,685**	**$ 78,839**	**$ 359,375**	**$ 262,543**	$ 1,042,752
Excess(Deficiency) of Support and Revenue over Expenses- 2010	$ 85,049	$ (251,611)	$ 1,312,962	$ (2,216)	$ (120,930)	$ 132,416	$ 85,136	$ (198,054)	$ 1,042,752	

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NEW HORIZONS RESOURCES, INC.
SCHEDULE OF FUNCTIONAL EXPENSES BY PROGRAM
FOR THE YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	Intermediate Care Facilities	Individual Residential Alternatives	Options for People Through Services	Home Based Services	Service Coordination	Day Habilitation	Other Program Services	Adminis-tration	**2011 Total**	2010 Total
Personal services	$ 822,564	$ 4,110,320	$ 4,930,343	$ 408,373	$ 271,883	$ 278,563	$ 255	$ 1,064,901	**$ 11,887,202**	$ 11,909,972
Mandated fringe benefits	102,392	511,876	616,101	50,820	34,040	34,703	32	132,529	**1,482,493**	1,387,386
Non-mandated fringe benefits	213,741	1,068,532	1,286,104	106,086	71,058	72,441	66	276,652	**3,094,680**	3,165,234
Food	33,562	217,528	271,545	5,783	110	-	-	-	**528,528**	520,207
Repairs and maintenance	20,515	116,248	148,296	3,223	2,898	7,574	8,912	58,495	**366,161**	328,626
Utilities	18,353	99,837	132,147	2,274	1,975	5,362	2,155	18,735	**280,838**	260,019
Participant transportation	19,799	121,148	159,438	422	772	38,734	933	12,412	**353,658**	275,313
Staff travel	1,474	17,675	30,009	11,894	5,876	304	-	7,142	**74,374**	89,477
Residents' expenses	4,793	48,228	47,529	35	-	-	-	-	**100,585**	103,876
Equipment expense	5,312	18,911	24,479	305	273	698	808	3,724	**54,510**	72,213
Health care assessment	143,417	-	-	-	-	-	-	-	**143,417**	116,472
Staff training	770	2,522	3,249	7	8	751	-	38,334	**45,641**	80,608
Contracted services	48,965	2,184	14,537	-	-	-	-	129,276	**194,962**	167,270
Day services	-	-	-	-	-	-	-	-	**-**	7,079
Non-household supplies	13,356	38,200	39,363	21,505	13	18,698	4,999	354	**136,488**	127,465
Household supplies	9,245	45,782	61,632	833	-	1,668	147	-	**119,307**	125,112
Telephone	7,211	48,401	55,462	1,958	3,684	3,327	-	19,421	**139,464**	130,585
Miscellaneous	-	99	-	16	-	-	-	5,640	**5,755**	8,474
Audit and legal fees	-	-	-	-	-	-	-	50,229	**50,229**	32,099
Employment and recruiting	-	-	-	-	-	-	-	11,923	**11,923**	24,809
Office supplies and postage	2,957	12,175	15,357	1,194	15,610	536	-	42,200	**90,029**	96,763
Interest- working capital	-	-	-	-	-	-	-	9,374	**9,374**	9,374
General insurance	3,089	19,835	23,700	1,120	236	3,027	913	78,639	**130,559**	128,537
Depreciation- provider paid	42,267	260,386	367,416	3,743	6,786	14,870	16,823	162,746	**875,037**	973,411
Depreciation- state paid	10,828	84,156	16,012	611	-	240	11,780	-	**123,627**	127,058
Leases- provider paid - equipment	2,585	32,814	43,964	814	369	2,098	-	4,644	**87,288**	78,006
Leases- provider paid - real property	17	33,613	9,689	11	75	9	-	719	**44,133**	47,945
Real property taxes	4	19	1,795	3	21	2	1,111	187	**3,142**	8,087
Capital debt interest	11,733	105,520	382,764	407	2,839	8,433	-	26,931	**538,627**	590,940
Property insurance	2,006	12,855	17,928	376	335	884	363	3,186	**37,933**	39,437
Amortization- provider paid	1,319	6,789	19,590	67	469	410	-	4,447	**33,091**	33,937
Amortization- state paid	-	2,435	-	-	-	-	-	-	**2,435**	2,435
Bond administration fees	-	4,209	-	-	-	-	-	-	**4,209**	4,264
Loss on disposal of pp&e - provider paid	25	112	1,342	17	115	14	-	6,802	**8,427**	5,693
Loss on abandoned projects	-	4,696	8,745	-	-	-	49,861	-	**63,302**	-
Bad debt	-	2,585	39	235	295	-	-	-	**3,154**	7,929
Sub-Total	1,542,299	7,049,690	8,728,575	622,132	419,740	493,346	99,158	2,169,642	**21,124,582**	21,100,434
Allocation of Administration	184,119	813,231	983,372	77,056	51,104	58,355	2,405	(2,169,642)	**-**	-
Total Functional Expenses	**$ 1,726,418**	**$ 7,862,921**	**$ 9,711,947**	**$ 699,188**	**$ 470,844**	**$ 551,701**	**$ 101,563**	**$ -**	**$ 21,124,582**	$ 21,100,434
2010 Functional Expenses before Allocation of Administration	$ 1,554,282	$ 6,967,491	$ 8,430,326	$ 640,740	$ 541,276	$ 521,089	$ 56,762	$ 2,388,468	$ 21,100,434	
Percent change from 2010	-0.77%	1.18%	3.54%	-2.90%	-22.45%	-5.32%	74.69%	-9.16%	0.11%	

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New Horizons Resources, Inc.
Financial Report
(Together with Independent Auditors' Report)
December 31, 2010 and December 31, 2009

NEW HORIZONS RESOURCES, INC.

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Marvin and company, p.c.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Kevin J. McCoy
Thomas W. Donovan
Frank S. Venezia
James E. Amell
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Benjamin R. Lasher
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
New Horizons Resources, Inc.

We have audited the accompanying statements of financial position of New Horizons Resources, Inc. (the "Agency") as of December 31, 2010 and 2009 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Horizons Resources, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Support and Revenue Related to Functional Expenses, and the Schedule of Functional Expenses by Program, shown on pages 13 and 14, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Agency's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Marvin and Company, P.C.

April 8, 2011

AN INDEPENDENT MEMBER OF BDO SEIDMAN ALLIANCE

NEW HORIZONS RESOURCES, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2010 AND DECEMBER 31, 2009

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 4,235,258	$ 5,400,190
Receivables		
Program	3,654,273	2,380,881
Related party	68,309	55,219
Other	32,788	63,338
Prepaid expenses	84,537	105,921
Total Current Assets	8,075,165	8,005,549
Non Current Assets		
Interest in net assets of foundation	846,547	788,959
Plant, property and equipment - net	14,197,600	14,662,638
Funded reserves	54,112	186,962
Unamortized mortgage costs, net	428,452	447,466
Deferred charges, net	-	10,463
Deposits	3,748	4,247
Residents' funds	247,764	270,894
Total Non Current Assets	15,778,223	16,371,629
TOTAL ASSETS	$ 23,853,388	$ 24,377,178
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 939,514	$ 1,038,138
Accrued expenses	986,762	1,574,608
Current installments of long-term debt	1,193,021	1,087,646
Current installments of due to NYS OPWDD	80,341	38,516
Deferred revenue	54,761	176,830
Total Current Liabilities	3,254,399	3,915,738
Other Liabilities		
Long-term debt, net of current installments	8,190,553	9,448,261
Due to NYS OPWDD, net of current installments	36,774	71,041
Residents' funds	247,764	270,894
Total Other Liabilities	8,475,091	9,790,196
Total Liabilities	11,729,490	13,705,934
Net Assets		
Board designated	201,733	202,505
Other unrestricted	10,317,190	9,273,666
Total Unrestricted	10,518,923	9,476,171
Temporarily Restricted	1,554,975	1,145,073
Permanently Restricted	50,000	50,000
Total Net Assets	12,123,898	10,671,244
TOTAL LIABILITIES AND NET ASSETS	$ 23,853,388	$ 24,377,178

See accompanying notes to financial statements.

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NEW HORIZONS RESOURCES, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Change in Unrestricted Net Assets		
Support and Revenue		
Program	$ 22,128,738	$ 20,497,524
Nonprogram	366,762	265,080
Net assets released from restrictions or transferred		
Net assets released from usage restriction	62,647	40,535
Net assets release adjustment - DASNY	(414,961)	(52,160)
Total Unrestricted Support and Revenue	22,143,186	20,750,979
Expenses		
Intermediate Care Facilities	1,554,282	1,606,654
Individual Residential Alternatives	6,967,491	6,433,028
Options for People Through Services	8,430,326	7,780,113
Home Based Services	640,740	668,571
Service Coordination	541,276	576,116
Day Habilitation	521,089	518,882
Other Program Services	56,762	51,357
Administration	2,388,468	2,413,775
Total Expenses	21,100,434	20,048,496
Change in Unrestricted Net Assets	1,042,752	702,483
Change in Temporarily Restricted Net Assets		
Contributions restricted as to use	-	78,677
Net assets released from usage restriction	(62,647)	(40,535)
Net assets release adjustment - DASNY	414,961	52,160
Increase in interest in net assets of foundation	57,588	162,814
Change in Temporarily Restricted Net Assets	409,902	253,116
Change in Net Assets	1,452,654	955,599
Net Assets, January 1	10,671,244	9,715,645
Net Assets, December 31	$ 12,123,898	$ 10,671,244

See accompanying notes to financial statements.

NEW HORIZONS RESOURCES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows From Operating Activities		
Change in Net Assets	$ 1,452,654	$ 955,599
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,100,469	1,044,279
Amortization	36,372	26,001
Start-up expense	14,322	-
Net (gain) loss on disposal of property, plant and equipment	5,693	(216)
Bad debt	7,929	1,576
Change in interest in net assets of foundation	(57,588)	(162,814)
Donated property, plant and equipment	(54,188)	-
(Increase) Decrease in assets:		
Receivables		
Program	(1,281,321)	1,121,822
Related Party	(13,090)	(50,587)
Other	30,550	(8,066)
Prepaid expenses	21,384	(8,771)
Deposits	499	275
Increase (Decrease) in liabilities:		
Accounts payable	(98,624)	370,903
Accrued expenses	(587,846)	264,581
Deferred revenue	(122,069)	78,947
Net Cash Provided By Operating Activities	455,146	3,633,529
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(592,436)	(1,322,143)
Proceeds from sale of property, plant and equipment	5,500	3,199
Decrease in funded reserves	132,850	4,558
Increase in unamortized mortgage costs and deferred charges	(21,217)	(50,379)
Net Cash Used By Investing Activities	(475,303)	(1,364,765)
Cash Flows From Financing Activities		
Repayment of long-term debt	(1,508,278)	(337,777)
Proceeds from long-term debt	355,945	554,864
Net increase (decrease) in due to NYS OPWDD	7,558	(74,831)
Net Cash Provided (Used) By Financing Activities	(1,144,775)	142,256
Net Increase (Decrease) in Cash and Cash Equivalents	(1,164,932)	2,411,020
Cash and Cash Equivalents, January 1	5,400,190	2,989,170
Cash and Cash Equivalents, December 31	$ 4,235,258	$ 5,400,190
Supplemental Information		
Interest paid	$ 603,285	$ 576,148

See accompanying notes to financial statements.

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1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

New Horizons Resources, Inc. (the "Agency") was incorporated in 1974 as a not-for-profit corporation which provides opportunities and support for children and adults with developmental disabilities. The Agency operates residential, service coordination, home based, and day programs in Dutchess and Ulster Counties. The Agency's revenue comes from Medicaid and state fees and grants, participant fees, and individual contributions. The Agency receives the majority of its support from Medicaid.

Recognition of Program Revenue

Income from government agencies is recognized when services are rendered at approved rates. These rates are primarily cost based and determined by allowable expenditures in rate setting periods. Costs are subject to audit by third party payors and changes, if any, are recognized in the year they are known. Included in program revenue are income adjustments of approximately $593,000 and $171,000 for 2010 and 2009, respectively, attributable to prior years.

There are occasions when funding sources grant the Agency funds for capital additions. Included in non-program support and revenue is additional income of approximately $12,000 and $0 for 2010 and 2009, respectively, attributable to such grants.

Participant fees represent the residents' personal contributions towards the cost of goods and services provided by the Agency. Charges are regulated by Federal and State law.

Contributions

The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Agency reports donor restricted contributions as unrestricted support if the restrictions are met at the time the contribution is received.

The Agency reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash Equivalents

Short-term investments with an initial maturity of three months or less are considered cash equivalents for purposes of the statement of cash flows.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property, Plant, Equipment and Depreciation

Property, plant, and equipment are stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. The Agency capitalizes property, plant and equipment with a cost of $1,000 or more and a useful life of greater than one year. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations on a straight-line basis over the following useful lives:

	Years
Buildings and improvements	5-25
Furniture, fixtures and equipment	5-10
Vehicles	4

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property, plant and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Depreciation associated with donated office equipment and software of $42,648 for 2010 and $42,648 for 2009 is included in Administration expenses.

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued

Taxes

The Agency is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Under Accounting Standards Codification (ASC) Section 740, the tax status of tax-exempt entities is an uncertain tax position, since events could potentially occur that jeopardize their tax-exempt status. Management of the Agency is not aware of any events that could jeopardize their tax exempt status. Therefore, no liability or provision for income tax has been reflected in the financial statements.

Allocation of Expenses

Administration and other expenses are allocated to individual programs based upon specific allocation methods. Other Program Services include expenses for the maintenance and operation of Briggs Farm and ancillary program grants.

Bad Debts

Bad debts are recognized using the direct write-off method since it does not result in a material difference from the allowance method. The Agency has determined that no allowance for uncollectible accounts is necessary as of December 31, 2010 relative to its receivables. Such estimates are based on management's estimates of current economic conditions, the credit worthiness of government, donors and other resource providers as well as historical information.

Board Designated Funds

At December 31, 2010 Board-restricted funds in the amount of $201,733 were set aside by the Agency for the payment of an OPWDD liability related to OPWDD property overpayments to the Agency. As of December 31, 2009 $200,168 was set aside for repayment of the OPWDD liability and $2,337 for the New Horizons capital campaign.

2. RECEIVABLES

At December 31, 2010 and December 31, 2009 the Agency's receivables consisted of the following:

	2010	2009
Medicaid	$ 1,319,678	$ 912,482
New York State OPWDD	1,539,754	702,516
Private grants	787,157	760,379
Participant fees	7,684	5,504
Total Program Receivables	$ 3,654,273	$ 2,380,881
Related party	$ 68,309	$ 55,219
Other	$ 32,788	$ 63,338

Bad debt expense related to receivables for the year ended December 31 was $7,929 for 2010 and $1,576 for 2009.

3. PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment consisted of the following at December 31, 2010 and December 31, 2009:

	2010	2009
Buildings and improvements	$ 15,735,095	$ 15,602,188
Land and improvements	3,181,513	3,001,928
Furniture and equipment	1,499,523	1,425,224
Vehicles	1,608,301	1,540,305
	22,024,432	21,569,645
Less accumulated depreciation	7,826,832	6,907,007
Plant, Property and Equipment, net	$ 14,197,600	$ 14,662,638

Depreciation expense for the years ended December 31, 2010 and 2009 was $1,100,469 and $1,044,279, respectively.

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4. FUNDED RESERVES

The funded depreciation account represented deposits required by OPWDD in the amount equal to the excess of reimbursed depreciation over the principal repayment attributable to real property. As of December 31, 2010 funds were applied to designated purposes, the underlying restrictions on the reserve had expired, and the account was closed.

The employee flexible spending account was established to process reimbursements for eligible medical and dependent care expenses under Section 125 of the Internal Revenue Code. As of December 31, 2010, flexible benefit reimbursements were transitioned to a bank account managed by the Agency's third party flexible benefit administrator; the Agency bank account was closed.

The debt service reserve represents funds held by OPWDD in the name of the Agency. These funds will be applied to the last payment required on the Unionvale mortgage with the Facilities Development Corporation.

The employee benefit card reserve represents the minimum funding advanced to the third party administrator of the Agency's flexible benefit debit card plan. Employees utilize debit cards to pay for eligible medical expenses, drawing against limits pre-set by the Agency.

The components of funded reserves at December 31, 2010 and December 31, 2009 follow:

	2010	2009
Funded Depreciation Account	$ -	$ 127,734
Flexible Spending Accounts	-	5,115
Debt Service Reserve Funds - OPWDD	37,841	37,841
Employee Benefit Card Reserve	16,221	16,222
Dormitory Authority Grant Account	50	50
Total Funded Reserves	$ 54,112	$ 186,962

5. UNAMORTIZED MORTGAGE COSTS AND DEFERRED CHARGES

At December 31, 2010 and December 31, 2009 unamortized mortgage costs and deferred charges consisted of the following:

	2010	2009
Mortgage costs	$ 579,578	$ 562,219
Less accumulated amortization	151,126	114,753
Unamortized mortgage costs, net	$ 428,452	$ 447,466
Deferred charges, net	$ -	$ 10,463

Amortization expense for the years ended December 31, 2010 and 2009 was $36,372 and $26,001, respectively. Start-up expense for the years ended December 31, 2010 and 2009 was $14,322 and $0, respectively. Amortization expense is expected to be $34,000 in each of the next five years.

6. LONG-TERM DEBT

	2010	2009
Note payable - Facilities Development Corporation, secured by mortgage on Unionvale residence, Verbank, interest at 7.375%, payable by recoupments from Medicaid receipts, maturing February 2014.	$ 192,750	$ 245,250
Note payable - KeyBank, secured by mortgage on Overlook Road residence, Poughkeepsie, interest at prime plus 1% (4.25% at December 31, 2010), payable in monthly payments of $1,464, maturing December, 2013.	49,354	64,645
Note payable - KeyBank, secured by mortgage on Clinton Avenue residence, Pleasant Valley, interest at prime (3.25% at December 31, 2010), matured December 2010.	-	57,735
Note payable - KeyBank, secured by mortgage on Morehouse Road residence, Poughkeepsie, interest at prime plus 0.25% (3.50% at December 31, 2010), payable in monthly payments of $2,474, principal balance of $216,182 plus accrued interest due July 2011.	227,086	248,302
Notes payable - Rhinebeck Savings Bank, 14 loans, each secured by a vehicle, interest at 6.84%, matured February - June 2010.	-	35,911

6. LONG-TERM DEBT (continued)

	2010	2009
Notes payable - Rhinebeck Savings Bank, 2 loans, each secured by a vehicle assigned to Angelo Blvd. residence, interest at 6.89%, matured June 2010.	$ -	$ 8,535
Note payable - Rhinebeck Savings Bank, secured by vehicle assigned to Round Hill residence, interest at 7.14%, matured July 2010.	-	4,757
Note payable - Rhinebeck Savings Bank, secured by vehicle assigned to Mt. View residence, interest at 6.39%, matured September 2010.	-	6,958
Note payable - Rhinebeck Savings Bank, secured by vehicle assigned to Jansen Road residence, interest at 6.69%, payable in monthly payments of $815, maturing September 2011.	7,150	16,069
Notes payable - KeyBank, secured by 3 vehicles, interest at 7.00%, matured January - April 2010.	-	4,728
Note payable - KeyBank, secured by mortgage on Clintondale residence, Lloyd, interest at prime (3.25% at December 31, 2010), payable in monthly payments of $3,300, principal balance of $4,913 plus accrued interest due August 2020.	328,587	356,853
Note payable - KeyBank, secured by 2nd mortgage on Amenia residence, Wassaic, interest at prime (3.25% at December 31, 2010), payable in monthly payments of $1,209, principal balance of $1,718 plus accrued interest due October 2019.	111,463	122,112
Note payable - KeyBank, secured by mortgage on Dwight Street residence, Poughkeepsie, interest at prime (3.25% at December 31, 2010), payable in monthly payments of $3,137, principal balance of $4,517 plus accrued interest due January 2020.	296,133	323,524
Note payable - KeyBank, secured by mortgage on Tyrrel Road residence, Pleasant Valley, interest at prime (3.25% at December 31, 2010), payable in monthly payments of $3,483, principal balance of $5,016 plus accrued interest due January 2020.	328,837	359,253
Note payable - Rhinebeck Savings Bank, secured by mortgage on Gerry Road residence, Poughkeepsie, interest at 7.00%, payable in monthly payments of $325, maturing January 2011.	321	4,052
Note payable - Rhinebeck Savings Bank, secured by mortgage on Gerry Road residence, Poughkeepsie, interest at 7.25%, payable in monthly payments of $2,739, principal balance of $8,257 plus accrued interest due February 2021.	237,431	252,247
Note payable - M&T Bank, secured by mortgage on Brigg's Farm building, Hyde Park, interest at 7.78%, payable in monthly payments of $1,239, maturing May 2021.	105,344	111,626
Note payable - KeyBank, secured by mortgage on Jansen Road residence, Pine Bush, interest at 7.83%, payable in monthly payments of principal of $3,552, plus interest, maturing November 2022.	507,885	550,505
Note payable - KeyBank, secured by mortgage on Scenic View Lane residence, Poughquag, interest at 7.75%, payable in monthly payments of $2,391, principal balance of $19,641 plus accrued interest due February 2022.	220,087	231,020
Note payable - Rhinebeck Savings Bank, secured by mortgage on Angelo Blvd. residence, Poughkeepsie, interest at 7.12%, payable in monthly payments of $7,852, maturing May 2022.	734,927	775,252
Note payable - KeyBank, secured by mortgage on Albrecht Lane residence, Pleasant Valley, interest at 7.79%, payable in monthly payments of $6,800, principal balance of $22,788 plus accrued interest due April 2023.	647,746	676,921
Note payable - KeyBank, secured by mortgage on Round Hill Road residence, Poughkeepsie, interest at 7.80%, payable in monthly payments of principal of $3,545 plus interest, maturing December 2023.	553,021	595,561

6. LONG-TERM DEBT (continued)

	2010	2009
Note payable - Rhinebeck Savings Bank, secured by mortgage on Seaman Road residence, East Fishkill, interest at 7.22%, payable in monthly payments of $6,376, maturing May 2023.	$ 626,188	$ 656,293
Note payable - KeyBank, secured by mortgage on Deer Run residence, Wallkill, interest at 7.30%, payable in monthly payments of principal of $2,611 plus interest, maturing January 2024.	409,900	441,229
Note payable - KeyBank, secured by mortgage on West Road training and administration facility, Pleasant Valley, interest at prime (3.25% as of December 31, 2010), payable in monthly payments of $7,829, principal balance of $337,092 plus accrued interest due January 2023.	1,157,084	1,598,466
Note payable - Joseph T. Kirchhoff; demand note made and delivered in conjunction with purchase of West Road training and administration facility, Pleasant Valley. Paid in full May 2010.	-	42,912
Note payable - M&T Bank, secured by equipment (10 laptop computers), interest at 6.45%, payable in monthly payments of $463, maturing January 2011.	453	5,787
Note payable - Rhinebeck Savings Bank, secured by mortgage on Thornwood Drive residence, Poughkeepsie, interest at 7.00%, payable in monthly payments of $6,124, maturing March 2023.	603,371	633,471
Note payable - M&T Bank, secured by 6 vehicles, interest at 6.45%, payable in monthly payments of $4,682, maturing May 2011.	22,906	75,709
Note payable - KeyBank, secured by mortgage on Route 22 residence, Millerton, interest at 6.72%, payable in monthly payments of principal of $1,356, plus interest, maturing November 2024.	226,473	243,809
Note payable - KeyBank, secured by mortgage on Route 22 residence, Dover Plains, interest at 7.37%, payable in monthly payments of principal of $3,352, plus interest, maturing March 2024.	532,932	573,153
Deficit payable - Provider Agency Trust for Human Services, et. al. (The PATH Trust), interest at 7.50%, payable in monthly payments of $11,196 through April 2013. Note 11 provides additional information on the Workers' Compensation liability.	291,624	416,606
Note payable - M&T Bank, secured by 4 vehicles, interest at 5.36%, payable in monthly payments of $6,185, maturing March 2012.	89,496	156,858
Note payable - M&T Bank, secured by 6 vehicles, interest at 5.04%, payable in monthly payments of $4,642, maturing May 2012.	75,942	126,358
Note payable - KeyBank, secured by mortgage on North Clove Road residence, Verbank. Payments of interest only (at 5.5%) through July 2010, the construction loan period; then payable in equal installments of principal of $3,592, plus interest at 6.84%, maturing June 2025.	628,524	513,440
Note payable - Rhinebeck Savings Bank, secured by 8 vehicles, interest at 5.5%, payable in monthly payments of $6,737, maturing March 2013.	170,559	-
Total Long-Term Debt	$ 9,383,574	$ 10,535,907
Less Current installments	1,193,021	1,087,646
Long-Term Debt, net of current installments	$ 8,190,553	$ 9,448,261

Interest expense for the years ended December 31, 2010 and 2009 was $590,940 and $567,481, respectively.

NEW HORIZONS RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND DECEMBER 31, 2009

6. LONG-TERM DEBT (continued)

Long-term debt is payable as follows:

2011	$ 1,193,021
2012	885,741
2013	736,847
2014	614,343
2015	628,145
Thereafter	5,325,477
Total Long-Term Debt	$ 9,383,574

The Agency is given additional income intended to be sufficient to provide funds necessary to pay the debt service of the amounts payable to the Facilities Development Corporation ("FDC"). OPWDD makes the periodic payments for the FDC debt. OPWDD then recovers these payments via a deduction from the Agency's Medicaid receipts. Note 7 provides additional information on the balance due to OPWDD for these payments. Note 4 provides additional information on the debt service reserve associated with these payments.

7. DUE NYS OPWDD

	2010	2009
Loans payable to the New York State (NYS) Office for Persons with Developmental Disabilities (OPWDD), unsecured, non-interest bearing, various payments recouped weekly from Medicaid receipts through 2014.	$ 117,115	$ 109,557
Less Current Installments	80,341	38,516
Due NYS OPWDD, net of current installments	$ 36,774	$ 71,041

8. RESIDENTS' FUNDS

The Agency has signature authority over residents' funds. These funds are used for authorized and allowable purchases of participants' personal items.

9. LINE OF CREDIT

At December 31, 2010 the Agency had an available unsecured line-of-credit of $1,000,000 at KeyBank of New York. Interest is at prime plus 1% (4.25% as of December 31, 2010). There was no outstanding balance at December 31, 2010.

10. CONTRIBUTION IN KIND

The Agency operated four residential facilities - Spruce, Orchard, Riverview, and Heritage - for which it incurred no cost for rent. These program sites are owned by New York State, Taconic Developmental Disabilities Services office (DDSO). The four facilities were vacated and returned to the DDSO as of December 31, 2010: Orchard, Riverview, and Spruce as of December 31, 2008 and Heritage effective February 2, 2010. The individuals served moved to six residences purchased by the Agency. The estimated market rental value of the Heritage facility is reflected as program revenue and expense in the accompanying financial statements. The revenue and expense for the years ended December 31, 2010 and 2009 were $875 and $12,516, respectively.

In addition, the Agency receives other donated supplies, property and equipment. The revenue is reflected as nonprogram support and the related cost as expenses and as property and equipment in the accompanying financial For the years ended December 31, 2010 and 2009 nonprogram support was $54,188 and $0; and property and equipment were $54,188 and $0, respectively. These amounts represent non-cash transactions.

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11. WORKERS COMPENSATION INSURANCE

The Agency incurred costs for workers' compensation insurance as a member of the Provider Agency Trust for Human Services, et. al. (The PATH Trust). The PATH Trust had been established to provide workers' compensation insurance at a lower cost to preferred employers. PATH Trust members are jointly and severally liable for the expenses and obligations of the PATH Trust and for the workers' compensation liability of all participating employers incurred while a member of the PATH

In 2008 the Agency was assessed a liability of $624,909 for the PATH Trust's underfunded status for years through December 31, 2005. This liability was recorded in the financial statements. Note 6 provides additional information on the assessment repayment agreement. In the event that other members in the PATH Trust are unable to fund their portion of the obligation, the remaining membership will be responsible to increase their obligations to the PATH Trust. The Agency terminated its membership with the PATH Trust effective January 1, 2006. Effective March 1, 2006, the NYS Workers' Compensation Board (The Board) dissolved the PATH Trust and is operating the PATH Trust through the run-off period.

12. TAX DEFERRED ANNUITY PLAN

During the year ended December 31, 1996, pursuant to a collective bargaining agreement, the Agency entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time and part-time employees of New Horizons Resources, Inc. The Agency contributes an amount subject to approval each year by the Board of Directors.

There was no contribution to the plan for the years ended December 31, 2010 or December 31, 2009.

13. OPERATING LEASES

The Agency leases four apartments for its residential program, two offsite storage units, fire alarm systems, time clocks, and other household equipment for the residences it owns. Total property lease expense for the years ended December 31, 2010 and 2009 was $47,945 and $59,400, respectively. Total equipment lease expense for the years ended December 31, 2010 and 2009 was $78,006 and $33,100, respectively. Terms of the leases vary from monthly to five years.

Minimum noncancellable lease payments for the next five years are as follows:

2011	$	39,534
2012		17,329
2013		9,960
2014		6,627
2015		-
Total	$	73,450

14. CONCENTRATIONS

The Agency maintains its cash accounts in local financial institutions. At times, these balances may exceed FDIC insured amounts, or may not be covered by FDIC Insurance. Financial investments which potentially subject the Agency to credit risk consist principally of cash accounts. The Agency's concentration of credit risk was $2,900,000 at December 31, 2010.

Approximately 70% of the Agency's full time equivalent employees are covered by a collective bargaining agreement. The current contract, which expires November 15, 2013, stipulates a no strike and no lock-out clause and certain agreements with regard to paid time off and leave policies, work hours and schedules, and personnel policies including grievance, discharge and discipline procedures. Terms governing participation in employer group health and dental plans have been negotiated through November 30, 2011. The risk related to this agreement is minimal.

15. RELATED PARTY INFORMATION

In 1991, New Horizons Foundation (the Foundation) was organized to raise funds and provide continuous financial assistance to New Horizons Resources, Inc. The Agency is a related party to the Foundation because the Agency has a certain economic beneficial interest in the Foundation and there is commonality of certain Board members.

A summary of significant related party balances and transactions as of December 31, 2010 and December 31, 2009 follows:

		2010		2009
Due from New Horizons Foundation	$	68,309	$	55,219
Donations from New Horizons Foundation		177,534		96,087

15. RELATED PARTY INFORMATION (continued)

A summary of the financial information for New Horizons Foundation follows:

Total Assets	$	915,060	$	845,473
Total Liabilities	$	68,513	$	56,514
Total Net Assets		846,547		788,959
Total Liabilities and Net Assets	$	915,060	$	845,473
Total Revenue	$	288,414	$	307,703
Total Expenses		230,826		144,889
Change in Net Assets	$	57,588	$	162,814

A member of the Board of Directors also acts as the Agency's insurance broker for policies obtained from Granite State and Illinois National Insurance Companies. Total premiums paid for the July 2009-July 2010 policy year were $166,435. Total premiums to be paid for the July 2010-July 2011 policy year are $168,780.

A member of the Board of Directors is a Senior Vice President for Rhinebeck Savings Bank. Total balances in Rhinebeck Savings Bank accounts were $1,010,467 as of December 31, 2010 and $1,396,343 as of December 31, 2009. Total balances of notes payable to Rhinebeck Savings Bank were $2,379,948 as of December 31, 2010 and $2,393,544 as of December 31, 2009.

A member of the Board of Directors is a principal of Kirchhoff Construction Management who entered into an agreement with the Agency to purchase and renovate the administrative facility at 123 West Road, Pleasant Valley. The total amount agreed to and recorded in the financial statements was $3,274,781. There were no unpaid amounts at December 31, 2010.

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets include the interest in the net assets of the Foundation which are restricted as to time. Also included are contributions received with donor stipulations specifying use. As of December 31, 2010 donor designated donations consisted of $750,000 for the New Horizons Professional Development and Support Center and $8,428 for recreation programs, a purchasing consultant, and landscaping at a New Horizons residence.

The $750,000 designated for the Professional Development and Support Center is related to a grant awarded to the Agency in 2008 under the Dormitory Authority of the State of New York Economic Development Assistance Program (DASNY EDAP). During 2009 the Agency was apprised of additional restrictions of the grant. During 2010, the Agency was notified that the grant had been selected for a random audit. The findings of the audit, released to the Agency on January 21, 2011, were that the costs submitted by the Agency for reimbursement did not meet the grant requirements. The Agency has contested the audit findings. While a final resolution is pending, net asset release adjustments in the amount of $414,961 and $52,160 are reflected in the financial statements for December 31, 2010 and December 31, 2009, respectively.

Permanently restricted net assets represent the interest in the permanently restricted net assets of the Foundation.

17. COMMITMENTS AND CONTINGENCIES

Pursuant to the Agency's and its related party's contractual relationships with certain governmental funding sources, such funding sources have the right to examine the books and records of the Agency involving transactions relating to these matters. The amount of any disallowance by a funding source cannot be determined at this time although management believes that such amounts, if any, would be immaterial.

18. SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through April 8, 2011, which is the date these financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure that have not been incorporated into these financial statements.

NEW HORIZONS RESOURCES, INC.
SCHEDULE OF SUPPORT AND REVENUE RELATED TO FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	Intermediate Care Facilities	Individual Residential Alternatives	Options for People Through Services	Home Based Services	Service Coordination	Day Habilitation	Other Program Services	Adminis-tration	**2010 Total**	2009 Total
Program Support and Revenue										
Medicaid	$ 1,786,944	$ 6,429,970	$ -	$ 695,840	$ 500,807	$ 629,137	$ -	$ -	**$ 10,042,698**	$ 9,587,905
Participant fees	110,995	866,367	1,078,231	-	-	-	-	-	**2,055,593**	2,000,941
NYS Developmental Disabilities	-	13,624	9,418,342	4,301	-	-	-	-	**9,436,267**	8,725,370
Contribution-in-kind	-	-	875	-	-		-	-	**875**	12,516
Retroactive income	(52,663)	284,142	272,090	13,628	(6,503)	82,611	-	-	**593,305**	170,792
Total Program Support and Revenue	1,845,276	7,594,103	10,769,538	713,769	494,304	711,748	-	-	**22,128,738**	20,497,524
Nonprogram Support and Revenue										
Interest/investment income	-	-	-	-	-	-	-	15,171	**15,171**	8,991
Participant clothing funds	-	16,125	20,250	-	-	-	-	-	**36,375**	37,375
Contributions and fundraising	475	1,617	1,301	7,067	-	8,710	138,509	97,188	**254,867**	62,822
Gain on sale of pp&e	-	-	-	-	-	-	-	-	**-**	1,000
Capital additions	-	-	6,200	6,177	-	-	-	-	**12,377**	-
Grants	-	-	-	-	-	-	-	38,631	**38,631**	150,000
Other income	-	-	-	-	-	-	5,351	3,990	**9,341**	4,892
Total Nonprogram Support and Revenue	475	17,742	27,751	13,244	-	8,710	143,860	154,980	**366,762**	265,080
Net assets released from restrictions or transferred	-	-	-	-	-	-	720	(353,034)	**(352,314)**	(11,625)
Total Unrestricted Support and Revenue	1,845,751	7,611,845	10,797,289	727,013	494,304	720,458	144,580	(198,054)	22,143,186	20,750,979
Total Functional Expenses	1,760,702	7,863,456	9,484,327	729,229	615,234	588,042	59,444	-	**21,100,434**	20,048,496
Excess(Deficiency) of Support and Revenue over Expenses- 2010	**$ 85,049**	**$ (251,611)**	**$ 1,312,962**	**$ (2,216)**	**$ (120,930)**	**$ 132,416**	**$ 85,136**	**$ (198,054)**	**$ 1,042,752**	$ 702,483
Excess(Deficiency) of Support and Revenue over Expenses- 2009	$ 14,044	$ (253,702)	$ 923,030	$ (42,333)	$ (79,827)	$ (6,700)	$ (10,072)	$ 158,043	$ 702,483	

NEW HORIZONS RESOURCES, INC.
SCHEDULE OF FUNCTIONAL EXPENSES BY PROGRAM
FOR THE YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	Intermediate Care Facilities	Individual Residential Alternatives	Options for People Through Services	Home Based Services	Service Coordination	Day Habilitation	Other Program Services	Adminis-tration	**2010 Total**	2009 Total
Personal services	$ 841,556	$ 4,054,541	$ 4,732,290	$ 416,703	$ 352,552	$ 291,385	$ 111	$ 1,220,834	**$ 11,909,972**	$ 11,348,069
Mandated fringe benefits	98,033	472,311	551,261	48,541	41,070	33,943	12	142,215	**1,387,386**	1,372,291
Non-mandated fringe benefits	223,653	1,077,550	1,257,669	110,745	93,698	77,442	27	324,450	**3,165,234**	2,910,915
Food	32,086	212,971	267,597	7,403	150	-	-	-	**520,207**	459,192
Repairs and maintenance	15,559	109,761	152,116	2,838	3,065	6,598	9,118	29,571	**328,626**	372,860
Utilities	15,391	96,580	116,580	2,079	2,251	4,831	1,287	21,020	**260,019**	238,816
Participant transportation	14,279	95,999	122,553	922	452	30,415	2,021	8,672	**275,313**	245,643
Staff travel	1,832	17,701	33,104	11,742	11,869	997	-	12,232	**89,477**	105,777
Residents' expenses	8,045	46,244	49,412	-	-	175	-	-	**103,876**	96,367
Equipment expense	3,925	26,566	26,945	613	726	573	2,765	10,100	**72,213**	72,911
Health care assessment	116,472	-	-	-	-	-	-	-	**116,472**	93,485
Staff training	1,870	6,633	7,859	309	471	477	55	62,934	**80,608**	78,234
Contracted services	53,855	5,515	9,456	-	-	-	-	98,444	**167,270**	182,385
Day services	7,079	-	-	-	-	-	-	-	**7,079**	14,495
Non-household supplies	12,556	33,749	35,725	21,741	110	21,419	2,165	-	**127,465**	119,746
Household supplies	9,704	50,904	61,082	1,071	-	1,992	359	-	**125,112**	129,314
Telephone	7,937	41,707	48,961	2,112	4,647	3,044	-	22,177	**130,585**	125,943
Miscellaneous	63	579	-	-	-	-	-	7,832	**8,474**	17,770
Audit and legal fees	-	-	-	-	-	-	-	32,099	**32,099**	29,897
Employment and recruiting	-	-	-	-	-	-	-	24,809	**24,809**	11,076
Office supplies and postage	2,684	13,396	15,588	1,487	15,742	621	-	47,245	**96,763**	104,609
Interest- working capital	-	-	-	-	-	-	-	9,374	**9,374**	14,374
General insurance	4,224	21,302	21,867	2,201	172	3,149	1,192	74,430	**128,537**	124,693
Depreciation- provider paid	52,913	279,695	387,014	4,061	8,817	31,010	21,094	188,807	**973,411**	915,080
Depreciation- state paid	10,828	84,156	19,442	612	-	240	11,780	-	**127,058**	129,199
Leases- provider paid - equipment	2,278	30,099	40,226	722	270	1,889	-	2,522	**78,006**	33,100
Leases- provider paid - real property	53	33,772	10,748	43	318	38	-	2,973	**47,945**	59,400
Real property taxes	31	132	1,605	24	181	21	4,406	1,687	**8,087**	1,551
Capital debt interest	14,019	122,325	404,339	527	3,890	9,508	-	36,332	**590,940**	567,481
Property insurance	2,064	13,259	18,622	389	369	915	370	3,449	**39,437**	42,154
Amortization- provider paid	1,293	9,278	18,181	62	456	407	-	4,260	**33,937**	23,565
Amortization- state paid	-	2,435	-	-	-	-	-	-	**2,435**	2,436
Start-up expense	-	-	14,322	-	-	-	-	-	**14,322**	-
Bond administration fees	-	4,264	-	-	-	-	-	-	**4,264**	3,308
Loss on disposal of pp&e- provider paid	-	-	5,693	-	-	-	-	-	**5,693**	784
Bad debt	-	4,067	69	3,793	-	-	-	-	**7,929**	1,576
Sub-Total	1,554,282	6,967,491	8,430,326	640,740	541,276	521,089	56,762	2,388,468	**21,100,434**	20,048,496
Allocation of Administration	206,420	895,965	1,054,001	88,489	73,958	66,953	2,682	(2,388,468)	**-**	-
Total Functional Expenses	**$ 1,760,702**	**$ 7,863,456**	**$ 9,484,327**	**$ 729,229**	**$ 615,234**	**$ 588,042**	**$ 59,444**	**$ -**	**$ 21,100,434**	$ 20,048,496
2009 Functional Expenses before Allocation of Administration	$ 1,606,654	$ 6,433,028	$ 7,780,113	$ 668,571	$ 576,116	$ 518,882	$ 51,357	$ 2,413,775	$ 20,048,496	
Percent change from 2009	-3.26%	8.31%	8.36%	-4.16%	-6.05%	0.43%	10.52%	-1.05%	5.25%	

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New Horizons Resources, Inc.

Financial Report

(Together with Independent Auditors' Report)

December 31, 2009 and December 31, 2008

NEW HORIZONS RESOURCES, INC.

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Marvin and company, p.c.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

To the Board of Directors
New Horizons Resources, Inc.

Kevin J. McCoy
Thomas W. Donovan
Frank S. Venezia
James E. Amell
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We have audited the accompanying statements of financial position of New Horizons Resources, Inc. (the "Agency") as of December 31, 2009 and 2008 and the related statements of activities and cash flows for the years then ended. These financial statements and the schedules referred to below are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Horizons Resources, Inc. as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of supplementary information, shown on pages 13 and 14, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Marvin and Company, P.C.

April 14, 2010

NEW HORIZONS RESOURCES, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2009 AND DECEMBER 31, 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 5,400,190	$ 2,989,170
Receivables		
Program	2,380,881	3,504,279
Related party	55,219	4,632
Other	63,338	55,272
Prepaid expenses	105,921	97,150
Total Current Assets	8,005,549	6,650,503
Non Current Assets		
Interest in net assets of foundation	788,959	626,145
Plant, property and equipment - net	14,662,638	14,387,757
Funded reserves	186,962	191,520
Unamortized mortgage costs, net	447,466	433,551
Deferred charges, net	10,463	-
Deposits	4,247	4,522
Residents' funds	270,894	253,525
Total Non Current Assets	16,371,629	15,897,020
TOTAL ASSETS	$ 24,377,178	$ 22,547,523
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 1,038,138	$ 667,235
Accrued expenses	1,574,608	1,310,027
Current installments of long-term debt	1,087,646	928,879
Current installments of due to NYS OMRDD	38,516	110,236
Deferred revenue	176,830	97,883
Total Current Liabilities	3,915,738	3,114,260
Other Liabilities		
Long-term debt, net of current installments	9,448,261	9,389,941
Due to NYS OMRDD, net of current installments	71,041	74,152
Residents' funds	270,894	253,525
Total Other Liabilities	9,790,196	9,717,618
Total Liabilities	13,705,934	12,831,878
Net Assets		
Board designated	202,505	196,161
Other unrestricted	9,273,666	8,577,527
Total Unrestricted	9,476,171	8,773,688
Temporarily Restricted	1,145,073	891,957
Permanently Restricted	50,000	50,000
Total Net Assets	10,671,244	9,715,645
TOTAL LIABILITIES AND NET ASSETS	$ 24,377,178	$ 22,547,523

See accompanying notes to financial statements.

NEW HORIZONS RESOURCES, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Change in Unrestricted Net Assets		
Support and Revenue		
Program	$ 20,497,524	$ 19,833,663
Nonprogram	265,080	786,198
Net assets released from restrictions or transferred		
Net assets released from usage restriction	40,535	1,230,078
Net assets release adjustment - DASNY	(52,160)	-
Total Unrestricted Support and Revenue	20,750,979	21,849,939
Expenses		
Intermediate Care Facilities	1,606,654	1,558,899
Individual Residential Alternatives	6,433,028	5,999,598
Options for People Through Services	7,780,113	7,234,903
Home Based Services	668,571	589,967
Service Coordination	576,116	538,583
Day Habilitation	518,882	479,990
Other Program Services	51,357	37,182
Administration	2,413,775	2,268,796
Total Expenses	20,048,496	18,707,918
Change in Unrestricted Net Assets	702,483	3,142,021
Change in Temporarily Restricted Net Assets		
Contributions restricted as to use	78,677	807,500
Net assets released from usage restriction	(40,535)	(1,230,078)
Net assets release adjustment - DASNY	52,160	-
Increase in interest in net assets of foundation	162,814	40,970
Change in Temporarily Restricted Net Assets	253,116	(381,608)
Change in Net Assets	955,599	2,760,413
Net Assets, January 1	9,715,645	6,955,232
Net Assets, December 31	$ 10,671,244	$ 9,715,645

See accompanying notes to financial statements.

NEW HORIZONS RESOURCES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash Flows From Operating Activities		
Change in Net Assets	$ 955,599	$ 2,760,413
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,044,279	896,976
Amortization	26,001	20,871
Start-up expense	-	60,300
Net gain on disposal of property, plant and equipment	(216)	(358,694)
Bad debt	1,576	24,252
Change in interest in net assets of foundation	(162,814)	(40,970)
Donated property, plant and equipment	-	(21,505)
(Increase) Decrease in assets:		
Receivables		
Program	1,121,822	(1,634,726)
Related Party	(50,587)	5,853
Other	(8,066)	(2,607)
Prepaid expenses	(8,771)	(10,431)
Deposits	275	(749)
Increase (Decrease) in liabilities:		
Accounts payable	370,903	1,618
Accrued expenses	264,581	(150,924)
Deferred revenue	78,947	41,061
Net Cash Provided By Operating Activities	3,633,529	1,590,738
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(1,322,143)	(5,508,461)
Proceeds from sale of property, plant and equipment	3,199	358,694
Decrease in funded reserves	4,558	127,416
Increase in unamortized mortgage costs and deferred charges	(50,379)	(236,355)
Net Cash Used By Investing Activities	(1,364,765)	(5,258,706)
Cash Flows From Financing Activities		
Repayment of long-term debt	(1,035,722)	(993,806)
Proceeds from long-term debt	1,252,809	4,443,375
Net increase (decrease) in due to NYS OMRDD	(74,831)	(41,878)
Net Cash Provided By Financing Activities	142,256	3,407,691
Net Increase (Decrease) in Cash and Cash Equivalents	2,411,020	(260,277)
Cash and Cash Equivalents, January 1	2,989,170	3,249,447
Cash and Cash Equivalents, December 31	$ 5,400,190	$ 2,989,170
Supplemental Information		
Interest paid	$ 576,148	$ 524,559

See accompanying notes to financial statements.

