NEW ISSUE – BOOK-ENTRY ONLY

Moody's: aa2
(See "RATING" herein)

DASNY
DORMITORY AUTHORITY STATE OF NEW YORK

DAC Bond®

$29,290,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM
REVENUE BONDS, SERIES 2015A

Consisting of:

$28,115,000 Subseries 2015A-1	**$1,175,000 Subseries 2015A-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 2015A consisting of Subseries 2015A-1 (the "Subseries 2015A-1 Bonds") and Subseries 2015A-2 (Federally Taxable) (the "Subseries 2015A-2 Bonds;" and together with the Subseries 2015A-1 Bonds, the "Series 2015 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 2015 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 2015 Bonds by the Series 2015A Resolution Authorizing Up To $44,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2015A, adopted November 12, 2014 (the "Series 2015 Resolution"), including a Debt Service Reserve Fund.

The Revenues pledged to the payment of the Series 2015 Bonds are comprised of certain payments to be made under separate Loan Agreements dated as of November 12, 2014 (each a "Series 2015 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: Birch Family Services, Inc., Community Resource Center for the Developmental Disabled, Inc., Eden II School for Autistic Children, Inc., HASC Center, Inc., Lifespire, Inc., QSAC, Inc., Services for the Underserved, Inc. and SUS-Developmental Disabilities Services, Inc. (which shall be considered a single Series 2015 Participant), Wildwood Programs, Inc. and Young Adult Institute, Inc. (each a "Series 2015 Participant" and collectively, the "Series 2015 Participants").

Each Series 2015 Loan Agreement is a general obligation of the respective Series 2015 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 Series 2015 Bonds corresponding to such Series 2015 Participant's proportionate share of the proceeds of the Series 2015 Bonds loaned to it by DASNY, and to maintain its Allocable Portion of the Debt Service Reserve Fund Requirement. Payment of amounts due under the Series 2015 Loan Agreements are several and not joint obligations of the Series 2015 Participants. Each of the Series 2015 Participant's obligations under its respective Series 2015 Loan Agreement will be secured by a security interest in certain revenues of such Series 2015 Participant granted to DASNY and pledged and assigned to the Trustee.

A DEFAULT BY ANY ONE OR MORE OF THE SERIES 2015 PARTICIPANTS UNDER THEIR RESPECTIVE SERIES 2015 LOAN AGREEMENTS MAY RESULT IN A DEFAULT UNDER THE RESOLUTION AND THE SERIES 2015 RESOLUTION WITH RESPECT TO SUCH SERIES 2015 PARTICIPANT'S ALLOCABLE PORTION OF THE SERIES 2015 BONDS; HOWEVER, ANY LIABILITY WITH RESPECT TO SUCH DEFAULT IS LIMITED SOLELY TO THE SERIES 2015 PARTICIPANT OR SERIES 2015 PARTICIPANTS THAT ARE IN DEFAULT, WITHOUT RIGHT OF CONTRIBUTION FROM THE NON-DEFAULTING SERIES 2015 PARTICIPANTS. ANY SUCH DEFAULT, HOWEVER, COULD RESULT IN A DEFAULT IN PAYMENT OF THE SERIES 2015 BONDS.

The Series 2015 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 2015 Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple in excess thereof. Interest (due July 1, 2015 and each January 1 and July 1 thereafter) on the Series 2015 Bonds will be payable by check mailed to the registered owners thereof and principal and Redemption Price of the Series 2015 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 2015 Bonds by wire transfer, as more fully described herein.

The Series 2015 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 2015 Bonds. Purchases of beneficial ownership interests in the Series 2015 Bonds may be made only through the DTC book-entry system. Beneficial Owners (as defined herein) of the Series 2015 Bonds will not receive certificates representing their interests in the Series 2015 Bonds. See "PART 4 - THE SERIES 2015 BONDS – Book-Entry Only System" herein.

Redemption and Purchase in Lieu of Redemption: The Series 2015 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 Hawkins Delafield & Wood LLP, Bond Counsel to DASNY, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Subseries 2015A-1 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Subseries 2015A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. Interest on the Subseries 2015A-2 Bonds is included in gross income for Federal income tax purposes pursuant to the Code. In addition, in the opinion of Bond Counsel to DASNY, under existing statutes, interest on the Series 2015 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof. See "PART 10 - TAX MATTERS" herein.

The Series 2015 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 Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to DASNY. Certain legal matters will be passed upon for the Series 2015 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 2015 Bonds in definitive form in New York, New York on or about February 11, 2015.

MUNICIPAL CAPITAL MARKETS GROUP, INC.

January 23, 2015

$29,290,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM
REVENUE BONDS, SERIES 2015A

Consisting of:

$28,115,000 Subseries 2015A-1

Consisting of:

$25,145,000 Serial Bonds

Maturing July 1	Principal Amount	Coupon	Yield	CUSIP[1]
2015	$ 805,000	3.00%	0.45%	6499074R0
2016	2,845,000	3.00	0.49	6499074S8
2017	3,500,000	3.00	0.87	6499074T6
2018	3,510,000	3.00	1.12	6499074U3
2019	3,315,000	3.00	1.36	6499074V1
2020	3,095,000	4.00	1.58	6499074W9
2021	2,045,000	4.00	1.79	6499074X7
2022	1,745,000	2.00	1.97	6499074Y5
2023	2,170,000	2.00	2.17	6499074Z2
2024	1,145,000	2.00	2.30	6499075A6
2025	970,000	3.00	2.40	6499075B4

$2,970,000 3.50% Term Bond due July 1, 2029 to Yield 2.85% CUSIP[1] 6499075C2

$1,175,000
Subseries 2015A-2
(Federally Taxable)

$1,175,000 1.20% Term Bond due July 1, 2016 to Yield 1.20% CUSIP[1] 6499075D0

No dealer, broker, salesman or other person has been authorized by DASNY, the Series 2015 Participants or the Underwriter to give any information or to make any representations with respect to the Series 2015 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 2015 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 2015 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 2015 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 2015 Participant has reviewed the portions of this Official Statement describing such Series 2015 Participant, its Series 2015 Facilities, its Mortgages, if any, "PART 1 – INTRODUCTION" (but solely with respect to the headings "The Series 2015 Participants," "Additional Security – Pledged Revenues and Standby Intercepts," "The Mortgages," and "Collateral Assignment of Leases"), "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2015 BONDS – Security for the Series 2015 Bonds - Pledged Revenues – OPWDD Funds," " – Security for the Series 2015 Bonds – Mortgages" and " – Security for the Series 2015 Bonds – Collateral Assignment of Leases," "PART 3 – THE SERIES 2015 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2015 Bonds," "PART 4 - THE SERIES 2015 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING," PART 6 – THE REFUNDING PLAN," "PART 7 - ESTIMATED SOURCES AND USES OF FUNDS," "PART 12 - BONDHOLDERS' RISKS," PART 16 – CONTINUING DISCLOSURE," "PART 20 – VERIFICATION OF MATHEMATICAL CALCULATIONS," 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 2015 Bonds that each Series 2015 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 2015 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 2015 Resolution and the Series 2015 Loan Agreements do not purport to be complete. Refer to the Act, the Resolution, the Series 2015 Resolution and the Series 2015 Loan Agreements for full and complete details of their provisions. Copies of the Resolution, the Series 2015 Resolution and the Series 2015 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 2015 Participants have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2015 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2015 BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

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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
$29,290,000
INTERAGENCY COUNCIL POOLED LOAN PROGRAM
REVENUE BONDS, SERIES 2015A
Consisting of:

$28,115,000 Subseries 2015A-1 | **$1,175,000 Subseries 2015A-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 the Dormitory Authority of the State of New York ("DASNY"), Birch Family Services, Inc., Community Resource Center for the Developmental Disabled, Inc., Eden II School for Autistic Children, Inc., HASC Center, Inc., Lifespire, Inc., QSAC, Inc., Services for the Underserved, Inc. and SUS-Developmental Disabilities Services, Inc. (which shall be considered a single Series 2015 Participant), Wildwood Programs, Inc. and Young Adult Institute, Inc. (collectively, the "Series 2015 Participants"), in connection with the offering by DASNY of the $29,290,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2015A, consisting of $28,115,000 Subseries 2015A-1 Bonds and $1,175,000 Subseries 2015A-2 Bonds (Federally Taxable) (collectively, the "Series 2015 Bonds").

The following is a brief description of certain information concerning the Series 2015 Bonds, DASNY and the Series 2015 Participants. A more complete description of such information and additional information that may affect decisions to invest in the Series 2015 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 Issue

The Series 2015 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 2015 Facilities") of the Series 2015 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 2015 Facilities (collectively, the "Series 2015 Project"), including the refunding of certain outstanding bonds issued by DASNY and other New York issuers for the benefit of the Series 2015 Participants (collectively referred to herein as the "Refunded Bonds"), (ii) making a deposit to each account of the Debt Service Reserve Fund securing the Series 2015

Bonds (the "Series 2015 Debt Service Reserve Fund") in an amount equal to each Series 2015 Participant's Allocable Portion of the Series 2015 Debt Service Reserve Fund Requirement (defined herein) and (iii) paying certain costs of issuance of the Series 2015 Bonds. The Loan Agreements entered into with DASNY by the Series 2015 Participants (the "Series 2015 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 2015 Bonds as the same become due. See "PART 6 – THE REFUNDING PLAN" and "PART 7 – ESTIMATED SOURCES AND USES OF FUNDS." For a description of the Series 2015 Facilities being financed or refinanced with proceeds of the Series 2015 Bonds, see "Appendix A - Description of Series 2015 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 2015 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 2015 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 2015 Bonds will be issued pursuant to the Act, the Resolution and the Series 2015 Resolution. The term "Resolutions" shall mean the Resolution and the Series 2015 Resolution. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2015 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 2015 Participants. See "PART 4 - THE SERIES 2015 PARTICIPANTS."

The Series 2015 Participants

Each of the Series 2015 Participants is a not-for-profit corporation organized and existing under the laws of the State. See "PART 4 - THE SERIES 2015 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING," "Appendix A - Description of Series 2015 Participants," "Appendix B - Audited Financial Statements of Series 2015 Participants," and "Appendix C - Unaudited Financial Information of Series 2015 Participants."

Upon delivery of the Series 2015 Bonds, the Series 2015 Participants will receive loans from DASNY from the proceeds thereof in the following principal amounts, representing each Series 2015 Participant's Allocable Portion of each Subseries of the Series 2015 Bonds:

Series 2015 Participant	Subseries 2015A-1	Subseries 2015A-2	Total
Birch Family Services, Inc.	$1,385,000	$ 45,000	$1,430,000
Community Resource Center for the Developmental Disabled, Inc.	715,000	25,000	740,000
Eden II School for Autistic Children, Inc.	3,730,000	270,000	4,000,000
HASC Center, Inc.	4,565,000	135,000	4,700,000
Lifespire, Inc.	3,360,000	90,000	3,450,000
QSAC, Inc.	880,000	35,000	915,000
Services for the Underserved, Inc. and SUS-Developmental Disabilities Services, Inc.	6,040,000	230,000	6,270,000
Wildwood Programs, Inc.	290,000	25,000	315,000
Young Adult Institute, Inc.	7,150,000	320,000	7,470,000

No Series 2015 Participant is responsible for the payment obligations of any other Series 2015 Participant. If a Series 2015 Participant fails to pay amounts due under its Series 2015 Loan Agreement in respect of its Allocable Portion of the Series 2015 Bonds, DASNY's sole remedy will be against the defaulting Series 2015 Participant and no other Series 2015 Participant.

See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2015 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 2015 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

The Series 2015 Bonds

The Series 2015 Bonds are dated their date of delivery and bear interest from such date (payable July 1, 2015, 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 2015 BONDS - Description of the Series 2015 Bonds."

Payment of the Series 2015 Bonds

The Series 2015 Bonds are special obligations of DASNY payable from the applicable Revenues, which consist of certain payments required to be made by the Series 2015 Participants pursuant to their respective Series 2015 Loan Agreements on account of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest due on the Outstanding Series 2015 Bonds. The Revenues are pledged and assigned to the Trustee.

Pursuant to its Series 2015 Loan Agreement, each Series 2015 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 2015 Bonds, in each case corresponding to the proceeds of each maturity of each Subseries of the Series 2015 Bonds loaned to it by DASNY. The obligation of each Series 2015 Participant to make payments under its Series 2015 Loan Agreement constitutes a general obligation of such Series 2015 Participant. The payment obligations of the Series 2015 Participants are several, not joint and are not cross-collateralized with the obligations of any other Series 2015 Participant. For a listing of each Series 2015 Participant's Allocable Portion of the principal and Sinking Fund Installments of and interest on the Series 2015 Bonds, see "PART 3 – THE SERIES 2015 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2015 Bonds."