NEW HORIZONS RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND DECEMBER 31, 2008

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

New Horizons Resources, Inc. (the "Agency") was incorporated in 1974 as a not-for-profit corporation which provides opportunities and support for children and adults with developmental disabilities. The Agency operates residential, service coordination, home based, and day programs in Dutchess and Ulster Counties. The Agency's revenue comes from Medicaid and state fees and grants, participant fees, and individual contributions. The Agency receives the majority of its support from Medicaid.

Recognition of Program Revenue

Income from government agencies is recognized when services are rendered at approved rates. These rates are primarily cost based and determined by allowable expenditures in rate setting periods. Costs are subject to audit by third party payors and changes, if any, are recognized in the year they are known. Included in program revenue are income adjustments of approximately $171,000 and $384,000 for 2009 and 2008, respectively, attributable to prior years.

There are occasions when funding sources grant the Agency funds for capital additions. Included in non-program support and revenue is additional income of approximately $0 and $36,000 for 2009 and 2008, respectively, attributable to such grants.

Participant fees represent the residents' personal contributions towards the cost of goods and services provided by the Agency. Charges are regulated by Federal and State law.

Contributions

The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Agency reports donor restricted contributions as unrestricted support if the restrictions are met at the time the contribution is received.

The Agency reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash Equivalents

Short-term investments with an initial maturity of three months or less are considered cash equivalents for purposes of the statement of cash flows.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property, Plant, Equipment and Depreciation

Property, plant, and equipment are stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. The Agency capitalizes property, plant and equipment with a cost of $1,000 or more and a useful life of greater than one year. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations on a straight-line basis over the following useful lives:

	Years
Buildings and improvements	5-25
Furniture, fixtures and equipment	5-10
Vehicles	4

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property, plant and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Depreciation associated with donated office equipment and software of $42,648 for 2009 and $47,624 for 2008 is included in Administration expenses.

Taxes

The Agency is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Allocation of Expenses

Administration and other expenses are allocated to individual programs based upon specific allocation methods. Other Program Services include expenses for the maintenance and operation of Briggs Farm and ancillary program grants.

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Bad Debts

Bad debts are recognized using the direct write-off method since it does not result in a material difference from the allowance method. The Agency has determined that no allowance for uncollectible accounts is necessary as of December 31, 2009 relative to its receivables. Such estimates are based on management's estimates of current economic conditions, the credit worthiness of government, donors and other resource providers as well as historical information.

Board Designated Funds

At December 31, 2009 Board-restricted funds in the amount of $200,168 were set aside by the Agency for the payment of an OMRDD liability related to OMRDD property overpayments to the Agency. The funds earn interest and will also be used to offset the Agency's obligation. As of December 31, 2009 the Board also designated $2,337 for the New Horizons Resources Capital Campaign. As of December 31, 2008 $196,161 was set aside for repayment of the OMRDD liability.

2. RECEIVABLES

At December 31, 2009 and December 31, 2008 the Agency's receivables consisted of the following:

	2009	2008
Medicaid	$ 912,482	$ 1,800,875
New York State OMRDD	702,516	844,566
Private grants	760,379	844,053
Participant fees	5,504	14,785
Total Program Receivables	$ 2,380,881	$ 3,504,279
Related party	$ 55,219	$ 4,632
Other	$ 63,338	$ 55,272

Bad debt expense related to receivables was $1,576 for the year ended December 31, 2009 and $24,252 for the year ended December 31, 2008.

3. PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment consisted of the following at December 31, 2009 and December 31, 2008:

	2009	2008
Buildings and improvements	$ 15,602,188	$ 14,848,164
Land and improvements	3,001,928	2,646,351
Furniture and equipment	1,425,224	1,358,620
Vehicles	1,540,305	1,474,571
	21,569,645	20,327,706
Less accumulated depreciation	6,907,007	5,939,949
Plant, Property and Equipment, net	$ 14,662,638	$ 14,387,757

Depreciation expense for the years ended December 31, 2009 and 2008 was $1,044,279 and $896,976, respectively.

4. FUNDED RESERVES

Funded depreciation represents deposits required by OMRDD in the amount equal to the excess of reimbursed depreciation over the principal repayment attributable to real property. Withdrawal from this fund can be made only for the purpose of making a payment on the principal portion of the mortgage or for building improvements and/or fixed equipment expenditures.

The employee flexible spending accounts are moneys set aside by employees for eligible medical and dependent care expenses under Section 125 of the Internal Revenue Code.

The debt service reserve represents funds held by OMRDD in the name of the Agency. These funds will be applied to the last payment required on the mortgage with the Facilities Development Corporation. The reserve earns interest which will also be used to offset the Agency's payment obligation under the mortgage.

The employee benefit card reserve represents the minimum funding advanced to the administrator of the Agency's flexible benefit debit card plan. Employees utilize debit cards to pay for eligible medical expenses, drawing against limits pre-set by the Agency.

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4. FUNDED RESERVES (continued)

The components of funded reserves at December 31, 2009 and December 31, 2008 follow:

	2009	2008
Funded Depreciation Account	$ 127,734	$ 125,209
Flexible Spending Accounts	5,115	12,248
Debt Service Reserve Funds - OMRDD	37,841	37,841
Employee Benefit Card Reserve	16,222	16,222
Dormitory Authority Grant Account	50	-
Total Funded Reserves	$ 186,962	$ 191,520

5. UNAMORTIZED MORTGAGE COSTS AND DEFERRED CHARGES

At December 31, 2009 and December 31, 2008 unamortized mortgage costs and deferred charges consisted of the following:

	2009	2008
Mortgage costs	$ 562,219	$ 587,284
Less accumulated amortization	114,753	153,733
Unamortized mortgage costs, net	$ 447,466	$ 433,551
Deferred charges, net	$ 10,463	$ -

Amortization expense for the years ended December 31, 2009 and 2008 was $26,001 and $20,871, respectively. Start-up expense for the years ended December 31, 2009 and 2008 was $0 and $60,300, respectively. Amortization expense is expected to be $34,000 in each of the next five years.

6. LONG-TERM DEBT

	2009	2008
Note payable - Facilities Development Corporation, secured by mortgage on Unionvale residence, Verbank, interest at 7.375%, payable by recoupments from Medicaid receipts, maturing February 2014.	$ 245,250	$ 295,000
Note payable - KeyBank, secured by mortgage on Overlook Road residence, Poughkeepsie, interest at prime (3.25% at December 31, 2009), payable in monthly payments of $1,464, principal balance of $60,768 plus accrued interest due April 2010.	64,645	79,783
Note payable - KeyBank, secured by mortgage on Clinton Avenue residence, Pleasant Valley, interest at prime (3.25% at December 31, 2009), payable in monthly payments of $2,745, principal balance of $28,890 plus accrued interest due December 2010.	57,735	88,197
Note payable - KeyBank, secured by mortgage on Morehouse Road residence, Poughkeepsie, interest at prime plus 0.25% (3.50% at December 31, 2009), payable in monthly payments of $2,474, principal balance of $216,182 plus accrued interest due July 2011.	248,302	268,696
Notes payable - Rhinebeck Savings Bank, 3 loans, each secured by a vehicle, interest at 6.09%, matured April - May 2009.	-	10,633
Notes payable - Rhinebeck Savings Bank, 3 loans, each secured by a vehicle, interest at 6.44%, matured June - July 2009.	-	14,566
Notes payable - Rhinebeck Savings Bank, 2 loans, each secured by a vehicle assigned to Day Habilitation program, interest at 6.29%, matured September 2009.	-	13,569
Note payable - Rhinebeck Savings Bank, secured by vehicle assigned to Day Habilitation program, interest at 6.69%, payable in monthly payments of $796, matured November 2009.	-	8,484
Notes payable - Rhinebeck Savings Bank, 14 loans, each secured by a vehicle, interest at 6.84%, payable in combined monthly payments of $9,845 through February 2010, $8,427 March 2010, $4,186 April 2010, $3,400 May 2010, and $1,325 June 2010.	35,911	147,332

6. LONG-TERM DEBT (continued)

	2009	2008
Notes payable - Rhinebeck Savings Bank, 2 loans, each secured by a vehicle assigned to Angelo Blvd. residence, interest at 6.89%, payable in combined monthly payments of $1477, maturing June 2010.	$ 8,535	$ 25,038
Note payable - Rhinebeck Savings Bank, secured by vehicle assigned to Round Hill residence, interest at 7.14%, payable in monthly payments of $690, maturing July 2010.	4,757	12,395
Note payable - Rhinebeck Savings Bank, secured by vehicle assigned to Mt. View residence, interest at 6.39%, payable in monthly payments of $799, maturing September 2010.	6,958	15,783
Note payable - Rhinebeck Savings Bank, secured by vehicle assigned to Jansen Road residence, interest at 6.69%, payable in monthly payments of $815, maturing September 2011.	16,069	24,384
Notes payable - KeyBank, secured by 3 vehicles, interest at 7.00%, payable in combined monthly payments of $2,789 through January 2010, $847 through March 2010, final monthly payment of $296 due April 2010.	4,728	36,619
Note payable - KeyBank, secured by mortgage on Clintondale residence, Lloyd, interest at prime (3.25% at December 31, 2009), payable in monthly payments of $3,300, principal balance of $4,913 plus accrued interest due August 2020.	356,853	385,067
Note payable - KeyBank, secured by 2nd mortgage on Amenia residence, Wassaic, interest at prime (3.25% at December 31, 2009), payable in monthly payments of $1,209, principal balance of $1,718 plus accrued interest due October 2019.	122,112	132,372
Note payable - KeyBank, secured by mortgage on Dwight Street residence, Poughkeepsie, interest at prime (3.25% at December 31, 2009), payable in monthly payments of $3,137, principal balance of $4,517 plus accrued interest due January 2020.	323,524	349,913
Note payable - KeyBank, secured by mortgage on Tyrrel Road residence, Pleasant Valley, interest at prime (3.25% at December 31, 2009), payable in monthly payments of $3,483, principal balance of $5,016 plus accrued interest due January 2020.	359,253	388,556
Note payable - Rhinebeck Savings Bank, secured by mortgage on Gerry Road residence, Poughkeepsie, interest at 7.00%, payable in monthly payments of $325, maturing January 2011.	4,052	7,533
Note payable - Rhinebeck Savings Bank, secured by mortgage on Gerry Road residence, Poughkeepsie, interest at 7.25%, payable in monthly payments of $2,739, principal balance of $8,257 plus accrued interest due February 2021.	252,247	266,018
Note payable - M&T Bank, secured by mortgage on Brigg's Farm building, Hyde Park, interest at 7.78%, payable in monthly payments of $1,239, maturing May 2021.	111,626	117,433
Note payable - KeyBank, secured by mortgage on Jansen Road residence, Pine Bush, interest at prime (3.25% as of December 31, 2009), payable in monthly payments of principal of $3,552, plus interest, maturing November 2022.	550,505	593,125
Note payable - KeyBank, secured by mortgage on Scenic View Lane residence, Poughquag, interest at 7.75%, payable in monthly payments of $2,391, principal balance of $19,641 plus accrued interest due February 2022.	231,020	241,129
Note payable - Rhinebeck Savings Bank, secured by mortgage on Angelo Blvd. residence, Poughkeepsie, interest at 7.12%, payable in monthly payments of $7,852, maturing May 2022.	775,252	812,816
Note payable - KeyBank, secured by mortgage on Albrecht Lane residence, Pleasant Valley, interest at 7.79%, payable in monthly payments of $6,800, principal balance of $22,788 plus accrued interest due April 2023.	676,921	703,887

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6. LONG-TERM DEBT (continued)

	2009	2008
Note payable - KeyBank, secured by mortgage on Round Hill Road residence, Poughkeepsie, interest at 7.80%, payable in monthly payments of principal of $3,545 plus interest, maturing December 2023.	$ 595,561	$ 638,101
Note payable - Rhinebeck Savings Bank, secured by mortgage on Seaman Road residence, East Fishkill, interest at 7.22%, payable in monthly payments of $6,376, maturing May 2023.	656,293	684,272
Note payable - KeyBank, secured by mortgage on Deer Run residence, Wallkill, interest at 7.30%, payable in monthly payments of principal of $2,611 plus interest, maturing January 2024.	441,229	399,409
Note payable - KeyBank, secured by mortgage on West Road training and administration facility, Pleasant Valley, interest at one-month LIBOR rate plus 2% (2.25% as of December 31, 2009). Payments of interest only through January 2010, then payable in monthly payments of $7,829, principal balance of $935,284 plus accrued interest due January 2023.	1,598,466	1,598,466
Note payable - Joseph T. Kirchhoff; demand note made and delivered in conjunction with purchase of West Road training and administration facility, Pleasant Valley. Interest at applicable federal rate (0.69% as of December 31,	42,912	42,592
Note payable - M&T Bank, secured by equipment (10 laptop computers), interest at 6.45%, payable in monthly payments of $463, maturing January 2011.	5,787	10,785
Note payable - Rhinebeck Savings Bank, secured by mortgage on Thornwood Drive residence, Poughkeepsie, interest at 7.00%, payable in monthly payments of $6,124, maturing March 2023.	633,471	661,682
Note payable - M&T Bank, secured by 6 vehicles, interest at 6.45%, payable in monthly payments of $4,682, maturing May 2011.	75,709	125,179
Note payable - KeyBank, secured by mortgage on Route 22 residence, Millerton, interest at 4.72%, payable in monthly payments of principal of $1,356, plus interest, maturing November 2024.	243,809	59,671
Note payable - Rhinebeck Savings Bank, secured by mortgage on Samsonville Road property, Kerhonkson. Payments of interest only through October 2009 (the construction loan period), paid in full October 2009.	-	39,900
Note payable - KeyBank, secured by mortgage on Route 22 residence, Dover Plains, interest at 7.37%, payable in monthly payments of principal of $3,352, plus interest, maturing March 2024.	573,153	478,847
Deficit payable - Provider Agency Trust for Human Services, et. al. (The PATH Trust), interest at 7.50%, payable in monthly payments of $11,196 through April 2013. Note 11 provides additional information on the Workers' Compensation liability.	416,606	541,588
Note payable - M&T Bank, secured by 4 vehicles, interest at 5.36%, payable in monthly payments of $6,185, maturing March 2012.	156,858	-
Note payable - M&T Bank, secured by 6 vehicles, interest at 5.04%, payable in monthly payments of $4,642, maturing May 2012.	126,358	-
Note payable - KeyBank, secured by mortgage on North Clove Road residence, Verbank, interest at 5.5%. Payments of interest only through June 2010 (the construction loan period), then payable in equal installments of principal, plus interest, maturing June 2025.	513,440	-
Total Long-Term Debt	$ 10,535,907	$ 10,318,820
Less Current installments	1,087,646	928,879
Long-Term Debt, net of current installments	$ 9,448,261	$ 9,389,941

Interest expense for the years ended December 31, 2009 and 2008 was $567,481 and $526,868, respectively.

6. LONG-TERM DEBT (continued)

Long-term debt is payable as follows:

2010	$ 1,087,646
2011	1,079,204
2012	774,693
2013	674,632
2014	595,064
Thereafter	6,324,668
Total Long-Term Debt	$ 10,535,907

The Agency is given additional income intended to be sufficient to provide funds necessary to pay the debt service of the amounts payable to the Facilities Development Corporation ("FDC"). OMRDD makes the periodic payments for the FDC debt. OMRDD then recovers these payments via a deduction from the Agency's Medicaid receipts. Note 7 provides additional information on the balance due to OMRDD for these payments.

The mortgage with FDC effectively assigns or collateralizes the revenue received as well as the property and all equipment or improvements made and restricts the use of the property. The Agency was required to deposit into a fund account (debt service reserve) held by OMRDD. Note 4 provides additional information on the debt service reserve.

7. DUE NYS OMRDD

	2009	2008
Loans payable to the New York State (NYS) Office of Mental Retardation and Developmental Disabilities (OMRDD), unsecured, non-interest bearing, various payments recouped weekly from Medicaid receipts through 2014.	$ 109,557	$ 184,388
Less Current installments	38,516	110,236
Due NYS OMRDD, net of current installments	$ 71,041	$ 74,152

8. RESIDENTS' FUNDS

The Agency has signature authority over residents' funds. These funds are used for authorized and allowable purchases of participants' personal items.

9. LINE OF CREDIT

At December 31, 2009 the Agency had an available unsecured line-of-credit of $1,000,000 at KeyBank of New York. Interest is at 5.25%. There was no outstanding balance at December 31, 2009.

10. CONTRIBUTION IN KIND

The Agency has operated four residential facilities - Spruce, Orchard, Riverview, and Heritage - for which it incurs no cost for rent. These program sites are owned by New York State, Taconic Developmental Disabilities Services office (DDSO). Three locations were vacated and returned to the DDSO as of December 31, 2008: Orchard effective May 2, 2008, Riverview effective June 3, 2008, and Spruce effective November 6, 2008. The estimated market rental value of the facilities is reflected as program revenue and expense in the accompanying financial statements. The estimates of market rental values may not reflect the current cost of replacing these donated items. The revenue and expense for the years ended December 31, 2009 and 2008 were $12,516 and $54,846, respectively.

In addition, the Agency receives other donated supplies, property and equipment. The revenue is reflected as nonprogram support and the related cost as expenses and as property and equipment in the accompanying financial For the years ended December 31, 2009 and 2008 nonprogram support was $0 and $21,505; expenses were $0 and $700; and property and equipment were $0 and $20,805, respectively.

11. WORKERS COMPENSATION INSURANCE

The Agency incurred costs for workers' compensation insurance as a member of the Provider Agency Trust for Human Services, et. al. (The PATH Trust). The PATH Trust had been established to provide workers' compensation insurance at a lower cost to preferred employers. PATH Trust members are jointly and severally liable for the expenses and obligations of the PATH Trust and for the workers' compensation liability of all participating employers incurred while a member of the PATH

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11. WORKERS COMPENSATION INSURANCE (continued)

The Agency has been assessed a liability of $624,909 for the PATH Trust's underfunded status for years through December 31, 2005. This liability has been recorded in the financial statements. Note 6 provides additional information on the assessment repayment agreement. In the event that other members in the PATH Trust are unable to fund their portion of the obligation, the remaining membership will be responsible to increase their obligations to the PATH Trust. The Agency terminated its membership with the PATH Trust effective January 1, 2006. Subsequently, the NYS Workers' Compensation Board (The Board) has dissolved the PATH Trust effective March 1, 2006. Effective March 1, 2006, the Board will be operating the PATH Trust through the run-off period.

12. TAX DEFERRED ANNUITY PLAN

During the year ended December 31, 1996, pursuant to a collective bargaining agreement, the Agency entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time and part-time employees of New Horizons Resources, Inc. The Agency contributes an amount subject to approval each year by the Board of Directors. For the years ended December 31, 2009 and 2008 plan expenses were $0 and ($1,198), respectively, representing returns of contributions for non-vested employees.

In 2007 the Agency and Local 200 United, Service Employees' International Union (SEIU) agreed to discuss the Agency's potential entry into the multi-employer pension fund proposed by the Union. Discussions began in May 2009 when the parties met to begin contract negotiations for the successor to the collective bargaining agreement that expired on August 31, 2009. As of December 31, 2009 discussions are continuing; thus there is no plan expense reflected in the financial statements for the years ended December 31, 2009 or December 31, 2008.

13. CONCENTRATIONS

The Agency maintains its cash accounts in local financial institutions. At times, these balances may exceed FDIC insured amounts, or may not be covered by FDIC Insurance. Financial investments which potentially subject the Agency to credit risk consist principally of cash accounts. The Agency's concentration of credit risk was $0 at December 31, 2009.

Approximately 70% of the Agency's full time equivalent employees are covered by a collective bargaining agreement. The current contract expired August 31, 2009 and as of December 31, 2009 contract negotiations were ongoing. A short-term agreement covering the period September 1, 2009 to January 31, 2010 was approved and ratified January 20, 2010. The Agency and SEIU subsequently agreed to extend the term of this agreement to April 30, 2010. Both the expired and short-term agreements stipulate a no strike and no lock-out clause and certain agreements with regard to paid time off and leave policies, work hours and schedules, and personnel policies including grievance, discharge and discipline procedures. The risk related to this agreement is minimal.

14. RELATED PARTY INFORMATION

In 1991, New Horizons Foundation (the Foundation) was organized to raise funds and provide continuous financial assistance to New Horizons Resources, Inc. The Agency is a related party to the Foundation because the Agency has a certain economic beneficial interest in the Foundation and there is commonality of certain Board members.

A summary of significant related party balances and transactions as of December 31, 2009 and December 31, 2008 follows:

	2009	2008
Due from New Horizons Foundation	$ 55,219	$ 4,632
Donations from New Horizons Foundation	$ 96,087	$ 102,070

A summary of the financial information for New Horizons Foundation follows:

Total Assets	$ 845,473	$ 637,077
Total Liabilities	$ 56,514	$ 10,932
Total Net Assets	788,959	626,145
Total Liabilities and Net Assets	$ 845,473	$ 637,077
Total Revenue	$ 307,703	$ 236,637
Total Expenses	144,889	195,667
Change in Net Assets	$ 162,814	$ 40,970

A member of the Board of Directors also acts as the Agency's insurance broker for policies obtained from Granite State and Illinois National Insurance Companies. Total premiums paid for the July 2008-July 2009 policy year were $170,942. Total premiums to be paid for the July 2009-July 2010 policy year are $165,456.

14. RELATED PARTY INFORMATION (continued)

A member of the Board of Directors is a Senior Vice President for Rhinebeck Savings Bank. Total balances in Rhinebeck Savings Bank accounts were $1,396,343 as of December 31, 2009 and $387,031 as of December 31, 2008. Total balances of notes payable to Rhinebeck Savings Bank were $2,393,544 as of December 31, 2009 and $2,744,406 as of December 31, 2008.

A member of the Board of Directors is a principal of Kirchhoff Construction Management who entered into an agreement with the Agency to purchase and renovate the administrative facility at 123 West Road, Pleasant Valley. The total amount agreed to and recorded in the financial statements was $3,240,509. Amounts unpaid at December 31, 2009 were $510,033.

15. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets include the interest in the net assets of the Foundation which are restricted as to time. Also included are contributions received with donor stipulations specifying use. As of December 31, 2009 donor designated donations consisted of $396,967 for the New Horizons Professional Development and Support Center and $9,147 for respite and recreation programs, training equipment, a purchasing consultant, and landscaping at a New Horizons residence.

Of the $396,967 designated for the Professional Development and Support Center, $335,039 is related to a $750,000 grant awarded to the Agency in 2008 under the Dormitory Authority of the State of New York Economic Development Assistance Program (DASNY EDAP). During 2009 the Agency was apprised of additional restrictions of the grant. A net asset release adjustment in the amount of $52,160 is reflected in the financial statements.

Permanently restricted net assets represent the interest in the permanently restricted net assets of the Foundation.

16. COMMITMENTS AND CONTINGENCIES

Pursuant to the Agency's and its related party's contractual relationships with certain governmental funding sources, such funding sources have the right to examine the books and records of the Agency involving transactions relating to these matters. The amount of any disallowance by a funding source cannot be determined at this time although management believes that such amounts, if any, would be immaterial.

17. SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through April 14, 2010, which is the date these financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure that have not been incorporated into these financial statements.

NEW HORIZONS RESOURCES, INC.
SCHEDULE OF SUPPORT AND REVENUE RELATED TO FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	Intermediate Care Facilities	Individual Residential Alternatives	Options for People Through Services	Home Based Services	Service Coordination	Day Habilitation	Other Program Services	Adminis-tration	2009 Total	2008 Total
Program Support and Revenue										
Medicaid	$ 1,696,148	$ 6,059,935	$ -	$ 703,136	$ 553,103	$ 575,583	$ -	$ -	$ 9,587,905	$ 9,483,272
Participant fees	116,451	843,865	1,040,625	-	-	-	-	-	2,000,941	1,694,548
NYS Mental Retardation	-	38,439	8,661,161	9,227	16,543	-	-	-	8,725,370	8,217,433
Contribution-in-kind	-	-	12,516	-	-		-	-	12,516	54,846
Retroactive income	27,687	97,577	31,574	4,457	5,500	3,997	-	-	170,792	383,564
Total Program Support and Revenue	1,840,286	7,039,816	9,745,876	716,820	575,146	579,580	-	-	20,497,524	19,833,663
Nonprogram Support and Revenue										
Interest/investment income	-	-	-	-	-	-	-	8,991	8,991	63,131
Participant clothing funds	-	16,875	20,500	-	-	-	-	-	37,375	36,375
Contributions and fundraising	325	3,163	1,679	930	-	3,625	13,100	40,000	62,822	129,558
Gain on sale of pp&e	-	-	-	-	-	-	-	1,000	1,000	400,152
Capital additions	-	-	-	-	-	-	-	-	-	35,725
Grants	-	-	-	-	-	-	-	150,000	150,000	121,050
Other income	-	-	-	-	-	-	4,180	712	4,892	207
Total Nonprogram Support and Revenue	325	20,038	22,179	930	-	3,625	17,280	200,703	265,080	786,198
Net assets released from restrictions or transferred							31,035	(42,660)	(11,625)	1,230,078
Total Unrestricted Support and Revenue	1,840,611	7,059,854	9,768,055	717,750	575,146	583,205	48,315	158,043	20,750,979	21,849,939
Total Functional Expenses	1,826,567	7,313,556	8,845,025	760,083	654,973	589,905	58,387	-	20,048,496	18,707,918
Excess(Deficiency) of Support and Revenue over Expenses- 2009	$ 14,044	$ (253,702)	$ 923,030	$ (42,333)	$ (79,827)	$ (6,700)	$ (10,072)	$ 158,043	$ 702,483	$ 3,142,021
Excess(Deficiency) of Support and Revenue over Expenses- 2008	$ 294,936	$ 208,854	$ 723,009	$ 58,846	$ (57,329)	$ 30,500	$ 77,520	$ 1,805,685	$ 3,142,021	

See independent auditors' report.

NEW HORIZONS RESOURCES, INC.
SCHEDULE OF FUNCTIONAL EXPENSES BY PROGRAM
FOR THE YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	Intermediate Care Facilities	Individual Residential Alternatives	Options for People Through Services	Home Based Services	Service Coordination	Day Habilitation	Other Program Services	Adminis-tration	2009 Total	2008 Total
Personal services	$ 890,408	$ 3,837,877	$ 4,320,679	$ 430,701	$ 374,525	$ 278,581	$ 2,988	$ 1,212,310	$ 11,348,069	$ 10,662,224
Mandated fringe benefits	112,650	422,150	546,625	54,489	47,383	35,243	377	153,374	1,372,291	1,176,679
Non-mandated fringe benefits	238,952	895,464	1,159,508	115,582	100,510	74,760	800	325,339	2,910,915	2,557,330
Food	28,410	190,732	231,724	8,062	264	-	-	-	459,192	372,302
Repairs and maintenance	15,599	123,099	178,630	3,149	3,529	8,393	5,355	35,106	372,860	322,902
Utilities	12,896	87,641	105,942	1,853	2,360	4,851	1,080	22,193	238,816	279,214
Participant transportation	12,308	86,861	101,070	1,032	393	33,738	2,502	7,739	245,643	301,113
Staff travel	5,502	17,342	32,913	19,029	15,146	274	-	15,571	105,777	105,499
Residents' expenses	5,993	44,291	45,773	-	60	-	240	10	96,367	99,027
Equipment expense	3,609	25,751	27,105	2,986	397	2,155	1,379	9,529	72,911	48,860
Health care assessment	93,485	-	-	-	-	-	-	-	93,485	98,729
Staff training	1,466	6,445	6,334	1,061	1,113	577	35	61,203	78,234	86,011
Contracted services	53,502	14,296	10,868	-	-	-	-	103,719	182,385	178,634
Day services	14,495	-	-	-	-	-	-	-	14,495	14,495
Non-household supplies	12,194	32,226	29,489	20,017	-	22,863	2,957	-	119,746	120,787
Household supplies	8,623	53,730	61,961	1,457	-	3,308	235	-	129,314	126,069
Telephone	7,603	38,883	47,441	2,145	4,548	3,378	-	21,945	125,943	115,878
Miscellaneous	-	347	-	187	-	-	-	17,236	17,770	22,420
Audit and legal fees	-	-	-	-	-	-	-	29,897	29,897	29,279
Employment and recruiting	-	-	-	-	-	-	-	11,076	11,076	21,442
Office supplies and postage	2,611	14,033	15,094	1,506	14,369	552	341	56,103	104,609	104,171
Interest- working capital	-	-	-	-	-	-	-	14,374	14,374	6,249
General insurance	3,894	18,451	20,371	2,174	210	3,413	1,309	74,871	124,693	123,139
Depreciation- provider paid	51,583	256,131	357,224	2,050	7,301	33,716	19,819	187,256	915,080	765,582
Depreciation- state paid	10,828	85,643	20,708	-	-	240	11,780	-	129,199	131,394
Leases- provider paid - equipment	127	2,023	12,593	95	101	350	-	17,811	33,100	15,066
Leases- provider paid - real property	54	33,632	22,363	43	314	36	-	2,958	59,400	100,860
Real property taxes	-	-	1,551	-	-	-		-	1,551	2,402
Capital debt interest	16,260	118,981	387,303	443	3,180	11,047	-	30,267	567,481	526,868
Property insurance	2,301	14,734	19,210	393	413	1,055	160	3,888	42,154	43,125
Amortization- provider paid	1,217	5,789	16,207	-	-	352	-	-	23,565	16,398
Amortization- state paid	-	2,436	-	-	-	-	-	-	2,436	4,473
Start-up expense	-	-	-	-	-	-	-	-	-	60,300
Bond administration fees	-	3,308	-	-	-	-	-	-	3,308	3,287
Loss on disposal of pp&e- provider paid	84	430	270	-	-	-	-	-	784	25,261
Loss on disposal of pp&e- state paid	-	-	-	-	-	-	-	-	-	16,197
Bad debt	-	302	1,157	117	-	-	-	-	1,576	24,252
Sub-Total	1,606,654	6,433,028	7,780,113	668,571	576,116	518,882	51,357	2,413,775	20,048,496	18,707,918
Allocation of Administration	219,913	880,528	1,064,912	91,512	78,857	71,023	7,030	(2,413,775)	-	-
Total Functional Expenses	$ 1,826,567	$ 7,313,556	$ 8,845,025	$ 760,083	$ 654,973	$ 589,905	$ 58,387	$ -	$ 20,048,496	$ 18,707,918
2008 Functional Expenses before Allocation of Administration	$ 1,558,899	$ 5,999,598	$ 7,234,903	$ 589,967	$ 538,583	$ 479,990	$ 37,182	$ 2,268,796	$ 18,707,918	
Percent change from 2008	3.06%	7.22%	7.54%	13.32%	6.97%	8.10%	38.12%	6.39%	7.17%	

See independent auditors' report.

APPENDIX B-VII

P.L.U.S. GROUP HOMES, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010 AND DECEMBER 31, 2009)

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P.L.U.S. Group Homes, Inc.

Financial Statements
Year Ended December 31, 2011

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

P.L.U.S. Group Homes, Inc.

Financial Statements
Year Ended December 31, 2011

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P.L.U.S. Group Homes, Inc.

Contents

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Independent Auditors' Report

The Board of Directors
P.L.U.S. Group Homes, Inc.
Wantagh, New York

We have audited the accompanying statement of financial position of P.L.U.S. Group Homes, Inc. ("P.L.U.S.") as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of P.L.U.S.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended December 31, 2010 is presented for comparative purposes only and was extracted from the financial statements of P.L.U.S. for that year, which were audited by other auditors whose report, dated September 8, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of P.L.U.S.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of P.L.U.S. Group Homes, Inc. as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

August 9, 2012

P.L.U.S. Group Homes, Inc.

Statement of Financial Position
(with comparative totals for 2010)

December 31,	2011	2010
Assets		
Cash and cash equivalents (Note 2)	$1,478,673	$ 564,820
Investments, at fair value (Notes 2 and 3)	220,234	470,558
Accounts receivable, net	621,329	904,989
Prepaid expenses and other assets	39,591	44,045
Assets limited as to use (Notes 2 and 4)	231,780	231,741
Investments designated for deferred compensation (Notes 2, 3 and 11)	184,296	234,075
Fixed assets, net (Notes 2 and 5)	4,446,276	4,840,405
	$7,222,179	$7,290,633
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 169,483	$ 222,824
Accrued payroll and related liabilities	532,990	711,457
Swap liability (Notes 8 and 12)	36,322	47,585
Due to governmental agencies (Note 6)	1,189,227	515,989
Deferred compensation (Note 11)	184,296	234,075
Loans payable (Note 7)	50,026	85,331
Mortgages payable (Note 8)	350,134	430,068
Bond payable (Note 9)	1,667,000	1,787,000
Total Liabilities	4,179,478	4,034,329
Commitments (Note 13)		
Net Assets - Unrestricted	3,042,701	3,256,304
	$7,222,179	$7,290,633

See accompanying notes to financial statements.

P.L.U.S. Group Homes, Inc.

Statement of Activities
(Unrestricted)
(with comparative totals for 2010)

Year ended December 31,	2011	2010
Program Revenues:		
Fee for services	$7,696,348	$7,921,122
Prior period income	54,167	288,619
Total Program Revenues	7,750,515	8,209,741
Program Expenses:		
Program services:		
Intermediate care facilities	4,630,721	4,987,119
Individualized Residential Alternative	2,335,792	2,130,796
Medicaid Service Coordination	13,437	60,851
Total Program Services	6,979,950	7,178,766
Supporting services:		
Management and general	1,021,058	1,165,496
Total Program Expenses	8,001,008	8,344,262
Change in Net Assets Before Support and Nonoperating Revenues	(250,493)	(134,521)
Support and Nonoperating Revenues:		
Contributions	21,327	29,288
Interest income	4,300	12,430
Other income	-	41,136
Gain on swap agreement (Note 12)	11,263	4,579
Total Support and Nonoperating Revenues	36,890	87,433
Change in Net Assets	(213,603)	(47,088)
Net Assets, Beginning of Year	3,256,304	3,303,392
Net Assets, End of Year	$3,042,701	$3,256,304

See accompanying notes to financial statements.

P.L.U.S. Group Homes, Inc.

Statement of Functional Expenses
(with comparative totals for 2010)

Year ended December 31,

	Program Services			Supporting Services		
	Intermediate Care Facilities (ICF)	Individualized Residential Alternative (IRA)	Medicaid Service Coordination (MSC)	Management and General	Total 2011	Total 2010
Salaries and Related Expenses:						
Salaries	$2,673,140	$1,356,499	$10,545	$ 583,379	$4,623,563	$4,747,606
Payroll taxes and employee benefits	713,905	365,278	2,892	160,847	1,242,922	1,343,437
Total Salaries and Related Expenses	3,387,045	1,721,777	13,437	744,226	5,866,485	6,091,043
Other Expenses:						
Professional fees	-	-	-	102,575	102,575	42,600
Data processing	-	-	-	19,518	19,518	18,386
Utilities	54,831	32,863	-	11,566	99,260	90,190
Facility tax assessment	278,236	-	-	-	278,236	339,891
Rent	-	-	-	73,899	73,899	76,033
Repairs and maintenance	53,218	41,932	-	10,062	105,212	118,456
Employee travel	8,409	6,779	-	2,349	17,537	23,229
Telephone	10,615	7,481	-	9,503	27,599	27,563
Postage	36	-	-	3,437	3,473	3,060
Office expense	11,082	6,308	-	5,644	23,034	25,929
Dues and subscriptions	40	-	-	2,195	2,235	1,287
Interest expense	54,630	82,865	-	-	137,495	163,994
Personnel recruitment	3,041	1,800	-	-	4,841	29,516
Vehicle expense	41,654	30,099	-	-	71,753	71,030
Staff training	1,045	580	-	394	2,019	5,062
Insurance expense	28,105	28,105	-	8,498	64,708	68,693
Medical and therapeutic supplies	20,872	8,329	-	-	29,201	28,040
Food	152,560	71,744	-	389	224,693	226,960
Household and program supplies	56,082	37,251	-	300	93,633	91,256
Stationary and printing	960	564	-	1,488	3,012	2,566
Contracted services	149,190	37,705	-	17,145	204,040	231,843
Client activities	61,480	60,585	-	-	122,065	117,069
Equipment and furniture	693	-	-	5,190	5,883	11,389
Miscellaneous	3,593	1,351	-	1,405	6,349	10,100
Total Expenses Before Depreciation and Amortization	4,377,417	2,178,118	13,437	1,019,783	7,588,755	7,915,185
Depreciation and Amortization	253,304	157,674	-	1,275	412,253	429,077
Total Expenses	$4,630,721	$2,335,792	$13,437	$1,021,058	$8,001,008	$8,344,262

See accompanying notes to financial statements.

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P.L.U.S. Group Homes, Inc.

Statement of Cash Flows
(with comparative totals for 2010)

Year ended December 31,	2011	2010
Cash Flows From Operating Activities:		
Change in net assets	$ (213,603)	$ (47,088)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	412,253	429,077
Gain on swap agreement	(11,263)	(4,579)
(Increase) decrease in:		
Accounts receivable	283,660	(153,579)
Prepaid expenses and other assets	4,454	(12,872)
Increase (decrease) in:		
Accounts payable and accrued expenses	(53,341)	81,298
Accrued payroll and related liabilities	(178,467)	309,887
Due to governmental agencies	673,238	(239,003)
Deferred compensation	(49,779)	89,162
Net Cash Provided By Operating Activities	867,152	452,303
Cash Flows From Investing Activities:		
(Increase) decrease in assets limited as to use	(39)	149,198
Change in investments designated for deferred compensation	49,779	(89,162)
Change in short-term investments	250,324	368,368
Purchase of fixed assets	(18,124)	(743,960)
Net Cash Provided By (Used In) Investing Activities	281,940	(315,556)
Cash Flows From Financing Activities:		
Proceeds from loans payable	-	35,255
Principal payments on loans payable	(35,305)	-
Principal payments on mortgages payable	(79,934)	(172,452)
Principal payments on capital lease payable	(120,000)	(109,000)
Payments on line of credit	-	(424,000)
Net Cash Used In Financing Activities	(235,239)	(670,197)
Net Increase (Decrease) in Cash and Cash Equivalents	913,853	(533,450)
Cash and Cash Equivalents, Beginning of Year	564,820	1,098,270
Cash and Cash Equivalents, End of Year	$1,478,673	$ 564,820
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 120,382	$ 163,994

See accompanying notes to financial statements.

1. Description of Organization

P.L.U.S. Group Homes, Inc. ("P.L.U.S.") provides services to individuals with developmental disabilities, which will maximize their well-being, independence and ability to exercise choice and to develop to their fullest potential. P.L.U.S. addresses the needs of these individuals by providing services including housing, medical care, psychiatric care, counseling, recreation, fitness programs, service coordination, social work, art and music therapy and nutritional guidance.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of P.L.U.S. have been prepared on the accrual basis. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

(b) Financial Statement Presentation

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

(i) **Permanently Restricted** - Net assets resulting from contributions and other inflows of assets whose use by P.L.U.S. is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of P.L.U.S.

(ii) **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by P.L.U.S. is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of P.L.U.S. pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

(iii) **Unrestricted** - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(c) Cash and Cash Equivalents

Cash equivalents include short-term, highly liquid investments with maturities of three months or less at the time of purchase.

(d) Investments at Fair Value

Investments primarily consist of certificates of deposit and mutual funds. All investments are carried at fair value based on quoted market prices. Investment income, including realized and unrealized gains and losses, is reflected in the statement of activities.

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(e) Fair Value Measurements and Disclosures

Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures", establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as P.L.U.S. would use in pricing P.L.U.S.'s asset or liability based on independently derived and objectively determined market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of P.L.U.S. are traded. P.L.U.S. estimates the price of any assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers administering each investment based on the best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

- Level 1 - Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted market prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples include mutual funds and cash and cash equivalents.
- Level 2 - Valuation based on quoted market prices of investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly. Examples include most debt securities and annuity funds.
- Level 3 - Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value. Examples include limited partnerships and private equity investments.

(f) Provision for Doubtful Accounts

P.L.U.S. does not provide an allowance for doubtful accounts. Doubtful accounts are written off as they are deemed by management to be uncollectible. All accounts receivable, as stated in the financial statements, are deemed by P.L.U.S.'s management to be fully collectible.

(g) Assets Limited as to Use

Assets limited as to use include assets held by the trustees under bond agreements.

(h) Fixed Assets, Net

Fixed assets are stated at cost or estimated fair market value if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets.

	Years
Buildings and improvements	5-25
Furniture and equipment	3-20
Leasehold improvements	12

(i) Contributions and Grants

Contributions and grants, including unconditional promises to give that are expected to be collected within one year, are recognized as revenues in the period earned and are either classified as temporarily restricted or unrestricted. Conditional contributions, including conditional promises to give, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributed property is recognized at fair value.

(j) Income Taxes

P.L.U.S. was incorporated in the State of New York and is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, therefore, has made no provision for income taxes in the accompanying consolidated financial statements P.L.U.S has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for the year ended December 31, 2011.

Under ASC 740, "Income Taxes", an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will not be sustained upon examination by a taxing authority. The implementation of ASC 740 had no impact on P.L.U.S' financial statements. P.L.U.S does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. P.L.U.S has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, P.L.U.S has filed Internal Revenue Service Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the year ended December 31, 2011, there were no interest or penalties recorded or included in the statement of activities. P.L.U.S. is subject to routine audits by a taxing authority. As of December 31, 2011, P.L.U.S. was not subject to any examination by a taxing authority. Management believes it is no longer subject to income tax examination for the years prior to 2008.

(k) Third-Party Reimbursements and Revenue Recognition

P.L.U.S. receives substantially all of their revenue from third-party reimbursement agencies; primarily the New York State Office for People with Developmental Disabilities ("OPWDD"). These revenues are for services provided to approved consumers and are based on rates issued by funding agencies. Revenues are recognized as earned and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediaries.

(l) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates

(m) Allocation Methodology

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

(n) Comparative Financial Information

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the prior year financial statements from which the summarized information was derived. With respect to the statement of functional expenses, the prior year expenses by the expense classification are presented in total rather than functional category.

(o) Reclassifications

Certain prior year balances have been reclassified to be consistent with the current year financial statement presentation.

(p) Recently Implemented Accounting Pronouncement

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". ASU 2011-04 amended ASC 820 to provide a consistent definition of fair value and improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. Some of the amendments clarify the application of existing fair value measurement and disclosure requirements, while other amendments change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Management is currently evaluating the effect that the provisions of ASU 2011-04 will have on the financial statements.

3. Financial Instruments and Fair Value

Below sets forth a table of assets and liabilities measured at fair value at December 31, 2011:

	Fair Value Measurement at Reporting Date Using			
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2011
Assets				
Certificate of deposit	$203,590	$ -	$ -	$203,590
Mutual funds	16,644	-		16,644
Annuity funds	-	184,296	-	184,296
Total assets at fair value	$220,234	$184,296	$ -	$404,530
Liabilities				
Swap liability	$ -	$ 36,322	$ -	$ 36,322
Total liabilities at fair value	$ -	$ 36,322	$ -	$ 36,322

December 31, 2011	Cost	Market Value
Certificate of deposit	$203,590	$203,590
Mutual funds	16,644	16,644
Annuity funds	127,073	184,296
	$347,307	$404,530

4. Assets Limited as to Use

Under the terms of the Facilities Development Corporation ("FDC") (Note 8) and Industrial Development Agency of New York ("IDA") bonds (Note 9), P.L.U.S. was required to deposit with the bond trustee amounts to be held in reserve, which will be withdrawn to satisfy the last remaining installments on the loans. Also, under the terms of the FDC loans (Note 8), P.L.U.S. was required to deposit with the Medical Care Facilities Finance Agency ("MCFFA") bond trustee amounts to be held in reserve, which will be withdrawn to satisfy the last remaining installments on the FDC loans. Interest earned on the reserve funds will be used to reduce P.L.U.S.'s payment obligations under the loans. The balance of these reserve funds as of December 31, 2011 was $231,780.

Assets limited as to use consist of cash and cash equivalents and U.S. Government securities that are carried at their aggregate market value and are determined by quoted market prices. The valuation of the above is based on Level 1 inputs within the hierarchy used in measuring fair value.

5. Fixed Assets, Net

Fixed assets, net consist of the following at December 31, 2011:

Land	$ 1,127,910
Buildings and improvements	5,664,320
Furniture and equipment	914,270
Leasehold improvements	15,300
Construction-in-progress	285,535
	8,007,335
Less: Accumulated depreciation and amortization	(3,561,059)
Fixed assets, net	$ 4,446,276

P.L.U.S. is in the process of construction of a new building. It is estimated the project will cost $500,000 to complete.