Security for the Series 2015 Bonds

The Series 2015 Bonds will be secured by the pledge and assignment to the Trustee of the Revenues, the proceeds from the sale of the Series 2015 Bonds (until disbursed as provided by the Resolution) and all funds and accounts authorized by the Resolution and established by the Series 2015 Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2015 Debt Service Reserve Fund, which will be funded at its requirement with proceeds of the Series 2015 Bonds. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2015 BONDS - Security for the Series 2015 Bonds."

The Series 2015 Bonds are separately secured from all other Series of Bonds. The Holders of any Series of Bonds other than the Series 2015 Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2015 Bonds.

The Series 2015 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

The Series 2015 Bonds will also be secured by the pledge and assignment to the Trustee of DASNY's security interest in the applicable Pledged Revenues granted by each of the Series 2015 Participants to DASNY pursuant to its Series 2015 Loan Agreement, subject to Prior Pledges. Certain of the Series 2015 Participants have previously pledged their Public Funds (a portion of which consists of the Pledged Revenues) to DASNY, an industrial development agency or a bank or other financial institution 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 2015 Participant is subject, and subordinate, to such Prior Pledges in all respects. See "Appendix A - Description of Series 2015 Participants" for a description of which Series 2015 Participants have Prior Pledges of their respective Pledged Revenues.

Pledged Revenues are all Public Funds payable to a Series 2015 Participant with respect to its Series 2015 Facilities. In the case of each Series 2015 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 2015 Facilities.

With respect to each Series 2015 Facility, pursuant to separate Prior Property Approvals (each a "PPA"), OPWDD has pre-approved the applicable Series 2015 Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2015 Participant in connection with its financing or refinancing of the acquisition, renovation and furnishing, as applicable, of such Series 2015 Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2015 Participant operates the applicable Series 2015 Facility in accordance with certain defined standards. Assuming annual appropriation of sufficient funds and continued compliance with operational standards, it is expected that the amounts received by such Series 2015 Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the Series 2015 Bonds. See "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

The Pledged Revenues will be paid directly to each Series 2015 Participant and may be disposed of by such Series 2015 Participant for any of its corporate purposes. However, pursuant to the Act, the respective Series 2015 Loan Agreements and certain agreements entered into by DASNY, OPWDD and the respective Series 2015 Participants (each an "Intercept Agreement"), upon the occurrence of certain events described herein but subject to any Prior Pledges of the Pledged Revenues, DASNY may direct OPWDD to remit the revenues payable by OPWDD to a Series 2015 Participant pursuant to its PPA or PPAs (the "Intercept Funds") directly to DASNY or the Trustee for application to the payment of such Series 2015 Participant's Allocable Portion of the Outstanding Series 2015 Bonds.

Pledged Revenues of one Series 2015 Participant will not be available to satisfy the obligations of any other Series 2015 Participant. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2015 BONDS - Security for the Series 2015 Bonds - Pledged Revenues - OPWDD Funds" and "- Standby Intercepts." See also, "Appendix A - Description of Series 2015 Participants" and "Appendix E - Summary of Certain Provisions of the Series 2015 Loan Agreements."

The ability of the Series 2015 Participants to satisfy their payment obligations under the respective Loan Agreements with respect to the Series 2015 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 2015 Participants of their respective Series 2015 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 2015 Participants and their ability to continue to generate sufficient revenues to support all of their respective facilities, including their Series 2015 Facilities, (ii) the continued compliance by the Series 2015 Participants with State and local operational standards with respect to their Series 2015 Facilities, and (iii) the continued commitment of public funds to support the programs and facilities operated by the Series 2015 Participants, particularly with respect to the Series 2015 Facilities, the continued appropriations by the State in amounts sufficient for OPWDD to make payments to the Series 2015 Participants pursuant to their respective PPAs or otherwise. For a more detailed discussion of risk factors affecting the ability of the Series 2015 Participants to pay amounts owed under their Loan Agreements and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2015 Bonds, see "PART 12 - BONDHOLDERS' RISKS" herein. See also, "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING."

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

A failure by a Series 2015 Participant to timely pay its obligations under its Series 2015 Loan Agreement might result in an event of default under the Resolutions if either (a) such Series 2015 Participant's loan is accelerated in accordance with the provisions of its Series 2015 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 2015 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 2015 Bonds that corresponds to a principal installment on the defaulting Series 2015 Participant's loan under the terms of its Series 2015 Loan Agreement (referred to as the "Defaulted Allocable Portion"). The funds available for the payment of a Defaulted Allocable Portion of the Series 2015 Bonds are limited by the Resolution to only those Revenues payable by or on behalf of such defaulting Series 2015 Participant pursuant to its Series 2015 Loan Agreement, funds on deposit with the Trustee attributable to such Series 2015 Participant and amounts recovered upon the realization on any collateral granted to DASNY as security for such Series 2015 Participant's obligations under its Series 2015 Loan Agreement and pledged to the payment of the Series 2015 Bonds.

After the application of all such amounts to the payment of the Defaulted Allocable Portion of the Series 2015 Bonds following the acceleration or extraordinary mandatory redemption thereof in accordance with the Resolutions, such Defaulted Allocable Portion of the Series 2015 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 2015 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 2015 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

NO SERIES 2015 PARTICIPANT IS RESPONSIBLE FOR THE PAYMENT OBLIGATIONS OF ANY OTHER SERIES 2015 PARTICIPANT. IF A SERIES 2015 PARTICIPANT FAILS TO PAY AMOUNTS DUE UNDER ITS SERIES 2015 LOAN AGREEMENT IN RESPECT OF ITS ALLOCABLE PORTION OF THE SERIES 2015 BONDS, DASNY'S SOLE REMEDY WILL BE AGAINST THE DEFAULTING SERIES 2015 PARTICIPANT AND NO OTHER SERIES 2015 PARTICIPANT.

The Mortgages

In the event that a Series 2015 Participant owns its Series 2015 Facilities, such Series 2015 Participant's obligations under its Series 2015 Loan Agreement will be additionally secured by one or more mortgages (each a "Mortgage") from such Series 2015 Participant to DASNY, granting a mortgage lien on such owned Series 2015 Facilities, and by a security interest in the fixtures, furniture and equipment financed with the proceeds of the Series 2015 Bonds located therein or used in connection therewith, such liens and security interests subject to applicable Permitted Encumbrances.

The Mortgages do not presently provide any security for the Series 2015 Bonds. However, under certain circumstances described herein, one or more of the Mortgages are required to be assigned to the Trustee. Prior to any such assignment of a Mortgage to the Trustee, each Series 2015 Loan Agreement provides that DASNY, without the consent of the Trustee or the Holders of the applicable Series 2015 Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of such Mortgage and of any security interest in furniture, fixtures or equipment financed with the proceeds of the Series 2015 Bonds 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 require. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2015 BONDS - Security for the Series 2015 Bonds - The Mortgages."

In the event that a Series 2015 Participant does not own its Series 2015 Facilities, such Series 2015 Participant's obligations under its Series 2015 Loan Agreement will not be secured by any mortgage or real property security interest.

See "Appendix A - Description of Series 2015 Participants" for a description of which Series 2015 Participants (i) own or lease their respective Series 2015 Facilities and (ii) will grant mortgages (and the nature of such mortgages) on their respective Series 2015 Facilities.

Collateral Assignment of Leases

Community Resource Center for the Developmental Disabled, Inc. leases its Series 2015 Facility located at 631 Pelham Parkway North, Bronx, New York, HASC Center, Inc. leases its Series 2015 Facility located at 1221 East 14th Street, Brooklyn, New York and Lifespire, Inc. leases its Series 2015 Facility located at 163 East 125th Street, New York, New York. In order to secure its obligations under its Series 2015 Loan Agreement, Community Resource Center for the Developmental Disabled, Inc., HASC Center, Inc., and Lifespire, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Leases its right, title and interest (but not its obligations) in the lease for such Series 2015 Facilities. Each landlord under the leases has consented to such collateral assignment.

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2015 BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2015 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 2015 Resolution and the Series 2015 Loan Agreements, copies of which are on file with DASNY and the Trustee. See also "Appendix E - Summary of Certain Provisions of the Series 2015 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 2015 Bonds

The Series 2015 Bonds are special obligations of DASNY. The principal, Sinking Fund Installments, and Redemption Price of and interest on the Series 2015 Bonds are payable solely from the Revenues. With respect to the Series 2015 Participants, the Revenues consist of the payments required to be made by each of the Series 2015 Participants under its respective Series 2015 Loan Agreement on account of such Series 2015 Participant's Allocable Portion of (i) the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2015 Bonds, and (ii) the Series 2015 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 2015 Bonds. The aggregate of payments due and payable to DASNY under all of the Series 2015 Loan Agreements will be sufficient to pay (i) the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2015 Bonds when due, (ii) amounts necessary to maintain the Series 2015 Debt Service Reserve Fund at its required level, and (iii) the annual fees of DASNY and the Trustee.

Each Series 2015 Loan Agreement is a general obligation of the respective Series 2015 Participant, pursuant to which such Series 2015 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 2015 Bonds as reflected in the debt service table set forth in

"PART 3 – THE SERIES 2015 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2015 Bonds." The payment obligations of the Series 2015 Participants with respect to the Series 2015 Bonds are several, not joint. Each Series 2015 Participant is obligated to repay only its Allocable Portion of the Series 2015 Bonds. Each Series 2015 Participant's payments under its respective Series 2015 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 2015 Bonds.

Payments under each of the Series 2015 Loan Agreements are to be made monthly on the 10th day of each month. Each payment under the Series 2015 Loan Agreements is to be equal to one-sixth of the respective Series 2015 Participant's Allocable Portion of the interest coming due on the next succeeding interest payment date and one-twelfth of its Allocable Portion of the principal and Sinking Fund Installments coming due on the next succeeding July l. See "PART 3 – THE SERIES 2015 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2015 Bonds." Each of the Series 2015 Loan Agreements also obligates the respective Series 2015 Participant to pay, at least 45 days prior to a redemption date of Series 2015 Bonds called for redemption, its Allocable Portion of the amount, if any, required to pay the Redemption Price of such Series 2015 Bonds. See "PART 3 – THE SERIES 2015 BONDS – Redemption Provisions."

Security for the Series 2015 Bonds

General

The Series 2015 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 2015 Participants" for a description of which Series 2015 Participants have Prior Pledges of their respective Pledged Revenues.

The Series 2015 Bonds will also be secured by the proceeds from the sale of such Series 2015 Bonds (until disbursed as provided in the Resolutions) and all funds and accounts authorized by the Resolution and established by the Series 2015 Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2015 Debt Service Reserve Fund.

Pursuant to the terms of the Resolution, the Series 2015 Bonds are separately secured from all other Series of Bonds. The Holders of a 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 Series 2015 Loan Agreements, each Series 2015 Participant has pledged and assigned to DASNY its Pledged Revenues in an amount sufficient to satisfy its payment obligations under its Series 2015 Loan Agreement, subject to any Prior Pledges. With respect to each Series 2015 Participant, the Pledged Revenues are all Public Funds payable to a Series 2015 Participant with respect to its Series 2015 Facilities, including any Intercept Funds. See "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

Each Series 2015 Facility is supported by an OPWDD PPA, which the applicable Series 2015 Participant has received. The PPA represents OPWDD's pre-approval of the applicable Series 2015 Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2015 Participant in connection with its financing or refinancing of the acquisition, renovation and furnishing, as applicable, of such Series 2015 Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2015 Participant operates the applicable Series 2015 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 2015 Participants that the amounts received by the Series 2015 Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the Series 2015 Bonds. See "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities." Certain of the Series 2015 Facilities may also be supported by additional OPWDD PPAs, but such other OPWDD PPAs were issued with respect to other projects at such Series 2015 Facilities and not those being financed with the Series 2015 Bonds.

Standby Intercepts

The Act authorizes, and each Series 2015 Loan Agreement and Intercept Agreement establishes, an intercept mechanism whereby OPWDD officials are authorized and required to pay a Series 2015 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 2015 Participant described in clause (a) or (b) below, a Series 2015 Participant's Intercept Funds will be paid directly to such Series 2015 Participant and applied towards any of its corporate purposes. However, pursuant to the respective Series 2015 Loan Agreements and Intercept Agreements, upon the occurrence of (a) an event of default under a Series 2015 Participant's Series 2015 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 2015 Participant's Series 2015 Loan Agreement, or (b) a drawing of funds from the Series 2015 Debt Service Reserve Fund for the benefit of such Series 2015 Participant that has not been repaid by such Series 2015 Participant as required by its Series 2015 Loan Agreement and the Resolutions, DASNY may, in addition to all other remedies available pursuant to such Series 2015 Participant's Series 2015 Loan Agreement, cause such Series 2015 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 2015 Participant pursuant to its Series 2015 Loan Agreement. See "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities." Intercept Funds of one Series 2015 Participant will not be available to satisfy the payment obligations of any other Series 2015 Participant.