6. Due to Governmental Agencies

Due to governmental agencies consists of the following at December 31, 2011:

Advances by funding sources to be recouped. The balance as of December 31, 2011 is payable through year 2012.	$1,189,227

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7. Loans Payable

Loans payable consist of the following:

December 31, 2011	
Loan payable to a bank, due May 2014, payable in current monthly installments of $1,083, including interest at 4.94%; secured by equipment owned	$29,465
Loan payable to a bank, due December 2013, payable in current monthly installments of $710, including interest at 4.06%; secured by equipment owned	16,323
Loan payable to a bank, due May 2012, payable in current monthly installments of $869, including interest at 9.85%; secured by equipment owned	4,238
Total	$50,026

Future minimum payments on loans payable are as follows:

Year ending December 31,	
2012	$24,045
2013	20,710
2014	5,271
Total	$50,026

8. Mortgages Payable

Mortgages payable consist of the following:

December 31, 2011	
Mortgage payable to a bank, due March 2015, payable in current monthly installments of $2,362, including interest at LIBOR plus 200 basis points; secured by real estate located in East Meadow, New York (Note 12)	$105,099
Mortgage payable to a bank, due July 2016, payable in current monthly installments of $2,833, including interest at LIBOR plus 200 basis points; secured by real estate located in Seaford, New York (Note 12)	183,909
Mortgage payable to FDC, due August 2014, payable in semi-annual debt service payments of $12,925, including interest at 7.3% annum; secured by real estate located in Levittown, New York	61,126
Total	$350,134

Future minimum payments on mortgages payable are as follows:

Year ending December 31,	
2012	$ 82,896
2013	91,255
2014	97,979
2015	51,040
2016	26,964
Total	$350,134

Pursuant to the mortgage agreement for the East Meadow site, P.L.U.S. is required to maintain certain financial ratios as well as other covenants. As of December 31, 2011, P.L.U.S. did not meet its debt service coverage ratio covenant. As of the date of this report, P.L.U.S.'s management is in the process of obtaining a waiver for this covenant from the bank. P.L.U.S.'s management fully believes that they will obtain the waiver and that the bank will not accelerate the loan due on the mortgage.

9. Bond Payable

In 2007, P.L.U.S. began a capital improvement project on its Uniondale residence and purchased another residence in Massapequa that was renovated during 2010. In order to finance the projects, on December 19, 2007, P.L.U.S. secured financing of $2,085,000 from the Nassau County IDA bonds. As part of the agreement with IDA, P.L.U.S. transferred title to the existing land and buildings to IDA. IDA has leased the land and building back to P.L.U.S. for a term concurrent with the bond repayment schedule. During the term of the lease, P.L.U.S. is responsible for maintaining the property.

The bonds are issued by IDA as a conduit issuer. P.L.U.S. has the obligation under the lease agreement to make the payments to the Bond Trustee, U.S. Bank, equal to the amounts payable as principal and interest on the outstanding bonds. Interest on the bonds is fixed at 6.15% on $2,015,000 and 7.08% on $70,000. Principal and interest are due semiannually on May 1 and November 1. The final payment is due November 1, 2022. The payment of the bonds is secured by a mortgage and a security agreement. P.L.U.S. has unconditionally guaranteed payment of the bonds. In conjunction with this financing, P.L.U.S. is required to maintain and have available for use a project fund, which includes a lease payments fund and an earnings fund, as well as a debt reserve fund.

The trustee has a lien on and security interest in the facility, property, equipment and furnishings.

Future minimum debt service payments and the present value of net minimum debt service payments are as follows:

Year ending December 31,	
2012	$ 227,669
2013	208,019
2014	210,639
2015	207,951
2016	209,803
Thereafter	1,246,940
Total minimum lease payments	2,311,021
Less: Interest	(644,021)
Present value of net minimum lease payments	$1,667,000

10. Pension

P.L.U.S.'s employees are covered under a noncontributory defined contribution pension plan. Contributions to the plan are based on 3% of each covered employee's salary up to $30,000 and 6% thereafter on earned salaries up to $245,000. Pension expense for the year ended December 31, 2011 was $100,917.

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11. Deferred Compensation

The Board of Directors has approved a nonqualified deferred compensation plan for executive management in the form of annuity funds (see Note 3). The plan provides for benefits to be paid at specific future dates upon retirement, subject to specific arrangements. The plan includes employer and employee contributions. The balance at December 31, 2011 was $184,296.

12. Derivative Financial Instruments

P.L.U.S. has entered into interest rate swap agreements to limit the effects of increases in interest rates on variable rate mortgages. The differential is accrued as interest rates change and is recorded as gain on swap agreement.

The terms of the P.L.U.S.' swap agreements are summarized below:

December 31, 2011	Notional Amount	Fair Value
Interest rate swap agreement with a bank. P.L.U.S. pays a fixed rate of interest at 8.5%. The bank pays a variable rate of interest at LIBOR. The agreement provides for monthly settlement and matures in March 2015.	$103,448	$(10,765)
Interest rate swap agreement with a bank. P.L.U.S. pays a fixed rate of interest at 8.45%. The bank pays a variable rate of interest at LIBOR . The agreement provides for monthly settlement and matures in July 2016.	180,087	(25,557)
		$(36,322)

13. Lease Commitments

P.L.U.S. leases its administrative office under an operating lease expiring in March 2016. Rent expense amounted to $73,899 in 2011.

The following is a schedule of future minimum lease payments:

Year ending December 31,	
2012	$ 70,221
2013	72,328
2014	74,498
2015	76,733
2016	12,851
Total minimum lease payments	$306,631

14. Commitments and Contingencies

(a) Litigation

P.L.U.S. is involved in various lawsuits which it is defending vigorously. The ultimate outcomes of the matters cannot be determined at this time. Management and legal counsel have estimated that the outcomes would have an immaterial effect on the financial statements at December 31, 2011. Accordingly, no provision for any liability that may result has been made in these financial statements.

(b) Concentration of Credit Risk

Financial instruments which potentially subject P.L.U.S. to concentration of credit risk consist primarily of cash and cash equivalents. At various times, P.L.U.S. maintained cash deposits at financial institutions, which exceed the Federal Depository Insurance Corporation insurance limits.

15. Subsequent Events

P.L.U.S.'s management has performed subsequent event procedures through August 9, 2012, which is the date the financial statements were available to be issued, and there were no subsequent events requiring adjustment to the financial statements or disclosures as stated herein.

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P.L.U.S. GROUP HOMES, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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fuocogroup
Certified Public Accountants | Business Advisors

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Independent Auditors' Report

Board of Directors
P.L.U.S. Group Homes, Inc.

We have audited the accompanying statements of financial position of P.L.U.S. Group Homes, Inc. as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of P.L.U.S. Group Homes, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Fuoco Group LLP

Hauppauge, NY
September 8, 2011

P.L.U.S. GROUP HOMES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 564,820	$ 1,098,270
Investments in money market funds and mutual funds	470,558	838,926
Accounts receivable (net of allowance for doubtful accounts of $0 and $35,243 in 2010 and 2009)	904,989	751,410
Prepaid expenses and other assets	44,045	31,173
Total Current Assets	1,984,412	2,719,779
Assets Limited as to Use		
Project Fund - cash	3,806	153,004
Debt Service Reserve Fund - cash	227,935	227,935
Total Assets Limited as to Use	231,741	380,939
Investment in mutual funds - deferred compensation	234,075	144,913
Property, Plant and Equipment		
Property, plant and equipment	7,990,759	7,277,850
Less: accumulated depreciation and amortization	(3,150,354)	(2,752,328)
Total Property, Plant and Equipment	4,840,405	4,525,522
Total Assets	$ 7,290,633	$ 7,771,153

See notes to financial statements.

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P.L.U.S. GROUP HOMES, INC.
STATEMENTS OF FINANCIAL POSITION (Continued)
DECEMBER 31,

	2010	2009
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 222,824	$ 141,526
Accrued salaries and vacation payable	711,457	401,570
Swap liability	47,585	52,164
Loans payable	35,252	35,729
Mortgages payable	82,322	102,107
Capital lease payable	120,000	109,000
Due to New York State OPWDD	515,989	754,992
Line of credit	-	424,000
Total Current Liabilities	1,735,429	2,021,088
Long-Term Liabilities		
Deferred compensation	234,075	144,913
Loans payable	50,078	14,346
Mortgages payable	347,747	500,414
Capital lease payable	1,667,000	1,787,000
Total Long-Term Liabilities	2,298,900	2,446,673
Total Liabilities	4,034,329	4,467,761
Net Assets - Unrestricted	3,256,304	3,303,392
Total Liabilities and Net Assets	$ 7,290,633	$ 7,771,153

See notes to financial statements.

P.L.U.S. GROUP HOMES, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31,

	2010	2009
Revenue		
Intermediate care facilities (ICF)	$ 5,578,356	$ 5,257,778
Individualized residential alternative (IRA)	2,592,789	1,866,797
Medicaid service coordination	38,596	29,023
Contributions	29,288	40,807
Interest income	12,430	14,847
Other income	41,136	43,097
Total Revenue	8,292,595	7,252,349
Expenses		
Program Expenses		
Intermediate care facilities	4,987,119	4,708,977
Individualized residential alternative	2,130,796	1,368,660
Medicaid service coordination	60,851	51,009
Total Program Expenses	7,178,766	6,128,646
Administrative		
Management and general	1,165,496	1,006,862
Total Expenses	8,344,262	7,135,508
Change in Net Assets Before Gain on Swap Agreement	(51,667)	116,841
Gain on Swap Agreement	4,579	23,836
Increase (Decrease) in Net Assets	(47,088)	140,677
Net Assets, Beginning of Year	3,303,392	3,162,715
Net Assets, End of Year	$ 3,256,304	$ 3,303,392

See notes to financial statements.

P.L.U.S. GROUP HOMES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31,

	2010				
	Intermediate Care Facilities	Individualize Residential Alternative	Medicaid Service Coordination	Management and General	Total
Salaries	$ 2,747,631	$ 1,213,679	$ 47,846	$ 738,450	$4,747,606
Payroll taxes and fringe benefits	780,236	349,485	13,005	200,711	1,343,437
Professional fees	-	-	-	42,600	42,600
Data processing	-	-	-	18,386	18,386
Utilities	57,397	32,293	-	500	90,190
Facility tax assessment	339,891	-	-	-	339,891
Rent	-	-	-	76,033	76,033
Repairs and maintenance	65,930	39,387	-	13,139	118,456
Employee travel	10,732	8,887	-	3,610	23,229
Telephone	10,566	7,098	-	9,899	27,563
Postage	60	-	-	3,000	3,060
Office expense	11,269	7,120	-	7,540	25,929
Dues and subscriptions	-	-	-	1,287	1,287
Interest expense	88,377	75,617	-	-	163,994
Personnel recruitment	20,601	6,005	-	2,910	29,516
Vehicle expense	44,933	26,097	-	-	71,030
Staff training	3,384	1,678	-	-	5,062
Insurance	33,543	25,004	-	10,146	68,693
Medical and therapeutic supplies	19,047	8,993	-	-	28,040
Food	164,506	61,294	-	1,160	226,960
Household and program supplies	56,226	34,054	-	976	91,256
Stationery and printing	780	517	-	1,269	2,566
Contracted services	178,531	29,562	-	23,750	231,843
Client activities	64,844	52,225	-	-	117,069
Equipment and furniture	2,709	1,380	-	7,300	11,389
Depreciation and amortization	279,415	148,387	-	1,275	429,077
Miscellaneous	6,511	2,034	-	1,555	10,100
	$ 4,987,119	$ 2,130,796	$ 60,851	$ 1,165,496	$8,344,262

See notes to financial statements.

P.L.U.S. GROUP HOMES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES (Continued)
FOR THE YEARS ENDED DECEMBER 31,

	2009				
	Intermediate Care Facilities	Individualize Residential Alternative	Medicaid Service Coordination	Management and General	Total
Salaries	$2,701,537	$ 813,762	$ 40,967	$ 667,603	$4,223,869
Payroll taxes and fringe benefits	670,503	202,725	10,042	164,931	1,048,201
Professional fees	-	-	-	29,645	29,645
Data processing	-	-	-	17,451	17,451
Utilities	57,697	22,017	-	-	79,714
Facility tax assessment	168,280	-	-	-	168,280
Rent	-	-	-	72,115	72,115
Repairs and maintenance	60,876	19,086	-	7,946	87,908
Employee travel	13,589	7,640	-	900	22,129
Telephone	11,718	5,835	-	8,429	25,982
Postage	-	3	-	2,888	2,891
Office expense	7,952	5,177	-	5,692	18,821
Dues and subscriptions	-	-	-	5,133	5,133
Interest expense	121,571	39,228	-	-	160,799
Personnel recruitment	11,193	4,546	-	2,409	18,148
Vehicle expense	43,209	16,084	-	607	59,900
Staff training	2,137	892	-	154	3,183
Insurance	28,797	22,444	-	9,888	61,129
Medical and therapeutic supplies	22,236	3,967	-	-	26,203
Food	168,132	52,365	-	1,457	221,954
Household and program supplies	59,448	18,325	-	505	78,278
Stationery and printing	-	-	-	2,576	2,576
Contracted services	199,619	27,334	-	-	226,953
Client activities	54,544	33,734	-	-	88,278
Equipment and furniture	721	910	-	4,967	6,598
Depreciation and amortization	299,219	71,400	-	1,275	371,894
Miscellaneous	5,999	1,186	-	291	7,476
	$4,708,977	$ 1,368,660	$ 51,009	$1,006,862	$7,135,508

See notes to financial statements.

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P.L.U.S. GROUP HOMES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	$ (47,088)	$ 140,677
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	429,077	371,894
Gain/loss on swap agreement	(4,579)	(23,836)
(Increase) decrease in assets:		
Accounts receivable	(153,579)	(233,756)
Prepaid expenses and other assets	(12,872)	(533)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	81,298	(14,662)
Accrued salaries and vacation payable	309,887	113,574
Due to New York State OPWDD	(239,003)	(194,142)
Deferred compensation	89,162	60,016
Net Cash Provided by Operating Activities	452,303	219,232
Cash Flows from Investing Activities		
Decrease (Increase) in assets limited to use	149,198	455,171
Fixed asset acquisitions	(743,960)	(233,387)
Net (purchase) sale of investments	279,206	37,918
Net Cash Provided (Used) by Investing Activities	(315,556)	259,702
Cash Flows from Financing Activities		
Net proceeds from loans	35,255	(33,261)
Principal payments on mortgages	(172,452)	(87,392)
Principal payments on capital lease	(109,000)	(103,000)
Payments on the line of credit	(424,000)	-
Net Cash Used by Financing Activities	(670,197)	(223,653)
Increase (Decrease) in Cash	(533,450)	255,281
Cash at Beginning of Year	1,098,270	842,989
Cash at End of Year	$ 564,820	$ 1,098,270
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 163,994	$ 160,799

See notes to financial statements.

P.L.U.S. GROUP HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 – NATURE OF ORGANIZATION

P.L.U.S. Group Homes, Inc. (P.L.U.S.) provides residential services to developmentally disabled people. P.L.U.S. is supported primarily by service fees paid by Medicaid.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Financial Statement Presentation

The financial statements are prepared on the accrual basis of accounting, recognizing income when earned and expenses when incurred.

As required by the *Financial Statements for Not-For-Profit Organizations* topic of the FASB Accounting Standards Codification, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted – net assets which have not been restricted by an outside donor or by law and are therefore available for use in carrying out the operations of the Organization.

Temporarily restricted – net assets which have been limited by donor-imposed stipulations or by law that either expire with the passage of time or can be fulfilled and removed by the actions of the Organization pursuant to those stipulations.

Permanently restricted – net assets which have been restricted by donors in perpetuity.

The Organization's net assets consist of unrestricted net assets only.

Expenses have been allocated to each program based on direct expenses and other specific allocation methods.

Contributions

P.L.U.S. reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For financial statement purposes, the Organization considers all highly liquid investments with initial maturities when acquired of three months or less to be cash equivalents.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

P.L.U.S. is a not-for-profit Organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Organization has not taken an unsubstantiated tax position that would require provision of a liability under Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) 740-10 (formerly FIN Interpretation No.48), "Accounting for Uncertainty in Income Taxes". Under ASC 740-10, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The Organization does not believe there are any material uncertain tax positions and, accordingly, has not recognized any liability for unrecognized tax benefits. The Organization has filed IRS Form 990, as required, and all other applicable returns in jurisdictions when it is required. The Organization's information returns are subject to review by the appropriate authorities for a period of three years from the date of filing. Currently, the returns for the years ending December 31, 2007 and subsequent, are subject to review. For the year ended December 31, 2010, there was no interest or penalties recorded or included in the financial statements.

Property, Plant and Equipment

Fixed assets are stated at cost. Individual items with a cost in excess of $1,000 and an estimated useful life of more than two years are capitalized. Capital leases are recorded at the present value at the inception of the leases. Depreciation of assets and amortization of capital leases are computed using the straight-line method over the estimated useful lives of the individual assets. Leasehold improvements are amortized over the lesser of their estimated useful life or the life of the lease.

Investments

Investments are carried at fair value based upon quoted market value and other significant observable inputs in active markets for identical assets. P.L.U.S. invests in various types of investment securities. Securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' declines, and that such changes could materially affect the amounts reported in the financial statements.

Accounts Receivable

P.L.U.S. records receivables based on established rates times' census. Management determines whether an allowance for uncollectibles should be provided for accounts receivable. Such estimates are based on management's assessment of the aged basis of its accounts receivable, collections and historical information. Accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Reclassifications

Certain reclassifications have been made to the 2009 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements on a Recurring Basis

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The following table presents the asset balances measured at fair value on a recurring basis as of December 31, 2010:

	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
Assets				
Money market funds	$ -	$ 453,915	$ -	$ 453,915
Mutual funds	16,643	-	-	16,643
Total assets at fair value	$ 16,643	$ 453,915	$ -	$ 470,558
Liabilities				
Swap liability	$ 47,585	$ -	$ -	$ 47,585

(1) Quoted prices in active markets for identical assets or liabilities
(2) Observable inputs other than quoted prices in active markets for identical assets and liabilities
(3) No observable pricing inputs in the market

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following:

	2010	2009	Estimated Useful Lives
Land	$1,127,910	$1,127,910	
Building and improvements	5,929,317	5,261,639	5-25 years
Leasehold improvements	15,300	15,300	12 years
Furniture and equipment	918,232	873,001	3-20 years
	7,990,759	7,277,850	
Accumulated depreciation and amortization	(3,150,354)	(2,752,328)	
	$4,840,405	$4,525,522	

Depreciation and amortization expense amounted to $429,077 and $371,894 in 2010 and 2009, respectively.

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NOTE 4 – ASSETS LIMITED AS TO USE

Under the terms of the Industrial Development Agency of New York (IDA) mortgages, P.L.U.S. was required to deposit with the New York State Medical Care Facilities Finance Agency (MCFFA) bond trustee amounts to be held in reserve as follows:

Project fund - This fund is to be used for construction of the project, which includes a lease payment fund and an earning fund.

Debt service reserve fund - Will be withdrawn to satisfy the last remaining installments on IDA mortgages.

The balance of reserve funds as of December 31, 2010 and 2009 is $231,741 and $380,939, respectively.

NOTE 5 – MORTGAGES PAYABLE

	2010	2009
A. New York State Facilities Development Corporation		
1. A loan payable in semiannual installments of $12,925, which includes interest at 7.3% and matures August 2014. The mortgage is secured by the building located in Levittown, New York.	$85,390	$135,628
2. A loan payable in semiannual installments of $11,956, which includes interest at 7.76% and matures December 2010, The mortgage is secured by the building located in Merrick, New York.	-	72,677
B. Bank of America		
1. The loan was payable in monthly installments of $1,383 through March 2007, after which it changed to monthly installments of $1,650 plus interest at a variable rate. Interest is payable at LIBOR plus 200 basis points, which at December 31, 2010 and 2009 is 2.26% and 2.23% respectively. The loan matures March 2015. The mortgage is secured by the building located in East Meadow, New York. In July 2001, P.L.U.S. entered into an interest rate swap agreement with Bank of America in order to convert the variable interest rate on the loan (see Note 14) to a fixed rate of 8.5%. Interest on the loan varies and is calculated weekly.	132,287	154,348

NOTE 5 – MORTGAGES PAYABLE (continued)

	2010	2009
B. Bank of America (continued)		
2. The loan was payable in monthly installments of $1,712 through July 2007, after which it changed to monthly installments of $2,016 plus interest at a variable rate. Interest payable is at LIBOR plus 200 basis points, which at December 31, 2010 and 2009 is 2.26% and 2.23% respectively. The loan matures July 2016. The mortgage is secured by the building in Seaford, New York. In July 2001, P.L.U.S. entered into an interest rate swap agreement with Bank of America in order to convert the variable interest rate on the loan (see Note 14) to a fixed rate of 8.45%. Interest on the loan varies and is calculated weekly.	212,392	239,868
	430,069	602,521
Less current portion	(82,322)	(102,107)
Long term portion	$347,747	$500,414

Required principal payments are as follows:

2011	$ 82,322
2012	84,611
2013	95,469
2014	86,877
2015	54,127
Thereafter	26,663
	$ 430,069

NOTE 6 – DUE TO NEW YORK STATE OFFICE OF PEOPLE WITH DEVELOPMENTAL DISABILITIES (OPWDD)

P.L.U.S. has entered into contracts with OPWDD for the operation of three ICFs and three IRAs. As part of the agreement, OPWDD advanced funds to and on behalf of P.L.U.S. for preoperational start-up costs, building, equipment, renovations, lease costs, real estate taxes and operations. P.L.U.S. has agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid. Medicaid payments for these costs are withheld from remittances. Amounts due also include unrecouped facility tax assessments and unrecouped debt service payments on the Facilities Development Corporation (FDC) mortgages due to OPWDD. The amount due to OPWDD as of December 31, 2010 and 2009 is $515,989 and $754,992, respectively:

NOTE 7 – LOANS PAYABLE

	2010	2009
Bank of America		
Four loans payable in monthly installments of $1,846 which includes interest ranging from 7% to 7.3%. The loans mature during 2011. The loans are secured by four vehicles.	$6,882	$27,740
Loan payable in monthly installments of $1,083, which includes interest at 4.94%. The loan matures May 2014. The loan is secured by equipment owned.	40,718	-
Loan payable in monthly installments of $710, which includes interest at 4.06%. The loan matures December 2013. The loan is secured by equipment owned.	24,000	-
Chrysler Credit		
Loan payable in monthly installments of $869, which includes interest at 9.85%. The loan matures May 2012. The loan is secured by two vehicles.	13,730	22,335
	85,330	50,075
Less current portion	(35,252)	(35,729)
Long term portion	$50,078	$14,346

NOTE 7 – LOANS PAYABLE (continued)

Combined payments of principal are as follows:

2011	$ 35,252
2012	24,014
2013	20,717
2014	5,347
	$ 85,330

NOTE 8 – CAPITAL LEASES PAYABLE

In 2007, P.L.U.S. began a capital improvement project on its Uniondale residence and purchased another residence in Massapequa that was renovated during 2010. In order to finance the projects, on December 19, 2007 P.L.U.S. secured financing of $2,085,000 from the Nassau County Industrial Development Agency (IDA) bonds. As part of the agreement with IDA, P.L.U.S. transferred title to the existing land and buildings to IDA. IDA has leased the land and building back to P.L.U.S. for a term concurrent with the bond repayment schedule. At the conclusion of the lease term, P.L.U.S. has the option to repurchase all the leased property for $1. During the term of the lease, P.L.U.S. is responsible for maintaining the property.

The bonds are issued by IDA as a conduit issuer. P.L.U.S. has the obligation under the lease agreement to make payments to the Bond Trustee, U.S. Bank, equal to the amounts payable as principal and interest on the outstanding bonds. Interest on the bonds is fixed at 6.15% on $2,015,000 and 7.08% on $70,000. Principal and interest are due semiannually on May 1 and November 1. The final payment is due November 1, 2022. The payment of the bonds is secured by a mortgage and a security agreement. P.L.U.S. has unconditionally guaranteed payment of the bonds. In conjunction with this financing, P.L.U.S. is required to maintain and have available for use a project fund, which includes a lease payments fund and an earnings fund, as well as a debt service reserve fund.

As of December 31, 2009, assets under the capital lease total $1,722,357. These assets had not been put into use as of December 31, 2009; therefore, no amortization was recorded. Interest expense of $157,185 was capitalized as of December 31, 2009. During 2010, the assets were put into use, and depreciated according to their respective estimated lives.

NOTE 8 – CAPITAL LEASES PAYABLE (continued)

The required payments on this lease are as follows:

2011	$ 228,259
2012	227,669
2013	208,019
2014	210,639
2015	207,951
Thereafter	1,456,744
Total	2,539,281
Less interest	(752,281)
Total principal	1,787,000
Less current portion	(120,000)
Total long term portion	$1,667,000

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NOTE 9 – LEASE COMMITMENTS

P.L.U.S. leases its administrative office under an operating lease which expires March 2016. Rent expense is recorded based on signed rental agreements. The commitments made under this lease are as follows:

2011	$ 68,176
2012	70,221
2013	72,328
2014	74,498
2015	76,733
Thereafter	12,851
	$ 374,807

NOTE 10 – PENSION

P.L.U.S.'s employees are covered under a noncontributory defined contribution pension plan. Contributions to the plan are based on three percent of each covered employee's salary up to $30,000 and six percent thereafter on earned salaries up to $245,000. Pension expense for the years ended December 31, 2010 and 2009 was $158,704 and $141,919, respectively.

NOTE 11 – LINE OF CREDIT

P.L.U.S. has available a $500,000 unsecured line of credit from Bank of America that expires on June 1, 2011. The line bears interest at an annual rate equal to LIBOR daily floating rate plus 3.75 percentage points. At December 31, 2010 and 2009 the outstanding balance due on the line of credit is $0 and $424,000 respectively.

NOTE 12 – AUDITS BY NEW YORK STATE OFFICE OF PEOPLE WITH DEVELOPMENTAL DISABILITIES

Revenues and receivables arising from program services are dependent upon final audit and negotiations between P.L.U.S. and OPWDD. As of December 31, 2010, there were no audits in process with OPWDD and management is not aware of any amounts due to OPWDD, other than the ones disclosed on the statement of the financial position.

NOTE 13 – DEFERRED COMPENSATION

The Board of Directors has approved a nonqualified deferred compensation plan for executive management. The plan provides for benefits to be paid at specified future dates upon retirement, subject to specific arrangements. The plan includes employer and employee contributions.

NOTE 14 – DERIVATIVE FINANCIAL INSTRUMENTS

In July 2001, P.L.U.S., in conjunction with securing financing from Bank of America, entered into interest rate swap agreements with Bank of America in order to convert the variable interest rates on its loans to fixed rates of 8.5% for the East Meadow loan and 8.45% for the Seaford loan.

NOTE 15 – CONCENTRATIONS

P.L.U.S. received revenues in the amount of $8,209,741 in 2010 and $7,153,598 in 2009 from New York State, which was approximately 99% of the agency's total revenue.

The majority of services and the resulting accounts receivable are paid by New York State. Thus, P.L.U.S. is highly dependent on the New York State reimbursement system.

Financial instruments which potentially subjects P.L.U.S. to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that these financial institutions have strong credit ratings and that credit risk related to these accounts is minimal.

P.L.U.S. GROUP HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by P.L.U.S. in estimating the fair value of its financial instruments:

Cash and cash equivalents - The carrying amount approximates fair value because the instrument is liquid in nature.

Investments in mutual funds - The carrying amount approximates fair value based on quoted market.

Mortgages and loans payable - The carrying amount approximates fair value because interest rates are market driven.

Capital lease payable - The fair value is estimated using discounted cash flow analysis based on the anticipated borrowing rates for similar types of borrowings.

Swap liability - The carrying amount approximates fair value in active markets for identical assets or liabilities and is based on the cost to buy out the swap.

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 564,820	$ 564,820	$ 1,098,270	$ 1,098,270
Investments in money market funds and mutual funds	$ 470,558	$ 470,558	$ 838,926	$ 838,926
Mortgages and loans payable	$ 515,399	$ 515,399	$ 652,596	$ 652,596
Capital lease payable	$ 1,787,000	$ 1,787,000	$ 1,896,000	$ 1,896,000
Swap liability	$ 47,585	$ 47,585	$ 52,164	$ 52,164

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 8, 2011 which is the date the financial statements were available to be issued.

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P.L.U.S. GROUP HOMES, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

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Certified Public Accountants Business Advisors

Independent Auditors' Report

Board of Directors
P.L.U.S. Group Homes, Inc.

We have audited the accompanying statement of financial position of P.L.U.S. Group Homes, Inc. as of December 31, 2009, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of P.L.U.S. Group Homes, Inc. as of December 31, 2008, were audited by other auditors whose report dated April 23, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of P.L.U.S. Group Homes, Inc. as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Fuoco Group, LLP

Hauppauge, NY
May 3, 2010

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P.L.U.S. GROUP HOMES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

ASSETS

	2009	2008
Current Assets		
Cash and cash equivalents	$ 1,098,270	$ 842,989
Investments in money market funds and mutual funds	838,926	936,860
Accounts receivable (net of allowance for doubtful accounts of $35,243 in 2009 and 2008)	751,410	517,654
Prepaid expenses and other assets	31,173	30,640
Total Current Assets	2,719,779	2,328,143
Assets Limited as to Use		
Project Fund - cash	153,004	623,512
Debt Service Reserve Fund - cash	227,935	212,598
Total Assets Limited as to Use	380,939	836,110
Investment in mutual funds - deferred compensation	144,913	84,897
Property, Plant and Equipment		
Property, plant and equipment	7,277,850	7,044,463
Less: accumulated depreciation and amortization	(2,752,328)	(2,380,434)
Total Property, Plant and Equipment	4,525,522	4,664,029
Total Assets	$ 7,771,153	$ 7,913,179

LIABILITIES AND NET ASSETS

	2009	2008
Current Liabilities		
Accounts payable and accrued expenses	$ 141,526	$ 156,188
Accrued salaries and vacation payable	401,570	287,996
Swap liability	52,164	76,000
Loans payable	29,447	33,507
Mortgages payable	102,107	99,754
Capital lease payable	109,000	103,000
Due to New York State OMRDD	393,126	361,365
Line of credit	424,000	424,000
Total Current Liabilities	1,652,940	1,541,810
Long-Term Liabilities		
Deferred compensation	144,913	84,897
Loans payable	20,628	49,829
Mortgages payable	500,414	590,159
Capital lease payable	1,787,000	1,896,000
Due to New York State OMRDD	361,866	587,769
Total Long-Term Liabilities	2,814,821	3,208,654
Total Liabilities	4,467,761	4,750,464
Net Assets - Unrestricted	3,303,392	3,162,715
Total Liabilities and Net Assets	$ 7,771,153	$ 7,913,179

See accompanying notes and Auditors' report.

P.L.U.S. GROUP HOMES, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Revenue		
Intermediate care facilities (ICF)	$ 5,257,778	$ 4,928,055
Individualized residential alternative (IRA)	1,866,797	1,846,913
Medicaid service coordination	29,023	30,120
Contributions	45,617	81,902
Interest income	14,847	50,683
Other income	38,287	21,800
Total Revenue	7,252,349	6,959,473
Expenses		
Program Expenses		
Intermediate care facilities	4,708,977	4,520,596
Individualized residential alternative	1,368,660	1,314,183
Medicaid service coordination	51,009	49,995
Total Program Expenses	6,128,646	5,884,774
Administrative		
Management and general	1,006,862	965,247
Total Expenses	7,135,508	6,850,021
Increase in Net Assets Before Gain (Loss) on Swap Agreement	116,841	109,452
Gain (Loss) on Swap Agreement	23,836	(76,000)
Increase in Net Assets	140,677	33,452
Net Assets, Beginning of Year	3,162,715	3,129,263
Net Assets, End of Year	$ 3,303,392	$ 3,162,715

See accompanying notes and Auditors' report.

P.L.U.S. GROUP HOMES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009					2008
	Intermediate Care Facilities	Individualized Residential Alternative	Medicaid Service Coordination	Management and General	Total	Total *(For Comparative Purposes Only)*
Salaries	$ 2,701,537	$ 813,762	$ 40,967	$ 667,603	$4,223,869	$ 4,002,637
Payroll taxes and fringe benefits	670,503	202,725	10,042	164,931	1,048,201	953,096
Professional fees	-	-	-	29,645	29,645	27,050
Data processing	-	-	-	17,451	17,451	15,169
Utilities	57,697	22,017	-	-	79,714	81,318
Facility tax assessment	168,280	-	-	-	168,280	246,879
Rent	-	-	-	72,115	72,115	77,288
Repairs and maintenance	60,876	19,086	-	7,946	87,908	71,106
Employee travel	13,589	7,640	-	900	22,129	17,132
Telephone	11,718	5,835	-	8,429	25,982	24,165
Postage	-	3	-	2,888	2,891	3,553
Office expense	7,952	5,177	-	5,692	18,821	18,561
Dues and subscriptions	-	-	-	5,133	5,133	6,117
Interest expense	121,571	39,228	-	-	160,799	79,912
Personnel recruitment	11,193	4,546	-	2,409	18,148	37,512
Vehicle expense	43,209	16,084	-	607	59,900	70,984
Staff training	2,137	892	-	154	3,183	5,021
Insurance	28,797	22,444	-	9,888	61,129	63,325
Medical and therapeutic supplies	22,236	3,967	-	-	26,203	25,014
Food	168,132	52,365	-	1,457	221,954	209,410
Household and program supplies	59,448	18,325	-	505	78,278	85,604
Stationery and printing	-	-	-	2,576	2,576	1,746
Contracted services	199,619	27,334	-	-	226,953	226,396
Client activities	54,544	33,734	-	-	88,278	104,240
Equipment and furniture	721	910	-	4,967	6,598	65,180
Depreciation and amortization	299,219	71,400	-	1,275	371,894	324,867
Miscellaneous	5,999	1,186	-	291	7,476	6,739
	$ 4,708,977	$ 1,368,660	$ 51,009	$ 1,006,862	$7,135,508	$ 6,850,021

See accompanying notes and Auditors' report.

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P.L.U.S. GROUP HOMES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash Flows from Operating Activities		
Change in net assets	$ 140,677	$ 33,452
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	371,894	324,867
Gain/loss on swap agreement	(23,836)	76,000
(Increase) decrease in assets:		
Accounts receivable	(233,756)	27,748
Prepaid expenses and other assets	(533)	43,297
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(14,662)	61,094
Accrued salaries and vacation payable	113,574	(78,541)
Due to New York State OMRDD	(194,142)	145,126
Deferred compensation	60,016	(7,721)
Net Cash Provided by Operating Activities	**219,232**	**625,322**
Cash Flows from Investing Activities		
Decrease (Increase) in assets limited to use	455,171	1,149,913
Fixed asset acquisitions	(233,387)	(1,024,093)
Net (purchase) sale of investments	37,918	(103,306)
Net Cash Provided by Investing Activities	**259,702**	**22,514**
Cash Flows from Financing Activities		
Principal payments on loans	(33,261)	(647,675)
Principal payments on mortgages	(87,392)	(59,088)
Principal payments on capital lease	(103,000)	(86,000)
Proceeds from line of credit	-	424,000
Net Cash Used by Financing Activities	**(223,653)**	**(368,763)**
Increase in Cash	**255,281**	**279,073**
Cash at Beginning of Year	842,989	563,916
Cash at End of Year	**$ 1,098,270**	**$ 842,989**
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	**$ 160,799**	**$ 79,912**

See accompanying notes and Auditors' report.

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P.L.U.S. GROUP HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 1 – NATURE OF ORGANIZATION

P.L.U.S. Group Homes, Inc. (P.L.U.S.) provides residential services to developmentally disabled people. P.L.U.S. is supported primarily by service fees paid by Medicaid.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Financial Statement Presentation

The financial statements are prepared on the accrual basis of accounting, recognizing income when earned and expenses when incurred.

As required by the *Financial Statements for Not-For-Profit Organizations* topic of the FASB Accounting Standards Codification, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

<u>Unrestricted</u> – net assets which have not been restricted by an outside donor or by law and are therefore available for use in carrying out the operations of the Organization.

<u>Temporarily restricted</u> – net assets which have been limited by donor-imposed stipulations or by law that either expire with the passage of time or can be fulfilled and removed by the actions of the Organization pursuant to those stipulations.

<u>Permanently restricted</u> – net assets which have been restricted by donors in perpetuity.

The Organization's net assets consist of unrestricted net assets only.

Expenses have been allocated to each program based on direct expenses and other specific allocation methods.

Contributions

P.L.U.S. reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

P.L.U.S. is a not-for-profit Organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Organization adopted the provisions FASB ASC 740-10 Accounting for Uncertainty for Uncertainty in Income. The Organization has not taken any tax position that should be accounted for under FASB ASC 740-10.

Cash and Cash Equivalents

For financial statement purposes, the Organization considers all highly liquid investments with initial maturities when acquired of three months or less to be cash equivalents.

Property, Plant and Equipment

Fixed assets are stated at cost. Individual items with a cost in excess of $1,000 and an estimated useful life of more than two years are capitalized. Capital leases are recorded at the present value at the inception of the leases. Depreciation of assets and amortization of capital leases are computed using the straight-line method over the estimated useful lives of the individual assets. Leasehold improvements are amortized over the lesser of their estimated useful life or the life of the lease.

Investments

Investments are carried at fair value based upon quoted market value and other significant observable inputs in active markets for identical assets. P.L.U.S. invests in various types of investment securities. Securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' declines, and that such changes could materially affect the amounts reported in the financial statements.

Accounts Receivable

P.L.U.S. records receivables based on established rates times' census. Management determines whether an allowance for uncollectibles should be provided for accounts receivable. Such estimates are based on management's assessment of the aged basis of its accounts receivable, collections and historical information. Accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Reclassifications

Certain reclassifications have been made to the 2008 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements on a Recurring Basis

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The following table presents the asset balances measured at fair value on a recurring basis as of December 31, 2009:

	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
Assets				
Money market funds	$ -	$ 822,284	$ -	$ 822,284
Mutual funds	16,642	-	-	16,642
Total assets at fair value	$ 16,642	$ 822,284	$ -	$ 838,926
Liabilities				
Swap liability	$ 52,164	$ -	$ -	$ 52,164

(1) Quoted prices in active markets for identical assets or liabilities
(2) Observable inputs other than quoted prices in active markets for identical assets and liabilities
(3) No observable pricing inputs in the market

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following:

	2009	2008	Estimated Useful Lives
Land	$1,127,910	$1,127,910	
Building and improvements	5,261,639	5,032,202	5-25 years
Leasehold improvements	15,300	15,300	12 years
Furniture and equipment	873,001	869,051	3-20 years
	7,277,850	7,044,463	
Accumulated depreciation and amortization	(2,752,328)	(2,380,434)	
	$4,525,522	$4,664,029	

Depreciation and amortization expense amounted to $371,894 and $324,867 in 2009 and 2008, respectively.

NOTE 4 – ASSETS LIMITED AS TO USE

Under the terms of the Industrial Development Agency of New York (IDA) mortgages, P.L.U.S. was required to deposit with the New York State Medical Care Facilities Finance Agency (MCFFA) bond trustee amounts to be held in reserve as follows:

Project fund - This fund is to be used for construction of the project, which includes a lease payment fund and an earning fund.

Debt service reserve fund - Will be withdrawn to satisfy the last remaining installments on IDA mortgages.

The balance of reserve funds as of December 31, 2009 and 2008 is $380,939 and $836,110, respectively.

NOTE 5 – MORTGAGES PAYABLE

	2009	2008
A. New York State Facilities Development Corporation		
1. A loan payable in semiannual installments of $12,925, which includes interest at 7.3% and matures August 2014. The mortgage is secured by the building located in Levittown, New York.	$135,628	$156,627
2. A loan payable in semiannual installments of $11,956, which includes interest at 7.76% and matures February 2011, The mortgage is secured by the building located in Merrick, New York.	72,677	91,937
B. Bank of America		
1. The loan was payable in monthly installments of $1,383 through March 2007, after which it changed to monthly installments of $1,650 plus interest at a variable rate. Interest is payable at LIBOR plus 200 basis points, which at December 31, 2009 and 2008 is 2.23% and 3.08% respectively. The loan matures March 2015. The mortgage is secured by the building located in East Meadow, New York. In July 2001, P.L.U.S. entered into an interest rate swap agreement with Bank of America in order to convert the variable interest rate on the loan (see Note 14) to a fixed rate of 8.5%. Interest on the loan varies and is calculated weekly.	154,348	175,433

NOTE 5 – MORTGAGES PAYABLE (continued)

	2009	2008
B. Bank of America (continued)		
2. The loan was payable in monthly installments of $1,712 through July 2007, after which it changed to monthly installments of $2,016 plus interest at a variable rate. Interest payable is at LIBOR plus 200 basis points, which at December 31, 2009 and 2008 is 2.23% and 3.08% respectively. The loan matures July 2016. The mortgage is secured by the building in Seaford, New York. In July 2001, P.L.U.S. entered into an interest rate swap agreement with Bank of America in order to convert the variable interest rate on the loan (see Note 14) to a fixed rate of 8.45%. Interest on the loan varies and is calculated weekly.	239,868	265,916
	602,521	689,913
Less current portion	(102,107)	(99,754)
Long term portion	$500,414	$590,159

Required principal payments are as follows:

2010	$ 102,107
2011	107,820
2012	110,109
2013	97,995
2014	100,129
Thereafter	84,361
	$ 602,521

NOTE 6 – DUE TO NEW YORK STATE OFFICE OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES (OMRDD)

P.L.U.S. has entered into contracts with OMRDD for the operation of three ICFs and two IRAs. As part of the agreement, OMRDD advanced funds to and on behalf of P.L.U.S. for preoperational start-up costs, building, equipment, renovations, lease costs, real estate taxes and operations. P.L.U.S. has agreed to pay back to OMRDD all of the above funds to the extent that such costs are reimbursed by Medicaid. Medicaid payments for these costs are withheld from remittances. Amounts due also include unrecouped facility tax assessments and unrecouped debt service payments on the Facilities Development Corporation (FDC) mortgages due to OMRDD. The amount due to OMRDD as of December 31, 2009 and 2008 is $754,992 and $949,134, respectively, payable as follows:

2010	$ 393,126
2011	119,521
2012	81,273
2013	80,536
2014	80,536
	$ 754,992

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NOTE 7 – LOANS PAYABLE

	2009	2008
Bank of America		
Four loans payable in monthly installments of $1,846 which includes interest ranging from 7% to 7.3%. The loans mature during 2011. The loans are secured by four vehicles.	$ 27,740	$ 47,127
Ford Credit		
A loan payable in monthly installments of $417, which includes interest at 7.99%. The loan matures November 2009. The loan is secured by a vehicle.	-	6,073
Chrysler Credit		
Loan payable in monthly installments of $869, which includes interest at 9.85%. The loan matures May 2012. The loan is secured by two vehicles.	22,335	30,136
	50,075	83,336
Less current portion	(29,447)	(33,507)
Long term portion	$20,628	$49,829

NOTE 7 – LOANS PAYABLE (continued)

Combined payments of principal are as follows:

2010	$ 29,447
2011	16,390
2012	4,238
	$ 50,075

NOTE 8 – CAPITAL LEASES PAYABLE

In 2007, P.L.U.S. began a capital improvement project on its Uniondale residence and purchased another residence in Massapequa that will also be renovated. In order to finance the projects, on December 19, 2007 P.L.U.S. secured financing of $2,085,000 from the Nassau County Industrial Development Agency (IDA) bonds. As part of the agreement with IDA, P.L.U.S. transferred title to the existing land and buildings to IDA. IDA has leased the land and building back to P.L.U.S. for a term concurrent with the bond repayment schedule. At the conclusion of the lease term, P.L.U.S. has the option to repurchase all the leased property for $1. During the term of the lease, P.L.U.S. is responsible for maintaining the property.

The bonds are issued by IDA as a conduit issuer. P.L.U.S. has the obligation under the lease agreement to make payments to the Bond Trustee, U.S. Bank, equal to the amounts payable as principal and interest on the outstanding bonds. Interest on the bonds is fixed at 6.15% on $2,015,000 and 7.08% on $70,000. Principal and interest are due semiannually on May 1 and November 1. The final payment is due November 1, 2022. The payment of the bonds is secured by a mortgage and a security agreement. P.L.U.S. has unconditionally guaranteed payment of the bonds. In conjunction with this financing, P.L.U.S. is required to maintain and have available for use a project fund, which includes a lease payments fund and an earnings fund, as well as a debt service reserve fund.

Assets under the capital lease total $1,722,357. These assets have not been put into use as of December 31, 2009; therefore, no amortization has been recorded. Interest expense of $157,185 was capitalized as of December 31, 2009.

NOTE 8 – CAPITAL LEASES PAYABLE (continued)

The required payments on this lease are as follows:

2010	$ 224,400
2011	228,259
2012	227,669
2013	208,019
2014	210,639
Thereafter	1,664,695
Total	2,763,681
Less interest	(867,681)
Total principal	1,896,000
Less current portion	(109,000)
Total long term portion	$ 1,787,000

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NOTE 9 – LEASE COMMITMENTS

P.L.U.S. leases its administrative office under an operating lease which expires March 2016. Rent expense is recorded based on signed rental agreements. The commitments made under this lease are as follows:

2010	$ 61,115
2011	62,948
2012	64,867
2013	66,813
2014	68,817
Thereafter	87,065
	$ 411,625

NOTE 10 – PENSION

P.L.U.S.'s employees are covered under a noncontributory defined contribution pension plan. Contributions to the plan are based on three percent of each covered employee's salary up to $30,000 and six percent thereafter. Pension expense for the years ended December 31, 2009 and 2008 was $141,919 and $144,678, respectively.

NOTE 11 – LINE OF CREDIT

P.L.U.S. has available a $500,000 unsecured line of credit from Bank of America that expires on June 30, 2010. The line bears interest at prime plus 1%. As of December 31, 2009 the outstanding balance due on the line of credit is $424,000.

NOTE 12 – AUDITS BY NEW YORK STATE OFFICE OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

Revenues and receivables arising from program services are dependent upon final audit and negotiations between P.L.U.S. and OMRDD. As of December 31, 2009, there were no audits in process with OMRDD and management is not aware of any amounts due to OMRDD, other than the ones disclosed on the statement of the financial position.

NOTE 13 – DEFERRED COMPENSATION

The Board of Directors has approved a nonqualified deferred compensation plan for executive management. The plan provides for benefits to be paid at specified future dates upon retirement, subject to specific arrangements. The plan includes employer and employee contributions.

NOTE 14 – DERIVATIVE FINANCIAL INSTRUMENTS

In July 2001, P.L.U.S., in conjunction with securing financing from Bank of America, entered into interest rate swap agreements with Bank of America in order to convert the variable interest rates on its loans to fixed rates of 8.5% for the East Meadow loan and 8.45% for the Seaford loan.

NOTE 15 – CONCENTRATIONS

P.L.U.S. received $7,153,598 in 2009 and $6,805,088 in 2008 from New York State, which was approximately 99% of the agency's revenue.

The majority of services and the resulting accounts receivable are paid by New York State. Thus, P.L.U.S. is highly dependent on the New York State reimbursement system.

Financial instruments which potentially subjects P.L.U.S. to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that these financial institutions have strong credit ratings and that credit risk related to these accounts is minimal.

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by P.L.U.S. in estimating the fair value of its financial instruments:

Cash and cash equivalents - The carrying amount approximates fair value because the instrument is liquid in nature.

Investments in mutual funds - The carrying amount approximates fair value based on quoted market.

Mortgages and loans payable - The carrying amount approximates fair value because interest rates are market driven.

Capital lease payable - The fair value is estimated using discounted cash flow analysis based on the anticipated borrowing rates for similar types of borrowings.

Swap liability - The carrying amount approximates fair value in active markets for identical assets or liabilities and is based on the cost to buy out the swap.

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$1,098,270	$1,098,270	$ 842,989	$ 842,989
Investments in money market funds and mutual funds	$ 838,926	$ 838,926	$ 936,860	$ 936,860
Mortgages and loans payable	$ 652,596	$ 652,596	$ 773,249	$ 773,249
Capital lease payable	$1,896,000	$1,896,000	$1,999,000	$1,999,000
Swap liability	$ 52,164	$ 52,164	$ 76,000	$ 76,000

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APPENDIX B-VIII

THE CENTER FOR FAMILY SUPPORT, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2012, JUNE 30, 2011 AND JUNE 30, 2010)

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THE CENTER FOR FAMILY SUPPORT, INC.

Financial Statements

June 30, 2012 and 2011

With Independent Auditors' Report

The Center for Family Support, Inc.
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June 30, 2012 and 2011

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Independent Auditors' Report

To the Board of Directors,
The Center for Family Support, Inc.:

We have audited the accompanying statements of financial position of The Center for Family Support, Inc. as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The Center for Family Support, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Center for Family Support, Inc. as of June 30, 2012 and 2011 and its activities, changes in its net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

WithumSmith+Brown, PC

October 19, 2012

The Center for Family Support, Inc
Statements of Financial Position
June 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 2,230,427	$ 2,970,104
Accounts receivable (net of allowance for uncollectible accounts of $510,711 in 2012 and $516,248 in 2011)	3,220,074	3,489,030
Due from related parties	19,552	273,896
Prepaid expenses, security deposits and other assets	347,631	397,428
Total current assets	5,817,684	7,130,458
Long term receivables	105,096	105,096
Debt service reserve funds	397,733	397,733
Property, plant, and equipment, net	8,904,421	9,169,250
	$ 15,224,934	$ 16,802,537
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 511,423	$ 1,073,575
Accrued salaries and related expenses payable	1,432,002	1,871,667
Accrued pension payable	635,027	889,354
Advances from government agencies	555,151	577,437
Current portion of loans, notes, and mortgages payable	545,925	570,051
Current portion of capital lease obligations	64,676	76,647
Total current liabilities	3,744,204	5,058,731
Capital lease obligations, net of current portion	53,154	70,439
Mortgages payable, net of current portion	5,875,508	6,437,962
Total liabilities	9,672,866	11,567,132
Unrestricted net assets		
Operating fund	5,552,068	5,235,405
	$ 15,224,934	$ 16,802,537

The Notes to Financial Statements are an integral part of these statements.

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The Center for Family Support, Inc.
Statements of Activities
Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues		
Government fees and contracts	$ 24,768,613	$ 25,983,245
Consumer fees	1,551,847	1,459,171
Management fees	934,949	897,950
	27,255,409	28,340,366
Operating expenses		
Program services		
Residential programs	13,671,620	14,117,352
Home-based services for the developmentally disabled	7,128,796	7,560,714
Service coordination	1,288,925	1,433,782
Traumatic brain injury	844,021	877,698
	22,933,362	23,989,546
Supporting service		
General and administrative	4,073,793	3,970,601
	27,007,155	27,960,147
Change in unrestricted net assets from operations	248,254	380,219
Nonoperating revenues		
Contributions	41,092	85,800
Other revenues	27,317	33,400
Change in unrestricted net assets	316,663	499,419
Unrestricted net assets, beginning of year	5,235,405	4,735,986
Unrestricted net assets, end of year	$ 5,552,068	$ 5,235,405

The Notes to Financial Statements are an integral part of these statements.

The Center for Family Support, Inc.
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Changes in net assets	$ 316,663	$ 499,419
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	617,904	604,735
Changes in operating assets and liabilities		
Accounts receivable	268,956	558,487
Due from related parties	254,344	294,612
Prepaid expenses, security deposits and other assets	49,797	(7,101)
Accounts payable and accrued expenses	(562,152)	200,213
Accrued salaries and related expenses payable	(439,665)	78,908
Accrued pension payable	(254,327)	131,498
Advances from government agencies	(22,286)	(154,688)
Net cash provided by operating activities	229,234	2,206,083
Cash flows from investing activities		
Capital expenditures	(353,075)	(199,273)
Net cash used by investing activities	(353,075)	(199,273)
Cash flows from financing activities		
Principal payments on capital leases	(29,256)	(57,680)
Refund of debt service costs	--	68,347
Proceeds from loans, notes and mortgages payable	--	3,700,805
Principal payments of loans, notes and mortgages payable	(586,580)	(4,729,914)
Net cash used by financing activities	(615,836)	(1,018,442)
Net (decrease) increase in cash and cash equivalents	(739,677)	988,368
Cash and cash equivalents		
Beginning of year	2,970,104	1,981,736
End of year	$ 2,230,427	$ 2,970,104
Supplemental disclosure of cash flow information		
Equipment acquired under capital lease agreements	$ 34,851	$ --
Cash paid during the year for interest	$ 424,678	$ 475,500

The Notes to Financial Statements are an integral part of these statements.

1. Organization

The Center for Family Support, Inc. ("CFS"), located in New York City, is a not-for-profit agency. CFS provides support and assistance to individuals with developmental and related disabilities and their families and individuals with traumatic brain injury.

The primary sources of revenue are fees for services paid by New York State, New York City and the Federal government.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents
For purposes of the statements of financial position and statements of cash flows, CFS considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Receivables and Revenue
Receivables and revenue are recognized when earned, based on established rates multiplied by the number of units of service provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed the amounts spent, CFS establishes an advance from government funders. Laws and regulations governing Medicaid programs are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from Medicaid programs. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Interest income is not accrued or recorded on accounts receivable.

Allowance for Doubtful Accounts
CFS has determined that an allowance for uncollectible accounts for certain receivables is necessary as of June 30, 2012 and 2011. Such estimate is based on management's assessments of the creditworthiness of its funders, the aged basis of its receivables, subsequent receipts, as well as current economic conditions and historical information.

Contributions
Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by donors. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Property, Plant, and Equipment
Property, plant, and equipment are stated at cost. Acquisitions with a cost greater than $5,000 and an estimated useful life of greater than one year are capitalized. Depreciation and amortization are recorded on the straight-line method over their estimated useful lives. Leasehold improvements are depreciated over the lesser of their useful life or the duration of the lease. Estimated useful lives of buildings and building improvements, and furniture and equipment are as follows:

Description	Useful Life
Buildings and building improvements	15 – 27.5 years
Furniture and equipment	5 – 7 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Debt Service Reserve Funds
Funds set aside under the terms of the bond agreement.

Measure of Operations
Operations include all revenues and expenses relating to consumer care, including management fee revenue. Contributions, other revenue and transfers are considered non-operating.

Functional Expenses
The costs of providing CFS' services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Leases
Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Capital leases are recorded at the lower of the fair market value of the assets or the present value of the minimum lease payments and are amortized over the lease term or estimated useful life of the assets, whichever is shorter, unless the lease provides for transfer of title or includes a bargain purchase option, in which case the lease is amortized over the estimated useful life of the asset. Operating lease payments are charged to rental expense.

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Unrestricted Net Assets
Unrestricted net assets include net assets having no restriction as to use or purpose imposed by donors. They include resources under the full control of the Board of Directors for use in achieving the purposes of CFS.

Income Taxes
CFS qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code, and its income is not subject to Federal or state income taxes. CFS has no unrecognized tax benefits at June 30, 2012. CFS' U.S. Federal and state income tax returns prior to fiscal year 2009 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. CFS recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with the related tax liability in the statements of financial position. There were no interest or penalties incurred during the years ended June 30, 2012 and 2011.

CFS follows generally accepted accounting principles related to uncertain tax positions which require tax effects from an uncertain tax position to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50 percent likely to be recognized upon ultimate settlement with the taxing authority is recorded. CFS' primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. Management has evaluated the tax positions reflected in CFS' tax filings and does not believe that any material uncertain tax positions exist.

Reclassifications
Certain amounts at June 30, 2011 were classified to conform to the presentation at June 30, 2012. There was no net effect on net assets as a result of the classifications.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. Property, Plant, and Equipment

Property, plant, and equipment as of June 30 consists of the following:

	2012	2011
Land	$ 1,515,272	$ 1,515,272
Buildings and building improvements	9,033,376	8,893,581
Leasehold improvement	933,465	857,862
Furniture and equipment	2,050,839	1,913,162
	13,532,952	13,179,877
Accumulated depreciation and amortization	(4,628,531)	(4,010,627)
	$ 8,904,421	$ 9,169,250

4. Related Parties

The Center for Family Support, Inc. is related to Center for Family Support-New Jersey, Inc. ("CFS-NJ") through common board membership. CFS provides management services to CFS-NJ for a fee. Management services were $934,949 and $897,950 for the years ended June 30, 2012 and 2011, respectively. Amounts due from CFS-NJ as of June 30, 2012 and 2011 were $19,552 and $273,896, respectively with no specified repayment terms. CFS is a guarantor of CFS-NJ's $500,000 line of credit. There was no balance outstanding as of June 30, 2012 and 2011. In addition, CFS-NJ is a guarantor for CFS' line of credit amounting to $2,000,000, of which no balance was outstanding as of June 30, 2012 and 2011. CFS-NJ is also guarantor of CFS' HSBC mortgage, amounting to $3,424,577 and $3,579,531 as of June 30, 2012 and 2011, respectively.

A board member's firm provides legal services to CFS. The amount paid for the years ended June 30, 2012 and 2011 is $11,089 and $8,660, respectively. A board member's relative is the director of administration at CFS. The compensation paid, including benefits, for the years ended June 30, 2012 and 2011 is $165,473 and $169,489, respectively. A board member is the insurance broker for CFS' health benefits. No amounts have been paid directly by The Center for Family Support, Inc. to the insurance broker.

5. Loans, Notes and Mortgages Payable

	2012	2011
A. Dormitory Authority of the State of New York		
The Center for Family Support, Inc entered into loan agreements with the Dormitory Authority of the State of New York, a body corporate and politic of the State of New York, constituting a public benefit corporation, acting by and through its agent, the Commissioner of the New York State Office of Mental Retardation and Developmental Disabilities.		
1. The loan carried an interest rate of 5.4657 percent per annum, payable in semiannual installments and matured in August 2012. The property that was collateralized is located at 262 Bryant Avenue, Staten Island, New York.	$ --	$ 61,626
B. Yonkers Industrial Development Agency		
The Center for Family Support, Inc. entered into an agreement with the Yonkers Industrial Development Agency under which The Center for Family Support, Inc. received the proceeds of a sale of tax-exempt bonds to be repaid as follows:		
1. The loan carries an interest rate of 5.71 percent per annum, payable in monthly installments until July 2023. The property that was collateralized is located at 58 Winans Drive, Yonkers, New York.	802,788	907,788
C. New York City Industrial Development Agency		
The Center for Family Support, Inc. entered into agreements with the New York City Industrial Development Agency under which The Center for Family Support, Inc. received the proceeds of a sale of tax-exempt bonds to be repaid as follows:		
1. The loan carries an interest rate of 7.875 percent per annum, payable in monthly installments until August 2015. The property that was collateralized is located at 403 Underhill Avenue, Bronx, New York.	120,658	150,658
2. The loan carries an interest rate of 5 percent per annum, payable in monthly installments until July 2018. The property that was collateralized is located at 1104 Simpson Street, Bronx, New York.	454,400	504,400
3. The loan carries an interest rate of 5.71 percent per annum, payable in monthly installments until July 2023. The property that was collateralized is located at 145-17 120th Ave, Jamaica, New York.	952,260	1,032,260
Subtotal	2,330,106	2,656,732

	2012	2011
Subtotal carryforward	$ 2,330,106	$ 2,656,732
C. New York City Industrial Development Agency (continued)		
4. The loan carries an interest rate of 5.71 percent per annum, payable in monthly installments until July 2023. The property that was collateralized is located at 568 Carey Avenue, Staten Island, New York	666,750	771,750
D. HSBC		
1. CFS entered into an agreement with HSBC to secure mortgages on four of its properties. The loan bears interest at 6.86 percent, payable in monthly installments until September 2025.	3,424,577	3,579,531
	$ 6,421,433	$ 7,008,013

Interest expense was $412,138 in 2012 and $455,657 in 2011.

Required principal payments are as follows:

2013	$ 545,925
2014	452,673
2015	475,909
2016	443,721
2017	468,144
Thereafter	4,035,061
	$ 6,421,433

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6. **Capital Leases Payable**

CFS has entered into capital lease agreements for the purchase of various equipment. The leases expire during fiscal years 2014 through 2017. The cost of the equipment was $279,673. The future lease payments are as follows:

Year	Amount
2013	$ 72,438
2014	25,275
2015	16,937
2016	8,288
2017	8,289
	131,227
Amount representing interest	13,397
Present value of net minimum lease payment	$ 117,830

Interest expense on the leases for the years ended June 30, 2012 and 2011 was $12,540 and $19,843, respectively. Amortization expense on the equipment was $48,965 for each of the years ended June 30, 2012 and 2011.

7. **Fees From Government Agencies**

Reimbursements from New York State Office for People with Developmental Disabilities, New York State Department of Health, and New York City Department of Mental Hygiene are subject to audit and final rate determination and settlement. Management is of the opinion that any adjustments resulting from audits and final rate determinations would not have a material effect on CFS' financial position or change in net assets.

8. **Pension Plans**

CFS has a defined contribution pension plan covering employees who work a minimum of 1,000 hours after one year of service. The plan is funded by discretionary employer contributions. Pension expense was $635,027 in 2012 and $889,354 in 2011.

In addition, CFS has a tax-sheltered annuity plan which is funded entirely by employees through a salary reduction election.

9. **Lease Commitments**

CFS leases office space and residential facilities under operating leases throughout the State of New York which expire during 2013 to 2018. In addition, CFS leases equipment and automobiles under operating leases which have expired in 2011 or will expire through 2013. The minimum annual rental commitments under the leases as of June 30, 2012 are as follows:

	Property	Equipment and Automobiles
2013	$ 542,052	$ 44,712
2014	368,735	--
2015	359,757	--
2016	319,500	--
2017	325,500	--
Thereafter	312,750	--
	$ 2,228,294	$ 44,712

Total property rent expense was $1,349,657 in 2012 and $1,206,550 in 2011.

10. **Concentrations**

Financial instruments that potentially subject CFS to a concentration of credit risk are interest-bearing cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that the credit risk related to these accounts is minimal.

A significant portion of CFS operating revenues is paid by Medicaid: 94 percent for each of the fiscal years ended June 30, 2012 and 2011.

11. Subsequent Events

CFS has evaluated subsequent events occurring after the statement of financial position date through the date of October 19, 2012 which is the date the financial statements were available to be issued. Based on this evaluation, CFS has determined that no subsequent events have occurred which require disclosure in the financial statements, other than the following:

In October 2012, Build NYC Resource Corporation issued the following bonds for the benefit of CFS:

Issuance	Amount	Maturity Date	Interest Rate
Series 2012 A	$ 4,440,000	2027	3.10%
Series 2012 B	$ 260,000	2017	4.25%

The proceeds of the bonds are payable in varying annual installments and were used to pay off the outstanding HSBC mortgages payable and to purchase a new building.

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THE CENTER FOR FAMILY SUPPORT, INC.

Financial Statements

June 30, 2011 and 2010

With Independent Auditors' Report

The Center for Family Support, Inc.
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June 30, 2011 and 2010

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Independent Auditors' Report

To the Board of Directors,
The Center for Family Support, Inc.:

We have audited the accompanying statement of financial position of The Center for Family Support, Inc. as of June 30, 2011 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of The Center for Family Support, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Center for Family Support, Inc. as of June 30, 2010, were audited by other auditors whose report dated November 1, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 2011 financial statements referred to above present fairly, in all material respects, the financial position of The Center for Family Support, Inc. as of June 30, 2011 and its activities, changes in its net assets, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

WithumSmith+Brown, PC

October 11, 2011

The Center for Family Support, Inc
Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 2,970,104	$ 1,981,736
Accounts receivable (net of allowance for uncollectible accounts of $516,000 in both 2011 and 2010)	3,489,030	4,047,517
Due from related parties	273,896	568,508
Prepaid expenses, security deposits and other assets	397,428	390,327
Total current assets	7,130,458	6,988,088
Long term receivables	105,096	105,096
Debt service reserve funds	397,733	466,080
Property, plant, and equipment, net	9,169,250	9,574,712
	$ 16,802,537	$ 17,133,976
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 1,073,575	$ 873,362
Accrued salaries and related expenses payable	1,501,907	1,418,608
Accrued pension payable	889,354	757,856
Advances from government agencies	577,437	732,125
Current portion of loans, notes, and mortgages payable	570,051	634,891
Current portion of capital lease obligations	76,647	57,021
Estimated liability to third parties	369,760	374,151
Total current liabilities	5,058,731	4,848,014
Capital lease obligations, net of current portion	70,439	147,745
Mortgages payable, net of current portion	6,437,962	7,402,231
Total liabilities	11,567,132	12,397,990
Unrestricted net assets		
Operating fund	5,235,405	4,735,986
	$ 16,802,537	$ 17,133,976

The Notes to Financial Statements are an integral part of these statements.

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The Center for Family Support, Inc.
Statements of Activities
Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues		
Government fees and contracts	$ 25,983,245	$ 25,092,402
Consumer fees	1,459,171	1,377,164
Management fees	897,950	897,950
Donated services	--	110,004
	28,340,366	27,477,520
Operating expenses		
Program services		
Residential programs	14,117,352	12,540,484
Home-based services for the developmentally disabled	7,560,714	6,631,099
Service coordination	1,433,782	1,446,831
Traumatic brain injury	877,698	1,777,205
	23,989,546	22,395,619
Supporting service		
General and administrative	3,970,601	4,255,636
	27,960,147	26,651,255
Change in unrestricted net assets from operations	380,219	826,265
Nonoperating revenues		
Return on investment	--	300,000
Contributions	85,800	76,199
Other revenues	33,400	136,856
Change in unrestricted net assets	499,419	1,339,320
Unrestricted net assets, beginning of year	4,735,986	3,396,666
Unrestricted net assets, end of year	$ 5,235,405	$ 4,735,986

The Notes to Financial Statements are an integral part of these statements.

The Center for Family Support, Inc.
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Increase in net assets	$ 499,419	$ 1,339,320
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	604,735	607,850
Changes in operating assets and liabilities		
Accounts receivable	558,487	659,954
Due from related parties	294,612	(429,062)
Prepaid expenses, security deposits and other assets	(7,101)	12,430
Accounts payable and accrued expenses	200,213	(206,071)
Accrued salaries and related expenses payable	83,299	84,737
Accrued pension payable	131,498	159,306
Advances from government agencies	(154,688)	497,728
Estimated liability to third parties	(4,391)	(12,845)
Net cash provided by operating activities	2,206,083	2,713,347
Cash flows from investing activities		
Capital expenditures	(199,273)	(429,011)
Net cash used by investing activities	(199,273)	(429,011)
Cash flows from financing activities		
Principal payments on capital leases	(57,680)	(40,057)
Refund of debt service costs	68,347	--
Proceeds from loans, notes and mortgages payable	3,700,805	501,816
Principal payments of loans, notes and mortgages payable	(4,729,914)	(1,169,834)
Net cash used by financing activities	(1,018,442)	(708,075)
Net increase in cash and cash equivalents	988,368	1,576,261
Cash and cash equivalents, beginning of year	1,981,736	405,475
Cash and cash equivalents, end of year	$ 2,970,104	$ 1,981,736
Supplementary information		
Equipment acquired under capital lease agreements	$ --	$ 244,823
Cash paid during the year for interest	$ 475,500	$ 416,403

The Notes to Financial Statements are an integral part of these statements.

1. Organization

The Center for Family Support, Inc. ("CFS"), located in New York City, is a not-for-profit agency. CFS provides support and assistance to individuals with developmental and related disabilities and their families and individuals with traumatic brain injury.

The primary sources of revenue are fees for services paid by New York State, New York City and the Federal government.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents
For purposes of the statements of financial position and statements of cash flows, CFS considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Receivables and Revenue
Receivables and revenue are recognized when earned, based on established rates multiplied by the number of units of service provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed the amounts spent, CFS establishes an advance from government funders. Laws and regulations governing Medicaid programs are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from Medicaid programs. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Interest income is not accrued or recorded on accounts receivable.

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Allowance for Doubtful Accounts
CFS has determined that an allowance for uncollectible accounts for certain receivables is necessary as of June 30, 2011 and 2010. Such estimate is based on management's assessments of the creditworthiness of its funders, the aged basis of its receivables, subsequent receipts, as well as current economic conditions and historical information.

Contributions
Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by donors. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Property, Plant, and Equipment
Property, plant, and equipment are stated at cost. Acquisitions with a cost greater than $5,000 and an estimated useful life of greater than one year are capitalized. Depreciation and amortization are recorded on the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

Description	Useful Life
Buildings and building improvements	15 – 27.5 years
Leasehold improvements	10 – 15 years
Furniture and equipment	5 – 7 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Debt Service Reserve Funds
Funds set aside under the terms of the bond agreement.

Donated Services
Contributions of services are recognized when they are received if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. During fiscal years ended 2011 and 2010, the value of contributed legal services recognized as revenues in the accompanying financial statements were $-0- and $110,004, respectively.

Measure of Operations
Operations include all revenues and expenses relating to consumer care, including management fee revenue. Contributions, other revenue and transfers are considered non-operating.

Functional Expenses
The costs of providing CFS' services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Leases
Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Capital leases are recorded at the lower of the fair market value of the assets or the present value of the minimum lease payments and are amortized over the lease term or estimated useful life of the assets, whichever is shorter, unless the lease provides for transfer of title or includes a bargain purchase option, in which case the lease is amortized over the estimated useful life of the asset. Operating lease payments are charged to rental expense.

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Unrestricted Net Assets
Unrestricted net assets include net assets having no restriction as to use or purpose imposed by donors. They include resources under the full control of the Board of Directors for use in achieving the purposes of CFS.

Income Tax Status and Income Taxes
CFS qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code, and its income is not subject to Federal or state income taxes. CFS has no unrecognized tax benefits at June 30, 2011. CFS' U.S. Federal and state income tax returns prior to fiscal year 2008 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. CFS recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with the related tax liability in the statements of financial position. There were no interest or penalties incurred during the years ended June 30, 2011 and 2010.

Reclassifications
Certain amounts at June 30, 2010 were reclassified to conform to the presentation at June 30, 2011. There was no effect on net assets as a result of the reclassifications.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. Property, Plant, and Equipment

Property, plant, and equipment as of June 30 consists of the following:

	2011	2010
Land	$ 1,515,272	$ 1,515,272
Buildings and building improvements	8,893,581	8,774,033
Leasehold improvement	857,862	857,862
Furniture and equipment	1,913,162	1,833,437
	13,179,877	12,980,604
Accumulated depreciation and amortization	(4,010,627)	(3,405,892)
	$ 9,169,250	$ 9,574,712

4. Related Parties

The Center for Family Support, Inc. ("CFS") is related to Center for Family Support-New Jersey, Inc. ("CFS-NJ") through common board membership. CFS provides management services to CFS-NJ for a fee. Management services were $897,950 in each of the years 2011 and 2010. Amounts due from CFS-NJ as of June 30, 2011 and 2010 were $273,896 and $568,941, respectively with no specified repayment terms. CFS is a guarantor of CFS-NJ's $500,000 line of credit. There was no balance outstanding as of June 30, 2011 and 2010. In addition, CFS-NJ is a guarantor for CFS' line of credit amounting to $2,000,000, on which $-0- and $535,326 was drawn down as of June 30, 2011 and 2010, respectively. CFS-NJ is also guarantor of CFS' HSBC mortgage, amounting to $3,579,531 and $-0- as of June 30, 2011 and 2010, respectively. Additionally, during the fiscal year ended June 30, 2011 and 2010, CFS contributed $-0- and $205,257, respectively, to CFS-NJ.

On May 15, 2003, CFS entered into an affiliation agreement with The Epilepsy Institute, Inc. ("EI"), a nonrelated entity. The agreement stated that CFS would acquire EI upon receipt by the parties of all necessary regulatory approvals from the New York State Office of Mental Retardation and Development Disabilities ("OMRDD"). That approval was received by both parties on July 29, 2003. In conjunction with the regulatory approval and in accordance with the affiliation agreement, CFS became the sole member of EI. The agreement stipulated that CFS would provide to EI $100,000 once the approval was received. In addition, CFS would provide to EI additional "deficit funding" of up to $200,000 for a period of not less than (5) five years provided that EI's Article 16 clinic continued to receive government funding. In addition, CFS provided management services in accordance with the affiliation agreement to EI. During 2009, EI and CFS entered into negotiations to terminate their relationship.

On August 13, 2009, EI and CFS entered into a Termination, Settlement, and Release Agreement in which, subject to the terms and conditions thereof, the parties agreed to end their relationship. EI agreed to return to CFS its original investment of $300,000 and reimburse CFS an amount of $450,000 for costs which CFS incurred during the course of the affiliation. All conditions of the agreement were met when EI paid the full amount and the affiliation ended on September 28, 2010.

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A board member's firm provides legal services to CFS. The amount paid for the years ended June 30, 2011 and 2010 is $8,660 and $2,262, respectively. A board member's relative is the director of administration at CFS. The compensation paid, including benefits, for each of the years ended June 30, 2011 and 2010 is $169,489 and $162,760, respectively. A board member is the insurance broker for CFS' health benefits. No amounts have been paid directly by The Center for Family Support, Inc. to the insurance broker.

5. Loans, Notes and Mortgages Payable

	2011	2010
A. Dormitory Authority of the State of New York		
The Center for Family Support, Inc entered into loan agreements with the Dormitory Authority of the State of New York, a body corporate and politic of the State of New York, constituting a public benefit corporation, acting by and through its agent, the Commissioner of the New York State Office of Mental Retardation and Developmental Disabilities.		
1. The loan matured in February 2011. The loan carried an interest rate of 5.61 percent per annum, payable in semiannual installments. The property that was collateralized is located at 359 62nd Street, Brooklyn, New York.	$ --	$ 82,714
2. The loan matured in February 2011. The loan carried an interest rate of 5.61 percent per annum, payable in semiannual installments. The property that was collateralized is located at 117-22 227th Street, Cambria Heights, New York.	--	27,616
3. The loan carries an interest rate of 5.4657 percent per annum, payable in semiannual installments until August 2012. The property collateralized is located at 262 Bryant Avenue, Staten Island, New York.	61,626	104,699
Subtotal	61,626	215,029

	2011	2010
Subtotal carryforward	$ 61,626	$ 215,029
B. New York City Industrial Development Agency		
The Center for Family Support, Inc. entered into agreements with the New York City Industrial Development Agency under which The Center for Family Support, Inc. received the proceeds of a sale of tax-exempt bonds to be repaid as follows:		
1. The loan carries an interest rate of 7.875 percent per annum, payable in monthly installments until August 2015. The property that was collateralized is located at 403 Underhill Avenue, Bronx, New York.	150,658	180,658
2. The loan carries an interest rate of 5 percent per annum, payable in monthly installments until July 2018. The property that was collateralized is located at 1104 Simpson Street, Bronx, New York.	504,400	554,400
3. The loan carries an interest rate of 5.71 percent per annum, payable in monthly installments until July 2023. The property that was collateralized is located at 145-17 120th Ave, Jamaica, New York.	1,032,260	1,112,260
4. The loan carries an interest rate of 5.71 percent per annum, payable in monthly installments until July 2023. The property that was collateralized is located at 568 Carey Avenue, Staten Island, New York	771,750	876,750
C. Yonkers Industrial Development Agency		
The Center for Family Support, Inc. entered into an agreement with the Yonkers Industrial Development Agency under which The Center for Family Support, Inc. received the proceeds of a sale of tax-exempt bonds to be repaid as follows:		
1. The loan carries an interest rate of 5.71 percent per annum, payable in monthly installments until July 2023. The property that was collateralized is located at 58 Winans Drive, Yonkers, New York.	907,788	1,012,788
D. Bank of America		
1. The loan was refinanced with HSBC bank in August 2010. The loan carried an interest rate of 6 percent per annum. The property collateralized was located at 103 Hale Avenue, Brooklyn, New York.	--	1,180,797
Subtotal	3,428,482	5,132,682

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	2011	2010
Subtotal carryforward	$ 3,428,482	$ 5,132,682
E. HSBC		
1. CFS had an agreement with HSBC providing for a revolving $2,000,000 line of credit, with interest payable at the prime rate plus .5 percent at June 30, 2011, and at the prime rate at June 30, 2010. The interest rate for the years ended June 30, 2011 and 2010 was 3.75 percent and 3.25 percent, respectively. The line is for working capital and is secured by cash accounts and receivables.	--	535,326
2. CFS had second line of credit with HSBC, which provided for a $6,000,000 line of credit for capital acquisitions and rehabilitation, with a maturity date to be determined by the bank and interest payable at the prime rate. The line was refinanced in August 2010 and expired. The line was secured by first mortgages on the residences.	--	2,369,114
3. CFS entered into an agreement with HSBC to secure mortgages on four of its properties. The loan bears interest at 6.86 percent, payable in monthly installments until September 2025.	3,579,531	--
	$ 7,008,013	$ 8,037,122

Interest expense was $455,657 in 2011 and $395,937 in 2010.

Required principal payments are as follows:

2012	$ 570,051
2013	551,662
2014	452,673
2015	470,251
2016	443,721
Thereafter	4,519,655
	$ 7,008,013

6. Capital Leases Payable

During 2010, CFS entered into capital lease agreements for the purchase of various equipment. The leases expire during fiscal years 2013 through 2015. The cost of the equipment was $244,823. The future lease payments are as follows:

Year	Amount
2012	$ 76,647
2013	64,150
2014	16,988
2015	9,514
	167,299
Amount representing interest	20,213
Present value of net minimum lease payment	$ 147,086

Interest expense on the leases for the years ended June 30, 2011 and 2010 was $19,843 and $20,466, respectively. Amortization expense on the equipment for the years ended June 30, 2011 and 2010 was $48,965 and $24,482, respectively.

7. **Fees From Government Agencies**

Reimbursements from New York State Office for People with Developmental Disabilities, New York State Department of Health, and New York City Department of Mental Hygiene are subject to audit and final rate determination and settlement. Management is of the opinion that any adjustments resulting from audits and final rate determinations would not have a material effect on CFS financial position or change in net assets.

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8. **Pension Plans**

CFS has a defined contribution pension plan covering employees who work a minimum of 1,000 hours after one year of service. The plan is funded by discretionary employer contributions. Pension expense was $889,354 in 2011 and $758,701 in 2010.

In addition, CFS has a tax-sheltered annuity plan which is funded entirely by employees through a salary reduction election.

9. **Lease Commitments**

CFS leases office space and residential facilities under operating leases throughout the State of New York which expire during 2010 to 2018. In addition, CFS leases equipment and automobiles under operating leases which have expired in 2011 or will expire through 2013. The minimum annual rental commitments under the leases as of June 30, 2011 are as follows:

	Property	Equipment and Automobiles
2012	$ 698,374	$ 115,593
2013	424,109	44,712
2014	344,235	--
2015	337,257	--
2016	297,000	--
Thereafter	612,000	--

Total property rent expense was $1,206,550 in 2011 and $1,236,134 in 2010.

10. **Concentrations**

Financial instruments that potentially subject CFS to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that the credit risk related to these accounts is minimal.

A significant portion of CFS operating revenues is paid by Medicaid: 94 percent for each of the fiscal years ended June 30, 2011 and 2010.

11. **Subsequent Events**

CFS has evaluated subsequent events occurring after the statement of financial position date through the date of October 11, 2011, which is the date the financial statements were available to be issued. Based on this evaluation, CFS has determined that no subsequent events have occurred which require disclosure in the financial statements.

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THE CENTER FOR FAMILY SUPPORT, INC.

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2010 AND 2009

LOEB & TROPER LLP

THE CENTER FOR FAMILY SUPPORT, INC.

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LOEB & TROPER LLP

LOEB & TROPER LLP

Independent Auditor's Report

Board of Directors
The Center for Family Support, Inc.

We have audited the accompanying balance sheet of The Center for Family Support, Inc. as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The Center for Family Support, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Center for Family Support, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Center for Family Support, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb + Troper LLP

November 1, 2010

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors

655 Third Avenue, 12th Floor, New York, NY 10017
(212) 867-4000 / Fax (212) 867-9810 / *www.loebandtroper.com*

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THE CENTER FOR FAMILY SUPPORT, INC. EXHIBIT A

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

LOEB & TROPER LLP

	Unrestricted			
	Operating Fund	Board Designated Fund	2010	2009
Operating revenues				
Government fees and contracts	$ 25,092,402		$ 25,092,402	$ 22,489,511
Consumer fees	1,377,164		1,377,164	1,136,838
Management fees (Note 4)	897,950		897,950	858,778
Donated services (Note 2)	110,004		110,004	
Total operating revenues	27,477,520		27,477,520	24,485,127
Operating expenses				
Program services				
Residential programs	12,540,484		12,540,484	11,010,015
Home-based services for the developmentally disabled	6,631,099		6,631,099	6,100,042
Service coordination	1,446,831		1,446,831	1,359,066
Traumatic brain injury	1,777,205		1,777,205	2,374,563
Total program services	22,395,619		22,395,619	20,843,686
Supporting services				
General and administrative	4,255,636		4,255,636	3,650,558
Total operating expenses	26,651,255		26,651,255	24,494,244
Change in unrestricted net assets from operations	826,265		826,265	(9,117)
Nonoperating revenues				
Return of investment (Note 4)	300,000		300,000	
Contributions	76,199		76,199	36,612
Other revenues	136,856		136,856	30,613
Transfers	(750,000)	$ 750,000		
Change in unrestricted net assets (Exhibit C)	589,320	750,000	1,339,320	58,108
Net assets - beginning of year	3,396,666		3,396,666	3,338,558
Net assets - end of year (Exhibit B)	$ 3,985,986	$ 750,000	$ 4,735,986	$ 3,396,666

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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EXHIBIT B

THE CENTER FOR FAMILY SUPPORT, INC.

BALANCE SHEET

JUNE 30, 2010 AND 2009

		2010		2009
ASSETS				
Current assets				
Cash	$	1,981,736	$	405,475
Accounts receivable (net of allowance for uncollectible accounts of $516,000 in 2010 and $173,000 in 2009)		4,152,613		4,812,567
Due from related parties (net of allowance for uncollectible accounts of $0 in 2010 and $343,000 in 2009) (Note 4)		568,508		139,446
Prepaid expenses, security deposits and other assets		390,327		402,757
Total current assets		7,093,184		5,760,245
Debt service reserve funds		466,080		466,080
Fixed assets - net (Note 3)		9,574,712		9,508,728
Total assets	$	17,133,976	$	15,735,053
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	$	873,362	$	1,079,433
Accrued salaries and related expenses payable		1,418,608		1,333,871
Accrued pension payable		757,856		598,550
Advances from government agencies		732,125		234,397
Current portion of loans, notes and mortgages payable (Note 5)		634,891		446,409
Capital lease obligations (Note 6)		57,021		
Estimated liability to third parties (Note 7)		374,151		386,996
Total current liabilities		4,848,014		4,079,656
Capital lease obligations (Note 6)		147,745		
Loans, notes and mortgages payable (Note 5)		7,402,231		8,258,731
Total liabilities		12,397,990		12,338,387
Net assets (Exhibit A)				
Unrestricted				
Operating fund		3,985,986		3,396,666
Board designated fund		750,000		
Total unrestricted		4,735,986		3,396,666
Total liabilities and net assets	$	17,133,976	$	15,735,053

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT C

THE CENTER FOR FAMILY SUPPORT, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

		2010		2009
Cash flows from operating activities				
Change in net assets (Exhibit A)	$	1,339,320	$	58,108
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation and amortization		607,850		510,593
Decrease (increase) in assets				
Accounts receivable		659,954		(624,779)
Due from related parties		(429,062)		117,300
Prepaid expenses, security deposits and other assets		12,430		78,287
Increase (decrease) in liabilities				
Accounts payable and accrued expenses		(206,071)		(237,977)
Accrued salaries and related expenses payable		84,737		186,097
Accrued pension payable		159,306		346,966
Advances from government agencies		497,728		62,659
Estimated liability to third parties		(12,845)		(44,004)
Net cash provided by operating activities		2,713,347		453,250
Cash flows from investing activities				
Capital expenditures		(429,011)		(3,336,020)
Cash flows from financing activities				
Principal payments on capital leases		(40,057)		
Proceeds from loans, notes and mortgages payable		501,816		6,724,480
Principal payments of loans, notes and mortgages payable		(1,169,834)		(3,941,799)
Net cash provided (used) by financing activities		(708,075)		2,782,681
Net increase (decrease) in cash		1,576,261		(100,089)
Cash - beginning of year		405,475		505,564
Cash - end of year	$	1,981,736	$	405,475
Supplementary information				
Cash paid during the year for interest	$	416,403	$	249,070
Supplemental disclosure of noncash investing activities				
Equipment acquired under capital lease agreements	$	244,823		

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

NOTE 1 - NATURE OF ORGANIZATION

The Center for Family Support, Inc. ("CFS"), located in New York City, is a not-for-profit agency. CFS provides support and assistance to individuals with developmental and related disabilities and their families and individuals with traumatic brain injury.

The primary sources of revenues are fees for services paid by New York State, New York City and the federal government.

CFS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is a publicly supported organization as described in Section 509(a)(2).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

FASB Accounting Standards Codification - In July 2009, the FASB released FASB Accounting Standards Codification (ASC) as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. All other accounting literature not included in the Codification is nonauthoritative.

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

Unrestricted net assets - Unrestricted net assets include net assets having no restriction as to use or purpose imposed by donors. They include resources under the full control of the Board of Directors for use in achieving the purposes of CFS.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables and revenue - Receivables and revenue are recognized when earned, based on established rates multiplied by the number of units of service provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed the amounts spent, CFS establishes an advance from government funders. Laws and regulations governing Medicaid programs are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from Medicaid programs. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Interest income is not accrued or recorded on accounts receivable.

Allowance for doubtful accounts - CFS has determined that an allowance for uncollectible accounts for certain receivables is necessary as of June 30, 2010 and 2009. Such estimate is based on management's assessments of the creditworthiness of its funders, the aged basis of its receivables, subsequent receipts, as well as current economic conditions and historical information.

Debt service reserve funds - Funds set aside under the terms of the bond agreement.

Fixed assets - Fixed assets are stated at cost. Acquisitions with a cost of $1,000 or more and an estimated useful life of more than one year are capitalized. Depreciation and amortization are recorded on the straight-line method over their estimated useful lives.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by donors. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

-continued-

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated services - Contributions of services are recognized when they are received if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. During fiscal year 2010, the value of contributed legal services recognized as revenues in the accompanying financial statements was $110,004.

Measure of operations - Operations include all revenues and expenses relating to consumer care, including management fee revenue. Contributions, other revenue and transfers are considered nonoperating.

Deferred charge - During 2003, CFS adopted Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities*. In accordance with this statement, CFS expenses all start-up costs. In addition, in order to account for the future reimbursement of these costs, CFS has recorded a deferred charge equal to the net future reimbursement it expects in the operation of its programs. The deferred charge will be amortized to expire over the period of reimbursement.

Functional expenses - The costs of providing CFS' services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Leases - Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Capital leases are recorded at the lower of the fair market value of the assets or the present value of the minimum lease payments and are amortized over the lease term or estimated useful life of the assets, whichever is shorter, unless the lease provides for transfer of title or includes a bargain purchase option, in which case the lease is amortized over the estimated useful life of the asset. Operating lease payments are charged to rental expense.

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Accounting for uncertainty in income taxes - Effective July 1, 2009, CFS adopted the provision pertaining to uncertain tax positions (ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Subsequent events - Subsequent events have been evaluated through November 1, 2010, which is the date the financial statements were available to be issued.

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NOTE 3 - FIXED ASSETS

	2010	2009	Estimated Useful Lives
Land	$ 1,515,272	$ 1,515,272	
Buildings and building improvements	8,774,033	8,388,552	15- 27.5 years
Leasehold improvements	857,862	820,834	10 - 15 years
Furniture and equipment	1,833,437	1,582,112	5 - 7 years
	12,980,604	12,306,770	
Accumulated depreciation and amortization	(3,405,892)	(2,798,042)	
	$ 9,574,712	$ 9,508,728	

NOTE 4 - RELATED PARTIES

CFS is related to Center for Family Support-New Jersey, Inc. ("CFS-NJ") through common board membership. CFS provides management services to CFS-NJ for a fee. Management services were $897,950 in 2010 and 858,778 in 2009. CFS is a guarantor of CFS-NJ's $500,000 line of credit. There was no balance outstanding as of June 30, 2010. In addition, CFS-NJ is a guarantor for CFS' lines of credit amounting to $8,000,000, on which $2,904,440 was drawn down as of June 30, 2010. Additionally, during the fiscal year ended June 30, 2010, CFS contributed $205,257 to CFS-NJ.

On May 15, 2003, CFS entered into an affiliation agreement with The Epilepsy Institute, Inc. ("EI"), a nonrelated entity. The agreement stated that CFS would acquire EI upon receipt by the parties of all necessary regulatory approvals from the New York State Office of Mental Retardation and Developmental Disabilities ("OMRDD"). That approval was received by both parties on July 29, 2003. In conjunction with the regulatory approval and in accordance with the affiliation agreement, CFS became the sole member of EI. The agreement stipulated that CFS would provide to EI $100,000 once the approval was received. In addition, CFS would provide to EI additional "deficit funding" of up to $200,000 for a period of not less than (5) five years provided that EI's Article 16 clinic continued to receive government funding. In addition, CFS provided management services in accordance with the affiliation agreement to EI.

During 2009, EI and CFS entered into negotiations to terminate their relationship.

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NOTE 4 - RELATED PARTIES (continued)

On August 13, 2009, EI and CFS entered into a Termination, Settlement, and Release Agreement in which, subject to the terms and conditions thereof, the parties agreed to end their relationship. EI agreed to return to CFS its original investment of $300,000 and reimburse CFS an amount of $450,000 for costs which CFS incurred during the course of the affiliation. All conditions of the agreement were met when EI paid the full amount and the affiliation ended on September 28, 2010.

A board member's firm provides legal services to CFS. The amount paid for the years ended June 30, 2010 and 2009 is $2,262 and $40,114, respectively. A board member's relative is the director of administration at CFS. The compensation paid, including benefits, for the years ended June 30, 2010 and 2009 is $162,760 and $154,727, respectively. A board member is the insurance broker for CFS' health benefits. No amounts have been paid directly by CFS to the insurance broker.

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NOTE 5 - LOANS, NOTES AND MORTGAGES PAYABLE

	2010	2009
A. ***Dormitory Authority of the State of New York***	$ 215,029	$ 339,025

CFS entered into loan agreements with the Dormitory Authority of the State of New York, a body corporate and politic of the State of New York, constituting a public benefit corporation, acting by and through its agent, the Commissioner of the New York State Office of Mental Retardation and Developmental Disabilities.

1. The principal amount of $82,714 in 2010 and $124,930 in 2009 carries an interest rate of 5.61% per annum, payable in semiannual installments until February 2011. The property that was collateralized is located at 359 62nd Street, Brooklyn, New York.

2. The principal amount of $27,616 in 2010 and $68,450 in 2009 carries an interest rate of 5.61% per annum, payable in semiannual installments until February 2011. The property that was collateralized is located at 117-22 227th Street, Cambria Heights, New York.

-continued-

NOTE 5 - LOANS, NOTES AND MORTGAGES PAYABLE (continued)

	2010	2009
A. ***Dormitory Authority of the State of New York*** *(continued)*		

3. The principal amount of $104,699 in 2010 and $145,645 in 2009 carries an interest rate of 5.4657% per annum, payable in semiannual installments until August 2012. The property collateralized is located at 262 Bryant Avenue, Staten Island, New York.

	2010	2009
B. ***New York City Industrial Development Agency***	$ 3,736,856	$ 3,946,896

CFS entered into agreements with the New York City Industrial Development Agency under which CFS received the proceeds of a sale of tax-exempt bonds to be repaid as follows:

1. The principal amount of $180,658 in 2010 and $210,242 in 2009 carries an interest rate of 7.875% per annum, payable in monthly installments until August 2015. The property collateralized is located at 403 Underhill Avenue, Bronx, New York.

2. The principal amount of $554,400 in 2010 and $599,400 in 2009 carries an interest rate of 5% per annum, payable in monthly installments until July 2018. The property collateralized is located at 1104 Simpson Street, Bronx, New York.

3. The principal amount of $1,112,260 in 2010 and $1,214,011 in 2009 carries an interest rate of 5.71% per annum, payable in monthly installments until July 2023. The property collateralized is located at 145-17 120th Avenue, Jamaica, New York.

4. The principal amount of $876,750 in 2010 and $910,245 in 2009 carries an interest rate of 5.71% per annum, payable in monthly installments until July 2023. The property collateralized is located at 588 Carey Avenue, Staten Island, New York.