There can be no assurance that the amount of a Series 2015 Participant's Intercept Funds will be sufficient to satisfy its payment obligations with respect to its Allocable Portion of the Series 2015 Bonds. In the event that amounts received from OPWDD upon the intercept of a Series 2015 Participant's Intercept Funds are insufficient to pay all of a Series 2015 Participant's Allocable Portion of the principal of and interest on the Series 2015 Bonds when due, such amounts received will be applied pro rata to such Series 2015 Participant's Allocable Portion of each Subseries of the Series 2015 Bonds.

The ability of the Series 2015 Participants to satisfy their payment obligations under the respective Series 2015 Loan Agreements with respect to the Series 2015 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 2015 Participants of their respective Series 2015 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 2015 Participants and their ability to continue to generate sufficient revenues to support all of their respective facilities, including their Series 2015 Facilities, (ii) the continued compliance by the Series 2015 Participants with State and local operational standards with respect to their Series 2015 Facilities, and (iii) the continued commitment of Public Funds to support the programs and facilities operated by the Series 2015 Participants, particularly with respect to the Series

2015 Facilities, the continued appropriations by the State in amounts sufficient for OPWDD to make payments to the Series 2015 Participants pursuant to their respective PPAs or otherwise. For a more detailed discussion of risk factors affecting the ability of the Series 2015 Participants to pay amounts owed under their Series 2015 Loan Agreements and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2015 Bonds, see "PART 12 - BONDHOLDERS' RISKS" herein. See also, "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING" and "Appendix A - Description of the Series 2015 Participants" for a description of which Series 2015 Participants have Prior Pledges of their respective Pledged Revenues.

Debt Service Reserve Fund

The Resolution authorizes, and the Series 2015 Resolution establishes, the Series 2015 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 2015 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 2015 Bonds (the "Series 2015 Debt Service Reserve Fund Requirement").

Proceeds of the Series 2015 Bonds will be deposited in separate accounts established in the Series 2015 Debt Service Reserve Fund for each Series 2015 Participant in amounts equal to the respective Series 2015 Participant's Allocable Portion of the Series 2015 Debt Service Reserve Fund Requirement. If, on the fourth Business Day preceding an interest payment date for the Series 2015 Bonds, the amount on deposit in the account established for a Series 2015 Participant in the Debt Service Fund is less than the amount necessary to pay such Series 2015 Participant's Allocable Portion of the principal or Sinking Fund Installments of and interest on the Outstanding Series 2015 Bonds payable on such interest payment date, the Trustee is required to transfer moneys from the applicable account of the Series 2015 Debt Service Reserve Fund to the corresponding account of the Debt Service Fund in an amount sufficient to provide for such payment. Each Series 2015 Loan Agreement requires the respective Series 2015 Participant to restore in full any amount withdrawn from the Series 2015 Debt Service Reserve Fund for its benefit within five days after receiving notice of a withdrawal. Each Series 2015 Loan Agreement also requires the respective Series 2015 Participant to restore in full its Allocable Portion of the Series 2015 Debt Service Reserve Fund Requirement within five days after receiving notice of a deficiency in the Series 2015 Debt Service Reserve Fund resulting from a devaluation of the investments held therein. Each Series 2015 Participant is responsible for only its Allocable Portion of the Series 2015 Debt Service Reserve Fund Requirement. Moneys in the Series 2015 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 Series 2015 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 Series 2015 Debt Service Reserve Fund Requirement or any Series 2015 Participant's Allocable Portion thereof. See "Appendix F - Summary of Certain Provisions of the Resolutions."

Mortgages

In the event that a Series 2015 Participant owns its Series 2015 Facilities, such Series 2015 Participant's obligations to DASNY under its Series 2015 Loan Agreement will be additionally secured by its Mortgage granting a mortgage lien on such owned Series 2015 Facilities to DASNY, and by a security interest granted to DASNY in the fixtures, furnishings and equipment financed with the proceeds of the Series 2015 Bonds now or hereafter located on the property subject to such Mortgage, such mortgage liens and security interests subject to applicable Permitted Encumbrances. See “Appendix A - Description of Series 2015 Participants” for a description of which Series 2015 Facilities are owned by a Series 2015 Participant.

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 2015 Debt Service Reserve Fund, which has not been restored by the respective Series 2015 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 2015 Participant’s Series 2015 Loan Agreement and the acceleration of the loan thereunder, DASNY is required to assign such Series 2015 Participant’s Mortgage and the related security interest in the fixtures, furnishings and equipment financed with the proceeds of the Series 2015 Bonds to the Trustee for the benefit of the Holders of such Series 2015 Participant’s Allocable Portion of the Outstanding Series 2015 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 2015 Bonds. **Each Mortgage secures only the obligations of the Series 2015 Participant granting the Mortgage, and, in the event of a default by a Series 2015 Participant which may lead to the assignment of its Mortgage, only the Mortgage of that defaulting Series 2015 Participant may be assigned**.

Prior to any assignment of a Mortgage to the Trustee, each Series 2015 Loan Agreement provides that DASNY, without the consent of the Trustee or the Holders of the applicable Series 2015 Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of such Mortgage and of any security interest in furniture, fixtures or equipment financed with the proceeds of the Series 2015 Bonds 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 require. Notwithstanding the foregoing, a Series 2015 Participant may remove such furniture, fixtures or equipment from the Mortgaged Property provided that such Series 2015 Participant shall replace such furniture, fixtures or equipment with furniture, fixtures or equipment having equivalent value and utility.

Each Series 2015 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 2015 Participant’s owned Series 2015 Facility(ies) as described in its Mortgage may also be limited by certain factors. See “PART 12-BONDHOLDERS’ RISKS” and “Appendix A – Description of Series 2015 Participants” herein.

Collateral Assignment of Leases

In order to secure its obligations under its Series 2015 Loan Agreement, (i) Community Resource Center for the Developmental Disabled, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Leases its right, title and interest (but not its obligations) in the lease for its Series 2015 Facility located at 631 Pelham Parkway North, Bronx, New York, (ii) HASC Center, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Leases its right, title and interest (but not its obligations) in the lease for its Series 2015 Facility located at 1221 East 14th Street, Brooklyn, New York and (iii) Lifespire, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Leases its right, title and interest (but not its obligations) in the lease for its Series 2015 Facility located at 163

East 125th Street, New York, New York. Each landlord under the leases has consented to such collateral assignment.

Events of Default

Events of Default

The Resolutions provide that events of default thereunder constitute events of default with respect to the Series 2015 Bonds. 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 2015 Bonds of any Subseries; *provided, however,* if the failure to make any such payment is caused by a failure of a Series 2015 Participant to timely pay its Allocable Portion of the principal, Sinking Fund Installments or Redemption Price of or interest on the Series 2015 Bonds pursuant to the terms of its Series 2015 Loan Agreement, then it shall be an event of default under the Resolutions only with respect to the Defaulted Allocable Portion of the Series 2015 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 2015A-1 Bonds 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 2015 Bonds or in the 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 2015 Bonds); or

(iv) an event of default under a Series 2015 Loan Agreement shall have occurred and is continuing and, as a result thereof, all sums payable by a Series 2015 Participant under such Series 2015 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 2015 Loan Agreement shall constitute an event of default under the Resolutions only with respect to the Defaulted Allocable Portion of the Series 2015 Bonds.

With respect to an event of default affecting only the Defaulted Allocable Portion of the Series 2015 Bonds and not any other portion of the Series 2015 Bonds, the Trustee will determine such Defaulted Allocable Portion in the manner described in "PART 3 - THE SERIES 2015 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption" herein.

The Series 2015 Bonds are separately secured from all other Series of Bonds which may be issued pursuant to the Resolution. **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 2015 Bonds, an event of default by a Series 2015 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 2015 Participant's Series 2015 Loan 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

2015 Participant's failure to timely pay its Allocable Portion of the Series 2015 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 Series 2015 Bonds, by a notice in writing to DASNY, declare the principal of and interest on all of the Outstanding Series 2015 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 Series 2015 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 2015 Participant to timely pay its Allocable Portion of the Series 2015 Bonds pursuant to its Series 2015 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 2015 Bonds declare the principal of and interest on the Defaulted Allocable Portion of the Outstanding Series 2015 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 2015 Bonds then Outstanding, 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 2015 Bonds, the Holders of not less than 25% in principal amount of the Outstanding Series 2015 Bonds or 25% in principal amount of Defaulted Allocable Portion of the Outstanding Series 2015 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 2015 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 2015 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 Series 2015 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 Series 2015 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 2015 Bonds.

Special Provisions Relating to Defaults

The Resolution provides that upon the happening and continuance of an event of default affecting only a Defaulted Allocable Portion of the Series 2015 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 2015 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 2015

Participant's Series 2015 Loan Agreement, including such Series 2015 Participant's Pledged Revenues and other amounts derived from the exercise of any remedies under such Series 2015 Loan Agreement and the realization of any security or collateral granted by such defaulting Series 2015 Participant as security for its loan, and (ii) the moneys and securities on deposit in only those accounts established pursuant to the Series 2015 Resolution for the payment of such defaulting Series 2015 Participant's Allocable Portion of the Series 2015 Bonds. Holders of a Defaulted Allocable Portion of the Series 2015 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 2015 Participant for the payment of the Series 2015 Bonds or any other security pledged by such other non-defaulting Series 2015 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 2015 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 2015 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 2015 Bonds on a pro rata basis in accordance with the Resolution, (i) the remaining Defaulted Allocable Portion of the Series 2015 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 2015 Bonds shall be deemed to have been discharged and satisfied, and (iii) the Holders of the Defaulted Allocable Portion of the Series 2015 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 2015 Bonds. Upon such payment and/or cancellation of a Defaulted Allocable Portion of the Outstanding Series 2015 Bonds, DASNY shall execute and the Trustee shall authenticate a new Series 2015 Bond or Series 2015 Bonds in a principal amount equal to the Outstanding principal amount of the Series 2015 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 2015 Bonds of less than all of the principal of and interest on a Defaulted Allocable Portion of the Outstanding Series 2015 Bonds following an acceleration or extraordinary mandatory redemption of such Defaulted Allocable Portion of the Series 2015 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 2015 Bonds under the Resolutions.

General

The Series 2015 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 2015 BONDS

Set forth below is a narrative description of certain provisions relating to the Series 2015 Bonds. These provisions have been summarized, and this description does not purport to be complete. Reference should be made to the Resolution, the Series 2015 Resolution and the Series 2015 Loan Agreements, copies of which are on file with DASNY and the Trustee. See also "Appendix E - Summary of Certain Provisions of the Series 2015 Loan Agreements" and "Appendix F - Summary of Certain Provisions of the Resolutions," for a more complete description of certain provisions of the Series 2015 Bonds.

General

The Series 2015 Bonds will be issued pursuant to the Resolutions. The Series 2015 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 2015 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 2015 Bonds, payments of principal, Sinking Fund Installments, Redemption Price and interest on the Series 2015 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 2015 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 2015 Bonds, the Series 2015 Bonds will be exchangeable for fully registered Series 2015 Bonds in any authorized denominations of the same 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 2015 Bonds

The Series 2015 Bonds will be dated their date of delivery and will bear interest from such date (payable on July 1, 2015 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 2015 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 Subseries of the Series 2015 Bonds may be exchanged for other Series 2015 Bonds of the same 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 2015A-1 Bonds maturing after July 1, 2024 are subject to redemption, on or after July 1, 2024, as a whole or in part at any time at the option of DASNY, at the Redemption Price equal to par, plus accrued interest to the redemption date.

The Subseries 2015A-2 Bonds are not subject to optional redemption.

Extraordinary Mandatory Redemption

Each Defaulted Allocable Portion of the Series 2015 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 2015 Participant as security for its loan upon an acceleration of such loan under its Series 2015 Loan Agreement. The Series 2015 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 2015 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 2015 Bonds on the redemption date less the amount of accrued interest to be paid on such Defaulted Allocable Portion of the Series 2015 Bonds on such date, by (B) the principal amount of the Defaulted Allocable Portion of the Series 2015 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 2015 Bonds to be redeemed based upon the schedule of amortization of the defaulting Series 2015 Participant's loan which has been accelerated. All Series 2015 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 2015 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 2015 Bond by the total principal scheduled to be paid in the year of maturity of such Series 2015 Bond on all loans made with the proceeds of the Series 2015 Bonds, including the defaulted loan.

The particular Series 2015 Bonds of each affected maturity to be redeemed will be selected in the manner described below under "- Selection of Series 2015 Bonds to be Redeemed."

Special Redemption

The Series 2015 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 2015 Facility of a Series 2015 Participant and (b) the proceeds of the sale of a Series 2015 Facility.

Mandatory Sinking Fund Redemption

The Subseries 2015A-1 Bonds maturing on July 1, 2029 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 2015A-1 Bonds specified for each such year below:

Year	Sinking Fund Installment
2026	$745,000
2027	770,000
2028	720,000
2029†	735,000

†Final maturity.

The Subseries 2015A-2 Bonds maturing on July 1, 2016 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 2015A-2 Bonds specified for each such year below:

Year	Sinking Fund Installment
2015	$370,000
2016†	805,000

†Final maturity.