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NOTE 5 - LOANS, NOTES AND MORTGAGES PAYABLE (continued)

	2010	2009
B. New York City Industrial Development Agency (continued)		
5. The principal amount of $1,012,788 in 2010 and $1,012,998 in 2009 carries an interest rate of 5.71% per annum, payable in monthly installments until July 2023. The property collateralized is located at 58 Winan Drive, Yonkers, New York.		
C. Bank of America	$ 1,180,797	$ 1,452,048
1. The loan matured on November 29, 2009 and no amounts are outstanding as of June 30, 2010. The principal amount outstanding was $141,348 in 2009, and carried an interest rate of 9.75% per annum. The property that was collateralized is located at 678 Lincoln Avenue, Brooklyn, New York.		
2. The loan matured on November 29, 2009 and no amounts are outstanding as of June 30, 2010. The principal amount outstanding was $55,675 in 2009, and carried an interest rate of 9.25% per annum. The property that was collateralized is located at 1212 Martin Luther King, Jr. Blvd., Bronx, New York.		
3. The principal amount of $1,180,797 in 2010 and 2009, which carries an interest rate of 6% per annum. The loan matured on August 9, 2010 and was refinanced with HSBC Bank. The loan with HSBC Bank matures in August 2025. The property collateralized is 103 Hale Avenue, Brooklyn, New York.		
4. CFS had an agreement with Bank of America providing for a revolving $100,000 line of credit, which was designated solely for the purpose of purchasing vehicles. The line of credit was terminated in April 2010 and had an interest rate of 1% above prime. The interest rate as of June 30, 2009 was 2.82%. The line was secured by the vehicles. As of June 30, 2009, CFS has an outstanding balance of $74,228, and no amounts are outstanding as of June 30, 2010.		

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NOTE 5 - LOANS, NOTES AND MORTGAGES PAYABLE (continued)

	2010	2009
D. HSBC	$ 2,904,440	$ 2,967,171
1. CFS has an agreement with HSBC providing for a revolving $2,000,000 line of credit with interest payable at the prime rate. The term of the agreement will continue until terminated by HSBC. The interest rate as of June 30, 2010 and 2009 was 3.25%. The line is for working capital and is secured by cash accounts and receivables. As of June 30, 2010 and 2009, CFS has an outstanding balance of $535,326 and $945,326, respectively.		
2. CFS has a second line of credit with HSBC, which is providing a $6,000,000 line of credit for capital acquisitions and rehabilitation, with a maturity date to be determined by the bank and interest payable at the prime rate. The interest rate as of June 30, 2010 and 2009 was 3.25%. The line is secured by first mortgages on the residences. As of June 30, 2010 and 2009, CFS has an outstanding balance of $2,369,114 and $2,021,845, respectively.		
	$ 8,037,122	$ 8,705,140

Interest expense was $395,937 in 2010 and $249,070 in 2009. Interest of $82,749 was capitalized as a component of the cost of acquiring and renovating new facilities.

Required principal payments are as follows:

2010-2011	$ 634,891
2011-2012	579,125
2012-2013	564,444
2013-2014	453,051
2014-2015	469,582
Thereafter	5,336,029
	$ 8,037,122

-continued-

NOTE 6 - CAPITAL LEASES PAYABLE

During 2010, CFS entered into capital lease agreements for the purchase of various equipment. The leases expire during fiscal years 2013 through 2015. The cost of the equipment was $244,823. The future lease payments are as follows:

2011	$ 76,647
2012	76,647
2013	64,150
2014	16,988
2015	9,517
Total	243,949
Less amount representing interest	(39,183)
Present value of net minimum lease payments	$ 204,766

Interest expense on the leases for the year ended June 30, 2010 was $20,466.

NOTE 7 - FEES FROM GOVERNMENT AGENCIES

Reimbursements from New York State Office for People with Developmental Disabilities, New York State Department of Health, and New York City Department of Mental Hygiene are subject to audit and final rate determination and settlement. Management is of the opinion that any adjustments resulting from audits and final rate determinations would not have a material effect on CFS' financial position or change in net assets.

NOTE 8 - PENSION PLANS

CFS has a defined contribution pension plan covering employees who work a minimum of 1,000 hours after one year of service. The plan is funded by discretionary employer contributions. Pension expense was $758,701 in 2010 and $601,994 in 2009.

In addition, CFS has a tax-sheltered annuity plan which is funded entirely by employees through a salary reduction election.

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NOTE 9 - LEASE COMMITMENTS

CFS leases office space and residential facilities under operating leases throughout the State of New York which expire during 2010 to 2018. In addition, CFS leases equipment and automobiles under operating leases which expire during 2011 to 2013. The minimum annual rental commitments under the leases as of June 30, 2010 are as follows:

	Property	Equipment and Automobiles
2010-2011	$ 649,554	$ 184,573
2011-2012	448,410	115,593
2012-2013	388,618	44,712
2013-2014	393,101	
2014-2015	261,000	
Thereafter	783,000	

Total property rent expense was $1,236,134 in 2010 and $1,258,574 in 2009.

NOTE 10 - CONCENTRATIONS

Financial instruments that potentially subject CFS to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that the credit risk related to these accounts is minimal.

A significant portion of CFS's operating revenues is paid by Medicaid: 94% and 92% in fiscal years ended June 30, 2010 and 2009, respectively.

APPENDIX C

UNAUDITED FINANCIAL STATEMENTS OF SERIES 2013 PARTICIPANTS

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APPENDIX C-I

AABR, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF FEBRUARY 28, 2013)

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AABR, Inc. and Affiliates
Summary Statement of Activities
Eight Months Ended February 2013

	AABR	Foundation	Realty	Management	Eliminations	02/28/13 Combining
Revenue						
Program Revenue	$23,943,797					**$23,943,797**
Rental Income			$659,501		$ (659,501)	**$0**
Fund Raising		$386,661				**386,661**
Other Income	249,799				(184,532)	**65,267**
Investment Income	1,029	56,837	23	$8		**57,897**
Total Revenue	$24,194,625	$443,498	$659,524	$8	($844,033)	**$24,453,622**
Expenses						
Program/Property/Manangement & General	$23,615,767		$663,775		$ (693,654)	**$23,585,888**
Fund Raising Expenses		$ 363,645			(175,170)	**188,475**
Total Expenses	$23,615,767	$363,645	$663,775	$0	($868,824)	**$23,774,363**
Current Period Change in Net Assets	$578,858	$79,853	($4,251)	$8	$24,791	**$679,259**

AABR, Inc. and Affiliates
Statement of Financial Position
2/28/2013

	AABR	Foundation	Realty	Management	Eliminations	02/28/13 Combining
Assets						
Cash and cash equivalents	$1,303,890	$6,441,824	$354,202	$45,773		$ 8,145,688
Investments at fair market value	0	556,276				$ 556,276
Consumer Funds	132,279					$ 132,279
Accounts receivable	3,143,056					$ 3,143,056
Prepaid expenses/other	(533,812)					$ (533,812)
Debt service reserve fund	210,023					$ 210,023
Due from related party	2,620,012	395,666			(3,015,678)	$ -
Property, plant and equipment, net	2,678,122		7,108,343			$ 9,786,464
Other Assets	($8,437)					$ (8,437)
Total Assets	**$9,545,133**	**$7,393,765**	**$7,462,545**	**$45,773**	**($3,015,678)**	**$21,431,538**
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses	$98,339					98,339
Accrued payroll and payroll taxes payable	4,708,246					4,708,246
Accrued pension obligation	2,715,554					2,715,554
Due to related party	394,989		2,620,012		(3,015,001)	0
Due to third party	(494,816)					(494,816)
Due to Govt. Agnecy	875,986					875,986
Mortgages and loans payable	2,084,136		3,956,432			6,040,568
Other liabilities	139,782					139,782
Total Liabilities	**$10,522,215**	**$0**	**$6,576,444**	**$0**	**($3,015,001)**	**$14,083,659**
Net assets	**($977,082)**	**$7,393,765**	**$886,100**	**$45,773**	**($677)**	**$7,347,879**
Total Liabilities and Net Assets	**$9,545,133**	**$7,393,765**	**$7,462,545**	**$45,773**	**($3,015,678)**	**$21,431,538**
	$0	$0	$0	$0	$0	**$0**

APPENDIX C-II

BIRCH FAMILY SERVICES, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF FEBRUARY 28, 2013)

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Birch Family Services, Inc.

Statement of Financial Position

February 28, 2013

	Actual 7/31/2012	Actual 8/31/2012	Actual 9/30/2012	Actual 10/31/2012	Actual 11/30/2012	Actual 12/31/2012	Actual 1/31/2013	Actual 2/28/2013
ASSETS								
Current Assets								
Cash and cash equivalents								
Operating Cash	1,953,722	2,189,959	3,947,899	2,422,758	1,289,086	453,481	1,859,795	5,373,412
Petty Cash And Non-Operating Cash	276,085	259,576	943,034	477,611	526,458	760,501	548,610	418,100
Cash and cash equivalents	2,229,807	2,449,535	4,890,933	2,900,369	1,815,544	1,213,982	2,408,405	5,791,512
Restricted Cash	204,611	451,503	459,013	462,686	470,427	526,967	492,434	595,429
Accounts receivable, net of allowance for doubtful	5,841,716	3,774,524	3,260,483	4,832,186	4,442,049	5,348,778	5,370,558	2,364,950
Prepaid expenses & other assets	246,618	283,245	260,710	302,850	357,096	367,900	354,334	326,830
Total Current Assets	8,522,751	6,958,807	8,871,139	8,498,091	7,085,116	7,457,627	8,625,731	9,078,721
Fixed assets - net	12,575,000	12,758,144	12,741,036	12,697,566	12,724,862	12,681,434	12,581,281	12,483,779
Limited use assets	1,044,829	1,044,829	1,044,829	1,015,541	1,018,706	1,018,706	1,032,487	1,039,377
Deferred bond, loan financing and other program costs	238,204	237,625	237,047	236,469	235,890	235,312	234,734	234,155
Total assets	22,380,784	20,999,405	22,894,050	22,447,666	21,064,574	21,393,079	22,474,233	22,836,032
LIABILITIES AND NET ASSETS								
Current liabilities								
Accounts payable, accrued expenses	1,591,837	1,590,886	1,605,907	1,024,638	1,249,740	1,413,067	1,594,941	1,228,090
Accrued Compensation	1,239,815	1,339,815	1,439,815	1,539,815	1,626,515	1,696,335	1,748,335	1,848,335
Due to Government Agencies	3,295,499	3,280,306	3,875,737	3,957,945	3,630,623	3,385,551	3,242,399	3,377,224
Due from The Herbert G. Birch Services Fund, Inc.	-5,294	-5,294	-5,369	-13,578	-83,977	-90,949	-42,313	-57,880
Current Short Term Loan Payable - LOC	2,000,000	2,000,000	3,500,000	3,500,000	2,500,000	2,500,000	3,500,000	3,500,000
Total Current liabilities	8,121,857	8,205,712	10,416,090	10,008,820	8,922,901	8,904,004	10,043,362	9,895,769
Long-term debt and capital leases	10,946,352	10,856,155	10,765,623	10,620,216	10,519,526	10,431,959	10,198,389	10,646,457
Total Liabilities	19,068,209	19,061,867	21,181,713	20,629,035	19,442,426	19,335,962	20,241,751	20,542,226
Net assets- unrestricted	3,312,575	1,937,538	1,712,338	1,818,631	1,622,147	2,057,116	2,232,481	2,293,806
Total liabilities and net assets	22,380,784	20,999,405	22,894,050	22,447,666	21,064,574	21,393,079	22,474,233	22,836,032

Birch Family Services, Inc.
Statement of Activities
YTD As of February 28, 2013

	A Actual YTD 2/29/2012	B Actual YTD 2/28/2013	C Variance to PY Actual 2/28/2013	D Budget YTD 2/28/2013	E Variance to Budget 2/28/2013	F Variance% to Budget 2/28/2013
Revenues						
Tuition Revenue	20.016.159	20.786.540	770.380	20.865.749	(79.209)	0 %
CS Revenue	10.296.878	10.541.193	244.315	10.873.215	(332.022)	(3)%
Grants and Other Revenue	3.798.582	3.255.299	(543.283)	3.475.711	(220.411)	(7)%
Donated Services HHS	0	182.530	182.530	0	182.530	100 %
Total Revenues	34.111.619	34.765.562	653.942	35.214.675	(449.113)	(1)%
Expenses						
Personnel Service						
Salary	21.044.890	21.488.839	(443.949)	22.875.478	1.386.639	6 %
Payroll Taxes & Fringe	4.557.165	5.054.354	(497.189)	4.640.783	(413.571)	(8)%
Contracted Service	1.778.455	1.947.961	(169.505)	1.053.299	(894.662)	(46)%
Total Personnel	27.380.510	28.491.153	(1.110.643)	28.569.560	78.407	0 %
OTPS						
Audit & Legal	139.898	90.927	48.971	140.336	49.409	54 %
Food	613.861	608.265	5.596	570.391	(37.874)	(6)%
Repairs And Maintenance	532.084	537.137	(5.054)	526.731	(10.406)	(2)%
Building Rent & Utilities	2.494.199	2.536.975	(42.776)	2.614.134	77.159	3 %
Expensed Equipment	169.590	161.889	7.701	164.195	2.306	1 %
Staff Travel & Development	256.009	290.174	(34.164)	343.593	53.419	18 %
Household	199.117	231.564	(32.447)	216.048	(15.516)	(7)%
Telephone	93.409	73.428	19.981	90.560	17.132	23 %
Insurance	159.083	183.132	(24.049)	176.952	(6.180)	(3)%
Real Estate Taxes	25.689	29.655	(3.966)	28.367	(1.288)	(4)%
Office Expense	206.426	183.465	22.962	207.694	24.229	13 %
Recruitment Fee	94.190	61.379	32.811	77.998	16.619	27 %
Bank Charges And Other Fees	79.777	71.735	8.042	82.480	10.745	15 %
Property & Equipment & Small Equipment	1.221.029	1.250.934	(29.904)	1.341.409	90.475	7 %
Donated Services HHS	0	182.530	(182.530)	0	(182.530)	(100)%
Interest - Working Capital & Other	481.049	517.004	(35.955)	531.832	14.828	3 %

Birch Family Services, Inc.
Statement of Activities
YTD As of February 28, 2013

	A Actual YTD 2/29/2012	B Actual YTD 2/28/2013	C Variance to PY Actual 2/28/2013	D Budget YTD 2/28/2013	E Variance to Budget 2/28/2013	F Variance% to Budget 2/28/2013
Total OTPS	6,765,411	7,010,192	(244,781)	7,112,720	102,528	1 %
Total Expenses	34,145,921	35,501,345	(1,355,424)	35,682,280	180,935	1 %
NET SURPLUS/(DEFICIT)	**(34,302)**	**(735,784)**	**(701,482)**	**(467,605)**	**(268,179)**	**36 %**

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APPENDIX C-III

HASC CENTER, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF FEBRUARY 28, 2013)

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HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
February 28, 2013

ASSETS

Current Assets		**February 28, 2013**
Cash and Cash Equivalents	$	8,079,268
Cash-JP Morgan Annuity		1,123,927
Investments		6,656,723
Accounts Receivable (Less $4,000 Allowance)		246,378
Medicaid and Grants Receivable		5,385,386
Prepaid Expenses		311,725
Prepaid Interest		10,879
Total Current Assets	**$**	**21,814,286**
Fixed Assets		
Land	$	2,481,500
Building		14,977,469
Leasehold Improvements		2,760,334
Machinery & Equipment		1,057,106
Furniture & Fixtures		388,858
Accumulated Depreciation		-7,116,102
Total Fixed Assets	**$**	**14,549,165**
Other Assets		
Due From Blanche Kahn Family Health Center	$	802,302
Reserve Funds		958,876
Security Deposits		87,751
Retirement Trust Fund		707,973
Bond Closing Costs (Net of Amortization of $440,845)		572,850
Total Other Assets	**$**	**3,129,752**
TOTAL ASSETS	**$**	**39,493,203**

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
February 28, 2013

LIABILITIES AND NET ASSETS

Current Liabilities		**February 28, 2013**
Accounts Payable	$	428,843
Accrued Wages & Taxes		651,856
Accrued Expenses		92,820
Loans & Leases Payable		2,010,472
Advances from OMRDD		58,970
Due to Employees- HCA		715,523
Mortgages Payable		1,636,626
Total Current Liabilities	**$**	**5,595,110**
Other Liabilities		
Loans Payable	$	10,052
Advances From OMRDD		250,218
Mortgages Payable		5,160,635
Retirement Fund Payable		707,973
Total Other Liabilities	**$**	**6,128,878**
TOTAL LIABILITIES	**$**	**11,723,988**
Net Assets		
Unrestricted Net Assets	$	27,769,215
Total Net Assets	**$**	**27,769,215**
TOTAL LIABILITIES AND NET ASSETS	**$**	**39,493,203**

APPENDIX C-IV

LEAKE AND WATTS SERVICES, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF MARCH 31, 2013)

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LEAKE AND WATTS SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE 9 MONTH PERIOD ENDED MARCH 31, 2013

	Projected
	31-Mar-13
Operating revenues	
Residential treatment center	7,689,000
Foster boarding home	5,884,000
Mother infant	1,205,000
NSP	760,000
Clinic	1,882,000
Education	14,350,000
Early childhood	4,317,000
Developmental disabilities services	8,124,000
Juvenile justice - Woodfield facility	1,990,000
Day care centers/head start/earlylearn/seabury	1,469,000
Preventive	1,896,000
Total operating revenues	**49,566,000**
Operating expenses	
Program services	
Residential treatment center	6,490,000
Foster boarding home	5,352,000
Mother infant	1,133,000
NSP	694,000
Clinic	1,802,000
Education	13,544,000
Early childhood	4,811,000
Developmental disabilities services	7,821,000
Juvenile justice - Woodfield facility	1,789,000
Day care centers/head start/earlylearn/seabury	1,337,000
Preventive	1,735,000
Total program services	46,508,000
Supporting services	
Management and general	4,926,000
Institutional Advancement	123,000
Total supporting services	5,049,000
Total operating expenses	**51,557,000**
Fund raising	
Contributions	224,000
Special events	392,000
Direct expenses of special events	(81,000)
Total fund raising	535,000
Net Surplus (Deficit) from operations	**(1,456,000)**
Investment gain (loss)	551,000
Net Surplus (Deficit)	**(905,000)**

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APPENDIX C-V

LIFESPIRE, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF MARCH 31, 2013)

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LIFESPIRE, INC.
STATEMENT OF FINANCIAL POSITION
March 31, 2013
(Unaudited)

Assets	
Cash and Cash Equivalents	32,876,475
Investments	3,961,207
Accounts Receivable - Net	813,549
Accrued Income Receivables	14,453,886
Due From Related Parties	900,220
Security Deposits and Prepaid Expenses	589,112
Assets Restricted to investment in Poperty, Plant and Equip.	8,729,396
Property, Plant and Equipment - Net	18,138,496
Deferred Charges - Bond Issue Costs-Net	1,182,038
Total Assets	**81,644,379**
Liabilities and Net Assets	
Liabilities	
Accounts Payable and Accrued Expenses	4,373,514
Accrued Payroll	7,365,233
Accrued Compensated Absences	3,968,404
Recoupments Payable	11,610,839
Deferred Income	2,281,471
Due to Funding Sources	243,685
Mortgages Payable - DASNY	2,518,608
Underfunded Pension Obligation	12,000,763
Underfunded Health Insurance Obligation	5,838,604
Line of Credit	1,914,085
Bonds Payable - DASNY	6,995,961
Bonds Payable IDA	7,015,000
Total Liabilities	66,126,167
Net Assets:	
Unrestricted – Undesignated	8,574,579
Unrestricted - Board Designated - Program Expansion	1,023,172
Unrestricted - Property and equipment	5,342,327
Unrestricted - Residential reserve for replacement	539,518
Total Unrestricted Net Assets	15,479,596
Temporarily restricted	38,616
Total Net Assets	15,518,212
Total Liabilities and Net Assets	**81,644,379**

LIFESPIRE, INC.
STATEMENT OF ACTIVITIES
PERIOD ENDED 3/31/2013
(Unaudited)

Support and Revenue - Program Operations:	
Program Service Fees	64,319,200
Participant's Share of Room and Board	2,017,808
Subcontract - Net	308,718
MCFAA and DASNY Bond Fees	369,250
Subtotal Support and Revenue - Program Operations	67,014,976
Expenses:	
Program Services	59,153,696
Management and Administration	4,170,845
Total Expenses	63,324,541
Change in unrestricted net assets before other revenue and prior year revenue	3,690,435
Other Revenue	
Investment Return	56,150
Contributions and Fund Raising	4,945
Miscellaneous	165,909
Total other revenue	227,004
Changes in unrestricted net assets before prior period revenue	3,917,439
Prior Period Revenue	533,242
Increase in unrestricted net assets	4,450,681
Net Assets, Beginning of the Period	11,067,531
Net Assets, End of the Period	**15,518,212**

APPENDIX C-VI

NEW HORIZONS RESOURCES, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF FEBRUARY 28, 2013)

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NEW HORIZONS RESOURCES, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF FEBRUARY 28, 2013 AND FEBRUARY 29, 2012

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 4,418,978	$ 5,022,485
Receivables		
Program	1,830,272	2,901,136
Related party	7,798	1,885
Other	30,869	294,038
Prepaid expenses	254,374	103,529
Total Current Assets	6,542,291	8,323,073
Non Current Assets		
Interest in net assets of Foundation	641,907	753,828
Plant, property and equipment - net	13,997,070	13,271,799
Funded reserves	48,159	54,112
Unamortized mortgage costs, net	367,726	365,798
Deferred charges, net	26,340	-
Deposits	5,176	3,748
Residents' funds	254,417	241,023
Total Non Current Assets	15,340,795	14,690,308
TOTAL ASSETS	$ 21,883,086	$ 23,013,381
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 534,138	$ 1,065,150
Accrued expenses	1,375,117	1,166,372
Current installments of long-term debt	781,512	905,156
Current installments of due to NYS OPWDD	14,298	335,725
Deferred revenue	-	-
Total Current Liabilities	2,705,065	3,472,403
Other Liabilities		
Long-term debt, net of current installments	6,949,539	7,318,852
Due to NYS OPWDD, net of current installments	20,634	20,634
Residents' funds	254,417	241,023
Total Other Liabilities	7,224,590	7,580,509
Total Liabilities	9,929,655	11,052,912
Net Assets		
Unrestricted	11,195,137	10,675,462
Temporarily Restricted	708,294	1,235,007
Permanently Restricted	50,000	50,000
Total Net Assets	11,953,431	11,960,469
TOTAL LIABILITIES AND NET ASSETS	$ 21,883,086	$ 23,013,381

NEW HORIZONS RESOURCES, INC.
STATEMENTS OF ACTIVITIES
FOR THE TWO MONTHS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012

	2013	2012
Change in Unrestricted Net Assets		
Support and Revenue		
Program	$ 3,270,246	$ 3,307,106
Nonprogram	20,687	21,293
Net assets released from restrictions or transferred		
Net assets released from usage restriction	-	-
Net assets release adjustment - DASNY	-	-
Total Unrestricted Support and Revenue	3,290,933	3,328,399
Expenses		
Intermediate Care Facilities	276,865	252,610
Individual Residential Alternatives	1,193,331	1,148,191
Options for People Through Services	1,461,447	1,421,501
Home Based Services	111,276	99,497
Service Coordination	72,270	70,642
Day Habilitation	85,574	93,802
Other Program Services	5,270	6,134
Administration	391,990	349,691
Total Expenses	3,598,023	3,442,068
Change in Unrestricted Net Assets[1]	(307,090)	(113,669)
Change in Temporarily Restricted Net Assets		
Contributions restricted as to use	-	-
Net assets released from usage restriction	-	-
Net assets release adjustment - DASNY	-	-
Increase in interest in net assets of Foundation	7,535	2,340
Change in Temporarily Restricted Net Assets	7,535	2,340
Change in Net Assets	(299,555)	(111,329)
Net Assets, January 1	12,252,986	12,071,798
Net Assets, February 28/February 29	$ 11,953,431	$ 11,960,469
	-	-

[1]Deficits as of February 28/February 29 are primarily related to January 1 accruals for paid time off (PTO). Hours are advanced to full-time (120 hours) and part-time (60 hours) employees. Employees who terminate employment and provide adequate notice are entitled to a payout of 50% of the value of their accrued PTO. It is the Agency's policy to record the expense and liability at the point the PTO is allocated to each employee, and to reduce the liability as the PTO is used. In addition, in 2013 the Agency restored 2 days PTO to employees' accruals and provided hourly employees the opportunity of a one-time cash-in of 5 days PTO.

APPENDIX C-VII

P.L.U.S. GROUP HOMES, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF FEBRUARY 28, 2013)

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P.L.U.S. Group Homes, Inc.
Statement of Financial Position
February 28, 2013

Assets	
Cash and cash equivalents	461,960
Accounts receivable	593,402
Prepaid expenses and other assets	68,852
Assets limited as to use	231,779
Investments designated for deferred compensation	179,553
Fixed assets, net	4,367,947
Total Assets	**5,903,493**
Liabilities	
Accounts payable and accrued liabilities	243,801
Accrued payroll and related liabilities	550,288
Swap liability	36,322
Bridge loan payable	350,000
Loans payable	22,628
Mortgage payable	277,397
Bond payable	1,512,500
Due to governmental agencies	98,694
Deferred compensation	179,533
Total Liabilities	**3,271,163**
Net Assets	**2,632,330**
Total Liabilities and Net Assets	**5,903,493**

P.L.U.S. Group Homes, Inc.
Statement of Activites
Two months ended February 28, 2013

Program Revenue:	
Fee for service	1,439,799
Total Program Revenue	**1,439,799**
Program Expenses:	
Program services:	
Intermediate care facilities	917,060
Individual residental alternative	370,213
Medicaid service coordination	2,304
Total Program Services	**1,289,577**
Support services:	
Management and general	176,273
Total Program Expenses	**1,465,850**
Change in Net Assets Before Support and Nonoperating Revenues	**(26,051)**
Support and Nonoperating Revenues	
Contributions	5,675
Interest income	-
Other income	654
Total Support and Nonoperating Revenues	**6,329**
Change in Net Assets	**(19,722)**
Beginning Net Assets	**2,652,052**
Ending Net Assets	**2,632,330**

APPENDIX C-VIII

THE CENTER FOR FAMILY SUPPORT, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF FEBRUARY 28, 2013)

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The Center for Family Support,Inc.
New York Programs
Statement of Financial Position (Interim)
February 2013 with comparative total for February 2012

	Unaudited February 2013	Unaudited February 2012
Assets		
Current assets		
Cash and cash equivalents	$ 2,589,145	$ 1,334,233.36
Accounts receivable (net of allowance)	2,488,136	3,696,076
Due from related parties	406,947	298,868
Prepaid expenses, security deposits and other Current assets	937,742	470,591
Total current assets	$ 6,421,970	$ 5,799,768
Debt service reserve funds	397,733	397,733
Fixed assets (net)	10,401,298	8,961,387
Total assets	$ 17,221,001	$ 15,158,888
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 705,362	$ 737,928
Accrued salaries and related expenses payable	1,164,666	1,127,466
Accrued pension payable	511,117	514,210
Advances from government agencies	714,981	430,539
Current portion of loans, notes, mortgages payable	545,925	570,051
Current portion of capital leases obligations	72,438	76,647
Total current liabilities	$ 3,714,490	$ 3,456,840
Capital leases obligations, net of current portion	10	27,804
Mortgages payable, net of current portion	7,907,516	6,059,111
Total liabilities	$ 11,622,015	$ 9,543,755
Unrestricted net assets		
Operating fund	$ 5,598,985	5,615,133
Total liabilities and net assets	$ 17,221,001	$ 15,158,888

The Center for Family Support,Inc.
New York Programs
Statement of Activities (Interim)
February 2013 with comparative total for February 2012

	Unaudited February 2013		Unaudited February 2012	
Operating Revenues				
Government fees and contracts	$	16,013,178	$	16,499,962
Consumers fees		1,040,384		1,020,320
Management Fees		634,869		616,359
Total Operating Revenue	$	17,688,431	$	18,136,641
Operating Expenses				
Program Services				
Residential programs	$	8,965,365	$	8,453,522
Home-based services for the Developmentally Disabled		4,741,674		4,477,434
Service Coordination		830,536		840,456
Traumatic Brain Injury program		407,991		1,252,008
Total Operating Expenses	$	14,945,566	$	15,023,420
Supporting Service				
General and Administrative	$	2,753,330	$	2,771,340
Total Expenses	$	17,698,896	$	17,794,760
Change in Unrestricted Net Assets from Operations	$	(10,465)	$	341,881
NonOperating Revenues				
Contributions	$	2,500	$	35,539
Other Revenues		54,893		25,256
Change in Unrestricted Net Assets	$	46,928	$	402,675
Unrestricted Net Assets, beginning of year		5,552,058		5,235,405
Unrestricted Net Assets, YTD January	$	5,598,986	$	5,638,080

The Center for Family Support, Inc
New York Programs
Statement of Cash Flows (Interim)
February 2013 with comparative total for February 2012

	Unaudited February 2013	Unaudited February 2012
Cash flows from operating activities		
Change in net assets	$ 46,928	$ 402,675
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	501,407	383,550
Decrease (increase) in assets		
Accounts receivable	731,938	(101,950)
Due from related parties	(387,395)	(24,972)
Prepaid expenses,security deposits and other assets	(590,111)	(73,163)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(161,695)	(705,407)
Accrued salaries and related expenses payable	(267,336)	(374,443)
Accrued Pension payable	(123,910)	(375,144)
Advances from government agencies	159,830	(146,898)
Net cash provided by operating activities	$ (90,344)	$ (1,015,752)
Cash flows from investing activities		
Capital expenditures	(1,333,301)	(175,687)
Net Cash provided by Investing activities	$ (1,333,301)	$ (175,687)
Cash flows from financing activities		
Principal payments on capital leases	(47,953)	(42,635)
Proceeds from loans, notes, and mortgages payable	6,194,500	0
Principal payments of loans, notes, and mortgages payable	(4,364,184)	(378,850)
Net cash provided by financing activities	$ 1,782,363	$ (421,485)
Net Increase (decrease) in cash	$ 358,718	$ (1,612,924)
Cash and cash equivalents - beginning of year	2,230,427	2,970,104
Cash and cash equivalents - end of year to date	$ 2,589,145	$ 1,357,180

CFS
Budget Comparison
NEW YORK PROGRAMS

	FY 12-13			FY 11-12		
	Actual Amount 07/12 - 02/13	Budget Amount 07/12 - 02/13	YTD Variance 07/12 - 02/13	Actual Amount 07/11 - 02/12	Budget Amount 07/11 - 02/12	YTD Variance 07/11 - 02/12
Revenue						
Homecare	605,247	643,840	(38,593)	914,930	920,279	(5,349)
IRA Res Hab-Supervised	9,399,794	9,468,400	(68,606)	9,430,569	9,285,046	145,524
Community Habilitation	2,649,706	2,798,506	(148,800)	2,906,890	3,029,625	(122,736)
Case Management	957,979	938,730	19,249	950,854	920,847	30,007
Family Support	555,982	516,464	39,518	472,574	516,961	(44,388)
Traumatic Brain Injury	367,587	442,640	(75,053)	492,302	606,330	(114,028)
Day Habilitation	1,044,861	1,186,024	(141,163)	1,096,790	1,060,057	36,733
ISS Contract	281,534	211,144	70,390	205,984	175,499	30,485
Contributions	2,500	0	2,500	35,539	120,000	(84,461)
Reimbursement Mgmt Fee	634,869	628,760	6,109	616,359	598,634	17,725
IRA Res Hab Supportive	606,460	686,384	(79,924)	692,612	693,058	(446)
Waiver Respite	555,660	603,592	(47,932)	354,432	306,267	48,165
Start up Broker	12,388	4,160	8,228	8,870	4,160	4,710
Enhanced Semp Bklyn	0	33,840	(33,840)	21,467	33,840	(12,373)
Prior Year Revenue	32,899	0	32,899	3,892	0	3,892
Other Revenue	38,109	5,600	32,509	(6,627)	0	(6,627)
Micellanous Revenue	250	0	250	0	0	0
Total REVENUE	17,745,824	18,168,084	(422,260)	18,197,435	18,270,602	(73,167)
Expenses						
PERSONAL SERVICES						
Salaries	10,222,345	10,559,444	337,099	10,287,222	10,701,449	414,227
Fringe Benefits	3,256,379	3,435,394	179,015	3,327,331	3,235,848	(91,483)
Total PERSONAL SERVICES	13,478,725	13,994,838	516,113	13,614,553	13,937,298	322,745
OTPS						
Food	313,196	284,392	(28,804)	275,338	273,560	(1,778)
Repairs & Maintenance	276,727	244,742	(31,985)	270,675	237,573	(33,103)
Utilities	195,607	207,922	12,315	198,101	203,307	5,206
Transportation	294,012	309,047	15,035	343,120	300,082	(43,039)
Consumer Incidentals	121,481	149,374	27,893	134,875	147,160	12,285
Expensed Equipment	56,903	57,220	317	97,416	62,133	(35,283)
Staff Development	62,433	83,872	21,439	105,960	76,737	(29,224)
Contracted Services	201,188	182,132	(19,056)	138,029	190,627	52,598
Office Supplies	54,768	77,148	22,380	63,178	80,310	17,132
Household Supplies	146,748	174,992	28,244	150,615	171,398	20,783
Medical Supplies	51,075	36,672	(14,403)	45,719	32,301	(13,418)
Telephone	203,122	236,172	33,050	231,029	241,932	10,903
Insurance	165,125	172,180	7,055	167,354	162,077	(5,277)
Professional Fees	83,112	94,744	11,632	96,843	141,212	44,369
Recruitment	7,052	24,140	17,088	3,715	25,240	21,525
Postage & Printing	28,449	37,496	9,047	40,759	44,034	3,275
Interest Expense	5,034	8,000	2,966	9,325	40,851	31,525
Family Reimbursement	46,525	61,336	14,811	55,200	51,908	(3,292)
Other Expenses	63,216	54,848	(8,368)	52,270	43,280	(8,990)
Total OTPS	2,375,773	2,496,429	120,657	2,479,522	2,525,719	46,198
EQUIPMENT						
Lease/Rental Vehicle	108,820	109,918	1,098	104,732	108,112	3,380
Lease/Rental Equipment	54,381	46,128	(8,253)	38,533	43,413	4,880
Deprec Exp Equipment	111,914	112,430	516	106,846	124,403	17,557
Total EQUIPMENT	275,115	268,476	(6,639)	250,110	275,927	25,817
PROPERTY						
Lease/Rental Property	931,259	899,872	(31,387)	878,863	850,361	(28,502)
Bond/Mortgage Interest	227,935	265,208	37,273	272,109	286,793	14,684
Real Estate Taxes	5,013	10,222	5,209	13,531	14,320	789
Amortization	136,111	22,132	(113.979)	23,324	28,633	5,309
Deprec Exp Property	253,382	254,616	1,234	253,380	264,560	11,180
Total PROPERTY	1,553,701	1,452,050	(101,651)	1,441,207	1,444,667	3,460
Nonallocable Cost	10,992	0	(10,992)	8,196	0	(8,196)
Non-reimbursable Expense	4,593	0	(4,593)	1,173	0	(1,173)
Total Expenses	17,698,897	18,211,793	512,897	17,794,761	18,183,611	388,850
Excess or (Deficiency) of Revenue over Expenditures	46,928	(43,709)	90,637	402,675	86,991	315,683

APPENDIX D

CERTAIN DEFINITIONS

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CERTAIN DEFINITIONS

The following are definitions of certain of the terms defined in the Resolution, the Series 2013A Resolution, the Series 2013B Resolution or the Loan Agreements and used in this Official Statement.

Account means each account created and established in any fund under the Resolution as created and established pursuant to the Applicable Series Resolution, including each Project Loan Account and each Debt Service Account.

Accounts Receivable means all of a Participant's accounts receivable derived from the use or operation of any of its properties, including the Project Property, but excluding Pledged Revenues.

Act means the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, as amended, and constituting Title 4 of Article 8 of the Public Authorities Law), as amended from time to time, including, but not limited to, Chapter 471 of the Laws of 2009, the Health Care Financing Consolidation Act and as incorporated thereby the New York State Medical Care Facilities Finance Act, being Chapter 392 of the Laws of New York 1973, as amended, McKinney's Unconsolidated Laws, Sections 7411 to 7432, inclusive.

Administration Agreement means the Administration Agreement, dated as of April 1, 2013, among the Authority, the Program Facilitator and the Participants.

Allocable Portion means with respect to a Series of Bonds, an Applicable Participant's proportionate share of certain obligations arising under such Series of Bonds from time to time and under the Applicable Loan Agreement, particularly with respect to the Debt Service Reserve Fund Requirement, if any, the Arbitrage Rebate Fund and Costs of Issuance, in each case corresponding to the principal amount of the Applicable Loan made to such Participant by the Authority with proceeds of such Series of Bonds and determined by the Applicable Series Resolution or Applicable Bond Series Certificate; *provided, however*, that with respect to the payment of principal, Sinking Fund Installments and Redemption Price, if any, of and interest on such Series of Bonds, Allocable Portion shall mean that portion of each such payment designated in Exhibit D attached to the Applicable Loan Agreement as being allocable to such Participant, as the same may be adjusted from time to time to reflect any prepayments of the Applicable Loan by or on behalf of such Participant.

Annual Administrative Fee means the annual fee for the general administrative expenses of the Authority in the amount or percentage stated in each of the Loan Agreements relating to the Loans made thereunder.

Applicable means

(i) with respect to a particular Loan or Project referred to in the Resolution, the Loan and the Project established and undertaken with respect to a particular Participant and particular Project as described in a particular Loan Agreement;

(ii) with respect to any Account, the Account established with respect to a particular Participant in connection with such Participant's Allocable Portion of a particular Series of Bonds;

(iii) with respect to any Series Resolution, the Series Resolution relating to a particular Projects or Projects and/or a particular Series of Bonds;

(iv) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for a particular Project or Projects for the particular Participant or Participants;

(v) with respect to any Loan Agreement, the Loan Agreement entered into by and between a particular Participant and the Authority, relating to a particular Project or Projects for such Participant financed or refinanced with such Participant's Allocable Portion of a particular Series of Bonds;

(vi) with respect to a Bond Series Certificate, such certificate authorized pursuant to a particular Series Resolution;

(vii) with respect to any Supplemental Resolution, any such Resolution supplementing a particular Series Resolution;

(viii) with respect to a Participant, the Participant undertaking the obligations set forth in the Applicable Loan Agreement;

(ix) with respect to a Paying Agent, the Paying Agent accepting the responsibility to perform the obligations set forth therefor with respect to a particular Series of Bonds;

(x) with respect to Revenues, the Revenues pledged to the payment of a particular Series of Bonds pursuant to the Resolution and an Applicable Series Resolution;

(xi) with respect to Pledged Revenues, the Pledged Revenues pledged by the Participants as security for their respective obligations under the Applicable Loan Agreements; and

(xii) with respect to a Facility Provider, the Facility Provider that has provided a Reserve Fund Facility with respect to a particular Series of Bonds.

Arbitrage Rebate Fund means the fund so designated and established by a Series Resolution pursuant to the Resolution.

Authority means the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State created by the Act, or any body, agency or instrumentality of the State which shall hereafter succeed to the rights, powers, duties and functions of the Authority.

Authority Fee means a fee payable to the Authority upon the issuance of any Series of Bonds authorized under the Resolution in an amount set forth in the Applicable Series Resolution, unless otherwise provided in the Applicable Series Resolution or Applicable Bond Series Certificate.

Authorized Newspaper means The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five (5) days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority.

Authorized Officer means (i) in the case of the Authority, the Chair, the Vice Chair, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Managing Director of Public Finance and Portfolio Monitoring, the Managing Director of Construction, the General Counsel, the Secretary and any Assistant Secretary, and when used with reference to any act or document also means any other person authorized by a resolution or the by-laws of the Authority to perform such act or execute such document; (ii) in the case of any Participant, the person or persons authorized by a resolution or the by-laws of such Participant to perform any act or execute any document; (iii) in the case of the Trustee, the President, a Vice President, an Assistant Vice President, a Corporate Trust Officer, a Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of such Trustee or the by-laws of such Trustee; and (iv) in the case of any Insurer, the person or persons authorized by a resolution or bylaws of the Insurer to perform any act or execute any document.

Balloon Indebtedness means with respect to a Participant (i) long-term Indebtedness, or short-term Indebtedness which is intended to be refinanced upon or prior to its maturity (and which short-term Indebtedness is subject to a commercially reasonable binding commitment for such refinancing) so that such short-term Indebtedness will be outstanding, in the aggregate, for more than one year as certified in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee, twenty-five percent (25%) or more of the initial principal amount of which matures (or is payable at the option of the holder) in any twelve month period, or (ii) long-term Indebtedness, or short-term Indebtedness which is intended to be refinanced upon or prior to its maturity (and which short-term Indebtedness is subject to a commercially reasonable binding commitment for such refinancing) so that such short-term Indebtedness will be outstanding, in the aggregate, for more than one year as certified in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee, twenty-five percent (25%) or more of the initial principal amount of which is payable at the option of the holder in any twelve month period, if such twenty-five percent (25%) or more is not to be amortized to below twenty-five percent (25%) by mandatory redemption prior to such twelve month period, or (iii) any portion of an issue of long-term Indebtedness which, if treated as a separate issue of Indebtedness would meet the test set forth in clause (i) of this definition and which Indebtedness is designated as Balloon Indebtedness in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee stating that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

Bond or **Bonds** means the InterAgency Council Pooled Loan Program Revenue Bonds and any of the bonds of the Authority authorized pursuant to the Resolution and issued pursuant to an Applicable Series Resolution.

Bond Counsel means an attorney or a law firm, appointed by the Authority with respect to a particular Series of Bonds, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

Bond Series Certificate means a certificate of an Authorized Officer of the Authority fixing terms, conditions and other details of Bonds of a Series in accordance with the delegation of power to do so under a Series Resolution.

Bond Year means, unless otherwise provided in an Applicable Series Resolution or Applicable Bond Series Certificate, a period of twelve (12) consecutive months beginning July 1 in any calendar year and ending on June 30 of the succeeding calendar year.

Bondholder, Holder of Bonds, Owner or **Holder** or any similar term, when used with reference to a Bond or Bonds of a Series, means the registered owner of any Outstanding Bonds of such Series.

Book Entry Bond means any Bond issued hereunder in book entry form pursuant to the Resolution.

Business Day means, unless otherwise defined with respect to Bonds of a Series in an Applicable Series Resolution or Applicable Bond Series Certificate, any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed.

Code means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

Contract Documents means any general contract or agreement for the construction of a Project, notice to bidders, information for bidders, form of bid, general conditions, supplemental general conditions, general requirements, supplemental general requirements, bonds, plans and specifications, addenda, change orders, and any other documents entered into or prepared by or on behalf of an Applicable Participant relating to the construction of a Project, and any amendments to the foregoing.

Contribution Amounts means amounts received by a Participant and deposited in the Applicable Project Loan Account of the Project Loan Fund or the Applicable Debt Service Account of the Debt Service Fund pursuant to the Applicable Loan Agreement, which amounts shall constitute Revenues.

Cost or Costs of Issuance means the item or items of expense incurred in connection with the authorization, sale and issuance of Bonds authorized under the Resolution, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of such Bonds, premiums, fees and charges for Municipal Bond Insurance

Policies for such Bonds or for Mortgage Insurance Policies, costs and expenses of refunding such Bonds and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

Cost or Costs of the Project means, with respect to an Applicable Project or any portion thereof, costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection therewith, including, but not limited to, (i) costs and expenses of the acquisition of the title to (including premiums and other charges in connection with obtaining title insurance) or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen for the acquisition, construction, reconstruction, rehabilitation, renovation, repair and improvement of such Project, (iii) the cost of surety bonds and insurance of all kinds that may be required or necessary prior to completion of such Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of such Project, (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Applicable Participant shall be required to pay for the acquisition, construction, reconstruction, rehabilitation, renovation, repair, improvement and equipping of such Project, (vii) any sums required to reimburse the Applicable Participant or the Authority for advances made by either of them for any of the above items or for other costs incurred and for work done by either of them in connection with such Project (including interest on moneys borrowed from parties other than such Applicable Participant), (viii) interest on the Bonds of a Series prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, renovation, repair, improvement or equipping of such Project, and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project or pursuant to the Resolution, to the Applicable Series Resolution or to any Applicable Loan or Applicable Loan Agreement.

Debt Service Account means each of the respective accounts so designated, created and established in the Applicable Debt Service Fund pursuant to the Applicable Series Resolution.

Debt Service Fund means the fund so designated, created and established for a Series of Bonds by an Applicable Series Resolution pursuant to the Resolution.

Debt Service Reserve Fund means a reserve fund, if any, for the payment of the principal and Sinking Fund Installments of and interest on a Series of Bonds, so designated, created and established by the Authority by or pursuant to an Applicable Series Resolution.

Debt Service Reserve Fund Requirement means the amount of moneys required to be deposited in the Debt Service Reserve Fund, if any, established with respect to a Series of Bonds as determined in accordance with the Applicable Series Resolution or Applicable Bond Series Certificate.

Defaulted Allocable Portion means with respect to an event of default on a particular Series of Bonds pursuant to the Resolution, that portion of each maturity of such Series of Bonds then Outstanding that corresponds to a principal installment on a defaulting Participant's Applicable Loan under the terms of the Applicable Loan Agreement, in each case as determined by the Trustee in the manner set forth in the Resolution.

Defeasance Security means

(i) a Government Obligation of the type described in clauses (i), (ii) or (iii) of the definition of Government Obligation;

(ii) a Federal Agency Obligation described in clauses (i) or (ii) of the definition of Federal Agency Obligation; and

(iii) an Exempt Obligation, provided such Exempt Obligation (a) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (b) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (a) above, (c) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (a) above, and (d) is rated by at least two nationally recognized statistical rating services in the highest rating category for such Exempt Obligation;

provided, however, that (1) such term shall not include any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

Excess Earnings means, with respect to an Applicable Series of Bonds, the amount equal to the rebatable arbitrage and any income attributable to the rebatable arbitrage as required by the Code.

Exempt Obligation means:

(i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a "specified private activity bond" within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, no lower than the second highest rating category for such obligation by at least two Rating Services; and

(ii) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1940, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, whose objective is to maintain a constant share value of $1.00 and which, at the time such investment is rated, no lower than the second highest rating category for such obligation by at least two Rating Services.

Facility Provider means the issuer of a Reserve Fund Facility.

Federal Agency Obligation means:

(i) an obligation issued by any federal agency or instrumentality rated no lower than the second highest rating category for such obligation by at least two Rating Services;

(ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency or instrumentality, and which is rated no lower than the second highest rating category for such obligation by at least two Rating Services;

(iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and

(iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations and whose objective is to maintain a constant share value of $1.00.

Fiscal Year means the duly adopted fiscal year of a Participant.

Fitch means Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns.

Government Obligation means:

(i) a direct obligation of the United States of America;

(ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by the United States of America;

(iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and

(iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations and whose objective is to maintain a constant share value of $1.00.

Governmental Requirements means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to the Project or any Project Property, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and having or asserting jurisdiction over the Project or any Project Property or any part of either.

Gross Proceeds means, with respect to an Applicable Series of Bonds, unless inconsistent with the provisions of the Code, (i) amounts received by the Authority from the sale of such Series of Bonds (other than amounts used to pay underwriters' fees and other expenses of issuing such Series of Bonds), (ii) amounts treated as transferred proceeds of such Series of Bonds in accordance with the Code, (iii) amounts treated as proceeds under the provisions of the Code relating to invested sinking funds, including any necessary allocation between two or more Series of Bonds in the manner required by the Code, (iv) amounts in the Debt Service Reserve Fund, if any, established with respect to such Series of Bonds, (v) securities or obligations pledged by the Authority or the Participant as security for payment of debt service on such Bonds, (vi) amounts received with respect to obligations acquired with Gross Proceeds, (vii) amounts used to pay debt service on such Series of Bonds, and (viii) amounts received as a result of the investment of Gross Proceeds at a yield equal to or less than the yield on such Series of Bonds as such yield is determined in accordance with the Code.

Governmental Requirements means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to the Project or any Project Property, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and having or asserting jurisdiction over the Project or any Project Property or any part of either.

Indebtedness means with respect to a Participant, without duplication, (i) all obligations of such Participant recorded or required to be recorded as liabilities on the balance sheets thereof for the payment of moneys incurred or assumed by such Participant as determined in accordance with generally accepted accounting principles consistently applied (exclusive of reserves such as those established for deferred taxes) and (ii) all contingent obligations in respect of, or to purchase or otherwise acquire or service, indebtedness of other persons, including but not limited to guarantees and endorsements (other than for purposes of collection in the ordinary course of business) of indebtedness of other persons, obligations to reimburse issuers of letters of credit or equivalent instruments for the benefit of any person, and contingent obligations to repurchase property theretofore sold by such contingent obligor. For the purposes of calculating Indebtedness for any period with respect to any Balloon Indebtedness, the Participant may, at its option, by a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee at the end of each Fiscal Year, direct that such Indebtedness may be calculated assuming that (i) the principal of such Indebtedness that is not amortized is amortized on a level debt service basis from the date of calculation thereof over a term not to exceed thirty (30) years, and (ii) interest is calculated at (A) the actual rate (if such rate is not variable or undeterminable) or (B) if such rate is variable or undeterminable, an assumed rate derived from The Bond Buyer Thirty-year Revenue Bond Index published immediately prior to the date of calculation, as certified in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee; provided that if such index is at such time not being published a comparable index reasonably acceptable to the Authority and the Trustee may be used.

Insurance Consultant means a person or firm which is qualified to survey risks and to recommend insurance coverage for a Participant's facilities and services and organizations engaged in like operations and which is selected by the Applicable Participant.

Intercept Agreement means each letter dated the date of issuance of the Bonds from the Applicable Participant to OPWDD, as acknowledged by OPWDD, as may be amended and supplemented from time to time, regarding the deduction, withholding and/or payment of public funds by OPWDD, in an amount required by the Applicable Loan Agreement to the Authority or the Trustee.

Investment Agreement means an agreement for the investment of moneys with a Qualified Financial Institution.

Letter of Credit means, with respect to an Applicable Series of Bonds, an irrevocable letter of credit, or as appropriate, a confirmation or confirming letter of credit, issued in favor of the Authority or the Trustee, as the case may be, in form and substance satisfactory to the Authority or the Trustee, as the case may be, which is issued by a Qualified Financial Institution, and is accompanied by a legal opinion or opinions addressing the enforceability thereof.

Letter of Representation means the Letter of Representation of each Participant, dated the date of the sale of the Bonds, addressed to the Authority and the Underwriter.

Loan means each loan made by the Authority to a Participant pursuant to the provisions of the Resolution, the Applicable Series Resolution and the Applicable Loan Agreement relating thereto in an amount equal to the Participant's Allocable Portion of the principal amount of a Series of Bonds. Each Loan shall relate to a particular Project or Projects for a particular Participant including amounts required to pay such Participant's Allocable Portion of the Costs of Issuance, Costs of the Project related to such Loan and the Debt Service Reserve Fund Requirement, if any, established for such Series of Bonds.

Loan Agreement or **Loan Agreements** mean each of the Loan Agreements or other agreement, between the Authority and the Applicable Participant in connection with each Loan made under the Resolution, as the same may from time to time be amended, supplemented or otherwise modified as permitted by the Resolution and by the Loan Agreement.

Loan Repayments means the scheduled monthly payments of principal of and interest on the Loan paid by a Participant pursuant to the Applicable Loan Agreement.

Management Consultant means a nationally recognized accounting or management consulting firm or other similar firm, experienced in reviewing and assessing operations of organizations similar to the Participants, acceptable to the Authority.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns.

Mortgage means, collectively, any fee or leasehold mortgage or mortgages granted by any of the Participants, or a party related to any Participant, to the Authority in connection with the granting of a particular Loan under the Resolution, in form and substance satisfactory to the Authority, on the Mortgaged Property mortgaged in connection therewith, as security for the performance of said Participant's obligations under the Applicable Loan Agreement, as such Mortgage may be amended or modified as provided in such Loan Agreement.

Mortgaged Property means the land or interest therein described in a Mortgage and the buildings and improvements thereon or thereafter erected thereon and the fixtures, furnishings and equipment owned by the Applicable Participant and now or hereafter located therein or thereon.

Non-PPA Facility means with respect to a Participant, any facility of such Participant which is, or was, not subject to the Prior Property Approval process incorporated in New York State Codes, Rules and Regulations, Title 14, Parts 681, 686 and 690, as amended from time to time.

Non-PPA Indebtedness means with respect to a Participant, any Indebtedness incurred by such Participant to finance, in whole or in part, a Non-PPA Facility. Indebtedness incurred by such Participant with respect to a facility only a portion of which constitutes a Non-PPA Facility shall constitute Non-PPA Indebtedness to the extent such Indebtedness financed the Non-PPA Facility portion of such facility.

Official Statement means an official statement or other offering document relating to and in connection with the sale of any Bonds of a Series.

OPWDD means the New York State Office for People with Developmental Disabilities (formerly known as the New York State Office of Mental Retardation and Developmental Disabilities).

Outstanding, when used in reference to an Applicable Series of Bonds means, as of a particular date, all Bonds of such Series authenticated and delivered under the Resolution and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Trustee at or before such date; (ii) any such Bond or Bonds deemed to have been paid in accordance with the Resolution; and (iii) any such Bond or Bonds in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to the Resolution.

Participant or **Participants** collectively means each or all of the not-for-profit members of the Program Facilitator for whose benefit the Authority shall have issued Bonds under the Resolution and with whom the Authority shall have executed one or more Loan Agreements as particularly defined in the Applicable Series Resolution.

Paying Agent means, with respect to a Series of Bonds, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution or of the Applicable Series Resolution, the Applicable Bond Series Certificate or any other resolution of the Authority adopted prior to authentication and delivery of such Bonds for which such Paying Agent or Paying Agents shall be so appointed.

Permitted Collateral means:

(i) Government Obligations described in clauses (i) or (ii) of the definition of Government Obligations;

(ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations;

(iii) commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) is rated in the highest short term rating category by at least one Rating Service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category;

(iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company (a) that has an equity capital of at least $125,000,000, (b) is rated by Bests Insurance Guide or a nationally recognized statistical rating service in the highest rating category, and (c) which regularly deals in such agreements, bonds or instruments; and

(v) bankers' acceptances that (a) mature within three hundred sixty-five (365) days after its date of issuance, and (b) are issued by a bank rated in the highest short term rating category by at least one Rating Service.

Permitted Encumbrances means with respect to a Participant, (i) the Applicable Loan Agreement; (ii) the Resolutions; (iii) the Mortgage, if any; (iv) any instrument recorded pursuant to the Loan Agreement; (v) any encumbrances or matters set forth in the Applicable Loan Agreement, including matters referred to in any title insurance policy described in the Loan Agreement and accepted by the Authority; (vi) any mortgage or other lien or encumbrance in connection with any additional Bonds issued under the Resolution approved in writing by the Authority; (vii) liens for real estate taxes, assessments, levies and other governmental charges, the payment of which is not in default; (viii) utility, access and other easements and rights-of-way, restrictions and exceptions that will not interfere with or impair the Participant's use of its Project Property; (ix) such minor defects, irregularities, encumbrances, easements, rights-of-way (including agreements with any railroad the purpose of which is to service a railroad siding) and clouds on title as normally exist with respect to property similar in character to the Project Property and as do not, in the opinion of counsel acceptable to the Authority, either singly or in the aggregate, materially impair the property affected thereby for the purpose for which it was acquired and operated under this Loan Agreement; (x) any mechanics', workmen's, repairmen's, materialmen's, contractors', warehousemen's, carriers', suppliers' or vendors' lien or right in respect thereof if payment is not yet due and payable, all if and to the extent permitted by the Mortgage, if any; (xi) any subordinate mortgage granted as security for bonds issued by the Authority or another issuer of bonds after the date of issuance of the Bonds, up to an amount approved by OPWDD pursuant to the PPA process, for the purpose of financing the cost of renovating, constructing, equipping or completing a Project of a Project Property, and any loan agreement, or any related company lease and installment sale agreement between the Participant and the issuer of such bonds leasing or selling such Project Property, any indenture of trust between such issuer and a trustee with respect to such bonds, or any building loan agreement among such the Participant and a trustee, in each case in connection with such financing; and (xii) any other encumbrances or matters approved in writing by the Authority after the date of delivery of the Bonds.

Permitted Investments means:

(i) Government Obligations;

(ii) Federal Agency Obligations;

(iii) Exempt Obligations;

(iv) uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State;

(v) collateralized certificates of deposit that are (a) issued by a banking organization authorized to do business in the State that has an equity capital of not less than $125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized statistical rating service in at least the second highest rating category, and (b) fully collateralized by Permitted Collateral;

(vi) Investment Agreements that are fully collateralized by Permitted Collateral; and

(vii) Permitted Collateral of the type described in clauses (iii) and (v) of the definition of Permitted Collateral.

Person means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Pledged Revenues means the Public Funds attributable to the Applicable Project and/or the Project Property.

PPA Expenses means with respect to a Participant, all operating and non-operating expenses properly incurred by such Participant with respect to a PPA Facility in accordance with the Prior Property Approval received by such Participant with respect to such PPA Facility.

PPA Facility means with respect to a Participant, any facility of such Participant which was, or will be, approved by OPWDD pursuant to the Prior Property Approval process incorporated in New York State Codes, Rules and Regulations, Title 14, Parts 681, 686 and 690, as amended from time to time.

PPA Revenues means with respect to a Participant, revenues received by such Participant with respect to a PPA Facility intended to amortize the PPA Expenses incurred with respect to such PPA Facility.

Prior Pledges means, with respect to the Bonds of the Applicable Series and any Applicable Loan made under a Loan Agreement, any liens, pledges, charges, encumbrances and security interests made and given by a Participant to secure prior obligations of such Participant as described in such Loan Agreement.

Program Facilitator means Interagency Council of Developmental Disabilities Agencies, Inc., as program facilitator under the Administration Agreement, and its successors in such capacity.

Project or **Projects** means, with respect to each Participant and each Loan under the Resolution, the acquisition, financing, refinancing, construction, reconstruction, renovation, development, improvement, expansion and equipping of certain educational, administrative, day program and residential facilities to be located in the State, which may include more than one part, financed in whole or in part from the proceeds of the sale of an Applicable Series of Bonds or any portion thereof, as more particularly described and designated the Applicable Series Resolution.

Project Loan Account means each of the respective accounts or subaccounts so designated, created and established in the Applicable Project Loan Fund by an Applicable Series Resolution.

Project Loan Fund means the fund so designated and established for a Series of Bonds by an Applicable Series Resolution.

Project Property means the administrative, educational and residential facilities owned or leased by a Participant including real and personal property located thereat, as more particularly described in the Applicable Loan Agreement.

Public Funds means all moneys appropriated, apportioned or otherwise payable to a Participant by the Federal government, any agency thereof, the State, any agency of the State, a political subdivision, as defined in Section 100 of the General Municipal Law, any social services district in the State or any governmental entity, including OPWDD pursuant to each Prior Property Approval with respect to the Applicable Project Property.

Purchased Bonds means Bonds of a Series purchased by or at the direction of an Applicable Participant pursuant to the provisions of the Applicable Series Resolution or Applicable Bond Series Certificate as authorized by the Resolution.

Qualified Financial Institution means any of the following entities that has an equity capital of at least $125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least $125,000,000:

(i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one Rating Service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one Rating Service no lower than in the highest rating category for such short term debt;

(ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America, whose unsecured long term debt or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, is, at the time an investment with it is made, rated by at least one Rating Service no lower than in the second highest rating category;

(iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity or which is a subsidiary of a foreign insurance company, whose senior unsecured long term debt or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, is, at the time an investment with it is made, rated by at least one Rating Service no lower than in the second highest rating category;

(iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, the Student Loan Marketing Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; or

(v) a corporation whose obligations, including any investments of any moneys held hereunder purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above.

Rating Service means each of Fitch, Moody's and S&P, in each case, which has assigned a rating to Outstanding Bonds of the Applicable Series at the request of the Authority, or their respective successors and assigns.

Record Date means, unless otherwise defined with respect to Bonds of a Series in an Applicable Series Resolution or Applicable Bond Series Certificate, the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding an interest payment date.

Redemption Price means, when used with respect to a Series of Bonds, the principal amount of such Bonds plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution or to the Applicable Series Resolution or Applicable Bond Series Certificate; *provided, however*, when used with respect to an extraordinary mandatory redemption of a Defaulted Allocable Portion of a Series of Bonds, Redemption Price shall have the meaning set forth in the Resolution.

Refunding Bonds means all Bonds, whether issued in one or more Series of Bonds, authenticated and delivered on original issuance pursuant to the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds.

Reserve Fund Facility means a surety bond, insurance policy or Letter of Credit authorized by or pursuant to a Series Resolution establishing a Debt Service Reserve Fund to be delivered in lieu of or substitution of all or a portion of the moneys otherwise required to be held in such Debt Service Reserve Fund.

Resolution means this InterAgency Council Pooled Loan Program Revenue Bond Resolution, as the same may be from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions hereof.

Revenues mean, with respect to a particular Series of Bonds, all payments received or receivable by the Authority (including Contribution Amounts and Public Funds) pursuant to each of the Applicable Loan Agreements, which payments are to be paid to the Trustee, except (i) payments to such Trustee for the administrative costs and expenses or fees of such Trustee, (ii) payments to such Trustee for deposit to the Arbitrage Rebate Fund, and (iii) the Annual Administrative Fee.

S&P means Standard & Poor's Ratings Service, a division of The McGraw Hill Corporation, a corporation organized and existing under the laws of the State, and its successors and assigns.

Serial Bonds means the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate.

Series means all of the Bonds authenticated and delivered on original issuance and pursuant the Resolution and an Applicable Series Resolution, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

Series Resolution means a resolution of the members of the Authority authorizing the issuance of a Series of Bonds, adopted by the Authority pursuant to the Resolution.

Series 2013A Resolution means the Authority's Series Resolution Authorizing Up to $20,500,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013A adopted by the Authority on March 13, 2013, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

Series 2013B Resolution means the Authority's Series Resolution Authorizing Up to $20,500,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013B adopted by the Authority on March 13, 2013, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

Sinking Fund Installment means, with respect to any Series or Subseries of Bonds, as of any date of calculation and with respect to any Bonds of such Series or Subseries, so long as any such Bonds are Outstanding, the amount of money required by the Applicable Series Resolution or the Applicable Bond Series Certificate to be paid on a single future July 1 for the retirement of any Outstanding Bonds of such Series which mature after such future July 1, but does not include any amount payable by the Authority by reason only of the maturity of such Bond, and such future July 1 is deemed to be the date when such Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment.

State means the State of New York.

Subseries means the grouping of Bonds of a Series established by the Authority pursuant to the Applicable Series Resolution or the Applicable Bond Series Certificate.

Supplemental Resolution means any resolution of the members of the Authority amending or supplementing the Resolution, any Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of the Resolution.

Term Bonds means, with respect to Bonds of a Series, the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate and payable from Sinking Fund Installments.

Total Debt Service Coverage Ratio means with respect to a Participant, the ratio for the applicable Fiscal Year of Total Net Revenues Available for Debt Service to Total Maximum Annual Debt Service.

Total Maximum Annual Debt Service means with respect to a Participant, the greatest amount required in the then current or any future Fiscal Year to pay the debt service on any outstanding Indebtedness of such Participant; *provided, however*, that any Indebtedness secured solely by a security interest in its Accounts Receivable in accordance with such Participant's rate covenant set forth in the Applicable Loan Agreement shall not be included in "Indebtedness" for the purposes of this definition; *provided further* that the debt service for the final year of amortization of any Indebtedness shall not be included for purposes of this definition to the extent that such debt service is payable from any funded reserve(s) established with and held by a Person other than such Participant.

Total Net Revenues Available for Debt Service means with respect to a Participant, for any Fiscal Year, the excess of revenues, including the proceeds of business interruption insurance, over the expenses accrued or paid by such Participant for such Fiscal Year as determined and reported by the independent certified public accountants of such Participant in its most recently audited financial statements. For purposes of this definition, as determined in accordance with generally accepted accounting principles, consistently applied, (i) extraordinary items shall be excluded from revenues and expenses, (ii) depreciation, amortization and current interest expenses shall be excluded from expenses, and (iii) if the Indebtedness to be incurred or guaranteed is with respect to the refinancing of a Project, then "current interest expenses" for purposes of clause (ii) above and such Participant's additional Indebtedness covenant set forth in the Applicable Loan Agreement shall include the bona fide loan payments made by such Participant with respect to such Project Property in the Fiscal Year for which the determination is made.

Trustee means a bank or trust company appointed as Trustee for a Series of Bonds pursuant to an Applicable Series Resolution or an Applicable Bond Series Certificate delivered pursuant to the Resolution and having the duties, responsibilities and rights provided for in the Resolution with respect to such Series, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant to the Resolution.

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS

The following is a brief summary of certain provisions of one Loan Agreement, and the summarized provisions are identical to each Loan Agreement. This summary does not purport to be complete and reference is made to the Loan Agreements for full and complete statements of such and all provisions. Defined terms used herein shall have the meaning ascribed to them in Appendix D.

Construction of the Project

The Participant agrees that, if the Project has not been completed, whether or not there are sufficient moneys available to it under the provisions of the Resolution and the Series Resolution and under the Loan Agreement, the Participant shall complete the acquisition, design, construction, reconstruction, rehabilitation, renovation and improving or otherwise providing and furnishing and equipping of the Project, substantially in accordance with the Contract Documents related to such Project. Subject to the conditions of the Loan Agreement, the Authority will, to the extent of moneys available in the Applicable Project Loan Account of the Project Loan Fund, cause the Participant to be reimbursed for, or pay, any costs and expenses incurred by the Participant which constitute Costs of the Project, provided such costs and expenses are approved by the Authority, which approval shall not be unreasonably withheld.

(Section 5)

Amendment of Project; Sale or Conveyance of Project; Assignment of Loan Agreement; Cost Increases; Additional Bonds

The Project may be amended by agreements supplementing the Loan Agreement by and between the Authority and the Participant, to decrease, increase or otherwise modify the scope thereof. Any such increase may provide for the addition of any further acquisition, design, construction, reconstruction, rehabilitation, renovation, improving, or otherwise providing, furnishing and equipping of the Project which the Authority is authorized to undertake.

Except for Permitted Encumbrances, the Participant covenants that it shall not (nor permit any other Person to) transfer, sell, encumber or convey any interest in the Project or the Project Property or any part thereof or interest therein, including development rights, without the prior written consent of the Authority, which consent shall be accompanied by (i) an agreement by the Participant to comply with all terms and conditions of such consent and (ii) an opinion of Bond Counsel stating that the change will not have an effect on the status of the taxability of the Subseries 2013A-1 Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes. As a condition to such approval, the Authority may require that the Participant pay to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund an amount not to exceed the principal amount of the Applicable Loan outstanding relating to a Project Property at the date of such transfer, sale or conveyance, as such amount is determined by the Authority based upon the applicable amortization schedule set forth in the Loan Agreement. Notwithstanding the foregoing, the Participant may remove equipment, furniture or fixtures in the Project or which comprise a part of the Project provided that the Participant substitutes equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced.

The Participant covenants that it shall not sell, assign or transfer, nor shall it be released from, any of its obligations under the Loan Agreement without the prior written consent of the Authority, which consent shall be accompanied by (i) an agreement by the Participant and the assignee to comply with all terms and conditions of such consent and (ii) an opinion of Bond Counsel stating that the assignment will not have an effect on the status of the taxability of the Subseries 2013A-1 Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes. In connection with any such assignment and assumption, the Participant and assignee shall execute and deliver such documents, certificates and agreements as may be required by the Authority, including but not limited to documents, certificates and agreements regarding the deduction, withholding and/or payment of Pledged Revenues in the amount required by the Loan Agreement.

Notwithstanding any other provision of the Loan Agreement, so long as there exists no Event of Default under the Loan Agreement, nor any event which upon the giving of notice or the passage of time or both, would constitute an Event of Default, in the event that the Project Property consists of two or more separate and distinct facilities, the Participant may, upon written notice to the Authority and the Trustee and compliance with the following, effect the release of a Project Property from the Loan Agreement and, if a Mortgaged Property, the lien of the Mortgage. Upon receipt of such notice, the Authority and the Trustee shall, at the sole cost and expense of the Participant, execute and deliver any and all instruments necessary or appropriate to so release and remove such Project Property from the Loan Agreement and if a Mortgaged Property, the lien of the Mortgage; provided, that, no such release shall be effected unless (i) the Participant shall cause Bonds allocable to such Project Property to cease to be Outstanding (either through the redemption or the defeasance provisions of the Resolution) and (ii) there shall be delivered to the Authority an opinion of Bond Counsel stating that such release will not have an effect on the status of the taxability of the Subseries 2013A-1 Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes.

Notwithstanding any other provision of the Loan Agreement, so long as there exists no Event of Default under the Loan Agreement, nor any event which upon the giving of notice or the passage of time or both, would constitute an Event of Default, in the event that (y) the Project Property consists of two or more separate and distinct facilities, and (z) the Participant shall have paid in full the Bonds allocable to a Project Property according to the applicable amortization schedule attached to the Loan Agreement, the Participant may, upon written notice to the Authority and the Trustee, effect the release of such fully amortized Project Property from the Loan Agreement and, if a Mortgaged Property, the lien of the Mortgage. Upon receipt of such notice, the Authority and the Trustee shall, at the sole cost and expense of the Participant, execute and deliver any and all instruments necessary or appropriate to so release and remove such Project Property from the Loan Agreement and if a Mortgaged Property, the lien of the Mortgage.

The Participant shall provide such moneys or an irrevocable letter of credit or other security in such form as may be acceptable to the Authority as in the reasonable judgment of the Authority may be required to pay the cost of completing the Project in excess of the moneys, letter of credit or other security in the Applicable Project Loan Account of the Project Loan Fund established for such Project. Such moneys, letter of credit or other security shall be paid or be available to the Trustee for deposit in the Applicable Project Loan Account of the Project Loan Fund within thirty (30) days of receipt of notice from the Authority that such moneys or other security are required.

No Contract Documents shall be entered into after the date of execution and delivery of the Loan Agreement and no material modification, addition or amendment to the Contract Documents shall be made after the date of the execution and delivery of the Loan Agreement, including without limitation change orders materially affecting the scope or nature of the Project or where the cost of implementing the change exceeds $50,000, without the prior written approval of the Authority, which approval shall not be unreasonably withheld. The Participant agrees to furnish or cause to be furnished to the Authority copies of all change orders regardless of amount, upon the request of the Authority therefor.

The Authority, upon request of the Participant, may, but shall not be required to, issue Bonds to provide moneys required for the cost of completing the Project in excess of the moneys in the Applicable Project Loan Account of the Project Loan Fund. Nothing contained in the Loan Agreement or in the Resolutions shall be construed as creating any obligation upon the Authority to issue Bonds for such purpose, it being the intent to reserve to the Authority full and complete discretion to decline to issue such Bonds. The proceeds of any additional Bonds shall be deposited and applied as specified in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bonds.

(Section 6)

Financial Obligations of the Participant; General and Unconditional Obligation; Voluntary Payments

Except to the extent that moneys are available therefor under the Resolution or the Series Resolution or under the Loan Agreement, including, without limitation, moneys in the Applicable Debt Service Account of the Debt Service Fund, but excluding moneys from the Participant's Allocable Portion of the Debt Service Reserve Fund (except as set forth in the Loan Agreement) and excluding interest accrued but unpaid on investments held in the Applicable Debt Service Account of the Debt Service Fund, the Participant unconditionally agrees to pay, so long as the Loan is outstanding, to or upon the order of the Authority or, with respect to paragraph (d) below, the Program Facilitator from its general funds or any other moneys legally available to it:

(a) On or before the date of delivery of the Bonds, the Authority Fee in the amount set forth in the Loan Agreement;

(b) On or before the date of delivery of the Bonds, such amount, if any, as in the reasonable judgment of the Authority is necessary to pay the Participant's Allocable Portion of the Costs of Issuance of such Bonds, and the Participant's Allocable Portion of the other costs in connection with the issuance of such Bonds;

(c) The Participant shall make Loan Repayments on the dates and in the amounts as set forth in the Loan Agreement; provided, however, if moneys on deposit in the Participant's Applicable Debt Service Account of the Debt Service Fund and in the Participant's Allocable Portion of the Debt Service Reserve Fund are in an amount sufficient to pay the principal of and interest on the Participant's Allocable Portion of the Bonds Outstanding, no further Loan Repayments need be made by the Participant;

(d) The fees of the Program Facilitator to be paid by the Participant pursuant to the Administration Agreement;

(e) At least forty-five (45) days prior to any date on which the Redemption Price or purchase price of Bonds previously called for redemption or contracted to be purchased is to be paid exclusive of Bonds to be redeemed or purchased pursuant to Sinking Fund Installments, the Participant's Allocable Portion of the amount required to pay the Redemption Price or purchase price of such Bonds;

(f) The Annual Administrative Fee, through the final maturity date of the Bonds or until such Bonds are no longer Outstanding, as set forth in the Loan Agreement;

(g) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Participant's Allocable Portion of the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made by it pursuant to the penultimate paragraph under this heading and any expenses or liabilities incurred by the Authority pursuant to provisions of the Loan Agreement as described under the headings "Covenant as to Insurance" and "Taxes and Assessments" below and other provisions of the Loan Agreement relating to indemnity by the Participant, (iii) to reimburse the Authority for the Participant's Allocable Portion of any external costs or expenses incurred by it attributable to the issuance of the Bonds of a Series, (iv) to reimburse the Authority for any external costs or expenses incurred by it attributable to the financing or construction of the Project, including, but not limited to, costs and expenses of insurance and auditing, (v) for the costs and expenses incurred by the Authority to compel full and punctual performance by the Participant of all the provisions of the Loan Agreement, of the Intercept Agreement, of the Resolution or of the Series Resolution in accordance with the terms of the Loan Agreement and thereof, and (vi) for the Participant's Allocable Portion of the fees and expenses of the Trustee and any Paying Agent in connection with performance of their duties under the Resolution or the Series Resolution;

(h) Promptly upon demand by the Authority (a copy of which demand shall be furnished to the Trustee), all amounts required to be paid by the Participant as a result of an acceleration pursuant to the Loan Agreement; and

(i) Promptly upon demand by the Authority, the difference between the amount on deposit in the Participant's Allocable Portion of the Arbitrage Rebate Fund or otherwise available therefor under the Resolution for the payment of any rebate required by the Code to be made and the Participant's Allocable Portion of the amount required to be rebated to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Bonds, and any fees or expenses incurred by the Authority in connection therewith including those of any rebate analyst or consultant engaged by the Authority.

Subject to the provisions of the Loan Agreement and of the Resolution or the Series Resolution, the Participant shall receive a credit against the amount required to be paid by the Participant during a Bond Year pursuant to paragraph (c) above on account of a Sinking Fund Installment if, prior to the date notice of redemption is given pursuant to the Resolution with respect to Bonds to be redeemed through a Sinking Fund Installment payable on the next succeeding July 1, the Participant delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such July 1. The amount of the credit shall be equal to the principal amount of the Bonds so delivered.

The Authority directs the Participant, and the Participant agrees, to make the payments required by paragraphs (c), (e) and (h) above directly to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund and application in accordance with the Resolution or the Series Resolution, the payments required by paragraph (b) above directly to the Trustee for deposit in the Applicable Project Loan Account of the Project Loan Fund or other fund established under the Resolution or the Series Resolution, as directed by the Authority, the payments required by paragraph (i) above directly to the Trustee for deposit in the Arbitrage Rebate Fund, and the payments required by paragraphs (a), (f) and (g) above directly to the Authority.

Notwithstanding the foregoing, to the extent the Authority shall have received payment of Pledged Revenues on account of the payments required by paragraphs (c), (e), (h) and (i) above, such amounts received shall be credited against any payments due from the Participant with respect to its obligations under the Loan Agreement and are Revenues which shall be paid by the Authority to the Trustee. To the extent the Authority shall have received Pledged Revenues on account of the payments required by paragraphs (a), (f) and (g) above, such amounts received shall be credited against any payments due from the Participant with respect to its obligations under the Loan Agreement, and shall be retained by the Authority.

Notwithstanding any provision in the Loan Agreement or in the Resolution or the Series Resolution to the contrary (except as otherwise specifically provided for in provisions described under this heading), (i) all moneys paid by the Participant to the Trustee pursuant to paragraphs (c), (e) and (h) above (other than moneys received by the Trustee pursuant to the Resolution which shall be retained and applied by the Trustee for its own account) shall be received by the Trustee as agent for the Authority in satisfaction of the Participant's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the Bonds to the extent of such payment and (ii) the transfer by the Trustee of any moneys (other than moneys described in clause (i) of this subdivision) held by it in the Applicable Project Loan Account of the Project Loan Fund to the Applicable Debt Service Account of the Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Resolution shall be deemed, upon such transfer, receipt by the Authority from the Participant of a payment in satisfaction of the Participant's indebtedness to the Authority with respect to the Participant's Applicable Portion of the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Immediately after receipt or transfer of such moneys, as the case may be, by the Trustee, the Trustee shall hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Bondholders, regardless of the actual due date or payment date of any payment to the Bondholders, except in respect to the payment to the Participant by the Trustee as provided for in the Resolution.

The obligations of the Participant to make payments or cause the same to be made under the Loan Agreement shall be absolute and unconditional and the amount, manner and time of making such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the Participant may otherwise have against the Authority, the Trustee or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Participant to complete the Project or the completion thereof with defects, failure of the Participant to occupy or use the Project, any declaration or finding that the Bonds of any Series are or the Resolution or the Series Resolution is invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the Authority from the performance of any agreements on its part therein contained or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the Participant may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Participant for, or to pay, the Costs of the Project beyond the extent of moneys in the Applicable Project Loan Account of the Project Loan Fund established for such Project.

The Loan Agreement and the obligation of the Participant to make payments thereunder are general obligations of the Participant.

The Authority, for the convenience of the Participant, shall furnish to the Participant statements of the due date, purpose and amount of payments to be made pursuant to the Loan Agreement. The failure to furnish such statements shall not excuse non-payment of the amounts payable under the Loan Agreement at the time and in the manner provided thereby.

The Authority shall have the right in its sole discretion to make on behalf of the Participant any payment required pursuant to the provisions of the Loan Agreement as described under this heading which has not been made by the Participant when due; provided, that notice of such payment is immediately made to the Participant. No such payment by the Authority shall limit, impair or otherwise affect the rights of the Authority under the provisions of the Loan Agreement described under the heading "Defaults and Remedies" below arising out of the Participant's failure to make such payment and no payment by the Authority shall be construed to be a waiver of any such right or of the obligation of the Participant to make such payment.

The Participant, if there is not then an Event of Default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in accordance with the directions of the Authority in the Applicable Debt Service Account of the Debt Service Fund or held by the Trustee for the payment of Bonds or portions thereof in accordance with the Resolution. Upon any voluntary payment by the Participant or any deposit in the Applicable Debt Service Account of the Debt Service Fund made as described in the fifth paragraph above, the Authority agrees to direct the Trustee to purchase or redeem Bonds or portions thereof in accordance with the Resolution or to give the Trustee irrevocable instructions in accordance with defeasance provisions of the Resolution; provided, however, that in the event such voluntary payment is in the sole judgment of the Authority sufficient to prepay the Loan under the Loan Agreement and to pay all other amounts then due thereunder, and to purchase or redeem the Participant's Allocable Portion of the Bonds Outstanding, or to pay or provide for the payment of the Participant's Allocable Portion of the Bonds Outstanding in accordance with defeasance provisions of the Resolution, the Authority agrees, in accordance with the instructions of the Participant, to direct the Trustee to purchase or redeem the Participant's Allocable Portion of the Bonds Outstanding, or to cause the Participant's Allocable Portion of the Bonds Outstanding to be paid or to be deemed paid in accordance with defeasance provisions of the Resolution.

The Loan Agreement may be amended from time to time by the parties thereto to reflect changes in the Participant's Allocable Portion of the Bonds Outstanding caused by voluntary payments by the Participant, early redemptions, legal defeasances or otherwise. At the time of any such amendment, the Participant's Loan Repayments set forth in the amended Loan Agreement will be recalculated in the same manner as when the Bonds were originally issued while accounting for the change to the Participant's Allocable Portion of the Bonds Outstanding.

(Section 9)

Debt Service Reserve Fund

The Participant agrees that it will at all times maintain on deposit in the Debt Service Reserve Fund an amount at least equal to the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement as set forth in the Loan Agreement, provided that the Participant shall be required to deliver moneys or Permitted Investments to the Trustee for deposit in the Debt Service Reserve Fund as a result of a deficiency in such Fund within (5) days after the notice required by the Series Resolution is received.

The Participant may deliver to the Trustee a Reserve Fund Facility for all or any part of the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement in accordance with and to the extent permitted by the Series Resolution. Whenever a Reserve Fund Facility has been delivered to the Trustee and the Participant is required to restore the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement, it shall reimburse directly, or pay to the Authority an amount sufficient to reimburse, the Facility Provider in order to cause the Reserve Fund Facility provided by the Participant or Participant's Allocable Portion of the Reserve Fund Facility to be restored to the amount of the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement or shall then deliver additional moneys or Permitted Investments necessary to restore the Debt Service Reserve Fund to the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement.

The delivery to the Trustee of Permitted Investments or Reserve Fund Facility from time to time made by the Participant pursuant to the Loan Agreement as described under this heading shall constitute a pledge thereof, and shall create a security interest therein, for the benefit of the Authority to secure performance of the Participant's obligations under the Loan Agreement and for the benefit of the Trustee to secure the performance of the obligations of the Authority under the Resolution. The Participant authorizes the Authority pursuant to the Resolution to pledge such Permitted Investments or Reserve Fund Facility to secure payment of the principal, Sinking Fund Installments, if any, and Redemption Price of, and interest on, the Bonds, whether at maturity, upon acceleration or otherwise, and the fees and expenses of the Trustee, and to make provision for and give directions with respect to the custody, reinvestment and disposition thereof in any manner not inconsistent with the terms of the Loan Agreement and of the Resolution or the Series Resolution.

All Permitted Investments deposited with the Trustee pursuant to the Loan Agreement as described under this heading, other than United States Treasury Certificates of Indebtedness State and Local Government Series ("SLGs") (subject to provisions for registration thereof), and the principal thereof and the interest, dividends or other income payable with respect thereto shall be payable to bearer or to the registered owner. All such Permitted Investments in registered form shall be registered in the name of the Trustee (in its fiduciary capacity) or its nominee. Record ownership of all such Permitted Investments shall be transferred promptly following their delivery to the Trustee into the name of the Trustee (in its fiduciary capacity) or its nominee. The Participant appoints the Trustee its lawful attorney-in-fact for the purpose of effecting such registrations and transfers.

The Participant agrees that upon each delivery to the Trustee of Permitted Investments, whether initially or upon later delivery or substitution, the Participant shall deliver to the Authority and the Trustee a certificate of an Authorized Officer of the Participant to the effect that the Participant warrants and represents that the Permitted Investments delivered by the Participant (i) are on the date of delivery thereof free and clear of any lien, pledge, charge, security interest or other encumbrance or any statutory, contractual or other restriction that would be inconsistent with or interfere with or prohibit the pledge, application or disposition thereof as contemplated by the Loan Agreement, by the Series Resolution or by the Resolution and (ii) are pledged under the Loan Agreement pursuant to appropriate corporate action of the Participant duly had and taken.

Prior to the initial delivery of Permitted Investments (other than moneys) to the Trustee pursuant to the Loan Agreement as described under this heading, and upon any later delivery or substitution, the Participant will, at its cost and expense, provide to the Authority and the Trustee a written opinion of counsel satisfactory to the Authority to the effect that the Participant has full corporate power and authority to pledge such Permitted Investments as security in accordance with the Loan Agreement, such Permitted Investments have been duly delivered by the Participant to the Trustee, such delivery creates a valid and binding pledge and security interest therein in accordance with the terms thereof and of the Resolution, and nothing has come to the attention of such counsel that would lead it to believe that the Permitted Investments delivered by the Participant are not free and clear of all liens, pledges, encumbrances and security interests or are subject to any statutory, contractual or other restriction which would invalidate or render unenforceable the pledge and security interest therein, or the application or disposition thereof, contemplated by the Loan Agreement or by the Resolution.

(Section 10)

Security Interest in Pledged Revenues

As security for the payment of all liabilities and the performance of all obligations of the Participant pursuant to the Loan Agreement, the Participant does continuously pledge, grant a security interest in, and assign to the Authority the Pledged Revenues, together with the Participant's right to receive and collect the Pledged Revenues and the proceeds of the Pledged Revenues. This pledge, grant of a security interest in and assignment of the Pledged Revenues shall be subordinate only to the Prior Pledges.

The Participant represents and warrants that no part of the Pledged Revenues or any right to receive or collect the same or the proceeds thereof is subject to any lien, pledge, security interest or assignment, other than the Prior Pledges, and that the Pledged Revenues assigned pursuant to the Loan Agreement are legally available to provide security for the Participant's performance thereunder. The Participant agrees that it shall not hereafter create or permit the creation of any pledge, assignment, encumbrance, restriction, security interest in or other commitment of or with respect to the Pledged Revenues which is prior or equal to the pledge made by the Loan Agreement as described under this heading.

(Section 11)

Collection of Pledged Revenues

Commencing on the date on which the Bonds are first issued and continuing until the Loan is no longer outstanding, the Participant shall deliver (or cause to be delivered) to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund all Pledged Revenues (other than the amounts subject to the Prior Pledges) within ten (10) days following the Participant's receipt thereof unless and until there is on deposit in the Applicable Debt Service Account of the Debt Service Fund an amount at least equal to the Participant's Loan Repayment in the amount and on the date set forth in the Loan Agreement. In the event that, pursuant to remedies provision of the Loan Agreement, the Authority notifies the Participant that account debtors are to make payments directly to the Authority or to the Trustee such payments shall be so made notwithstanding anything contained in the Loan Agreement as described in this paragraph, but the Participant shall continue to deliver to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund any payments received by the Participant with respect to the Pledged Revenues (other than such amounts as are subject to the Prior Pledges).

Notwithstanding anything to the contrary in the paragraph above, in the event that, on or prior to the tenth (10th) day of any month, the Participant makes a payment to or upon the order of the Trustee, from its general funds or from any other money legally available to it for such purpose, for deposit in Applicable Debt Service Account of the Debt Service Fund in the amount which the Participant is required to pay to the Trustee pursuant to the Loan Agreement regarding Loan Repayments, the Participant shall not be required solely by virtue of the Loan Agreement as described in the paragraph above, to deliver Pledged Revenues to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund with respect to the amount due to be paid on the tenth (10th) day of such month; provided that, nothing contained in this paragraph shall abrogate the obligations of the Participant under the Loan Agreement as described in the last two paragraphs under this heading.

Any Pledged Revenues collected by the Participant that are not required to be paid to the Trustee pursuant to the Loan Agreement as described under this heading or under the remedies provisions of the Loan Agreement, including any amounts to make up any deficiencies in any funds or accounts established pursuant to the Resolution or the Series Resolution, shall be free and clear of the security interest granted by the Loan Agreement and may be disposed of by the Participant for any of its corporate purposes provided that (a) no Event of Default, or event which with the passage of time or giving of notice, or both, would become an Event of Default, has occurred and is continuing or (b) there has not occurred a drawing of funds from the Debt Service Reserve Fund that has not been repaid by the Participant as required by the Loan Agreement or the Series Resolution.

The Participant agrees to direct the payment of Pledged Revenues, otherwise payable to the Participant, to the Authority for deposit in the Debt Service Fund. Pursuant to the Act and the Intercept Agreement, the Participant has assigned and pledged to the Authority the Pledged Revenues subject to the Prior Pledges. In addition to the Intercept Agreement, the Participant agrees to execute and deliver, from time to time, such additional documents as may be required by the Authority, the Trustee, OPWDD, the State, a political subdivision (as defined in Section 100 of the General Municipal Law), or any social services district in the State, to authorize or implement such payment of Pledged Revenues to the Authority or the Trustee in an amount sufficient to pay all amounts required to be paid under the Loan Agreement. The Participant further acknowledges that OPWDD and all State and local officers are authorized and required to pay any such Pledged Revenues so assigned and pledged to the Authority in accordance with the Loan Agreement. The Authority may periodically file a certificate with OPWDD, the State, a political subdivision (as defined in Section 100 of the General Municipal Law), or any social services district in the State setting forth the amount of Pledged Revenues required to be paid to satisfy the obligations of the Participant under the Loan Agreement, which certificate may be amended by the Authority from time to time. Copies of said certificate and any amendments thereto filed pursuant to this paragraph shall be delivered to the Trustee and the Participant.

Unless and until an event described in the Loan Agreement as described in the second paragraph above shall have occurred, the Authority waives its right to collect those amounts payable to the Authority pursuant to the Loan Agreement as described in the paragraph above. Upon the occurrence of an event described in Loan

Agreement as described in the second paragraph above, the Authority may, in addition to all other remedies available to it pursuant to the Loan Agreement, cause the Pledged Revenues (subject to the Prior Pledges) to be deducted, withheld or paid directly to the Authority or the Trustee, as appropriate, in an amount sufficient to make all payments required to be made by the Participant under the Loan Agreement.

(Section 12)

Mortgage; Lien on Fixtures and Equipment

With respect to each Project Property which is owned by the Participant, at or before the delivery by the Authority of the Bonds, the Participant shall execute and deliver to the Authority the Mortgage, in recordable form, mortgaging the Mortgaged Property to the Authority, subject only to Permitted Encumbrances. As further security for the obligations and liabilities of the Participant under this Loan Agreement, the Participant shall grant the Authority a security interest in such fixtures, furnishings and equipment owned by the Participant which then are or thereafter will be located in or on any Mortgaged Property, together with all proceeds thereof and substitutions therefor. Such security interest in such fixtures, furnishings and equipment shall be subject only to Permitted Encumbrances.

With respect to each Project Property which is leased by the Participant, the Participant grants by the Loan Agreement the Authority a security interest in all furnishings and equipment located in or on or used or to be used in connection with the Project Property, excepting and excluding therefrom any furnishings and equipment held or used by the Participant as a lessee and any furnishings and equipment during the time when such furnishings and equipment are covered by perfected purchase money security interests in third parties. With respect to such furnishings and equipment in which a security interest is granted by the Loan Agreement, the Loan Agreement constitutes a "security agreement" within the meaning of the Uniform Commercial Code. Upon the occurrence of an Event of Default under the Loan Agreement, the Authority, in addition to any other rights and remedies which it may have, shall have and may exercise immediately and without demand, any and all rights and remedies granted to a secured party upon default under the Uniform Commercial Code.

Prior to any assignment of the Mortgage to the Trustee in accordance with the terms of the Resolution, the Authority, without the consent of the Trustee or the Holders of Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of the Mortgage and of any security interest in fixtures or equipment located in or on or used in connection with the Mortgaged Property and the property subject to the Mortgage or security interest may be released from the lien thereof, all upon such terms and conditions as the Authority may reasonably require. Notwithstanding the foregoing, the Participant may remove fixtures or equipment from the Mortgaged Property provided that the Participant shall replace such fixtures or equipment with fixtures or equipment having equivalent value and utility.

(Section 13)

Warranty as to Title; Encumbrances; Title Insurance

The Participant warrants and represents to the Authority that (i) it has good and marketable title to the Project and all Project Property, free and clear of liens and encumbrances, except Permitted Encumbrances, so as to permit it to have quiet enjoyment and use thereof for purposes of the Loan Agreement and the Participant's programs and (ii) the Participant has such rights of way, easements or other rights in land as may be reasonably necessary for ingress and egress to and from the Project and all Project Property, for proper operation and utilization of such Project and such Project Property and for utilities required to serve such Project and such Project Property, together with such rights of way, easements or other rights in, to and over land as may be necessary for construction by the Participant of each such Project.

The Participant covenants that title to the Project and all Project Property shall be kept free from any encumbrances, liens or commitments of any kind, other than Permitted Encumbrances.