The Series 2015 Participants may elect to have the Series 2015 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 2015 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 2015 Bonds of the Subseries and maturity so purchased will be reduced for such year.

Selection of Series 2015 Bonds to be Redeemed

In the case of redemptions of Subseries 2015A-1 Bonds described above under the heading "Optional Redemption," DASNY will select the maturities of the Allocable Portion of the Subseries 2015A-1 Bonds to be redeemed. In the case of redemption of Series 2015 Bonds described above under the heading "Special Redemption," Series 2015 Bonds will be redeemed to the extent practicable pro rata among maturities of the Allocable Portion of the Series 2015 Bonds, but only in integral multiples of $5,000 within each maturity. If less than all of the Series 2015 Bonds of a maturity are to be redeemed (pursuant to an optional, special, extraordinary mandatory or mandatory sinking fund redemption), the Series 2015 Bonds of such 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 2015 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 2015 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 2015 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 2015 Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Series 2015 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 2015 Bonds.

If, on the redemption date, moneys for the redemption of the Series 2015 Bonds of like 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 2015 Bonds of such Subseries and maturity will cease to accrue from and after the redemption date and such Series 2015 Bonds will no longer be considered to be Outstanding under the Resolutions.

For a more complete description of the redemption and other provisions relating to the Series 2015 Bonds, see “Appendix F - Summary of Certain Provisions of the Resolutions.”

Purchase in Lieu of Optional Redemption

The Subseries 2015A-1 Bonds maturing after July 1, 2025 are also subject to purchase prior to maturity, at the election of DASNY, on or after July 1, 2024, in any order, in whole or in part at any time, at the prices set forth in “PART 3 - THE SERIES 2015 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 Subseries 2015A-1 Bonds to be so purchased.

Notice of Purchase and its Effect

Notice of the purchase of Subseries 2015A-1 Bonds will be given by DASNY in the name of the Series 2015 Participants to the registered owners of the Subseries 2015A-1 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 Subseries 2015A-1 Bonds to be purchased are required to be tendered on the applicable Purchase Date to the Trustee. Subseries 2015A-1 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 Subseries 2015A-1 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 Subseries 2015A-1 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 Subseries 2015A-1 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 Subseries 2015A-1 Bonds to be purchased, the former registered owners of such Subseries 2015A-1 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 Subseries 2015A-1 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 Subseries 2015A-1 Bonds in accordance with their terms.

In the event not all of the Outstanding Subseries 2015A-1 of a maturity are to be purchased, the Subseries 2015A-1 Bonds of such maturity to be purchased will be selected by lot in the same manner as Subseries 2015A-1 Bonds of a maturity to be redeemed in part are to be selected.

Book-Entry-Only System

DTC will act as securities depository for the Series 2015 Bonds. The Series 2015 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 2015 Bond certificate will be issued for each maturity of the respective Subseries of Series 2015 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 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2015 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 2015 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 2015 Bonds, except in the event that use of the book-entry system for the Series 2015 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015 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 2015 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 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015 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 2015 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 2015 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 2015 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 2015 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 2015 Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2015 Bonds, giving any notice permitted or required to be given to registered owners under the Resolutions, registering the transfer of the Series 2015 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 2015 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 2015 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 2015 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 2015 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 2015 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 2015 Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2015 Bonds in any other authorized denominations and of the same 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 2015 Bonds

The following table sets forth the amounts required to be paid by each of the Series 2015 Participants during each twelve month period ending June 30 of the Bond Years shown for the payment of the interest on the Series 2015 Bonds payable on January 1 of such year and the principal and Sinking Fund Installments of and interest on the Series 2015 Bonds payable on the succeeding July 1 and the aggregate payments to be made by the Series 2015 Participants during each such period with respect to the Series 2015 Bonds.

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Total Debt Service by Series 2015 Participant

FY Ending	Birch Family Services, Inc.		Community Resource Center for the Developmental Disabled, Inc.		Eden II School for Autistic Children, Inc.		HASC Center, Inc.		Lifespire, 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
6/30/2015	$15,000	$16,835	$10,000	$8,458	$115,000	$45,107	$75,000	$54,822	$145,000	$38,939
6/30/2016	80,000	43,110	50,000	21,630	560,000	113,440	495,000	139,350	505,000	96,320
6/30/2017	85,000	41,250	55,000	20,400	570,000	100,600	490,000	126,300	490,000	82,250
6/30/2018	90,000	38,700	55,000	18,750	560,000	83,500	500,000	111,600	480,000	67,550
6/30/2019	90,000	36,000	55,000	17,100	570,000	66,700	420,000	96,600	325,000	53,150
6/30/2020	95,000	33,300	60,000	15,450	520,000	49,600	420,000	84,000	330,000	43,400
6/30/2021	95,000	29,500	60,000	13,050	210,000	28,800	410,000	67,200	335,000	30,200
6/30/2022	95,000	25,700	60,000	10,650	255,000	20,400	435,000	50,800	330,000	16,800
6/30/2023	105,000	23,800	65,000	9,450	170,000	15,300	350,000	42,100	300,000	10,200
6/30/2024	105,000	21,700	65,000	8,150	220,000	11,900	180,000	35,100	210,000	4,200
6/30/2025	105,000	19,600	65,000	6,850	250,000	7,500	175,000	31,500	0	0
6/30/2026	110,000	16,450	70,000	4,900	0	0	180,000	26,250	0	0
6/30/2027	115,000	12,600	70,000	2,450	0	0	190,000	19,950	0	0
6/30/2028	120,000	8,575	0	0	0	0	190,000	13,300	0	0
6/30/2029	125,000	4,375	0	0	0	0	190,000	6,650	0	0

Total Debt Service by Series 2015 Participant (continued)

FY Ending	QSAC, Inc.		Services for the Underserved, Inc. and SUS-Developmentally Disabilities Services, Inc.		Wildwood Programs, Inc.		Young Adult Institute, Inc.	
	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest
6/30/2015	$10,000	$10,722	$210,000	$75,273	$5,000	$3,597	$590,000	$85,824
6/30/2016	55,000	27,450	620,000	189,150	20,000	9,190	1,265,000	204,970
6/30/2017	55,000	26,250	635,000	172,800	20,000	8,950	1,100,000	170,800
6/30/2018	55,000	24,600	650,000	153,750	20,000	8,350	1,100,000	137,800
6/30/2019	55,000	22,950	670,000	134,250	20,000	7,750	1,110,000	104,800
6/30/2020	60,000	21,300	660,000	114,150	20,000	7,150	930,000	71,500
6/30/2021	60,000	18,900	515,000	87,750	20,000	6,350	340,000	34,300
6/30/2022	65,000	16,500	255,000	67,150	20,000	5,550	230,000	20,700
6/30/2023	65,000	15,200	290,000	62,050	20,000	5,150	805,000	16,100
6/30/2024	65,000	13,900	275,000	56,250	25,000	4,750	0	0
6/30/2025	70,000	12,600	280,000	50,750	25,000	4,250	0	0
6/30/2026	70,000	10,500	290,000	42,350	25,000	3,500	0	0
6/30/2027	75,000	8,050	295,000	32,200	25,000	2,625	0	0
6/30/2028	75,000	5,425	310,000	21,875	25,000	1,750	0	0
6/30/2029	80,000	2,800	315,000	11,025	25,000	875	0	0

PART 4 - THE SERIES 2015 PARTICIPANTS

Descriptions of the Series 2015 Participants, their operations and the Series 2015 Facilities they will finance or refinance with the proceeds of the Series 2015 Bonds are set forth in Appendix A hereto. Copies of the most recent audited financial statements for each of the Series 2015 Participants are set forth in Appendix B hereto and copies of recent unaudited financial information for each of the Series 2015 Participants are set forth in Appendix C. Prospective purchasers of the Series 2015 Bonds should carefully review Appendix A, Appendix B and Appendix C.

The Series 2015 Participants are not-for-profit corporations, organized and existing under the laws of the State. All of the Series 2015 Participants have received Section 501(c)(3) designations from the Internal Revenue Service and as such qualify for exemption from certain federal income taxes. Typically, management of each Series 2015 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 2015 Participant's charitable purposes. When revenues are not sufficient to cover expenses, the Series 2015 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 2015 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 2015 Participants owns and/or leases and operates one or more facilities, including the Series 2015 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 2015 Participants has represented that it has the appropriate licenses and authority to provide its services under State statutes. The Series 2015 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 2015 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 2015 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 2015 Participants**. See "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING" herein.

The Series 2015 Participants have engaged the Program Facilitator to act as the facilitator for the InterAgency Council Pooled Loan Program. For its services, the Series 2015 Participants will pay the Program Facilitator a fee of .25% of the principal amount of the Series 2015 Bonds at closing for new money loans, a fee of .125% of the principal amount of the Series 2015 Bonds at closing for refunding loans and an annual fee of .125% of all outstanding Series 2015 Bonds. The Program Facilitator fee will not exceed $15,000 per year for any Series 2015 Participant. Each of the Series 2015 Participants are members of the Program Facilitator.

All of the Series 2015 Facilities financed by the Series 2015 Bonds are covered by PPAs funded by OPWDD. All of the Series 2015 Participants have over 30 years of experience providing services. See "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING."

Also see "Appendix A - Description of Series 2015 Participants" for a description of which Series 2015 Participants (i) have Prior Pledges of their respective Pledged Revenues, (ii) own or lease their respective Series 2015 Facilities and (iii) will grant mortgages (and the nature of such mortgages) on their respective Series 2015 Facilities.

PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING

General

OPWDD provides a portion of the revenues of the Series 2015 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 2015 Participants for provision of services is set forth below. Other government funding sources for one or more of the Series 2015 Participants are described in "Appendix A - Description of Series 2015 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 41,000 community beds in 2014, 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 2015 Facilities expected to be financed or refinanced with the proceeds of the Series 2015 Bonds. Such regulation and certification includes, among other things, participation in the determination as to the need for such Series 2015 Facilities, review of plans and specifications for construction/rehabilitation of such Series 2015 Facilities, the right to conduct inspections and program audits, and the establishment of a reimbursement rate for an individual's care.

Effective July 1, 2014, OPWDD, in conjunction with the New York State Department of Health ("DOH"), implemented a new reimbursement methodology for Intermediate Care Facilities, Supervised and Supportive Community Residences (including Individualized Residential Alternatives) and Day Habilitation programs. The development of a new methodology was initiated at the request of the Federal Centers for Medicare and Medicaid Services ("CMS") to establish a more rational system that would result in uniformity, transparency, predictability and stability. The process of creating the new methodology was the result of a two-year collaborative effort among representatives of OPWDD, DOH, and provider associations, and with the oversight of CMS. The cost components incorporated in the new methodology included: direct care and clinician salaries and hours, employment related expenditures, (i.e., employee benefits, FICA, unemployment, etc.), program support expenditures, administrative costs, costs of transportation of service recipients to and from programs, facility operational costs, property costs from the PPA, and other factors that can serve as predictors of service hours needed by the recipients. The provider cost data used for the new rates was extracted from the 2011 Consolidated Fiscal Reports, which is a report that is submitted annually to OPWDD and other State agencies. The outcome of the new methodology potentially results in either of positive or negative change in reimbursement of varying degrees for individual agencies; overall the total amount of funding for the service system remains the same unless additional funding is added to the system, but is distributed differently. However, funding for the capital portion of PPA projects will not change as a result of the new rate methodology. The new rates will be phased in over four years, and will include an adjustment in July 2015 based upon the 2013 Consolidated Fiscal Reports cost reports. For a description of the impact of the new methodology on each of the Series 2015 Participants, see "Appendix A - Description of Series 2015 Participants." As a safety net for providers for whom the transition to a lower reimbursement would be difficult to manage, OPWDD/DOH is developing a Vital Access Provider pool to provide financial support to assist such providers in creating efficiencies in their operations.

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. In 2012 Governor Cuomo issued Executive Order 84 to create the Olmstead Development and Implementation Cabinet (the "Olmstead Cabinet") which is charged with developing a plan consistent with New York's obligations under a United States Supreme Court decision in 1999. The Olmstead ruling held that the State's services programs and activities for people with disabilities must be administered in the most integrated setting appropriate to a person's needs. In response, OPWDD accelerated its plan to move people from institutional to small community settings. Two of these institutions, Monroe Developmental Center in Rochester and Wassaic Developmental Center in Wassaic, were closed in 2013. As of January 2014, approximately 800 people remain living in OPWDD's developmental centers or specialized units. The remaining developmental centers will be closed or reduced to a total census of 150 by 2017.

Additionally, during 2013-14 OPWDD initiated a "system transformation" to address the principles of the Olmstead Act, as well as the guidance of the Federal Centers for Medicaid and Medicare Services ("CMS"). The effort thus far has resulted in more individuals securing employment through supported employment programs operated by the non-profit provider agencies. As of September 2014, approximately 7,400 people are employed.