The Participant warrants, represents and covenants that (i) the Project and all Project Property are and shall be serviced by all necessary utilities (including, to the extent applicable, without limitation, electricity, gas, water, sewer, steam, heating, air-conditioning and ventilation), and (ii) to the extent applicable, such Project and Project

Property shall have its own separate and independent means of access, apart from any other property owned by the Participant or others. Such access, however, may be through common roads or walks owned by the Participant used also for other parcels owned by the Participant.

(Section 14)

Consent to Pledge and Assignment by the Authority

The Participant consents to and authorizes the assignment, transfer or pledge by the Authority to the Trustee of the Authority's rights to receive the payments required to be made pursuant to the Loan Agreement as described in paragraphs (c), (e), and (h) under the heading "Financial Obligations of the Participant; General and Unconditional Obligations; Voluntary Payments" above, any or all security interests granted by the Participant under the Loan Agreement, including without limitation the security interest in the Pledged Revenues and the Permitted Investments delivered pursuant to the Loan Agreement and all funds and accounts established by the Resolution (other than the Arbitrage Rebate Fund) and pledged under the Resolution in each case to secure any payment or the performance of any obligation of the Participant under the Loan Agreement or arising out of the transactions contemplated by the Loan Agreement whether or not the right to enforce such payment or performance shall be specifically assigned by the Authority to the Trustee. The Participant further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by the Loan Agreement, the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided therefor thereby or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the Participant's obligations to make all payments required by the Loan Agreement and to performing all other obligations required to be performed by the Participant thereunder. Any realization upon any pledge made or security interest granted by the Loan Agreement shall not, by operation of law or otherwise, result in cancellation or termination thereof or the obligations of the Participant thereunder.

The Participant covenants, warrants and represents that it is duly authorized by all applicable laws, its charter or certificate of incorporation and by laws to enter into the Loan Agreement, to incur the indebtedness contemplated by the Loan Agreement, to pledge, grant a security interest in and assign to the Authority and the Trustee, for the benefit of the Bondholders, the Pledged Revenues and the Permitted Investments delivered pursuant to the Loan Agreement in the manner and to the extent provided therein and in the Resolution. The Participant further covenants, warrants and represents that any and all pledges, security interests in and assignments to the Authority and the Trustee for the benefit of the Bondholders, granted or made pursuant to the Loan Agreement are and shall be free and clear of any pledge, lien, charge, security interest or encumbrance prior thereto, or of equal rank therewith, other than the Prior Pledges and the Permitted Encumbrances, and that all corporate action on the part of the Participant and any parties related thereto, to that end has been duly and validly taken. The Participant further covenants that the provisions of the Loan Agreement are and shall be valid and legally enforceable obligations of the Participant in accordance with their terms. The Participant further covenants that it shall at all times, to the extent permitted by law, defend, preserve and protect the pledge, security interest in and assignment of the Pledged Revenues, Permitted Investments and Reserve Fund Facility delivered pursuant to the Loan Agreement and all of the rights of the Authority and Trustee for the benefit of the Bondholders under the Loan Agreement, under the Series Resolution, under the Resolution and under the Intercept Agreement against all claims and demands of all persons whomsoever. The Participant further covenants, warrants and represents that the execution and delivery of the Loan Agreement and of the Intercept Agreement, and the consummation of the transactions contemplated and compliance with the provisions thereof, including, but not limited to, the assignment as security or the granting of a security interest in the Permitted Investments delivered to the Trustee pursuant to the Loan Agreement, do not violate, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the charter or certificate of incorporation or by laws of the Participant (or any party related thereto) or any indenture or mortgage, or any trusts, endowments or other commitments or agreements to which the Participant (or any party related thereto) is party or by which it or any of its or their properties are bound, or any existing law, rule, regulation, judgment, order, writ, injunction or decree of any governmental authority, body, agency or other instrumentality or court having jurisdiction over the Participant, any party related thereto or any of its or their properties.

(Section 15)

Tax-Exempt Status

The Participant represents that (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is not a "private foundation," as such term is defined under Section 509(a) of the Code, (ii) it has received a letter or other notification from the Internal Revenue Service to that effect, (iii) such letter or other notification has not been modified, limited or revoked, (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification, (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist, and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The Participant agrees that (a) it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which will conform to the standards necessary to qualify the Participant as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law and (b) it shall not perform any act, enter into any agreement or use or permit the Project and the Project Property to be used in any manner, or for any trade or business or other non exempt use unrelated to the purposes of the Participant, which could adversely affect the exclusion of interest on the Subseries 2013A-1 Bonds from federal gross income pursuant to Section 103 of the Code.

(Section 16)

Use of the Project; Restrictions on Religious Use

The Participant agrees that, unless in the opinion of Bond Counsel the Project may be occupied or used other than as required by the Loan Agreement as described under this heading, at least ninety-five percent (95%) of the Project shall be occupied or used primarily by the Participant or members of the staff of the Participant or residents of the Project, as applicable, for activities related to the tax-exempt purposes of the Participant, or, on a temporary basis, persons connected with activities incidental to the operations of the Participant, subject to and consistent with the requirements of the Loan Agreement as described under this heading.

Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the Participant shall have sole and exclusive control of, possession of and responsibility for (i) the Project and all Project Property, (ii) the operation of the Project and all Project Property and supervision of the activities conducted therein or in connection with any part thereof, and (iii) the maintenance, repair and replacement of the Project and all Project Property.

The Participant agrees that with respect to the Project or any portion thereof, so long as such Project or portion thereof exists and unless and until such Project or portion thereof is sold for the fair market value thereof, such Project or any portion thereof shall not be used for sectarian religious instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; provided, however, that the foregoing restriction shall not prohibit the free exercise of any religion; and, further provided, however, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit the Project or a portion thereof to be used without regard to the above stated restriction, said restriction shall not apply to such Project and each portion thereof. The Authority and its agents may conduct such inspections as the Authority deems necessary to determine whether the Project or any portion of real property thereof financed by Bonds is being used for any purpose proscribed by the Loan Agreement. The Participant further agrees that prior to any disposition of any portion of the Project for less than fair market value, it shall execute and record (or cause to be executed and recorded) in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of such portion of such Project to the restriction that (i) so long as such portion of such Project (and, if included in such Project, the real property on or in which such portion of such Project is situated) shall exist and the Bonds allocable to such Project remain Outstanding and (ii) until such portion of such Project is sold or otherwise transferred to a Person who purchases the same for the fair market value thereof at the time of such sale or transfer, such portion of such Project shall not be used for sectarian religious instruction or as a place of religious worship or used in connection with any part of the program of a school or department of divinity of any religious denomination. The instrument containing such restriction shall further provide that such restriction may be enforced at the instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction shall also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of such Project, or, if included in such Project, the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction shall be without any force or effect. For the purposes of this heading an involuntary transfer or disposition of the Project or a portion thereof, upon foreclosure or otherwise, shall be considered a sale for the fair market value thereof.

(Sections 20 and 21)

Covenant as to Insurance

The Participant agrees to maintain or cause to be maintained insurance with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried by organizations located in the State of a nature similar to that of the Participant, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance in amounts estimated to indemnify the reasonably anticipated damage, loss or liability, subject to reasonable deductible provisions. The Participant shall at all times also maintain worker's compensation coverage and disability benefits insurance coverage as required by the laws of the State.

The Participant shall furnish to the Authority annually (1) a certificate or report of an Insurance Consultant that the insurance coverage maintained by the Participant is adequate and in accordance with the standards above, and (2) any certificates of workers' compensation insurance and disability benefits insurance coverage required by the New York State Workers' Compensation Board.

If the Authority shall so request in writing, the Participant shall provide to the Authority summaries or other evidence of its insurance coverage and shall obtain endorsements reasonably requested by the Authority.

(Section 23)

Damage or Condemnation

In the event of a taking of the Project or the Project Property or any portion thereof by eminent domain or of condemnation, damage or destruction affecting all or part of the Project or the Project Property, then and in such event the entire proceeds of any insurance, condemnation or eminent domain award shall be paid upon receipt thereof by the Participant or the Authority to the Trustee for deposit in the Applicable Project Loan Account of the Project Loan Fund, and

(a) if within 120 days from the receipt by the Authority of actual notice or knowledge of such occurrence, the Participant and the Authority agree in writing that the Project, the Project Property or the affected portion thereof shall be repaired, replaced or restored, the Participant shall proceed to repair, replace or restore the Project, the Project Property or the affected portion thereof, including all fixtures, furniture, equipment and effects, to its original condition insofar as possible with such changes and additions as shall be appropriate to the needs of the Participant and approved in writing by the Authority. The funds required for such repair, replacement or restoration shall be paid from time to time as the work progresses, subject to such conditions and limitations as the Authority may reasonably impose, from the proceeds of insurance, condemnation or eminent domain awards received by reason of such occurrence or from funds to be provided by the Participant; or

(b) if no agreement for the repair, restoration or replacement of the Project, the Project Property or the affected portion thereof shall be reached by the Authority and the Participant within such 120 day period, all respective proceeds (other than the proceeds of builders' risk insurance which shall be deposited pursuant to the Resolution and the Series Resolution) shall be transferred from the Applicable Project Loan Account of the Project Loan Fund in which such proceeds were deposited to the Applicable Debt Service Account of the Debt Service Fund for the redemption at par, at the option of the Authority, of Bonds on any future interest payment date.

(Section 24)

Taxes and Assessments

The Participant shall pay or cause to be paid when due at its own expense, and hold the Authority harmless from, all taxes, assessments, water and sewer charges and other impositions, if any, which may be levied or assessed upon the Project or the Project Property or any part thereof, and upon all ordinary costs of operating, maintaining, renovating, repairing and replacing the Project and the Project Property and its equipment. The Participant shall file or cause to be filed exemption certificates as required by Governmental Requirements. The Participant agrees to exhibit to the Authority within ten (10) days after written demand by the Authority, certificates or receipts issued by the appropriate authority showing full payment of all taxes, assessments, water and sewer charges and other impositions; provided, however, that the good faith contest of such impositions shall be deemed to be complete compliance with the requirements of the Loan Agreement if the Participant deposits with the Authority the full amount of such contested impositions. Notwithstanding the foregoing, the Authority, in its sole discretion, after notice in writing to the Participant, may pay (such payment shall be made under protest if so requested by the Participant) any such charges, taxes and assessments if, in the reasonable judgment of the Authority, the Project or the Project Property, or any part thereof, would be in substantial danger by reason of the Participant's failure to pay such charges, taxes and assessments of being sold, attached, forfeited, foreclosed, transferred, conveyed, assigned or otherwise subjected to any proceeding, equitable remedy, lien, charge, fee or penalty that would impair (i) the interests or security of the Authority under the Loan Agreement, under the Series Resolution, under the Resolution or under the Mortgage; (ii) the ability of the Authority to enforce its rights under the Loan Agreement or thereunder; (iii) the ability of the Authority to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement, under the Series Resolution or under the Resolution; or (iv) the ability of the Participant to fulfill the terms of the covenants or perform any of its obligations under the Loan Agreement, under the Series Resolution, and the Participant agrees to reimburse the Authority for any such payment, with interest thereon from the date payment was made by the Authority at a rate equal to the highest rate of interest payable on any investment held for the Debt Service Fund on the date such payment was made by the Authority.

(Section 25)

Reports Relating to the Project or the Mortgaged Property, Financial Information and Financial Covenants

The Participant shall, if and when requested by the Authority, render to the Authority and the Trustee reports with respect to all repairs, replacements, renovations, and maintenance made to the Project or the Project Property. In addition, the Participant shall, if and when requested by the Authority, render such other reports concerning the condition of the Project or the Project Property as the Authority may request. The Participant shall also furnish annually, not later than one hundred and eighty (180) days after the end of the Participant's Fiscal Year, to the Trustee, the Program Facilitator, the Underwriter, the Authority and to such other parties as the Authority may reasonably designate, including rating services, copies of its financial statements audited by an independent public accountant selected by the Participant and acceptable to the Authority and prepared in conformity with generally accepted accounting principles applied on a consistent basis, except that such audited financial statements may contain such changes as are concurred in by such accountants, and such other statements, reports and schedules describing the finances, operation and management of the Participant and such other information as may be reasonably required by the Authority. The Trustee shall have no obligation or duty to review any financial statements (audited or otherwise) filed with it and shall not be deemed to have notice of the content of such statements or a default based on such content and shall have no obligation or duty to verify the accuracy of such statements.

Furthermore, the Participant shall also furnish annually, not later than one hundred and eighty (180) days after the end of the Participant's Fiscal Year, to the Authority, the Underwriter and the Trustee a certificate of an Authorized Officer of the Participant stating whether the Participant is in compliance with the provisions the Loan Agreement, together with a schedule or schedules demonstrating compliance with the Loan Agreement based on the Participant's audited financial statements described in the Loan Agreement.

The Participant covenants that it has maintained in its current Fiscal Year and it will maintain in each Fiscal Year subsequent to the date of delivery of the Loan Agreement Total Net Revenues Available for Debt Service sufficient to produce in each Fiscal Year a Total Debt Service Coverage Ratio of not less than 1.00 to 1.00.

The Participant may not incur any additional Indebtedness (including, but not limited to, guarantees or derivatives in the form of credit default swaps or total-rate-of-return swaps or similar instruments), without the prior written consent of the Authority, except for the following:

(a) Indebtedness (other than for working capital, other than installment purchase payments payable under installment sale agreements and other than rents payable under lease agreements) incurred in the ordinary course of the Participant's business for its current operations including the maintenance and repair of its property, advances from third party payors and obligations under reasonably necessary employment contracts,

(b) Indebtedness in the form of rentals under leases which are not required to be capitalized in accordance with generally accepted accounting principles in effect on the date of issuance of the Bonds,

(c) Indebtedness in which recourse to the Participant for repayment is expressly limited to proceeds from the sale, lease or foreclosure of any tangible property of the Participant other than the Project Property,

(d) Non-PPA Indebtedness to the extent that the Participant has delivered to the Authority and the Trustee a certificate signed by the Participant's chief executive officer or chief financial officer demonstrating a Total Debt Service Coverage Ratio of not less than 1.25 to 1.00 for the most recent Fiscal Year for which audited financial statements exist. In preparing its calculations of the required ratios, the Participant's representative or the independent certified public accountant, as applicable, shall include the proposed debt service requirements with respect to the Non-PPA Indebtedness to be issued,

(e) Indebtedness to finance a PPA Facility, and

(f) short-term Indebtedness for working capital purposes, provided, however, that such Indebtedness may be secured by no more than ninety percent (90%) of the Participant's Accounts Receivables.

(Section 26)

Defaults and Remedies

As used in the Loan Agreement, the term "Event of Default" shall mean:

(a) the Participant shall default in the timely payment of any amount payable pursuant to the Loan Agreement as described under the heading "Financial Obligations of the Participant; General and Unconditional Obligation; Voluntary Payments" or in the payment of any other amounts required to be delivered or paid in accordance with the Loan Agreement, the Series Resolution or the Resolution or in the timely payment of any amount payable pursuant to any loan agreement with the Authority or any agreement with any lender with respect to the Project Property or Public Funds, and such default continues for a period in excess of seven (7) days;

(b) the Participant shall default in the due and punctual performance of any other covenant contained in the Loan Agreement (except as set forth in paragraph (d) below) and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given to the Participant by the Authority or the Trustee;

(c) as a result of any default in payment or performance required of the Participant under the Loan Agreement or any Event of Default under the Loan Agreement, whether or not declared, continuing or cured, the Authority shall be in default in the payment or performance of any of its obligations under the Resolution or an "event of default" (as defined in the Resolution) shall have been declared under the Resolution so long as such default or event of default shall remain uncured or the Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Resolution as a result thereof;

(d) the Participant shall have violated the applicable provisions of regulations or the covenants set forth in the Loan Agreement with respect to compliance with all Government Requirements or shall fail to continue to operate the Project Property as a certified program for the developmentally disabled in accordance with a valid operating certificate duly issued by OPWDD, and the Participant, subsequent to 15 days after written notice shall have been given to the Participant by OPWDD or the Authority requiring the same to be remedied, fails to remedy such violation or such failure to operate such certified program;

(e) the Participant shall (i) be generally not paying its debts as they become due, (ii) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (iii) make a general assignment for the benefit of its creditors, (iv) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (v) be adjudicated insolvent or be liquidated or (vi) take corporate action for the purpose of any of the foregoing;

(f) a court or governmental authority of competent jurisdiction shall enter an order appointing, without consent by the Participant, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Participant, or any petition for any such relief shall be filed against the Participant and such petition shall not be dismissed within ninety (90) days;

(g) the charter or certificate of incorporation of the Participant shall be suspended or revoked;

(h) a petition to dissolve the Participant shall be filed by the Participant with the legislature of the State or other governmental authority having jurisdiction over the Participant;

(i) an order of dissolution of the Participant shall be made by the legislature of the State or other governmental authority having jurisdiction over the Participant, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(j) a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the Participant which petition shall remain undismissed or unstayed for an aggregate of ninety (90) days;

(k) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the Participant, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(l) a final judgment for the payment of money, which in the judgment of the Authority will adversely affect the rights of the Bondholders, shall be rendered against the Participant and at any time after forty-five (45) days from the entry thereof, (i) such judgment shall not have been discharged or (ii) the Participant shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within thirty (30) days, the execution of or levy under such judgment, order, decree or process for the enforcement thereof, to have been stayed pending determination of such appeal; or

(m) the Participant shall default in the payment of any indebtedness or guaranty aggregating at least $500,000 when due, or shall default in the performance of any other obligations in connection with any indebtedness or guaranty aggregating at least $500,000 which default entitles the holder of such indebtedness or guaranty to accelerate the Participant's obligations thereunder.

Upon the occurrence of an Event of Default the Authority may take any one or more of the following actions:

(a) declare all sums payable by the Participant under the Loan Agreement immediately due and payable;

(b) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of the Loan or the Applicable Project Loan Account of the Project Loan Fund or otherwise to which the Participant may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion, apply any such proceeds or moneys for such purposes as are authorized by the Resolution;

(c) withhold any or all further performance under the Loan Agreement;

(d) maintain an action against the Participant under the Loan Agreement to recover any sums payable by the Participant or to require its compliance with the terms of the Loan Agreement;

(e) permit, direct or request the Trustee to liquidate all or any portion of the assets comprising the Participant's Allocable Portion of the Debt Service Reserve Fund by selling the same at public or private sale in any commercially reasonable manner and apply the proceeds thereof and any dividends or interest received on investments thereof to the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Participant's Allocable Portion of the Bonds, or any other obligation or liability of the Participant or the Authority arising herefrom, from the Series Resolution or from the Resolution;

(f) realize upon any security interest which the Authority may then have in the pledge and assignment of the Pledged Revenues and the rights to receive the same, whether pursuant to the Intercept Agreement or otherwise, all to the extent provided in the Loan Agreement as described under the headings "Security Interest in Pledged Revenues" and "Collection of Pledged Revenues" above, by any one or more of the following actions: (i) enter the Project or the property of the Participant and examine and make copies of the financial books and records of the Participant relating to the Pledged Revenues and, to the extent of the assigned Pledged Revenues, take possession of all checks or other orders for payment of money and moneys in the possession of the Participant representing Pledged Revenues or proceeds thereof; (ii) [Reserved]; (iii) [Reserved]; (iv) require the Participant to deposit all moneys, checks or other orders for the payment of money which represent Pledged Revenues in an amount equal to the Pledged Revenues assigned under the Loan Agreement within five (5) Business Days after receipt of written notice of such requirement, and thereafter as received, into a fund or account to be established for such purpose by the Authority, provided that the moneys in such fund or account shall be applied by the Authority to the payment of any of the obligations of the Participant under the Loan Agreement including the fees and expenses of the Authority; and provided further that the Authority in its sole discretion may authorize the Participant to make withdrawals from such fund or account for its corporate purposes; and provided further that the requirement to make such deposits shall cease and the balance of such fund or account shall be paid to the Participant when all Events of Default under the Loan Agreement by the Participant have been cured; (v) forbid the Participant to extend, compromise, compound or settle any accounts receivable or contract rights which represent any unpaid assigned Pledged Revenues, or release, wholly or partly, any Person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; (vi) endorse in the name of the Participant any checks or other orders for the payment of money representing any unpaid assigned Pledged Revenues or the proceeds thereof; and (vii) follow the procedures for the collection of Pledged Revenues as provided in the Act and in the Loan Agreement as described under the heading "Collection of Pledged Revenues" above;

(g) if applicable and to the extent permitted by law, (i) enter upon the Project and complete the construction of such Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect such Project, all at the risk, cost and expense of the Participant, consent to such entry being given by the Participant; (ii) at any time discontinue any work commenced in respect of the construction of the Project or change any course of action undertaken by the Participant and not be bound by any limitations or requirements of time whether set forth in the Loan Agreement or otherwise; (iii) assume any construction contract made by the Participant in any way relating to the construction of the Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by the Participant, whether or not previously incorporated into the construction of the Project; and (iv) in connection with the construction of the Project undertaken by the Authority pursuant to the provisions of this paragraph (g), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of the Project, (y) pay, settle or compromise all bills or claims which may become liens against the Project or against any moneys of the Authority applicable to the construction of the Project, or which have been or may be incurred in any manner in connection with completing the construction of the Project or for the discharge of liens, encumbrances or defects in the title to the Project or against any moneys of the Authority applicable to the construction of the Project, and (z) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The Participant shall be liable to the Authority for all sums paid or incurred for construction of the Project whether the same shall be paid or incurred pursuant to the provisions of this paragraph (g) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever shall be paid by the Participant to the Authority upon demand. The Participant irrevocably constitutes and appoints the Authority its true and lawful attorney-in-fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the

Participant for the purpose of exercising the rights granted to the Authority by this subparagraph during the term of the Loan Agreement;

(h) request OPWDD, in accordance with applicable statutes and regulations, to enter the Project, or replace the Participant with another operator, to take possession without judicial action of all real property contained in such Project and all personal property located in or on or used in connection with the Project, including furnishings and equipment thereon, and further including Pledged Revenues and cause to be operated thereon a certified program for the developmentally disabled within the Project Property in accordance with a valid operating certificate duly issued by OPWDD;

(i) require the Participant to engage, at the Participant's expense, a Management Consultant to review the rates, operations and management of the Participant and any other matter deemed appropriate by the Authority and make recommendations with respect to such rates, operations, management and other matters; and

(j) take any legal or equitable action necessary to enable the Authority to realize on its liens under the Loan Agreement, under the Mortgage, or by law, including foreclosure of the Mortgage, and any other action or proceeding permitted by the terms of the Loan Agreement, by the Mortgage or by law.

All rights and remedies in the Loan Agreement given or granted to the Authority are, to the extent permitted by law, cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy shall effect a waiver of the Authority's right to exercise such remedy thereafter.

At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made pursuant to paragraph (a) above and its consequences if such Events of Default shall be cured. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereto.

In the event of an Event of Default under the Loan Agreement as described in paragraph (d), (e), (f), (g), (h), (i), (j), (k) or (l) above shall have occurred and be continuing with respect to the Participant, or in the event that OPWDD shall have revoked the Participant's license to operate as a qualified operator, the Participant shall exercise best efforts in accordance with all applicable laws and regulations, to facilitate the continued availability of its respective facilities for the benefit of its clients and patients including but not limited to cooperating with any OPWDD qualified service provider in order to permit such service provider to assume the Participant's liabilities and obligations to provide benefits to such clients and patients. In furtherance of such purposes the Participant agrees to cooperate with all State regulatory agencies and acknowledges that the Authority's enforcement of such cooperation constitutes an exercise of the police powers of the State for the public good of the citizens of the State.

(Section 29)

Arbitrage

The Participant covenants that it shall take no action, nor shall it consent to the taking of any action, nor shall it fail to take any action or consent to the failure to take any action, the making of any investment or the use of the Loan, which would cause the Subseries 2013A-1 Bonds of any Series to be "arbitrage bonds" within the meaning of Section 148(a) of the Code, and any proposed or final regulations thereunder as are applicable to the Subseries 2013A-1 Bonds at the time of such action, investment or use. The Participant (or any related person, as defined for purposes of Section 148 of the Code) shall not, pursuant to an arrangement, formal or informal, purchase Subseries 2013A-1 Bonds in an amount related to the amount of any obligation to be acquired from the Participant by the Authority, unless the Authority and the Trustee shall receive an opinion of Bond Counsel to the effect that the purchase by the Participant or by a related person of Subseries 2013A-1 Bonds will not cause interest on the Subseries 2013A-1 Bonds to be included in the gross income of the owners of such Subseries 2013A-1 Bonds for purposes of federal income taxation. The Participant will, on a timely basis, provide the Authority with all necessary information and funds not in the Authority's possession, to enable the Authority to comply with the arbitrage and rebate requirements of the Code as identified in the Resolution. The Participant shall be required to pay for any consultant or report necessary to satisfy any such arbitrage and rebate requirement. The Participant covenants that it will not take any action or fail to take any action which would cause any representation or warranty of the Participant contained in the tax certificate then to be untrue and shall comply with all covenants and agreements of the Participant contained in the tax certificate, in each case to the extent required by and otherwise in compliance with such tax certificate. In the event that the Authority is notified in writing that the Subseries 2013A-1 Bonds or any transaction pertaining thereto is the subject of any Internal Revenue Service or Securities and Exchange Commission investigation, suit or order, it shall promptly give notice thereof to the Participant. In the event that the Participant is notified in writing that the Subseries 2013A-1 Bonds or any transaction pertaining thereto is the subject of any Internal Revenue Service or Securities and Exchange Commission investigation, suit or order, it shall promptly give notice thereof to the Authority. Upon the occurrence of such an event, the Participant and the Authority shall fully cooperate with one another and participate in all aspects of the conduct of the response thereto.

(Section 40)

Duration of the Loan Agreement

The Loan Agreement shall remain in full force and effect until the Participant's Allocable Portion of the Bonds is no longer Outstanding, the Applicable Loan made under the Loan Agreement is no longer outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Participant shall have been made or provision made for the payment thereof; provided, however, that the liabilities and the obligations of the Participant under the Loan Agreement shall nevertheless survive any such termination. Upon such termination, the Authority shall promptly deliver such documents as may be reasonably requested by the Participant to evidence such termination and the discharge of the Participant's duties under the Loan Agreement, including the release or surrender of any security interests granted by the Participant to the Authority pursuant to the Loan Agreement.

(Section 48)

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a brief summary of certain provisions of the Resolution, the Series 2013A Resolution and the Series 2013B Resolution (collectively, the "Resolutions"). This summary does not purport to be complete and reference is made to the Resolutions for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A or in the body of this Official Statement.

Resolution, Series Resolutions and the Bonds Constitute Separate Contracts

It is the intent of the Resolution to authorize the issuance by the Authority, from time to time, of its InterAgency Council Pooled Loan Program Revenue Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution and, inter alia, to be separately secured from each other Series of Bonds. Each such Series of Bonds shall be separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series of Bonds by the respective Series Resolution authorizing such Series of Bonds. With respect to each Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of a Series authorized to be issued under the Resolution and under a Series Resolution by those who shall hold or own the same from time to time, the Resolution and any Applicable Series Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of the Bonds of such Series, and the pledge and assignment made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders of any and all of the Bonds of such Series, all of which, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any Bonds of such Series over any other Bonds of such Series except as expressly provided in the Resolution or permitted by the Resolution or by a Series Resolution.

(Section 1.03)

Assignment of Certain Rights and Remedies to the Trustee: Assignment of Mortgages

With respect to each Series of Bonds, as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of, and interest on, the Outstanding Bonds of such Series and for the performance of each other obligation of the Authority under the Resolution and under an Applicable Series Resolution, the Authority may grant, pledge and assign to the Trustee all of the Authority's estate, right, title, interest and claim in, to and under any and all of the Applicable Loan Agreements and any Applicable Mortgage, together with all rights, powers, security interests, privileges, options and other benefits of the Authority under any such Loan Agreement and such Mortgage, including, without limitation, the immediate and continuing right to receive, enforce and collect (and to apply the same in accordance herewith and with the Applicable Series Resolution) all Revenues, insurance proceeds, sales proceeds and other payments and other security now or hereafter payable to or receivable by the Authority under any such Loan Agreement or Mortgage, and the right to make all waivers and agreements in the name and on behalf of the Authority, as agent and attorney-in-fact, and to perform all other necessary and appropriate acts under any such Loan Agreement or Mortgage, subject to the following conditions: (a) that the Holders of such Bonds shall not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions thereof to be performed by the Authority; (b) that, unless and until the Trustee is assigned such Loan Agreement or Mortgage, and further, unless and until (i) an "Event of Default" (as defined in such Loan Agreement) shall have occurred and be continuing under such Loan Agreement, and (ii) the Trustee in its discretion shall so elect by instrument in writing delivered to the Authority and the Applicable Participant, the Trustee shall not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions contained in such Loan Agreement or Mortgage to be performed by the Authority (except to the extent of actions undertaken by the Trustee in the course of its performance of any such covenant or provision); and (c) that such Mortgage may not be assigned by any party thereto without the written consent of the other parties thereto except to such Trustee as permitted by the Resolution; *provided, however,* that any grant, pledge and assignment of moneys, revenues, accounts, rights or other property of a Participant made with respect to such Loan Agreement or Mortgage pursuant to this paragraph shall secure only the payment of the amounts payable under such Loan Agreement and Mortgage. Until such time as such Loan Agreement and Mortgage are assigned to the Trustee and the Trustee shall make the election provided for in this paragraph, the Authority shall remain liable to observe and perform all the conditions and covenants in such Loan Agreement or Mortgage to be observed and performed by it.

Upon the happening of (a) any withdrawal from any Participant's Allocable Portion of the Debt Service Reserve Fund, if any, securing such Participant's Allocable Portion of the Applicable Series of Bonds which has not been restored to such Participant's Allocable Portion of the Debt Service Reserve Fund Requirement within thirty (30) days after notice given in accordance with the Applicable Series Resolution has been received by the Authority, or (b) the occurrence of an event of default specified in paragraph (d) of under the caption "*Events of Default*" in this Appendix F, the Authority shall assign to the Trustee for the benefit of the Bondholders of the Applicable Series all of its right, title and interest in and to the Mortgage, if any, of said non-performing Participant and in and to the rights of the Authority under the Applicable Loan Agreement to exercise any of the remedies provided thereby for the enforcement of the obligations of such Participant to make the payments thereunder, including the right to declare the indebtedness and all Loan Repayments thereunder immediately due and payable and to foreclose the lien of such Mortgage, as applicable; *provided, however,* that the Authority may retain the right to the payment of the fees, costs and expenses of the Authority payable pursuant to the Applicable Loan Agreement, the right to the indemnities provided thereby, the right to the payments, if any, required to be made pursuant to such indemnities and the right to exercise any of the remedies available thereunder for the enforcement of the obligations of such Participant, the rights to which have been retained by the Authority. Such assignment shall be made by the execution and delivery to the Trustee of documents of assignment in form and substance reasonably acceptable to the Trustee. If prior to the foreclosure of any such Mortgage, such Debt Service Reserve Fund has been restored to its Debt Service Reserve Fund Requirement, the Trustee shall, upon the request of the Authority, reassign to the Authority all right, title and interest in and to such Loan Agreement and said Mortgage assigned to it pursuant to this paragraph. Any such reassignment shall be made by the execution and delivery to the Authority of documents of reassignment in form and substance reasonably acceptable to the Authority.

In the event the Authority grants, pledges and assigns to the Trustee any of its rights as provided in above, the Trustee shall accept such grant, pledge and assignment, which acceptance shall be evidenced in writing and signed by an Authorized Officer of the Trustee.

(Section 1.04)

Additional Obligations

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, except as provided in the Resolution, entitled to a charge, lien or right prior or equal to the charge or lien created by the Resolution and pursuant to a Series Resolution, or prior or equal to the rights of the Authority and Holders of Bonds of the Applicable Series of Bonds provided by the Resolution or with respect to the moneys pledged under the Resolution or pursuant to a Series Resolution.

(Section 2.05)

Pledge of Revenues

Subject to the provisions of the first paragraph under the caption "*Limitation on Revenues and Security Available for Payments After Certain Defaults; Priority of Payments After Default; Cancellation and Replacement of Certain Bonds"* in this Appendix F, the proceeds from the sale of a Series of Bonds, the Applicable Revenues, the Authority's security interest in the Applicable Pledged Revenues and all funds and accounts authorized by the Resolution and established pursuant to an Applicable Series Resolution, other than the Arbitrage Rebate Fund, are by the Resolution, subject to the terms of the Applicable Series Resolution, pledged and assigned to the Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on such Series of Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under the Applicable Series Resolution, all in accordance with the provisions of the Resolution and the terms of the Applicable Series Resolution. Unless otherwise provided in the Applicable Series Resolution, the pledge made by the Resolution shall relate only to the Bonds of a Series authorized by the Applicable Series

Resolution and no other Series of Bonds and such pledge shall not secure any other Series of Bonds. The pledge made by the Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds of the sale of such Series of Bonds, the Applicable Revenues, the Authority's security interest in the Applicable Pledged Revenues and all funds and accounts authorized by the Resolution and established pursuant to the Applicable Series Resolution which are pledged by the Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. Subject to the provisions of the first paragraph under the caption "*Limitation on Revenues and Security Available for Payments After Certain Defaults; Priority of Payments After Default; Cancellation and Replacement of Certain Bonds"* in this Appendix F, each Series of Bonds shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Applicable Revenues, the Authority's security interest in the Applicable Pledged Revenues and the funds and accounts established by the Resolution and pursuant to the Applicable Series Resolution, which pledge shall constitute a first lien thereon, subject only, with respect to such Applicable Pledged Revenues, to the Prior Pledges.

(Section 5.01)

Establishment of Funds and Accounts

Unless otherwise provided by the Applicable Series Resolution, the following funds are authorized to be established and shall be held and maintained for each Series of Bonds by the Trustee separate and apart from any other funds and accounts established and maintained pursuant to any other Series Resolution:

Project Loan Fund;
Debt Service Fund; and
Arbitrage Rebate Fund.

In addition to the funds and accounts listed above, the Series 2013A Resolution establishes a Debt Service Reserve Fund to be held and maintained by the Trustee with respect to the Series 2013A Bonds and the Series 2013B Resolution establishes a Debt Service Reserve Fund to be held and maintained by the Trustee with respect to the Series 2013B Bonds.

Accounts and subaccounts within each of the foregoing funds may from time to time be established in accordance with an Applicable Series Resolution, an Applicable Bond Series Certificate or upon the direction of the Authority, including in the Project Loan Fund, separate Project Loan Accounts, and in the Debt Service Fund, separate Debt Service Accounts, in each case, for each Applicable Participant and Loan. All moneys at any time deposited in any fund, account or subaccount created and pledged by the Resolution or by a Series Resolution or required by the Resolution or thereby to be created shall be held in trust for the benefit of the Holders of the Applicable Series of Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided in the Resolution, unless otherwise provided in the Applicable Series Resolution.

All references in the Resolution to the Project Loan Fund, the Debt Service Fund, the Arbitrage Rebate Fund or the Debt Service Reserve Fund shall mean the particular Project Loan Fund, Debt Service Fund, Arbitrage Rebate Fund or Debt Service Reserve Fund designated and established by the Authority with respect to a particular Series of Bonds in the Applicable Series Resolution or in the Applicable Bond Series Certificate as authorized by the Resolution.

(Section 5.02 of the Resolution and Section 5.01 of the Series 2013A Resolution and the Series 2013B Resolution)

Application of Bond Proceeds and Allocation Thereof

Upon the receipt of proceeds from the sale of a Series of Bonds, the Authority shall apply such proceeds as specified in the Resolution and in the Applicable Series Resolution or the Applicable Bond Series Certificate.

Accrued interest, if any, received upon the delivery of a Series of Bonds shall be deposited in the Applicable Debt Service Account in Debt Service Fund unless all or any portion of such amount is to be otherwise applied as specified in the Applicable Series Resolution or the Applicable Bond Series Certificate.

(Section 5.03)

Application of Moneys in the Project Loan Fund

The Authority shall apply moneys in each of the Project Loan Accounts established in the Project Loan Fund for the purpose of making Loans to the Participants in accordance with the Loan Agreements. Proceeds of each such Loan shall be held in a separate Project Loan Account established with respect to each Applicable Participant and shall be disbursed for the purposes as set forth in the Applicable Series Resolution, the Applicable Bond Series Certificate or Applicable Loan Agreement. The Allocable Portion of the Debt Service Reserve Fund Requirement, if any, and of the Costs of Issuance funded from proceeds of a Series of Bonds shall be accounted for separately for each Participant, and the total amount of the Loan to each Participant shall include such Allocable Portions. In addition, the Authority shall remit to the Trustee and the Trustee shall deposit in the Applicable Project Loan Account in the Project Loan Fund any moneys paid or instruments payable to the Authority derived from insurance proceeds or condemnation awards from any Applicable Project.

Except as otherwise provided in the Resolution and the Applicable Series Resolution or the Applicable Bond Series Certificate, moneys deposited in a Project Loan Account in the Project Loan Fund shall be used only to pay the Costs of Issuance of the Applicable Series of Bonds and the Costs of the Project or Projects with respect to which such Applicable Series of Bonds were issued.

Payments for Costs of a Project shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates of the Authority stating the names of the payees, the purpose of each payment in terms sufficient for identification and the respective amounts of each such payment. Such certificate or certificates shall be substantiated by a certificate filed with the Authority signed by an Authorized Officer of the Applicable Participant, describing in reasonable detail the purpose for which moneys were used and the amount thereof, and further stating that such purpose constitutes a necessary part of the Costs of such Project except that payments to pay interest on an Applicable Series of Bonds shall be made by the Trustee upon receipt of, and in accordance with, the direction of an Authorized Officer of the Authority directing the Trustee to transfer such amount from the Applicable Project Loan Account in the Project Loan Fund to the Applicable Debt Service Account in the Debt Service Fund.

Any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Authority or a Participant with respect to a particular Project or the Mortgaged Property shall be deposited in the Applicable Project Loan Account in the Project Loan Fund and, if necessary, such fund may be reestablished for such purpose and, if such proceeds are not used to repair, restore or replace such Project, transferred to the Applicable Debt Service Account of the Debt Service Fund for the redemption of the Applicable Series of Bonds or such portion thereof which corresponds to the Allocable Portion of the principal of and interest on the Loan made to fund such Project.

Each Project shall be deemed to be complete (a) upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Applicable Participant, which certificate shall be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the Applicable Participant and the Trustee of a certificate of the Authority, which certificate may be delivered at any time after completion of such related Project. Each such certificate shall state that such Project has been completed substantially in accordance with the plans and specifications, if any, applicable to such Project and that such Project is ready for occupancy, and, in the case of a certificate of an Authorized Officer of such Applicable Participant, shall specify the date of completion.

Upon receipt by the Trustee of the certificate relating to the completion of a Project, the moneys, if any, then remaining in the Applicable Project Loan Account, after making provision in accordance with the direction of the Authority for the payment of the Allocable Portion of the Costs of Issuance of the Applicable Series of Bonds and Costs of a Project then unpaid with respect to the Applicable Loan, shall be paid by the Trustee as follows and in the following order of priority:

> FIRST: Upon the direction of the Authority, to the Arbitrage Rebate Fund, the amount set forth in such direction which shall be an amount equal to such Participant's Allocable Portion of Arbitrage Rebate due to the United States Federal Government with respect to such Loan and the Applicable Series of Bonds;
>
> SECOND: To the Debt Service Reserve Fund, if any, established in connection with the Applicable Series of Bonds, such amount as shall be necessary to make the amount on deposit in such Fund equal to such Participant's Allocable Portion of the Debt Service Reserve Fund Requirement established therefor; and
>
> THIRD: Any balance remaining, to the Applicable Debt Service Account in the Debt Service Fund for the redemption or purchase, in accordance with this Resolution and the Applicable Series Resolution or Applicable Bond Series Certificate, of the Bonds of the Applicable Series or any portion thereof which corresponds to such Participant's Allocable Portion of the principal and interest on such Bonds.

(Section 5.04)

Deposit of Revenues and Allocation Thereof

The Revenues and any other moneys which, by the provisions of each of the Loan Agreements are required to be deposited in separate Debt Service Accounts established in the Debt Service Fund with respect to each Loan made to a Participant, shall be deposited to the credit of the Applicable Debt Service Account of the Debt Service Fund.

To the extent not required to pay an Applicable Participant's Allocable Portion with respect to its Loan of (a) the interest becoming due on the Outstanding Bonds of the Applicable Series on the next succeeding interest payment date of such Bonds; (b)(i) in the case of amounts deposited in the respective Debt Service Account during the period from the beginning of each Bond Year until December 31 thereof, the amount necessary to pay one-half (1/2) of the principal and Sinking Fund Installments becoming due on the Outstanding Bonds of the Applicable Series on the next succeeding July 1; and (ii) in the case of amounts deposited in the respective Debt Service Accounts after December 31 in a Bond Year and until the end of such Bond Year, the amount necessary to pay the principal and Sinking Fund Installments becoming due on the Outstanding Bonds of the Applicable Series on such July 1; and (c) moneys which are required or have been set aside for the redemption of Bonds of the Applicable Series, then moneys (other than Contribution Amounts) in each of the respective Debt Service Accounts of the Debt Service Fund shall, with respect to each Applicable Participant and Applicable Loan, be paid by the Trustee, on or before the Business Day preceding each interest payment date for the Applicable Series of Bonds, as follows and in the following order of priority:

> FIRST: To reimburse, *pro rata*, each Applicable Facility Provider which has issued a Reserve Fund Facility for moneys advanced thereunder relating to such Participant's Allocable Portion of the Debt Service Reserve Fund, if any, established with respect to such Applicable Series of Bonds, including interest thereon, in proportion to the respective amounts advanced by each such Facility Provider;
>
> SECOND: To the Debt Service Reserve Fund, if any, (i) the amount, if any, necessary to make such Participant's Allocable Portion with respect to the Applicable Loan of the amount on deposit therein

equal to the Debt Service Reserve Fund Requirement established with respect to the Applicable Series of Bonds, and (ii) a portion of earnings accruing on amounts held in the Debt Service Fund as the Authority shall determine to be necessary together with other amounts and investments held in the Debt Service Reserve Fund to amortize the portion of the Applicable Series of Bonds, the proceeds of which have been credited to the Debt Service Reserve Fund; and

THIRD: To the Authority, unless otherwise paid, such amounts as are payable to the Authority relating to such Participant's Allocable Portion with respect to the Applicable Loan of: (i) expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Applicable Paying Agent, all as required by the Resolution, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the particular Project relating to such Loan, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Applicable Loan Agreement or Mortgage in accordance with the terms thereof, and (iii) the Annual Administrative Fee of the Authority; but only upon receipt by the Trustee of a certificate of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph THIRD.

After making the above required payments with respect to each Applicable Participant and Applicable Loan, any balance remaining in each of the respective Debt Service Accounts (except for Contribution Amounts which shall remain in such accounts) on the immediately succeeding July 1 shall be paid by the Trustee upon and in accordance with the direction of the Authority to the Applicable Participants in the respective amounts set forth in such direction, free and clear of any pledge, lien, encumbrance or security interest created by the Resolution or by the Applicable Loan Agreements. The Trustee shall notify the Authority and such Participants promptly after making the payments required above of any balance remaining in the Debt Service Fund on the immediately succeeding July 1.

Notwithstanding the above provisions under this caption "*Deposit of Revenues and Allocation Thereof*" or of the provisions under the caption "*Debt Service Fund*" below in this Appendix F, the Authority may, at any time subsequent to July 1 of any Bond Year but in no event less than forty-five (45) days prior to the succeeding July 1 on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds of an Applicable Series to be redeemed from such Sinking Fund Installment. Any such Term Bond so purchased and any Term Bonds purchased by any Applicable Participant and delivered to the Trustee in accordance with any Loan Agreement shall be cancelled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of such Term Bond so cancelled shall be credited against the principal payment due on the Applicable Loan with respect to such Sinking Fund Installment on such first day of July; provided that such Term Bond is cancelled by the Trustee prior to the date on which notice of redemption is given.

(Section 5.05)

Debt Service Fund

(a) The Trustee shall on or before the Business Day preceding each interest payment date for Bonds of an Applicable Series pay, from each of the respective Debt Service Accounts of the Debt Service Fund, to itself and any other Paying Agent for the benefit of the Bondholders:

(i) the interest due on all Outstanding Bonds of an Applicable Series on such interest payment date;

(ii) the principal amount due on all Outstanding Bonds of an Applicable Series on such interest payment date;

(iii) the Sinking Fund Installments, if any, due on all Outstanding Bonds of an Applicable Series on such interest payment date; and

(iv) moneys required for the redemption of Bonds of an Applicable Series in accordance with the Resolution.

The amounts paid out pursuant to the provisions of the Resolution summarized herein shall be irrevocably pledged to and applied to such payments. Contribution Amounts with respect to an Applicable Participant and Applicable Loan shall be applied only to the payment of such Participant's Allocable Portion of the principal and Sinking Fund Installments due on Outstanding Bonds of an Applicable Series pursuant to subdivision (ii), (iii) and (iv) above.

(Section 5.06)

Application of Moneys in the Debt Service Fund for Redemption of Bonds

Moneys delivered to the Trustee, which by the provisions of the Applicable Loan Agreement, the Applicable Series Resolution or the Resolution are to be applied to the redemption of a Participant's Allocable Portion of a Series of Bonds, shall upon receipt by the Trustee be deposited to the credit of the Applicable Debt Service Account in the Debt Service Fund for such purpose.

In accordance with the Resolution, in the event that on any interest payment date the amount in any Debt Service Account of the Debt Service Fund, exclusive of amounts therein deposited for the redemption of the Applicable Series of Bonds, shall be less than the amounts respectively required for payment of an Applicable Participant's Allocable Portion of interest on such Outstanding Bonds, for the payment of an Applicable Participant's Allocable Portion of principal of such Outstanding Bonds or for the payment of Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date, the Trustee shall apply moneys in the Applicable Debt Service Account of the Debt Service Fund deposited therein for the redemption of such Bonds (other than moneys required to pay the Redemption Price of any such Outstanding Bonds theretofore called for redemption or to pay the purchase price of such Outstanding Bonds theretofore contracted to be purchased, including in both cases accrued interest on such Bonds to the date of redemption or purchase) *first*, to the payment of interest on such Bonds, and, *second*, to the payment of the principal or Sinking Fund Installments of such Bonds, respectively.