Population Statistics

The following are actual population statistics for the residential programs for intellectually/disabled individuals provided by OPWDD. Consistent with its plan, the State Operated Development Center census as of December 31, 2013 was slightly under 1,000. (Source: OPWDD):

Year (as of 3/31)	State-Operated Development Centers	Community Residences
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
2013	1,100	41,077
2014	800	41,334

The actual expenditures made for the operations and costs of OPWDD for State Fiscal Years 2009-2010 through 2012-2013 and the projected expenditures for the operations and costs of OPWDD for State Fiscal Years 2013-14 and 2014-15 are as follows. (Source: OPWDD):

Year	State Operations	Aid to Localities	Total Operations	Capital
2009-2010	2,227,012,000	2,138,785,000	4,365,797,000	31,784,000
2010-2011	2,130,407,000	2,179,873,000	4,310,280,000	24,369,000
2011-2012	2,009,106,000	2,320,147,000	4,329,253,000	41,719,000
2012-2013	2,052,554,000	2,204,415,000	4,256,969,000	38,710,000
2013-2014	1,983,243,000	2,150,192,000	4,133,435,000	43,099,000
2014-2015	1,955,006,000	2,204,667,000	4,159,673,000	43,099,000

The funding received by the Series 2015 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 2015 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 residential 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 2015 Facilities

In addition to the statutory receivership remedy described above, each Series 2015 Loan Agreement provides for a contractual remedy upon the failure of a Series 2015 Participant to operate its Series 2015 Facilities in accordance with regulatory standards. Each Series 2015 Participant has covenanted and agreed in its Series 2015 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 2015 Facilities in accordance with the valid operating certificate issued by OPWDD for such Series 2015 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 2015 Facility for the remaining term during which such Series 2015 Participant has agreed to operate such certified program at the Series 2015 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 2015 Participant under its Series 2015 Loan Agreement with respect to such Series 2015 Facility as they become due and owing. See "Appendix D - Summary of Certain Provisions of the Series 2015 Loan Agreements" for further details of OPWDD's rights with respect to the Series 2015 Facilities and DASNY's remedy upon an event of default by a Series 2015 Participant under its Series 2015 Loan Agreement to request OPWDD to exercise such rights.

PART 6 – THE REFUNDING PLAN

A portion of the proceeds of the Subseries 2015A-1 Bonds, together with other available funds, if any, will be used to refund allocable portions of various series of outstanding bonds issued by DASNY and other New York issuers* for the benefit of the Series 2015 Participants.

Simultaneously with the issuance and delivery of the Series 2015 Bonds, a portion of the proceeds of the Subseries 2015A-1 Bonds will be deposited in escrow with the various trustees for the respective Refunded Bonds and, together with other available funds, if any, will be used (i) in the case of Refunded Bonds that are currently callable, to pay the redemption price of and interest due on the such Refunded Bonds to their respective redemption dates to occur within 90 days, and (ii) in the case of Refunded Bonds to be advance refunded, to purchase direct non-callable obligations of the United States of America (the "Defeasance Securities"), the maturing principal and interest on which will be sufficient, together with any uninvested cash, to pay the principal or redemption price of and interest due on such Refunded Bonds to their respective maturity or redemption dates. At the time of such deposits, DASNY and the other issuers will give the respective trustees irrevocable instructions to give notice of the redemption of the Refunded Bonds and, as applicable, to apply (i) the cash or (ii) the maturing principal of and interest on the Defeasance Securities, together with any uninvested cash held in escrow, to the payment of the principal or redemption price of and interest coming due on the applicable Refunded Bonds to their respective maturity or redemption dates.

PART 7 - ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of proceeds of the Series 2015 Bonds:

	Subseries 2015A-1 Bonds	**Subseries 2015A-2 Bonds**
Estimated Sources of Funds		
Principal Amount of Series 2015 Bonds	$28,115,000	$1,175,000
Net Original Issue Premium (Discount)	1,542,258	0
Other Sources	8,244,619	0
Total Sources of Funds	$37,901,877	$1,175,000
Estimated Uses of Funds		
Deposit to Project Loan Fund	9,541,175	138,983
Deposit to Escrows for Refunded Bonds	25,534,726	0
Deposit to Series 2015 Debt Service Reserve Fund	2,160,840	92,087
Underwriter's Discount	553,420	63,225
Costs of Issuance	111,716	880,705
Total Uses of Funds	$37,901,877	$1,175,000

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* The other New York issuers are comprised of the County of Nassau Industrial Development Agency, the County of Westchester Industrial Development Agency, New York City Industrial Development Agency and Suffolk County Industrial Development Agency.

PART 8 - 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 Dormitory Authority 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 State Personal Income Tax Revenue Bonds and State Sales 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"), State University of New York, the Workers' Compensation Board, 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 December 31, 2014, DASNY had approximately $46.5 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 State 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 Internal Revenue Code of 1986, as amended. 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. One of the appointments to the Board by the Governor is currently vacant.

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 June 19, 2013. 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 expires on March 31, 2016.

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

John B. Johnson, Jr. was reappointed as a Member of DASNY by the Governor on June 19, 2013. Mr. Johnson is Chairman of the Board 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 expires on March 31, 2016.

SANDRA M. SHAPARD, *Secretary*, 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.

JONATHAN H. GARDNER, Esq., Buffalo.

Jonathan H. Gardner was appointed as a Member of DASNY by the Governor on June 17, 2014. Mr. Gardner is a partner of the law firm Kavinoky Cook, LLP in Buffalo, New York. His practice areas include corporate and securities law, commercial transactions, private placements, venture capital financing and business combinations representing private and public companies. Mr. Gardner is also an adjunct professor at the University of Buffalo Law School. He holds a Bachelor of Arts degree from Brown University and a Juris Doctor degree from the University of Chicago Law School. Mr. Gardner's term expires on March 31, 2015.

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

Beryl L. Snyder was reappointed as a member of DASNY by the Governor on June 19, 2013. 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, 2016.

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.

ELIZABETH BERLIN, *Acting Commissioner of Education of the State of New York, Bethlehem*; *ex-officio.*

Elizabeth Berlin was appointed by the Board of Regents to serve as Acting Commissioner of Education on January 3, 2015. As Acting Commissioner of Education, Ms. Berlin serves as Executive Deputy Commissioner of the State Education Department, part 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. Formerly, Ms. Berlin served as the Executive Deputy Commissioner of the New York State Office of Temporary and Disability Assistance. Prior thereto she served as Commissioner of the Albany County Department of Social Services. Ms. Berlin holds a Bachelor of Arts degree from Siena College.

HOWARD A. ZUCKER, M.D., J.D., *Acting Commissioner of Health of the State of New York*, Albany; *ex-officio*.

Howard A. Zucker, M.D., J.D., was appointed Acting Commissioner of Health on May 5, 2014. Prior to his appointment he served as First Deputy Commissioner leading the state Department of Health's preparedness and response initiatives in natural disasters and emergencies. Before joining the state Department of Health, Dr. Zucker was professor of Clinical Anesthesiology at Albert Einstein College of Medicine of Yeshiva University and a pediatric cardiac anesthesiologist at Montefiore Medical Center. He was also an adjunct professor at Georgetown University Law School where he taught biosecurity law. Dr. Zucker earned his medical degree from George Washington University School of Medicine. He also holds a J.D. from Fordham University School of Law and a LL.M. from Columbia Law School.

MARY BETH LABATE, *Budget Director of the State of New York,* Albany*; ex-officio.*

Mary Beth Labate was appointed Budget Director on January 16, 2015. She 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. Ms. Labate previously served as First Deputy Budget Director where she was responsible for managing the day to day operations of the Division of the Budget and playing a lead role in negotiating, establishing and executing the State Budget. Prior thereto, she held leadership positions at the Division of the Budget, the New York State Office of Parks, Recreation and Historic Preservation, and the New York State Division of Housing and Community Renewal. Ms. Labate holds a Bachelor of Arts degree from the University of Notre Dame and a Masters degree in Public Administration from the Rockefeller School of Public Affairs

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. Prior to joining DASNY, Mr. Williams spent the majority of his career in law including 15 years as a founding partner in Wood, Williams, Rafalsky & Harris, where he helped to develop a national bond counsel practice, then as a partner in Bryan Cave LLP, where he counseled corporate clients in a range of areas. Mr. Williams later left the practice of law to help to establish a boutique Wall Street investment banking company where he served as president for several years. Throughout his career, Mr. Williams has made significant efforts to support diversity and promote equal opportunity, including his past service as president of One Hundred Black Men, Inc. and chairman of the Eagle Academy Foundation. Mr. Williams is licensed to practice law in the State of New York and 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.

LINDA H. BUTTON is the Acting Chief Financial Officer and Treasurer of DASNY. Ms. Button oversees and directs the activities of the Office of Finance. She is responsible for supervising DASNY's investment program, general accounting, accounts payable, accounts receivable and financial reporting functions, as well as the development and implementation of financial policies, financial management systems and internal controls for financial reporting. Ms. Button has served in various capacities at DASNY over a long career, most recently as Director, Financial Management in the Office of Finance. She holds a Bachelor of Business Administration degree in Accounting 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 State of New York and the Commonwealth of 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 30 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.

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, 2014. Copies of the most recent audited financial statements are available upon request at the offices of DASNY.

PART 9 - LEGALITY OF THE SERIES 2015 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2015 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 2015 Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 10 - NEGOTIABLE INSTRUMENTS

The Series 2015 Bonds are negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution, the Series 2015 Resolution and in the Series 2015 Bonds.

PART 11 - TAX MATTERS

Subseries 2015A-1 Bonds

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to DASNY, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Subseries 2015A-1 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Subseries 2015A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by DASNY, each of the Series 2015 Participants, as applicable, the Program Facilitator, and others, and Bond Counsel has assumed compliance by DASNY, and each of the Series 2015 Participants, as applicable, with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subseries 2015A-1 Bonds from gross income under Section 103 of the Code. In addition, in rendering its opinion, Bond Counsel has relied on the opinion of counsel to the Series 2015 Participants regarding, among other matters, the current qualifications of the Series 2015 Participants as organizations described in Section 501(c)(3) of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Subseries 2015A-1 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2015 Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Subseries 2015A-1 Bonds, or under state and local tax law.

Reference is made to Appendix G hereto for the proposed form of the approving opinion, in substantially final form, expected to be rendered by Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, in connection with the issuance of the Series 2015 Bonds.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Subseries 2015A-1 Bonds in order that interest on the Subseries 2015A-1 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Subseries

2015A-1 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Subseries 2015A-1 Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. DASNY and the Series 2015 Participants, as applicable, have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Subseries 2015A-1 Bonds from gross income under Section 103 of the Code.[*]

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Subseries 2015A-1 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Subseries 2015A-1 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Subseries 2015A-1 Bonds.

Prospective owners of the Subseries 2015A-1 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Subseries 2015A-1 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Subseries 2015A-1 Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Subseries 2015A-1 Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Subseries 2015A-1 Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Subseries 2015A-1 Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Subseries 2015A-1 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such bond. Accrued OID may be taken into account as an increase in

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[*] Such covenants include agreements with respect to the use and disposition of certain facilities not being financed or refinanced with proceeds of the Series 2015 Bonds and not constituting a part of the Project. See "PART 12 - BONDHOLDER RISKS - Effect of Changes in Tax-Exempt Status; Continued Legal Requirements of Tax-Exempt Status."

the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Subseries 2015A-1 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Subseries 2015A-1 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Subseries 2015A-1 Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, 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 such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Subseries 2015A-1 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Subseries 2015A-1 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Subseries 2015A-1 Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Subseries 2015A-1 Bonds under Federal or state law or otherwise prevent beneficial owners of the Subseries 2015A-1 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Subseries 2015A-1 Bonds. For example, the Fiscal Year 2015 Budget proposed on March 4, 2014, by the Obama Administration recommends a 28% limitation on "all itemized deductions, as well as other tax benefits" including "tax-exempt interest." The net effect of such proposal, if enacted into law, would be that an owner of a Subseries 2015A-1 Bond with a marginal tax rate in excess of 28% would pay some amount of federal income tax with respect to the interest on such Subseries 2015A-1 Bond. Similarly, on February 26, 2014, Dave Camp, Chairman of the United States House Ways and Means Committee, released a discussion draft of a proposed bill which would significantly overhaul the Code, including the repeal of many deductions; changes to the marginal tax rates; elimination of tax-exempt treatment of interest for certain bonds issued after 2014; and a provision similar to the 28% limitation on tax-benefit items described above (at 25%) which, as to certain high income taxpayers, effectively would impose a 10% surcharge on their "modified adjusted gross income," defined to include tax-exempt interest received or accrued on all bonds, regardless of issue date.

Prospective purchasers of the Subseries 2015A-1 Bonds should consult their own tax advisors regarding the foregoing matters.

Subseries 2015A-2 Bonds

General

The following discussion is a summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of the Subseries 2015A-2 Bonds by original purchasers thereof who are U.S. Holders (as defined below). This summary is based on the Code, Treasury regulations, revenue rulings and court decisions, all as now in effect and all subject to change at any time, possibly with retroactive effect. This summary assumes that the Subseries 2015A-2 Bonds will be held as "capital assets" under the Code, and it does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding any Subseries 2015A-2 Bonds as a position in a "hedge" or "straddle" for United States Federal income tax purposes, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Subseries 2015A-2 Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code. Each prospective purchaser of Subseries 2015A-2 Bonds should consult with its own tax advisor concerning the United States Federal income tax and other tax consequences to it of the acquisition, ownership and disposition of Subseries 2015A-2 Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Subseries 2015A-2 Bond that is for United States Federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

U.S. Holders – Interest Income

In the opinion of Bond Counsel, under existing statutes, interest and original issue discount (as defined below) on the Subseries 2015A-2 Bonds (i) are included in gross income for United States Federal income tax purposes and (ii) are exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York.

Original Issue Discount

For United States Federal income tax purposes, a Subseries 2015A-2 Bond will be treated as issued with OID if the excess of a Subseries 2015A-2 Bond's "stated redemption price at maturity" over its "issue price" equals or exceeds a statutorily determined *de minimis* amount. The "issue price" of each Subseries 2015A-2 Bond in a particular issue equals the first price at which a substantial amount of such issue is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of a Subseries 2015A-2 Bond is the sum of all payments provided by such Subseries 2015A-2 Bond other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. In general, if the excess of a Subseries 2015A-2 Bond's stated redemption price at maturity over its issue price is less than 0.25 percent of the Subseries 2015A-2 Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity (the "*de minimis* amount"), then such excess, if any, constitutes *de minimis* OID, and the Subseries 2015A-2 Bond is not treated as being issued with OID and all payments of stated interest (including stated interest that would otherwise be characterized as OID) is treated as qualified stated interest, as described below.

Payments of qualified stated interest on a Subseries 2015A-2 Bond are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received in accordance with the U.S. Holder's regular method of tax accounting. A U.S. Holder of a Subseries 2015A-2 Bond having a maturity of more than one year from its date of issue generally must include OID in income as ordinary interest as it accrues on a constant-yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. The amount of OID included in income by the U.S. Holder of a Subseries 2015A-2 Bond is the sum of the daily portions of OID with respect to such Subseries 2015A-2 Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such Subseries 2015A-2 Bond. The daily portion of OID on any Subseries 2015A-2 Bond is determined by allocating to each day in any "accrual period" a ratable portion of the OID allocable to the accrual period. All accrual periods with respect to a Subseries 2015A-2 Bond may be of any length and the accrual periods may vary in length over the term of the Subseries 2015A-2 Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or final day of an accrual period. The amount of OID allocable to an accrual period is generally equal to the difference between (i) the product of the Subseries 2015A-2 Bond's "adjusted issue price" at the beginning of such accrual period and such Subseries 2015A-2 Bond's yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Subseries 2015A-2 Bond at the beginning of any accrual period is the issue price of the Subseries 2015A-2 Bond plus the amount of accrued OID includable in income for all prior accrual periods minus the amount of any prior payments on the Subseries 2015A-2 Bond other than qualified stated interest payments. The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (i) the amount payable at the maturity of the Subseries 2015A-2 Bond (other than a payment of qualified stated interest) and (ii) the Subseries 2015A-2 Bond's adjusted issue price as of the beginning of the final accrual period. Under the OID rules, U.S. Holders generally will have to include in income increasingly greater amounts of OID in successive accrual periods.

A U.S. Holder may elect to include in gross income all interest that accrues on a Subseries 2015A-2 Bond using the constant-yield method described above under the heading "Original Issue Discount," with the modifications described below. For purposes of this election, interest includes, among other things, stated interest, OID and de minimis OID, as adjusted by any amortizable bond premium described below under the heading "Bond Premium." In applying the constant-yield method to a Subseries 2015A-2 Bond with respect to which this election has been made, the issue price of the Subseries 2015A-2 Bond will equal its cost to the electing U.S. Holder, the issue date of the Subseries 2015A-2 Bond will be the date of its acquisition by the electing U.S. Holder, and no payments on the Subseries 2015A-2 Bond will be treated as payments of qualified stated interest. The election will generally apply only to the Subseries 2015A-2 Bond with respect to which it is made and may not be revoked without the consent of the Internal Revenue Service. If this election is made with respect to a Subseries 2015A-2 Bond with amortizable bond premium, then the electing U.S. Holder will be deemed to have elected to apply amortizable bond premium against interest with respect to all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludable from gross income) held by the electing U.S. Holder as of the beginning of the taxable year in which the Subseries 2015A-2 Bond with respect to which the election is made is acquired or thereafter acquired. The deemed election with respect to amortizable bond premium may not be revoked without the consent of the Internal Revenue Service.

U.S. Holders of any Subseries 2015A-2 Bonds issued with OID should consult their own tax advisors with respect to the treatment of OID for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of Subseries 2015A-2 Bonds.

Bond Premium

In general, if a U.S. Holder acquires a Subseries 2015A-2 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Subseries 2015A-2 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Subseries 2015A-2 Bond (a "Taxable Premium Bond"). In general, if a U.S. Holder of a Taxable Premium Bond elects to amortize the premium as "amortizable bond premium" over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the U.S. Holder will make a corresponding adjustment to such holder's basis in the Taxable Premium Bond. Any such election applies to all debt instruments of the U.S. Holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired, and is irrevocable without the Internal Revenue Service's consent. A U.S. Holder of a Taxable Premium Bond that so elects to amortize bond premium does so by offsetting the qualified stated interest allocable to each interest accrual period under the U.S. Holder's regular method of Federal tax accounting against the bond premium allocable to that period. If the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is treated as a bond premium deduction under Section 171(a)(1) of the Code, subject to certain limitations. If a Taxable Premium Bond is optionally callable before maturity at a price in excess of its stated redemption price at maturity, special rules may apply with respect to the amortization of bond premium. Under certain circumstances, the U.S. Holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the U.S. Holder's original acquisition cost.

U.S. Holders of any Taxable Premium Bonds should consult their own tax advisors with respect to the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of Taxable Premium Bonds.

U.S. Holders – Disposition of Subseries 2015A-2 Bonds

Except as discussed above, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Subseries 2015A-2 Bond, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such U.S. Holder's adjusted tax basis in the Subseries 2015A-2 Bond. A U.S. Holder's adjusted tax basis in a Subseries 2015A-2 Bond generally will equal such U.S. Holder's initial investment in the Subseries 2015A-2 Bond, increased by any OID included in the U.S. Holder's income with respect to the Subseries 2015A-2 Bond and decreased by the amount of any payments, other than qualified stated interest payments, received and bond premium amortized with respect to such Subseries 2015A-2 Bond. Such gain or loss generally will be long-term capital gain or loss if the Subseries 2015A-2 Bond was held for more than one year.

U.S. Holders – Defeasance

U.S. Holders of the Subseries 2015A-2 Bonds should be aware that, for Federal income tax purposes, the deposit of moneys or securities in escrow in such amount and manner as to cause the Subseries 2015A-2 Bonds to be deemed to be no longer outstanding under the Resolution (a "defeasance"), could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, for Federal income tax purposes, the character and timing of receipt of payments on the Subseries 2015A-2 Bonds subsequent to any such defeasance could also be affected. U.S. Holders of the Subseries 2015A-2 Bonds are advised to consult with their own tax advisors regarding the consequences of a defeasance for Federal income tax purposes, and for state and local tax purposes.

U.S. Holders – Backup Withholding and Information Reporting

In general, information reporting requirements will apply to non-corporate U.S. Holders with respect to payments of principal, payments of interest, and the accrual of OID on a Subseries 2015A-2 Bond and the proceeds of the sale of a Subseries 2015A-2 Bond before maturity within the United States. Backup withholding at a rate provided in the Code will apply to such payments and to payments of OID unless the U.S. Holder (i) is a corporation or other exempt recipient and, when required, demonstrates that fact, or (ii) provides a correct taxpayer identification number, certifies under penalties of perjury, when required, that such U.S. Holder is not subject to backup withholding and has not been notified by the Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its United States Federal income tax returns.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Subseries 2015A-2 Bonds under state law and could affect the market price or marketability of the Taxable Bonds.

Prospective purchasers of the Subseries 2015A-2 Bonds should consult their own tax advisors regarding the foregoing matters.

See "Appendix G – Form of Approving Opinion of Bond Counsel."

PART 12 - BONDHOLDERS' RISKS

General

The Series 2015 Bonds involve a certain degree of risk. Prospective investors in the Series 2015 Bonds should review all of the information in this Official Statement and information pertaining to the Series 2015 Participants incorporated herein by reference carefully prior to purchasing any of the Series 2015 Bonds. This Official Statement contains only summaries of the Resolution, the Series 2015 Resolution, the Series 2015 Loan Agreements and the related documents. Prospective investors are urged to read such documents in their entirety prior to investing in the Series 2015 Bonds. Copies of such documents may be obtained from the Underwriter prior to the issuance of the Series 2015 Bonds. In addition, prospective investors should carefully review Appendix A for a discussion of the financial condition and results of operations of the Series 2015 Participants, Appendix B for copies of the audited financial statements of the Series 2015 Participants and Appendix C for copies of recent unaudited financial information for each of the Series 2015 Participants.

Set forth below are certain risk factors, among others, that could adversely affect a Series 2015 Participant's operation and revenues and expenses of its Series 2015 Facilities to an extent which cannot be determined at this time. Such risk factors should be considered before any investment in the Series 2015 Bonds is made. These risk factors should not be considered definitive or exhaustive.

Special, Limited Obligations of DASNY

The Series 2015 Bonds are special, limited obligations of DASNY payable solely from revenues to be received by DASNY from the Series 2015 Participants under the applicable Series 2015 Loan Agreement and from amounts held in the funds established pursuant to the Resolutions (other than the Arbitrage Rebate Fund). The Series 2015 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 2015 Participants

The obligations of each Series 2015 Participant under its Series 2015 Loan Agreement are independent of the obligations of the other Series 2015 Participants under their Series 2015 Loan Agreements. A failure by a Series 2015 Participant to timely pay its obligations under its Series 2015 Loan Agreement might result in an event of default under the Resolutions with respect to such Series 2015 Participant's Allocable Portion of the Series 2015 Bonds. Upon the happening and continuance of an event of default affecting only a Defaulted Allocable Portion of the Series 2015 Bonds, payment on such Defaulted Allocable Portion of Series 2015 Bonds will be limited to amounts received from or payable by or on behalf of such Series 2015 Participant and amounts derived upon the realization of any security or collateral granted by such defaulting Series 2015 Participant. Holders of a Defaulted Allocable Portion of the Series 2015 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

2015 Participant for the payment of the Series 2015 Bonds or any other security pledged by such other non-defaulting Series 2015 Participants as security for their loans. 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 2015 BONDS - Events of Default - Special Provisions Relating to Defaults," "PART 3 - THE SERIES 2015 BONDS - Redemption Provisions" and "Appendix F - Summary of Certain Provisions of the Resolutions."

Reliance on Credit of the Series 2015 Participants

The Series 2015 Bonds are being issued without credit enhancement in the form of a letter of credit or bond insurance. While the amounts payable to the Series 2015 Participants pursuant to their respective PPAs are calculated in a manner so as to provide moneys equal to debt service on their respective loans, there can be no assurance that the funds received by a particular Series 2015 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 2015 Participant's Allocable Portion of the Series 2015 Bonds (whether because of non-appropriation of funds by the State, failure of a Series 2015 Participant to operate its Series 2015 Facility or Facilities in accordance with operational standards or otherwise). Moreover, the payment obligations of the Series 2015 Participants are several, not joint. The Holders of the Series 2015 Bonds must therefore rely upon the credit of each Series 2015 Participant for the payment of the Series 2015 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 2015 BONDS - Security for the Series 2015 Bonds," and "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

Each Series 2015 Participant covenants in its Series 2015 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 Series 2015 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; provided, however, that failure by a Series 2015 Participant in any Fiscal Year to demonstrate compliance with the Total Debt Service Coverage Ratio shall not constitute an Event of Default under the Loan Agreement if such Series 2015 Participant delivers to the Authority, the Underwriter and the Trustee, by the last day of the next succeeding Fiscal Year, a certificate of an Authorized Officer of such Series 2015 Participant along with a schedule or schedules demonstrating compliance with the Total Debt Service Coverage Ratio for a rolling 12-month period ending no earlier than 90 days after the end of the Fiscal Year for which such Series 2015 Participant is unable to demonstrate compliance.