Subject to the provisions of the preceding paragraph, moneys in the Debt Service Fund to be used for redemption of Bonds of an Applicable Series shall be applied by the Trustee to the purchase of such Outstanding Bonds at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued interest to such date, at such times, at such purchase prices and in such manner as the Authority shall direct.

Notwithstanding the provisions of the preceding paragraph, if the amount in a Debt Service Account (other than moneys on deposit therein required to pay the Applicable Participant's Allocable Portion of the Redemption Price of any Outstanding Bonds of the Applicable Series theretofore called for redemption or to pay such Applicable Participant's Allocable Portion of the purchase price of such Outstanding Bonds theretofore contracted to be purchased, including in both cases accrued interest on such Bonds to the date of redemption or purchase) shall at any time be sufficient to make provision for the payment of the Allocable Portion of the Outstanding Bonds of an Applicable Series relating to such Applicable Participant's Loan at the maturity or redemption date thereof, the Authority may request the Trustee to take such action as is required by the Resolution to deem certain of such Bonds or portions thereof to have been paid within the meaning of the Resolution. The Trustee, upon receipt of such request, the irrevocable instructions required by the Resolution and irrevocable instructions of the Authority to purchase Defeasance Obligations sufficient to make any deposit required thereby, shall comply with such request.

(Section 5.07)

Debt Service Reserve Fund

(a) The Debt Service Reserve Fund shall be maintained at an amount equal to the Debt Service Reserve Fund Requirement established therefor in the Bond Series Certificate. The Trustee shall deposit to the credit of each account established in the Debt Service Reserve Fund such proceeds of the sale of the Bonds or Permitted Investments in an amount sufficient to satisfy each Applicable Participant's Allocable Portion of the Debt Service Reserve Fund Requirement as set forth in the Applicable Bond Series Certificate. An Applicable Participant's Allocable Portion of a Debt Service Reserve Fund, together with any interest thereon, shall be replenished in accordance with the Applicable Loan Agreement following application thereof pursuant to paragraph (b) below.

In lieu of or in substitution for moneys or Permitted Investments otherwise required to be deposited in the Debt Service Reserve Fund, the Authority may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Bonds for all or any part of the Debt Service Reserve Fund Requirement or any Applicable Participant's Allocable Portion thereof; provided that if such Reserve Fund Facility consists of a surety bond or insurance policy, any such Reserve Fund Facility shall be issued by an insurance company or association duly authorized to do business in the State (i) the claims paying ability of which is rated the highest rating accorded by a nationally recognized insurance rating agency or (ii) obligations supported by a Reserve Fund Facility issued by such company or association are rated at the time such Reserve Fund Facility is delivered, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, in the highest rating category by Moody's and S&P or, if Outstanding Bonds of a Series are not rated by Moody's and S&P by whichever of said rating services that then rates Outstanding Bonds; and provided, further, that if the Reserve Fund Facility consists of a Letter of Credit, such Letter of Credit shall be issued by a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provision of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provision of law or a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, the unsecured or uncollateralized long term debt obligations of which, or long term obligations secured or supported by a Letter of Credit issued by such person, are rated at the time such Letter of Credit is delivered, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, in at least the second highest rating category by Moody's and S&P or, if the Outstanding Bonds are not rated by Moody's and S&P by whichever of said rating services that then rates the Outstanding Bonds.

In addition to the conditions and requirements set forth above, no Reserve Fund Facility shall be deposited in full or partial satisfaction of the Debt Service Reserve Fund Requirement unless the Trustee shall have received prior to such deposit (i) an opinion of counsel acceptable to the Authority to the effect that such Reserve Fund Facility has been duly authorized, executed and delivered by the Facility Provider thereof and is valid, binding and enforceable in accordance with its terms, and (ii) in the event such Facility Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Authority.

Each Reserve Fund Facility shall be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Debt Service Reserve Fund and such withdrawal cannot be made without (i) if the Reserve Fund Facility consists of a Letter of Credit, drawing upon the Letter of Credit, or (ii) if the Reserve Fund Facility consists of a surety bond or insurance policy, obtaining payment under such surety bond or insurance policy.

For the purposes of this section and, in computing the amount on deposit in the Debt Service Reserve Fund, a Reserve Fund Facility shall be valued at the amount available to be drawn or payable thereunder on the date of computation.

Except as otherwise provided in the Resolutions, moneys and investments held for the credit of the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement shall be transferred to the Applicable Debt Service Account of the Debt Service Fund and applied in accordance with the Resolution.

If, upon a valuation, the value of all moneys, Permitted Investments and Reserve Fund Facilities held for the credit of an Applicable Participant's Allocable Portion of a Debt Service Reserve Fund is less than such Applicable Participant's Allocable Portion of the Debt Service Reserve Fund Requirement, the Trustee shall immediately notify the Authority, each Applicable Facility Provider and the Applicable Participant of such deficiency. Such Applicable Participant shall, as soon as practicable, but in no event later than five (5) days after receipt of such notice, deliver to the Trustee money or Permitted Investments the value of which is sufficient to increase the Applicable Participant's Allocable Portion of the Debt Service Reserve Fund to the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement.

(b) In the event that on the fourth (4th) Business Day preceding any interest payment date the amount on deposit in an Applicable Debt Service Account of a Debt Service Fund shall be insufficient to pay the Applicable Participant's Allocable Portion of, respectively, interest on the Outstanding Bonds, principal of such Outstanding Bonds, Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date or the purchase price or Redemption Price of such Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, the Trustee shall transfer funds from the Applicable Debt Service Reserve Account of the Debt Service Reserve Fund to the Applicable Debt Service Account of the Debt Service Fund in such amounts as shall be necessary to provide for such payments. The Trustee shall notify the Authority and each Applicable Facility Provider, if any, of any withdrawal from the Debt Service Reserve Fund.

A Participant's Allocable Portion of the Debt Service Reserve Fund shall also be applied to the extraordinary mandatory redemption of the Allocable Portion of the Bonds upon the acceleration of such Participant's Loan pursuant to the Applicable Loan Agreement.

Upon the exercise by a Participant of its option to prepay its Loan under the Applicable Loan Agreement and upon final maturity of a Participant's Allocable Portion of the Bonds, the Trustee shall transfer such Applicable Participant's Allocable Portion of the Debt Service Reserve Fund to the Applicable Debt Service Account of the Debt Service Fund for application to payment of the portion of principal of and interest on the Applicable Subseries of Bonds which (i) which correspond to the principal of and interest on the Loan so prepaid or (ii) so maturing.

(c) The Trustee, as promptly as practicable (i) after the end of each calendar month, (ii) upon the request of the Authority, (iii) upon the request of a Participant, but not more frequently than once a calendar month, and (iv) at such other times as may be necessary in connection with a withdrawal and deposit made pursuant to the Series Resolution or the Resolution, shall compute the value of the assets in the Debt Service Reserve Fund, in the case of the requirement under (i) above, on the last day of each such month, in the case of a request pursuant to (ii) or (iii) above, at the date of such request, or, in the case of a withdrawal and deposit, at the date of such withdrawal and deposit, and notify the Authority and such Participant as to the results of such computation and the amount by which the value of the assets in the Debt Service Reserve Fund exceeds or is less than the Debt Service Reserve Fund Requirement.

(Sections 5.03, 5.04 and 5.05 of the Series 2013A Resolution and the Series 2013B Resolution)

Arbitrage Rebate Fund

The Trustee shall deposit to the Applicable Account in the Arbitrage Rebate Fund any moneys delivered to it by each of the Applicable Participants for deposit therein and, notwithstanding any other provisions of the Resolution, shall transfer to the Arbitrage Rebate Fund, in accordance with the directions of the Authority, moneys on deposit in any other funds held by such Trustee under the Resolution at such times and in such amounts as shall be set forth in such directions.

Moneys on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which the Authority determines to be in excess of the amount required to be so rebated shall be deposited to the Debt Service Fund in accordance with the directions of the Authority.

If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount of Excess Earnings with respect to an Applicable Series of Bonds and direct the Trustee to (i) transfer from the Applicable Account of any other of the funds held by the Trustee under and deposit to the Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to such Series of

Bonds and (ii) pay out of the Arbitrage Rebate Fund to the Department of the Treasury of the United States or America the amount, if any, required by the Code to be rebated thereto.

(Section 5.08)

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions of the Resolution, if, upon the computation of assets in the Applicable Debt Service Account of the Debt Service Fund, the Applicable Project Loan Account of the Project Loan Fund and of an Applicable Participant's Allocable Portion of the Debt Service Reserve Fund, if applicable, the amounts held therein are sufficient to pay the principal or Redemption Price of a Participant's Allocable Portion of all Outstanding Bonds of the Applicable Series and the interest accrued and to accrue on such Bonds to the next date of redemption when all such Bonds shall be redeemable, the Trustee shall so notify the Authority and the Applicable Participant. Upon receipt of such notice, the Authority may request the Trustee to redeem Outstanding Bonds of the Applicable Series in an amount which corresponds to such Participant's Allocable Portion thereof. The Trustee shall, upon receipt of such request in writing by the Authority, proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds by the Resolution and by the Applicable Series Resolution as provided in the Resolution.

(Section 5.09)

Security for Deposits

All moneys held under the Resolution by the Trustee shall be continuously and fully secured, for the benefit of the Authority and the Holders of a Series of Bonds, by direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; *provided, however*, (a) that if the securing of such moneys is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it shall not be necessary for the Trustee or any Paying Agent to give security for the deposit of any moneys with it or them pursuant to the Resolution and held in trust for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on a Series of Bonds, or for the Trustee to give security for any moneys which shall be represented by obligations purchased or other investments made under the provisions hereof as an investment of such moneys.

(Section 6.01)

Investment of Funds Held by the Trustee

(a) Money held under the Resolution by the Trustee, and, if there is an Event of Default, under an Applicable Loan Agreement, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations or Exempt Obligations; *provided, however*, that each such investment shall permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money will be required for the purposes of the Resolution.

(b) Except as may be otherwise provided in a Series Resolution, in lieu of the investment of moneys in obligations authorized in paragraph (a) above, the Trustee shall, to the extent permitted by law, upon direction of the Authority given or confirmed in writing, invest moneys in the Project Loan Fund and the Debt Service Reserve Fund, if applicable, and any account held therein in any Permitted Investment; *provided, however,* that each such investment shall permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money will be required for the purposes hereof, *provided, further*, that (a) any Permitted Collateral required to secure any Permitted Investment shall have a market value, determined by the Trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (b) the Permitted Collateral shall be deposited with and held by the

Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (c) the Permitted Collateral shall be free and clear of claims of any other person.

(c) Permitted Investments purchased as an investment of money in any fund or account held by the Trustee under the provisions of the Resolution shall be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof shall be retained in, credited or charged, as the case may be, to such fund or account.

(d) Except as may otherwise be provided in a Series Resolution, in computing the amount in any fund or account held by the Trustee under the provisions of the Resolution, each Permitted Investment shall be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in the Debt Service Reserve Fund, if any, shall be valued at par or the cost thereof, plus accrued interest, whichever is lower.

(e) Notwithstanding anything in the Resolution to the contrary, the Authority, in its discretion, may direct the Trustee to, and the Trustee shall, sell, present for redemption or exchange any investment held by the Trustee pursuant the Resolution and the proceeds thereof may be reinvested as provided in the Resolution summarized herein. Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant to the Resolution whenever it shall be necessary in order to provide money to meet any payment or transfer from the fund or account in which such investment is held. The Trustee shall advise the Authority and the Applicable Participants in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of paragraphs (a), (b) and (c) above. The details of such investments shall include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

(f) Except with respect to Bonds the interest on which was intended to be included in gross income under Section 103 of the Code, no part of the proceeds of a Series of Bonds or any other funds or accounts of the Authority shall be used directly or indirectly to acquire any securities or investments the acquisition of which would cause any Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code.

(Section 6.02)

Creation of Liens

Except as may otherwise be provided in the Resolution or in an Applicable Series Resolution, the Authority shall not create or cause to be created any lien or charge prior or equal to that of the Bonds of a Series on the proceeds from the sale of such Series of Bonds, the Revenues pledged for such Series of Bonds, the rights of the Authority to receive payments to be made under the Applicable Loan Agreement that are to be deposited with the Trustee, the Applicable Pledged Revenues (subject to Prior Pledges) or the funds and accounts established by the Resolution and pursuant to the Applicable Series Resolution which are pledged by the Resolution; *provided, however*, that nothing contained in the Resolution shall prevent the Authority from issuing bonds, notes or other obligations under other and separate resolutions so long as the charge or lien created by such resolution is not prior or equal to the charge or lien created by the Resolution.

(Section 7.06)

Enforcement of Duties and Obligations of the Participants

The Authority shall take all legally available action to cause each of the Participants to perform fully all duties and acts and comply fully with the covenants of such Participant required by the respective Loan Agreements in the manner and at the times provided in such Loan Agreements; *provided, however*, that the Authority may delay, defer or waive enforcement of one or more provisions of said Loan Agreements (other than provisions requiring the payment of moneys or the delivery of securities to the Trustee for deposit to any fund or account established under the Resolutions) if the Authority determines such delay, deferment or waiver will not materially adversely affect the interests of the Holders of the Bonds of a Series.

(Section 7.07)

Amendment of Loan Agreements

A Loan Agreement may not be amended, changed, modified, altered or terminated nor may any provision thereof be waived if any such amendment, change, modification, alteration, termination or waiver would adversely affect the interest of the Holders of Outstanding Bonds of the Applicable Series in any material respect without the prior written consent of the Holders of at least a majority in aggregate principal amount of the Bonds of such Applicable Series then Outstanding; *provided, however,* that if such modification or amendment will, by its terms, not take effect so long as any Bonds of the Applicable Series remain Outstanding the consent of the Holders of such Bonds shall not be required; and *provided, further*, that no such amendment, change, modification, alteration, or termination will reduce the percentage of the aggregate principal amount of Outstanding Bonds of a Series the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made by the Applicable Participant under such Loan Agreement that is to be deposited with the Trustee or extend the time of payment thereof. Any consent given pursuant to this paragraph by the Holders of Bonds shall, except as otherwise provided in the paragraphs summarized herein, be given in the same manner required by for amendments to the Resolution.

Except as otherwise provided in under this heading "*Amendment of Loan Agreements,*" a Loan Agreement may be amended, changed, modified or altered without the consent of the Holders of Outstanding Bonds of the Applicable Series or the Trustee. Specifically, and without limiting the generality of the foregoing, a Loan Agreement may be amended, changed, modified or altered without the consent of the Trustee and the Holders of Outstanding Bonds of the Applicable Series (i) to provide changes in connection with the acquisition, construction, reconstruction, rehabilitation, renovation and improvement or otherwise, the providing, furnishing and equipping of any facilities constituting a part of a Project or which may be added to such Project or the issuance of Bonds, or (ii) with the consent of the Trustee, to cure any ambiguity, or to correct or supplement any provisions contained in any Loan Agreement, which may be defective or inconsistent with any other provisions contained in the Resolution or in such Loan Agreement. Upon execution by the Authority of any amendment, a copy thereof certified by the Authority shall be filed with the Trustee.

For the purposes of this section entitled "*Amendment of Loan Agreements,*" Outstanding Bonds of the Applicable Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of the Applicable Loan Agreement if the same adversely affects or diminishes the rights of the Holders of such Bonds. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of the Applicable Series would be adversely affected by any amendment, change, modification or alteration, and any such determination shall be binding and conclusive on the Authority and all Holders of such Bonds. For all purposes of this section entitled "*Amendment of Loan Agreements,*" the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds of the Applicable Series then Outstanding.

(Section 7.11)

Modification and Amendment without Bondholder Consent

Notwithstanding any other provisions of the Resolution, the Authority may adopt at any time or from time to time a Supplemental Resolution for any one or more of the following purposes, and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority:

(a) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of Series, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution or in the Applicable Series Resolution;

(b) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(c) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(d) To confirm, as further assurance, any pledge under, and the subjection to any lien, claim or pledge created or to be created by the provisions of, the Resolution, or any Series Resolution, the Revenues, or any pledge of any other moneys, securities or funds;

(e) To modify any of the provisions of the Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of an Applicable Series Outstanding as of the date of adoption of such Supplemental Resolution and affected thereby shall cease to be Outstanding, and all Bonds of such Series issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent resolutions; or

(f) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect, or to modify any of the provisions of the Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respect, provided that such modification shall not adversely affect the interests of the Holders of Bonds of a Series in any material respect.

(Section 9.02)

Supplemental Resolutions Effective With Consent of Bondholders

The provisions of the Resolution and of a Series Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of the Holders of the affected Series of Bonds in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority.

(Section 9.03)

Powers of Amendment

Any modification or amendment of the Resolution or of any Series Resolution that modifies or amends the rights and obligations of the Authority and the Holders of the Bonds of a Series under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the Resolution and summarized in the following paragraph, (i) of the Holders of at least a majority in principal amount of the Bonds Outstanding of such Series affected thereby at the time such consent is given, or (ii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least a majority in principal amount of the Bonds of the Series, maturity and interest rate entitled to such Sinking Fund Installment, Outstanding at the time such consent is given; *provided, however*, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of the Applicable Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond of a Series or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds of a Series the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of the Resolution summarized in this paragraph, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, the Bonds of a particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and all Holders of the Bonds of such Series. The Trustee may receive an opinion of counsel, including an opinion of Bond Counsel, as conclusive evidence as to whether the Bonds of a particular Series or maturity would be so affected by any such modification or amendment of the Resolution.

(Section 10.01)

Consent of Bondholders

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the Resolution summarized in the preceding paragraph to take effect when and as provided in the Resolution. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to the Holders of the Series of Bonds affected thereby for their consent thereto in form satisfactory to the Trustee, shall promptly after adoption be mailed or caused to be mailed by the Trustee at the direction of the Authority to such Bondholders (but failure to mail such copy to any particular Bondholder shall not affect the validity of such Supplemental Resolution when consented to as provided in the Resolution). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consent of the Holders of the percentages of Outstanding Bonds of the Series specified in the provisions of the Resolution and (b) an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (ii) a notice shall have been mailed as provided in the Resolution. Each such consent shall be effective only if accompanied by proof of the holding or owning at the date of such consent of the Bonds of a Series with respect to which such consent is given, which proof shall be such as is permitted by the Resolution. A certificate or certificates by the Trustee filed with the Authority that it has examined such proof and that such proof is sufficient in accordance with the Resolution shall be conclusive proof that the consents have been given by the Holders of the Bonds of a Series described in the certificate or certificates of the Trustee. Any consent given by and a Holder of Bonds of a Series shall be binding upon such Holder giving such consent and, anything in the Resolution hereof to the contrary notwithstanding, upon any such subsequent Holder of such Bond and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by such Bondholder giving such consent or such subsequent Holder thereof by filing such revocation with the Trustee, prior to the time when the written statement of the Trustee provided for in the Resolution is filed. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Authority to the effect that no revocation thereof is on file with the Trustee. At any time after such Holders of the required percentages of Bonds shall have filed their consents to such Supplemental Resolution, the Trustee shall make and file with the Authority a written statement that such Holders have filed such consents. Such written statement shall be conclusive evidence that such consents have been so filed. At any time thereafter notice, stating in substance that such Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds of the Applicable Series and will be effective as provided in the Resolution, shall be given to such Bondholders by the Trustee at the direction of the Authority by mailing or causing the mailing of such notice to the Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding) and, in the sole discretion of the Authority, by publishing the same at least once not more than ninety (90) days after the Holders of the required percentages of such Bonds shall have filed their consents to such Supplemental Resolution and the written statement of the Trustee provided for in the Resolution is filed (but failure to publish such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in the Resolution). If such notice is published, the

Trustee shall file with the Authority proof of the publication thereof, and, if the same shall have been mailed to the Holders of such Bonds, of the mailing thereof. A transcript, consisting of the papers required or permitted by the Resolution to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Authority, the Trustee, the Applicable Paying Agent, the Holders of such Series of Bonds upon the filing with the Trustee of proof of the mailing of such notice or at the expiration of thirty (30) days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, if such notice is published, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; *provided, however*, that the Authority, the Trustee and the Applicable Paying Agent during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

For the purposes of these provisions of the Resolution, the purchasers of the Bonds of a Series, whether purchasing as underwriters or remarketing agent for resale or otherwise, upon such purchase, may consent to a modification or amendment permitted by the Resolution in the manner provided in the Resolution, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Bonds; *provided, however*, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering of the Bonds of such Series.

(Section 10.02)

Events of Default

An event of default shall exist under the Resolution and under a Series Resolution (referred to in the Resolution as an "Event of Default") if:

(a) with respect to a Series of Bonds, payment of (i) an installment of interest on any Bond shall not be made by the Authority when the same shall become due and payable; or (ii) the principal, Sinking Fund Installments or Redemption Price of any Bond shall not be made by the Authority when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; *provided, however,* if the failure to make any such payment is caused by a failure of an Applicable Participant to timely pay its Allocable Portion of the principal, Sinking Fund Installments or Redemption Price of or interest on the Bonds pursuant to the terms of the Allocable Loan Agreement, then it shall be an event of default under the Resolution only with respect to the Defaulted Allocable Portion of such Series of Bonds Outstanding, as identified by the Trustee using the method for selection of Bonds upon an extraordinary mandatory redemption thereof set forth in the Resolution; or

(b) with respect to a Series of Bonds, the Authority shall default in the due and punctual performance of its tax covenants contained in the Resolutions with the result that the interest on the a result thereof, the interest on the Bonds of such Series shall no longer be excludable from gross income under Section 103 of the Code; or

(c) with respect to a Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions for the benefit of the Holders of such Bonds contained in the Resolution or in the Bonds of such Series or in the Applicable Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of such Series, or if such default is not capable of being cured within thirty (30) days, if the Authority fails to commence within said thirty (30) days and diligently prosecute the cure thereof; or

(d) with respect to a Series of Bonds, an "Event or Default" (as defined in each Loan Agreement), shall have occurred and is continuing under an Applicable Loan Agreement and all sums payable by the Applicable Participant under the Applicable Loan shall have been declared to be immediately due and payable, which declaration shall not have been annulled; *provided, however*, that such "Event of Default" under an Applicable Loan Agreement shall constitute an event of default under the Resolution only with respect to the Defaulted Allocable Portion of such Series of Bonds Outstanding, as identified by the Trustee using the method for selection of Bonds upon an extraordinary mandatory redemption thereof set forth in the Resolution.

An event of default under the Resolution in respect of a Series of Bonds shall not in and of itself be or constitute an event of default in respect of any other Series of Bonds.

An event of default shall not be deemed to have occurred pursuant to paragraph (a) under the caption "*Events of Default*" above solely as a result of (i) payments made to Bondholders from draws under a Reserve Fund Facility, which draws remain unreimbursed, or (ii) payments made to Bondholders of less than all of the principal of and interest on the Defaulted Allocable Portion of the Outstanding Bonds of an Applicable Series following (A) an acceleration of such Defaulted Allocable Portion of the Applicable Series of Bonds pursuant to the Resolution or (B) the extraordinary mandatory redemption of such Defaulted Allocable Portion of the Applicable Series of Bonds pursuant to the Resolution, and, in each case, the application by the Trustee of all funds available for the payment thereof pursuant to the provisions summarized below under the caption *"Limitation on Revenues and Security Available for Payments After Certain Defaults; Priority of Payments After Default; Cancellation and Replacement of Certain Bonds."*

(Section 11.02)

Acceleration of Maturity

Upon the happening and continuance of any event of default specified in the Resolution, other than an event of default specified in paragraph (a) under the caption "Events of Default" above resulting from an Applicable Participant's failure to timely pay its Allocable Portion of the Bonds of the Applicable Series pursuant to the Applicable Loan Agreement, or an event of default specified in paragraphs (b) or (d) under the caption "Events of Default" above, then and in every such case the Trustee shall, upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series, by a notice in writing to the Authority, declare the principal of and interest on the Outstanding Bonds of such Applicable Series to be due and payable immediately. At the expiration of thirty (30) days after notice of such declaration has been given, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in the Applicable Series Resolution or in the Bonds of such Applicable Series to the contrary notwithstanding. At any time after the principal of the Bonds of such Applicable Series shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee may, with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series, by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Outstanding Bonds of such Applicable Series (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and Applicable Paying Agent incurred in connection with such Applicable Series of Bonds; (iii) all other amounts then payable by the Authority under the Resolution in connection with such Applicable Series of Bonds and under the Applicable Series Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of such covenant, condition or agreement contained in the Resolution or in the Applicable Series Resolution or in such Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration made under the provisions summarized in this paragraph) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Upon the happening and continuance of an event of default specified in paragraph (a) under the caption "Events of Default" above resulting from a failure of an Applicable Participant to timely pay its Allocable Portion of the Bonds of the Applicable Series pursuant to the Applicable Loan Agreement, or upon the happening and continuance of an event of default specified in paragraph (d) under the caption "Events of Default" above, then and in every such case the Trustee shall, upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Defaulted Allocable Portion of the Outstanding Bonds of the Applicable Series, by a notice in writing to the Authority, declare the principal of and interest on the Defaulted Allocable Portion of the Outstanding Bonds of such Applicable Series to be due and payable immediately. At the expiration of thirty (30) days after notice of such declaration has been given, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in the Applicable Series Resolution or in the Bonds of such Applicable Series to the contrary notwithstanding. At any time after the Defaulted Allocable Portion of the principal of the Bonds of such Applicable Series shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee may, with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of the Defaulted Allocable Portion of the Outstanding Bonds of the Applicable Series, by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Applicable Debt Service Account or Accounts of the Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Defaulted Allocable Portion of the Outstanding Bonds of such Applicable Series (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and Applicable Paying Agent incurred in connection with such Defaulted Allocable Portion of such Applicable Series of Bonds; (iii) all other amounts then payable by the Authority under the Resolution in connection with such Defaulted Allocable Portion of the Applicable Series of Bonds and under the Applicable Series Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of such covenant, condition or agreement contained in the Resolution or in the Applicable Series Resolution or in such Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration made under the provisions summarized in this paragraph) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

(Section 11.03)

Enforcement of Remedies

Upon the happening and continuance of any event of default specified in the Resolution, then and in every such case, the Trustee may proceed, and (i) upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series, or principal amount of the Defaulted Allocable Portion of the Outstanding Bonds of an Applicable Series, as applicable, or (ii) in the case of an event of default specified in paragraph (b) under the caption "*Events of Defaults*" above, upon the written request of the Holders of not less than a majority in principal amount of the Outstanding Bonds of an Applicable Series affected thereby, the Trustee shall proceed (subject to the provisions of the Resolution), to protect and enforce its rights and the rights of the Holders of Bonds of such Applicable Series under the Resolution or under the Applicable Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution or under such Applicable Series Resolution or in aid or execution of any power in the Resolution or in the Applicable Series Resolution granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights, including the foreclosure of any Applicable Mortgage assigned to the Trustee pursuant to the provisions of the Resolution summarized herein.

In the enforcement of any remedy under the Resolution and under an Applicable Series Resolution, the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Resolution or of an Applicable Series Resolution or of an Applicable Series of Bonds, with interest or overdue payment of the principal of and interest on such Bonds at the rate or rates of interest specified in such

Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under any Applicable Series Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution, in the Applicable Series Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in the manner provided by law, the moneys adjudged or decreed to be payable.

(Section 11.04)

Limitation on Revenues and Security Available for Payments After Certain Defaults; Priority of Payments After Default; Cancellation and Replacement of Certain Bonds

(a) Notwithstanding any provision of the Resolution to the contrary, upon the happening and continuance of an event of default specified in paragraph (a) under the caption "*Events of Defaults*" above resulting from a failure of an Applicable Participant to timely pay its Allocable Portion of the Applicable Series of Bonds pursuant to the Applicable Loan Agreement, or upon the happening and continuance of an event of default specified in paragraph (d) under the caption "*Events of Defaults*" above, then and in every such case, payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Defaulted Allocable Portion of the Applicable Series of Bonds (either by their terms, by acceleration of maturity or by the extraordinary mandatory redemption thereof) shall be limited solely to (i) the Revenues received or receivable by the Authority pursuant the defaulting Participant's Applicable Loan Agreement, including the such Participant's Pledged Revenues and other amounts derived from the exercise of any remedies under the Applicable Loan Agreement and the realization of any security or collateral granted by such defaulting Participant as security for its Applicable Loan, and (ii) moneys and securities on deposit in the Applicable Accounts of the funds authorized by the Resolution and established pursuant to the Applicable Series Resolution for the payment of such defaulting Participant's Allocable Portion of the Applicable Series of Bonds (other than any Account in the Arbitrage Rebate Fund), and the Holders of such Defaulted Allocable Portion of the Applicable Series of Bonds shall have no right to any payments from any other Revenues or any other funds held by the Trustee under the Resolution for the payment of such Series of Bonds.

(b) Subject to paragraph (a) above, if at any time the moneys held by the Trustee in the funds and accounts under the Resolution and under an Applicable Series Resolution shall not be sufficient to pay the principal of and interest on the Bonds of a Series as the same become due and payable (either by their terms or by acceleration of maturity), such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in the Resolution or otherwise, shall be applied (after payment of all amounts owing to the Trustee under the Resolution) as follows:

(i) Unless the principal of all the Bonds of a Series has become or been declared due and payable, all such moneys shall be applied:

FIRST: To the payment to the persons entitled thereto of all installments of interest then due in the order of such maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in such Bonds; or

SECOND: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Bonds of such Series which shall have become due whether at maturity or by call for redemption in the order of their due dates and, if the amount available shall not be sufficient to pay in full all of such Bonds due on any date, then to the payment thereof ratably, according to the amount of principal, Sinking Fund Installments or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Bonds of a Series or the principal of all of the Defaulted Allocable Portion of the Bonds of a Series shall have become or been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds or Defaulted Allocable Portion of such Bonds, as the case may be, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond of such Series over any other such Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in said Bonds.

These provisions summarized above are in all respects subject to the provisions of the Resolution.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of the Resolution summarized herein, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for application in accordance with the provisions of this section shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Authority, to any Holder of Bonds of a Series or to any other person for any delay in applying any such moneys so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be on an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement.

(c) Notwithstanding any other provision in the Resolution to the contrary, if, following the exercise of all remedies available to the Trustee under the Resolution and the realization on all security and collateral pledged for the payment of a Defaulted Allocable Portion of the Outstanding Bonds of an Applicable Series, moneys derived from the sources specified in paragraph (a) above are available to pay only a portion of the principal and interest due on the Defaulted Allocable Portion of such Bonds upon the extraordinary mandatory redemption or acceleration thereof pursuant to the Resolution, then in each and every case, after application by the Trustee of all available moneys to the partial payment of the Defaulted Allocable Portion of such Bonds in accordance with the Resolution, (i) the Defaulted Allocable Portion of such Bonds shall be cancelled with the same effect as if paid in full and the event of default shall be deemed cured, (ii) all obligations of the Authority and the Trustee under the Resolution and the Applicable Series Resolution with respect to the Defaulted Allocable Portion of such Bonds shall be deemed to have been discharged and satisfied, and (iii) the Holders of the Defaulted Allocable Portion of such Bonds shall no longer be entitled to the benefits of the Resolution and the Applicable Series Resolution by virtue of their ownership of the Defaulted Allocable Portion of such Bonds. Upon payment and/or cancellation of a Defaulted Allocable Portion of the Outstanding Bonds of an Applicable Series, the Authority shall execute and the Trustee shall authenticate a new Bond or Bonds in a principal amount equal to the Outstanding principal amount of the Bonds of such Applicable Series and maturity less the principal amount of the Defaulted Allocable Portion thereof so paid and/or cancelled.

(Section 11.05)

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Holders of (i) not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series or the principal amount of the Defaulted Allocable Portion of the Outstanding Bonds of a Series, as applicable, in the case of an event of default specified in paragraphs (a), (c) or (d) under the caption *"Events of Default"* above, or (ii) a majority in principal amount of the Outstanding Bonds of a Series affected thereby, in the case of an event of default specified in paragraph (b) under the caption *"Events of Default"* above, shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under Applicable Series Resolution, provided, such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and of Applicable Series Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

(Section 11.07)

Limitation of Rights of Individual Bondholders

No Holder of any of the Bonds of a Series shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution or under any Series Resolution, or for any other remedy under the Resolution unless such Holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of (i) not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds of a Series, in the case of an event of default specified in paragraphs (a) or (c) under the caption *"Events of Default"* above, (ii) a majority in principal amount of the Outstanding Bonds of a Series, in the case of an event of default specified in paragraph (b) under the caption *"Events of Default"* above, or (iii) not less than twenty five per centum (25%) in principal amount of the Defaulted Allocable Portion of the Outstanding Bonds of a Series, in the case of an event of default specified in paragraph (d) under the caption *"Events of Default"* above, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are by the Resolution declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy under the Resolution and at equity and in law. It is understood and intended that no one or more Holders of the Bonds of a Series secured by the Resolution and by a Series Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds of such Series. Notwithstanding any other provision of the Resolution, the Holder of any Bond of a Series shall have the right which is absolute and unconditional to receive payment of the principal of (or Redemption Price, if any) and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

(Section 11.08)

Defeasance

(a) If the Authority shall pay or cause to be paid to the Holders of the Bonds of a Series or any portion thereof the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and Applicable Bond Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Series of Bonds or any portion thereof and all other rights granted by the Resolution to such Series of Bonds or any portion thereof shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Authority, and all moneys or other securities held by it pursuant to the Resolution and to the Applicable Series Resolution which are not required for the payment or redemption of Bonds of such Series or any portion thereof not theretofore surrendered for such payment or redemption shall be paid or delivered by the Trustee as follows: *first*, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; *second*, to each Applicable Facility Provider which has certified to the Trustee and the Authority that moneys advanced under a Reserve Fund Facility together with any interest thereon have not been repaid, *pro rata*, based upon the respective amounts certified by each such Applicable Facility Provider; *third*, to the Authority the amount certified by the Authority to be then due or past due pursuant to an Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, *fourth*, the balance thereof to the Applicable Participants, as directed in writing by the Authority. Such moneys or securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution, by the Applicable Series Resolution or by an Applicable Loan Agreement.

(b) Notwithstanding any provision of the Resolution to the contrary, if any Participant shall have prepaid its respective Loan pursuant to the Applicable Loan Agreement and in accordance therewith shall pay or cause to be paid its Allocable Portion of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest on the Applicable Series of Bonds or portions thereof at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and the Applicable Bond Series Certificate, then the pledge of the Revenues or other moneys and securities pledged with respect to such Loan or any portion thereof and all other rights granted under the Applicable Loan Agreement and any Mortgage or security interest relating thereto shall be discharged and satisfied; provided that the moneys used for such prepayment shall not constitute an avoidable transfer under Section 547 of the United States Bankruptcy Code, as amended, in the event of a bankruptcy by such Participant. Moneys derived from a refunding, borrowed from a third party financial institution or set aside by the Participant for such purpose in a segregated account for at least 124 days and not commingled with any other moneys of the Participant shall be deemed to be moneys that do not constitute an avoidable transfer under Section 547 of the Bankruptcy Code. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Participant and the Authority, and all moneys or other securities held by the Trustee pursuant to the Resolution and to the Applicable Series Resolution which are not required for the payment or redemption of the Participant's Allocable Portion of the Bonds of such Applicable Series to be defeased or any portion thereof not theretofore surrendered for such payment or redemption shall be paid or delivered by the Trustee as follows: *first*, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; *second*, to each Applicable Facility Provider which has certified to the Trustee and the Authority that moneys advanced under a Reserve Fund Facility which constitutes any part of such Participant's Allocable Portion of the related Debt Service Reserve Fund, if any, together with any interest thereon, have not been repaid, *pro rata*, based upon the respective amounts certified by each such Applicable Facility Provider; *third*, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement relating to the Applicable Loan to be prepaid for fees and expenses of the Authority or pursuant to any indemnity; and, *fourth*, the balance thereof to such Participant. Such securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution, by the Applicable Series Resolution or by the Applicable Loan Agreement.

(c) Bonds of a Series or any portion thereof for which moneys shall have been set aside and shall be held in trust by the Trustee for the payment or redemption thereof (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in paragraphs (a) or (b) above. All Outstanding Bonds of a Series or portions thereof or any maturity within such Series or a portion of a maturity within such Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraphs (a) or (b) above if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in the Resolution notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, any moneys or securities deposited pursuant to the provisions of this paragraph (c) shall be held by the Trustee in separate trust accounts established with respect to each Applicable Loan prepaid under the Resolution, (iii) the Trustee shall have received the consent to each deposit of each Applicable Facility Provider which has issued a Reserve Fund Facility which constitutes any part of such Participant's Allocable Portion of the related Debt Service Reserve Fund, if any, and which has given written notice to the Authority that amounts advanced thereunder or the interest thereon have not been paid to such Applicable Facility Provider, and (iv) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of such Bonds at their respective last known addresses, if any, appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized

Newspaper, a notice to the Holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this paragraph (c) and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of the maturity for which payment shall be made in accordance with the Resolution. The Trustee shall select which Bonds of such Series and which maturity thereof shall be paid in accordance with the Resolution in the manner provided therein. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to the Resolution nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; *provided, however*, that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be; *provided, further*, that money and Defeasance Securities may be withdrawn and used by the Authority for any purpose upon (i) the simultaneous substitution therefor of either money in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide money which without regard to reinvestment, together with the money, if any, held by or deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (ii) receipt by the Trustee of a letter or other written report of a firm of independent certified public accountants verifying the accuracy of the arithmetical computations which establish the adequacy of such money and Defeasance Securities for such purpose. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amount required in the Resolution to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: *first*, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; *second*, to each Applicable Facility Provider who has certified to the Trustee and the Authority that moneys advanced under a Reserve Fund Facility issued by it which constitutes any part of such Participant's Allocable Portion of the related Debt Service Reserve Fund, if any, together with any interest thereon, have not been repaid, *pro rata*, based upon the respective amounts certified by each such Facility Provider; *third,* to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, *fourth*, the balance thereof to the Applicable Participants, and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Applicable Loan Agreement.

(d) Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or Paying Agent in trust for the payment and discharge of any of the Bonds of a Series which remain unclaimed for two (2) years after the date when such moneys become due and payable, upon such Bonds either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date, or for two (2) years after the date of deposit of such moneys if deposited with the Trustee or Paying Agent after said date when such Bonds become due and payable, shall at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect thereto and the Holders of Bonds of such Series shall look only to the Authority for the payment of such Bonds; *provided, however*, that, before being required to make any such payment to the Authority, the Trustee or Paying Agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than forty (40) nor more than ninety (90) days after the date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.

(Section 12.01)

APPENDIX G

FORM OF APPROVING OPINIONS OF CO-BOND COUNSEL

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FORM OF APPROVING OPINIONS OF CO-BOND COUNSEL

To Be Rendered By Each Of
Squire Sanders (US) LLP and D. Seaton and Associates

___________, 2013

To: Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

We have served as bond counsel to our client the Dormitory Authority of the State of New York (the "Authority") and not as counsel to any other person in connection with the issuance by the Authority of its $14,940,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013A consisting of Subseries 2013A-1 (the "Subseries 2013A-1 Bonds") and Subseries 2013A-2 (Federally Taxable) (the "Subseries 2013A-2 Bonds" together with the Subseries 2013A-1 Bonds, the "Series 2013A Bonds") and its $4,035,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013B consisting of Subseries 2013B-1 (the "Subseries 2013B-1 Bonds") and Subseries 2013B-2 (Federally Taxable) (the "Subseries 2013B-2 Bonds" together with the Subseries 2013B-1 Bonds, the "Series 2013B Bonds"), dated the date of this letter. (The Series 2013A Bonds and the Series 2013B Bonds are referred to herein collectively as the "Series 2013 Bonds." The Series 2013A-1 Bonds and the Series 2013B-1 Bonds are referred to herein collectively as the "Tax-Exempt Bonds." The Series 2013A-2 Bonds and the Series 2013B-2 Bonds are referred to herein collectively as the "Taxable Bonds.")

The Series 2013 Bonds are issued pursuant to the Dormitory Authority Act, being Title 4 of Article 8 of the Public Authorities Law of the State of New York, as amended to the date hereof (the "Act"), the InterAgency Council Pooled Loan Program Revenue Bond Resolution, adopted on March 31, 2010 (the "General Resolution") and the Series Resolution Authorizing Up To $20,500,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013A (the "Series 2013A Resolution") and the Series Resolution Authorizing Up To $20,500,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2013B, each adopted on March 13, 2013 (the "Series 2013B Resolution" and collectively, the "Resolution"). Capitalized terms not otherwise defined in this letter are used as defined in the Resolution or the Loan Agreements (as defined herein).

In our capacity as bond counsel, we have examined the transcript of proceedings relating to the issuance of the Series 2013 Bonds, a copy of the signed and authenticated Series 2013 Bond of the first maturity of each Series and each of the Loan Agreements, dated as of March 13, 2013 (the "Loan Agreements"), between the Authority and the various participating borrowers (each an "Institution" and collectively, the "Institutions"), and such other documents, matters and law as we deem necessary to render the opinions set forth in this letter.

Based on that examination and subject to the limitations stated below, we are of the opinion that under existing law:

1. The Resolution has been duly and lawfully adopted by the Authority.

2. The Resolution and the Loan Agreements are valid and binding obligations of the Authority, enforceable in accordance with their respective terms.

3. The Series 2013A Bonds are legal, valid and binding special obligations of the Authority payable as provided in the General Resolution and the Series 2013A Resolution, are enforceable in accordance with their terms and the terms of the General Resolution and the Series 2013A Resolution and are entitled to the equal benefits of the General Resolution, the Series 2013A Resolution and the Act. The payment of debt service on the Series 2013A Bonds is not secured by an obligation or pledge of any money raised by taxation, and the Series 2013A Bonds do not represent or constitute a general obligation or a pledge of the faith and credit of the Authority, the State of New York or any of its political subdivisions.

   The Series 2013B Bonds are legal, valid and binding special obligations of the Authority payable as provided in the General Resolution and the Series 2013B Resolution, are enforceable in accordance with their terms and the terms of the General Resolution and the Series 2013B Resolution and are entitled to the equal benefits of the General Resolution, the Series 2013B Resolution and the Act. The payment of debt service on the Series 2013B Bonds is not secured by an obligation or pledge of any money raised by taxation, and the Series 2013B Bonds do not represent or constitute a general obligation or a pledge of the faith and credit of the Authority, the State of New York or any of its political subdivisions.

4. Interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, portions of the interest on the Tax-Exempt Bonds earned by certain corporations may be subject to a corporate alternative minimum tax. Interest on the Taxable Bonds is not excluded from gross income for federal income tax purposes.

   Interest on the Series 2013 Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including The City of New York and the City of Yonkers.

   We express no opinion as to any other tax consequences regarding the Series 2013 Bonds.

We are further of the opinion that the difference between the principal amount of the Subseries 2013 A-1 Tax-Exempt Bonds maturing on July 1, 2020 through July 1, 2038 and the Subseries 2013 B-1 Tax-Exempt Bonds maturing on July 1, 2020 through July 1, 2028 ("Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount ("OID"). For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above, as other interest on the Tax-Exempt Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond at its issue price in the initial public offering who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond. Initial purchasers of the Subseries 2013A-1 Tax-Exempt Bonds maturing on July 1, 2014 through July 1, 2019 and the Subseries 2013B-1 Tax-Exempt Bonds maturing on July 1, 2014 through July 1, 2018, whose initial adjusted basis in such Tax-Exempt Bonds exceeds the respective principal amount of such Tax-Exempt Bonds ("Premium Bonds") will have bond premium to the extent of that excess. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield must be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions, we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined, (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, any parties other than the Authority, and (iii) the correctness of the legal conclusions contained in the legal opinion letters of counsel to the Institutions delivered in connection with this matter.

In rendering those opinions with respect to the treatment of the interest on the Tax-Exempt Bonds under the federal tax laws, we further assume and rely upon compliance with the covenants in the proceedings and documents we have examined, including those of the Authority and the Institutions. Failure to comply with certain of those covenants subsequent to issuance of the Tax-Exempt Bonds may cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance**.**

In rendering those opinions with respect to the treatment of the interest on the Tax-Exempt Bonds under the federal tax laws, we also further assume the correctness of, and rely on the opinions of Cullen and Dykman, LLP, counsel to the Institutions, regarding, among other matters, the current qualification of each of the Institutions as an organization described in Section 501(c)(3) of the Code, which opinions are subject to a number of qualifications and limitations. We also assume the correctness of, and rely upon the accuracy of, representations of each of the Institutions concerning the use of the facilities financed with the Tax-Exempt Bonds in activities that are considered "unrelated trade or business" activities of the applicable Institution, as defined in Section 513(a) of the Code. We have not given any opinion or assurance concerning Section 513(a) of the Code or the effect of any future activities of the Authority or the Institutions. Failure of any of the Institutions to maintain its qualification as an organization described in Section 501(c)(3) of the Code, or to use the facilities financed by the Tax-Exempt Bonds in a manner that is substantially related to the Institution's charitable purpose under Section 513(a) of the Code, may cause interest on the Tax-Exempt Bonds to be included in gross income retroactively to the date of the issuance of the Tax-Exempt Bonds.

We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the Series 2013 Bonds, the Resolution or the Loan Agreements.

The opinions contained in paragraphs 1, 2 and 3 above are qualified to the extent that the enforceability of the Resolution, the Series 2013 Bonds and the Loan Agreements may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy.

In connection with the delivery of this opinion, we are not passing upon the authorization, execution and delivery of the Loan Agreements by the Institutions. We have assumed the due authorization, execution and delivery of the Loan Agreements by the Institutions.

We express no opinion in this letter as to the accuracy, completeness, fairness or sufficiency of the Official Statement relating to the Series 2013 Bonds, or any appendices thereto.

The opinions rendered in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement as bond counsel with respect to the Series 2013 Bonds has concluded on this date.

Respectfully submitted,

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DORMITORY AUTHORITY OF THE STATE OF NEW YORK • INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS, SERIES 2013

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