Revenues of Series 2015 Participants

Future revenues of each Series 2015 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 2015 Bonds depends upon the receipt by the Trustee of the Loan Repayments under the Series 2015 Loan Agreements. A number of risks that could affect the Series 2015 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 2015 Participants; (ii) the State, various county and city departments to make timely payments to the Series 2015 Participants of appropriated amounts caused by revenue short falls or other State and local fiscal considerations; (iii) the Series 2015 Participants to fulfill their obligations which entitle them to receive payments; (iv) the Series 2015 Participants to maintain the appropriate certifications from the required licensing or certifying entity(ies) to provide services as required; and/or (v) the Series 2015 Participants to obtain the renewal of their contracts. In addition, a Series 2015 Participant's license and/or certification may be revoked for failure to comply with standards of operation applicable to such Series 2015 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 2015 Participants, the applicable Series 2015 Participant and DASNY shall enter into separate loan agreements. The Series 2015 Bonds are separately secured from all other Series of Bonds and the Holders of any Series of Bonds other than the Series 2015 Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2015 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 2015 Bonds, an event of default by a Series 2015 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 2015 Participant's Series 2015 Loan Agreement. See "PART 1 - INTRODUCTION - Authorization of Issuance" and "- Security for the Series 2015 Bonds" and "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2015 BONDS."

Enforceability of Remedies; Effect of Bankruptcy of a Series 2015 Participant

The Series 2015 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 2015 Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Resolutions, the respective Series 2015 Loan Agreements, the respective Mortgages or other security agreements and the then-value of the collateral and other regulatory approvals. 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 Series 2015 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 2015 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 2015 Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If a Series 2015 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 2015 Participant and its property, including the commencement of foreclosure proceedings under its Mortgage, if applicable. Such Series 2015 Participant would not be permitted or required to make payments of principal or interest under its Series 2015 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 2015 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 2015 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 2015 Participant's Allocable Portion of the Series 2015 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 2015 Participant, which could affect the likelihood or timing of obtaining such relief. In addition, if the Mortgage of such defaulting Series 2015 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 2015 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 then-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 2015 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 2015 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 2015 Bonds

The Mortgages do not presently provide any security for the Series 2015 Bonds. However, under certain circumstances described herein, one or more of the Mortgages may be assigned to the Trustee. Prior to any assignment of a Mortgage to the Trustee, each Series 2015 Loan Agreement provides that DASNY, without the consent of the Trustee or the Holders of the Series 2015 Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of such Mortgage and of any security interest in furniture, fixtures or equipment financed with the proceeds of the Series 2015 Bonds 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 2015 Participant may remove such furniture, fixtures or equipment from the Mortgaged Property provided that such Series 2015 Participant shall replace such furniture, fixtures or equipment with furniture, fixtures or equipment having equivalent value and utility. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2015 BONDS - Security for the Series 2015 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 2015 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 Series 2015 Loan Agreements or the applicable Mortgages, and (viii) claims by creditors that the mortgaged indebtedness in excess of the then-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 2015 Participant's Series 2015 Loan Agreement, and one of the options under the Resolution, is to institute foreclosure proceedings to enforce the lien on and sell such Series 2015 Participant's Mortgaged Property in the event of a default under its Series 2015 Loan Agreement, its Mortgage(s) or the Resolutions. However, due to the limited uses for which a Series 2015 Participant's Mortgaged Property may be utilized, none of DASNY, the Program Facilitator, the Trustee, the applicable Series 2015 Participant, or the Underwriter makes any assurances or representations that a sale of a Series 2015 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 2015 Participant established under the Resolution, will be sufficient to pay in full the principal of, or interest on, the Allocable Portion of the Series 2015 Bonds attributable to such defaulting Series 2015 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 2015 Bonds that would otherwise have been available absent the existence of such hazardous materials.

Another option under a Series 2015 Participant's Series 2015 Loan Agreement is to institute proceedings to enforce the lien on and sell the Series 2015 Participant's Equipment (as defined in each Mortgage) in the event of a default under its Series 2015 Loan Agreement, its Mortgage(s) or the Resolutions. However, due to the limited uses for which a Series 2015 Participant's Equipment may be utilized, none of DASNY, the Program Facilitator, the Trustee, the applicable Series 2015 Participant, or the Underwriter makes any assurances or representations that DASNY or the Trustee will be able to sell a Series 2015 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 2015 Participant established under the Resolution, would be sufficient to pay in full the principal of, or interest on, the Series 2015 Bonds attributable to such defaulting Series 2015 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 2015 Participants. Such approval was not sought in connection with the execution, delivery and performance by the Series 2015 Participants of the Mortgages or the pledges of assets and revenues that are contemplated by the Resolutions and the Series 2015 Loan Agreements. It is the opinion of counsel to the Series 2015 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.

Release of Series 2015 Facilities from Lien of Mortgages

Each Series 2015 Loan Agreement, each Mortgage and the Resolutions provide a Series 2015 Participant the ability to prepay a portion of its loan attributable to a Series 2015 Facility and, upon the redemption or defeasance of the related Series 2015 Bonds to have such Series 2015 Facility released from the lien of the applicable Mortgage. There is no assurance that the security, if any, provided by the remaining Series 2015 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 2015 Participant's Allocable Portion of the Series 2015 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 2015 Participant.

In view of the foregoing, investors should rely on their own examination of the creditworthiness and financial condition of each of the Series 2015 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 2015 Participants are subject to Federal, State and local actions, including, among others, actions by the various State, county and city departments. The Series 2015 Bonds are payable from operating revenues of the Series 2015 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 2015 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 2015 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 2015 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 Series 2015 Bonds, will materially adversely affect a Series 2015 Participant's ability to make its Loan Repayments and, consequently, the repayment of the Series 2015 Bonds attributable to such Series 2015 Participant.

Federal Medicaid Reform

A majority of the Public Funds (including the Intercept Funds) are received from Medicaid. Future Medicaid reform may materially adversely affect the Public Funds received by the Series 2015 Participants.

Completion of the Projects; Zoning; Certificate of Occupancy

The acquisition of all of the Series 2015 Facilities are complete. Each of the Series 2015 Facilities has received a Certificate of Occupancy except for Birch Family Services, Inc.'s Series 2015 Facility located at 137-31 80th Street, Howard Beach, New York, HASC Center, Inc.'s Series 2015 Facility located at 2102-2106 Avenue I, Brooklyn, New York, QSAC, Inc.'s Series 2015 Facility located 26 Cotton Lane, Levittown, New York, Services for the Underserved, Inc. and SUS-Developmental Disabilities Services, Inc.'s Series 2015 Facility located at 125 Hull Street, Brooklyn, New York, but many are seeking updated Certificates of Occupancy or Certificates of Completion that have not yet been issued. Updated certificates of occupancy or completion are required for (1) Birch Family Services, Inc.'s Series 2015 Facility located at 137-31 80th Street, Howard Beach, New York, (2) Community Resource Center for the Developmental Disabled, Inc.'s Series 2015 Facility located 631 Pelham Parkway North, Bronx, New York, (3) Eden II School for Autistic Children, Inc.'s Series 2015 Facility located at 155 Dix Hills Road, Huntington, New York, (4) HASC Center, Inc.'s Series 2015 Facilities located at 2102-2106 Avenue I, Brooklyn, New York, 804 Ditmas Avenue, Brooklyn, New York and 918 50th Street, Brooklyn, New York, (5) Lifespire, Inc.'s Series 2015 Facilities located at 61-56 219th Street, Bayside, New York and 1171 Sterling Place, Brooklyn, New York, (6) QSAC, Inc.'s Series 2015 Facility located at 26 Cotton Lane, Levittown, New York, (7) Services for the Underserved, Inc. and SUS-Developmental Disabilities Services, Inc.'s Series 2015 Facilities located at 945 Crescent Street, Brooklyn, New York, 125 Hull Street, Brooklyn, New York and 2892 Valentine Avenue, Bronx, New York, and (8) Young Adult Institute, Inc.'s Series 2015 Facilities located at 261 King Street, Port Chester, New York, 82-24 209th Street, Hollis Hills, New York, 135-39 Union Turnpike, Kew Gardens, New York, 65 Parkway Drive, Port Chester, New York, and 677 White Plains Road, Tarrytown, New York.

Each Series 2015 Facility may require special use permits or compliance or other zoning approval (each, a "Certificate") from the applicable municipality. Failure of a Series 2015 Participant to obtain an appropriate Certificate where the same is required could materially adversely affect the financial position of such Series 2015 Participant. Moreover, the failure of a Series 2015 Participant's Series 2015 Facilities to receive a Certificate when required could materially adversely impact either the Series 2015 Participant's, the Trustee's or another party's right to use or occupy the Series 2015 Facility, before or after the exercise of default remedies.

Operating Certificates, which permit the Series 2015 Participants to operate their Series 2015 Facilities have been issued by OPWDD for all of the Series 2015 Facilities, except Birch Family Services, Inc.'s Series 2015 Facility located at 137-31 80th Street, Howard Beach, New York and QSAC, Inc.'s Series 2015 Facility located at 26 Cotton Lane, Levittown, New York as their construction and/or renovation are not yet completed.

Additional Indebtedness

Under its Series 2015 Loan Agreement, each Series 2015 Participant has the ability to incur additional debt. An event of default by a Series 2015 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 2015 Participant's Series 2015 Loan Agreement. See "Appendix E - Summary of Certain Provisions of the Series 2015 Loan Agreements."

Prior Pledges of Pledged Revenues

The Series 2015 Bonds are secured by the pledge and assignment to the Trustee of DASNY's security interest in the Pledged Revenues granted by each of the Series 2015 Participants to DASNY pursuant to its Series 2015 Loan Agreement, subject to Prior Pledges. Certain of the Series 2015 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 2015 Participants have pledged their accounts receivable, including Public Funds, to banks or other financial institutions as security for their obligations in connection with lines of credit. The pledge of the Pledged Revenues securing such Series 2015 Participant's Allocable Portion of the Series 2015 Bonds is subject, and subordinate, to such Prior Pledges in all respects. See "Appendix A - Description of Series 2015 Participants" for a description of which Series 2015 Participants have Prior Pledges of their respective Pledged Revenues.

Grant of Additional Security Interests

Subject to the limitations set forth in its Series 2015 Loan Agreement, a Series 2015 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 2015 Participant and its ability to satisfy its Loan Repayment obligations. See "Appendix E - Summary of Certain Provisions of the Series 2015 Loan Agreements."

A Series 2015 Participant may also grant a subordinate mortgage as security for bonds issued by DASNY after the date of issuance of the Series 2015 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 2015 Facility, and any loan agreement, or amendment to the applicable Series 2015 Loan Agreement, between DASNY and such Series 2015 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, each Series 2015 Participant is subject to various requirements affecting its operation. The failure of a Series 2015 Participant to maintain its tax-exempt status may affect the Series 2015 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 Series 2015 Loan Agreement. Further, a loss of a Series 2015 Participant's status as a Section 501(c)(3) organization, failure of a Series 2015 Participant to comply with certain legal requirements of the Code, or adoption of amendments to the Code applicable to such Series 2015 Participant that restrict the use of tax-exempt bonds for facilities, such as one or more of its Series 2015 Facilities, could cause interest on the Subseries 2015A-1 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 Subseries 2015A-1 Bonds. The opinion of 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 Subseries 2015A-1 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 Subseries 2015A-1 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Subseries 2015A-1 Bonds. See "PART 11 - TAX MATTERS" above. The Subseries 2015A-1 Bonds are not subject to redemption, nor will the interest rate on the Subseries 2015A-1 Bonds be changed, if interest on the Subseries 2015A-1 Bonds is included in the gross income of the Bondholders or former Bondholders.

In addition to several of the Series 2015 Facilities, certain other facilities of the Series 2015 Participants that were financed or refinanced with proceeds of the respective Refunded Bonds were mortgaged or assigned to the respective issuers of the Refunded Bonds as security for the applicable Series 2015 Participant's obligations with respect thereto. Such other facilities are not being refinanced with proceeds of the Series 2015 Bonds and will not constitute a part of the Series 2015 Project or a part of the collateral for the respective Series 2015 Participant's obligations in connection with the Series 2015 Bonds. Such other facilities, however, will remain subject to federal income tax restrictions with respect to the use and disposition of such facilities and a failure of a Series 2015 Participant to comply with such restrictions could have an adverse effect on the continued exclusion of interest on the Subseries 2015A-1 Bonds from gross income under Section 103 of the Code.

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 Subseries 2015A-1 Bonds.

The Internal Revenue Service notified Young Adult Institute, Inc., which is expected to receive a loan of approximately $8,225,000 from the proceeds of the Series 2015 Bonds, of an examination of its executive compensation and possible unrelated business income in May 2013, which examination remains ongoing. For more information related to this examination, see "Appendix A - Description of Series 2015 Participants – Young Adult Institute – Internal Revenue Service Examination."

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 2015 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 2015 Participant and the effect of any such review on such Series 2015 Participant's ability to make its payments under its Series 2015 Loan Agreement.

Specific Risks Related to Series 2015 Leased Facilities

In order to secure its obligations under its Series 2015 Loan Agreement, (i) Community Resource Center for the Developmental Disabled, Inc. will collaterally assign to DASNY pursuant to a Collateral

Assignment of Leases its right, title and interest (but not its obligations) in the lease for its Series 2015 Facilities located at 631 Pelham Parkway North, Bronx, New York, (ii) HASC Center, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Leases its right, title and interest (but not its obligations) in the lease for its Series 2015 Facilities located at 1221 East 14th Street, Brooklyn, New York and (iii) Lifespire, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Leases its right, title and interest (but not its obligations) in the lease for its Series 2015 Facilities leases its Series 2015 Facilities located at 163 East 125th Street, New York, New York (collectively, the "Leases"). The landlords under each of the Leases have each consented to such collateral assignment. Upon and during an uncured Event of Default under such Series 2015 Participant's Series 2015 Loan Agreement, DASNY may further assign a Lease to a financially sound New York State-approved not-for-profit corporation selection by DASNY (each a "Replacement Tenant") for purposes of operating a State-approved program within such Series 2015 Facility similar to the program currently operated therein by such Series 2015 Participant. The applicable Replacement Tenant would assume such Series 2015 Participant's liabilities and obligations under the applicable Lease on terms acceptable to the landlord. Notwithstanding the Collateral Assignment of Leases, such Series 2015 Participant shall remain liable under the Leases to perform all of its obligations thereunder. Certain practical and legal considerations, however, including, but not limited to, bankruptcy risks, could inhibit or materially delay the ability to locate a Replacement Tenant for such Series 2015 Facilities, or otherwise preclude the receipt of sufficient revenues to repay such Series 2015 Participant's Allocable Portion of the Series 2015 Bonds.

Right of Reacquisition of the Levittown Facility of QSAC, Inc.

QSAC, Inc. ("QSAC") acquired title to the Series 2015 Facility located at 26 Cotton Lane, Levittown, New York (the "Levittown Facility") from the State of New York, acting by and through DASNY for $1.00 on February 20, 2014. The deed pursuant to which QSAC acquired title to the Levittown Facility contained a right of reacquisition by DASNY in the event that QSAC, its successors and assigns fail to utilize the Levittown Facility as an authorized not-for-profit community mental hygiene services facility 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. Any subordination of this right of reacquisition to the lien of QSAC's Mortgage on the Levittown Facility would require the consent of OPWDD. While OPWDD's consent has been requested, there is no guarantee that QSAC will be able to obtain such consent or that QSAC's title to the Levittown Facility will not continue to be subject to the right of reacquisition.

Right of Reacquisition of the Valentine Avenue Facilities of SUS-Developmental Disabilities Services, Inc.

SUS-Developmental Disabilities Services, Inc. f/k/a Services for the Underserved-MR Programs, Inc. ("SUS") acquired title to the Series 2015 Facilities located at 2886-2892 Valentine Avenue, Bronx, New York (the "Valentine Avenue Facilities") from the State of New York, acting by and through DASNY for $1.00 on April 15, 2002. The deed pursuant to which SUS acquired title to the Valentine Avenue Facilities contained a right of reacquisition by DASNY in the event that SUS, its successors and assigns fail to utilize the Valentine Avenue Facilities as an authorized not-for-profit community mental hygiene services facility 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. Any subordination of this right of reacquisition to the lien of SUS's Mortgage on the Valentine Avenue Facilities would require the consent of OPWDD. While OPWDD's consent has been requested, there is no guarantee that SUS will be able to obtain such consent or that SUS's title to the Valentine Avenue Facilities will not continue to be subject to the right of reacquisition.

Right of Reacquisition of the 261st Street Facility of Young Adult Institute, Inc.

Young Adult Institute, Inc. ("YAI") acquired title to the Series 2015 Facility located at 281 West 261st Street, Bronx, New York (the "261st Street Facility") from the State of New York, acting by and through DASNY for $1.00 on July 31, 2003. The deed pursuant to which YAI acquired title to the 261st Street Facility contained a right of reacquisition by DASNY in the event that YAI, its successors and assigns fail to utilize the 261st Street Facility as an authorized not-for-profit community mental hygiene services facility 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. Any subordination of this right of reacquisition to the lien of YAI's Mortgage on the 261st Street Facility would require the consent of OPWDD. While OPWDD's consent has been requested, there is no guarantee that YAI will be able to obtain such consent or that YAI's title to the 261st Street Facility will not continue to be subject to the right of reacquisition.

Right of Reacquisition of the 58th Place Facility of Young Adult Institute, Inc.

YAI acquired title to the Series 2015 Facility located at 46-48 58th Place, Queens, New York (the "58th Place Facility") from the State of New York, acting by and through DASNY for $1.00 on July 31, 2003. The deed pursuant to which YAI acquired title to the 58th Place Facility contained a right of reacquisition by DASNY in the event that YAI, its successors and assigns fail to utilize the 58th Place Facility as an authorized not-for-profit community mental hygiene services facility 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. Any subordination of this right of reacquisition to the lien of YAI's Mortgage on the 58th Place Facility would require the consent of OPWDD. While OPWDD's consent has been requested, there is no guarantee that YAI will be able to obtain such consent or that YAI's title to the 58th Place Facility will not continue to be subject to the right of reacquisition.

PART 13 - STATE NOT LIABLE ON THE SERIES 2015 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 2015 Bonds are not a debt of the State and that the State is not liable on them.

PART 14 - 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 15 - LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2015 Bonds by DASNY are subject to the approval of Hawkins Delafield and Wood LLP, New York, New York, Bond Counsel to DASNY, whose approving opinion will be delivered with the Series 2015 Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix G hereto.

Certain legal matters will be passed upon for the Series 2015 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 2015 Bonds or questioning or affecting the validity of the Series 2015 Bonds or the proceedings and authority under which they are to be issued.

See "Appendix A - Description of Series 2015 Participants" for a description of any litigation which may have a material adverse effect on the Series 2015 Participants.

PART 16 - 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 2015 Participant has undertaken in a written agreement (collectively, the "Continuing Disclosure Agreements") for the benefit of the Holders of the Series 2015 Bonds to provide to Digital Assurance Certification LLC ("DAC"), as disclosure dissemination agent, on or before 180 days after the end of each fiscal year, commencing with the fiscal year of the Series 2015 Participants ending June 30, 2014 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 2015 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, when available, 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 2015 Participants, DAC has undertaken in each Continuing Disclosure Agreement to promptly file such information and financial statements with the MSRB.

The Series 2015 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 ten (10) 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"). Upon receipt of Notices from a Series 2015 Participant, the Trustee or DASNY, DAC will file the Notices with the MSRB in a timely manner. With respect to the Series 2015 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 2015 Participant, the Trustee or DASNY and shall not be deemed to be acting in any fiduciary capacity for DASNY, a Series 2015 Participant, the Trustee, the Owners of the Series 2015 Bonds or any other party. DAC has no responsibility for DASNY, any Series 2015 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 2015 Participant, the Trustee or DASNY has complied with the Continuing Disclosure Agreements and DAC may conclusively rely upon certifications of a Series 2015 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.

Neither DASNY nor the Trustee have undertaken any responsibility, and shall not be required to undertake any, with respect to any reports, notices or disclosures required by or provided pursuant to the Continuing Disclosure Agreements and shall have no liability to any person, including any Holder of the Series 2015 Bonds, with respect to any such reports, notices or disclosures. DASNY (as conduit issuer) is not, for purposes of and within the meaning of Rule 15c-12, (i) committed by contract or other arrangement to support payment of all, or part of, the obligations on the Bonds, or (ii) a person for whom annual financial information and notices of material events will be provided.

The Annual Information will consist of the funding sources of a Series 2015 Participant and the Debt Service Coverage calculation for a Series 2015 Participant.

The Notices include notice of any of the following events with respect to the Series 2015 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 Internal Revenue Service 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 2015 Bonds, or other material events affecting the tax status of the Series 2015 Bonds; (7) modifications to rights of the Owners of the Series 2015 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 2015 Bonds, if material; (11) rating changes on the Series 2015 Bonds; (12) bankruptcy, insolvency, receivership or similar events of a Series 2015 Participant; (13) the consummation of a merger, consolidation, or acquisition involving a Series 2015 Participant or the sale of all or substantially all of the assets of such Series 2015 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 2015 Participants to provide the Annual Information and annual financial statements by the date required in the Series 2015 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 2015 Participant and/or DASNY or the Trustee, and no person, including any Holder of the Series 2015 Bonds, may recover monetary damages thereunder under any circumstances. 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 2015 Bonds. Copies of all Continuing Disclosure Agreements when executed by the parties thereto upon the delivery of the Series 2015 Bonds will be on file at the principal office of DASNY.

For information about the Series 2015 Participants' compliance with their continuing disclosure undertakings made pursuant to Rule 15c2-12, see "Appendix A - Description of Series 2015 Participants."

PART 17 - UNDERWRITING

The Series 2015 Bonds are being purchased by Municipal Capital Markets Group, Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Series 2015 Bonds from DASNY at a purchase price of $30,215,612.68 and to make a public offering of the Series 2015 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 2015 Bonds if any Series 2015 Bonds are purchased. The Series 2015 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2015 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 Series 2015 Participants have agreed to indemnify the Underwriter and DASNY with respect to certain liabilities, including certain liabilities under the federal securities laws.

PART 18 - RATING

The Series 2015 Bonds have been rated "Aa2" by Moody's. The rating on the Series 2015 Bonds is based upon the obligation of the Series 2015 Participants under the Series 2015 Loan Agreements to make certain payments from the Revenues, and on the security interest in the Pledged Revenues granted by such Series 2015 Participants to DASNY under the Series 2015 Loan Agreements. An explanation of the significance of the rating should be obtained from Moody's. There is no assurance that such rating will prevail for any given period of time or that it 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 Series 2015 Bonds.

PART 19 - INDEPENDENT PUBLIC ACCOUNTANTS

The Series 2015 Participants have provided their respective financial statements as of and for the years ended June 30, 2014, June 30, 2013 and June 30, 2012. These financial statements, included in Appendix B to this Official Statement, 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 20 – VERIFICATION OF MATHEMATICAL CALCULATIONS

Dunbar, Breitweiser & Company, LLP, Bloomington, Illinois (the "Verification Agent") will verify from the information provided to them the mathematical accuracy, as of the date of delivery of the Series 2015 Bonds, of the computations contained in the provided schedules to determine that the amount to be deposited to refund the prior bonds issued and outstanding as identified in Appendix A for each applicable Series 2015 Participant (the "Prior Bonds to be Refunded") will be sufficient to pay, when due, the principal, or redemption price of and interest on the Prior Bonds to be Refunded.

PART 21 - MISCELLANEOUS

References in this Official Statement to the Act, the Resolutions, the Series 2015 Loan Agreements and the Mortgages do not purport to be complete. Refer to the Act, the Resolutions, the Series 2015 Loan Agreements and the Mortgages for full and complete details of their provisions. Copies of the Resolutions, the Series 2015 Loan Agreements and the Mortgages are on file with DASNY and the Trustee.

The agreements of DASNY with Holders of the Series 2015 Bonds are fully set forth in the Resolutions. Neither any advertisement of the Series 2015 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2015 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 2015 Participants contained in this Official Statement and information concerning the Series 2015 Facilities contained herein has, in each case, been furnished by the Series 2015 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 2015 Participants," "Appendix B - Audited Financial Statements of Series 2015 Participants" and "Appendix C - Unaudited Financial Information of Series 2015 Participants" were supplied by the Series 2015 Participants.

"Appendix D - Certain Definitions," "Appendix E - Summary of Certain Provisions of the Series 2015 Loan Agreements," "Appendix F - Summary of Certain Provisions of the Resolutions" and "Appendix G - Form of Approving Opinion of Bond Counsel" have been prepared by Hawkins Delafield and Wood LLP, New York, New York, Bond Counsel to DASNY.

Each Series 2015 Participant has reviewed the parts of this Official Statement describing such Series 2015 Participant, its Series 2015 Facilities, its Mortgage, if any, "PART 1 – INTRODUCTION" (but solely with respect to the headings "The Series 2015 Participants," "Additional Security – Pledged Revenues and Standby Intercepts," "The Mortgages," and "Collateral Assignment of Leases"), "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2015 BONDS – Security for the Series 2015 Bonds - Pledged Revenues – OPWDD Funds," "– Security for the Series 2015 Bonds – Mortgages," and "– Security for the Series 2015 Bonds – Collateral Assignment of Leases," "PART 3 – THE SERIES 2015 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2015 Bonds," "PART 4 - THE SERIES 2015 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING," "PART 6 – THE REFUNDING PLAN," "PART 7 - ESTIMATED SOURCES AND USES OF FUNDS," "PART 12 - BONDHOLDERS' RISKS," "PART 16 – CONTINUING DISCLOSURE," "PART 20 – VERIFICATION OF MATHEMATICAL CALCULATIONS," 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 2015 Bonds that each Series 2015 Participant certify as of the dates of sale and delivery of the Series 2015 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 2015 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 2015 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

APPENDIX A

DESCRIPTION OF SERIES 2015 PARTICIPANTS

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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 25 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 2014 Fiscal Year were: the New York State Education Department ("SED") (approximately 58.3%), the State of New York Office for People with Developmental Disabilities ("OPWDD") (approximately 30.7%), and miscellaneous other sources (approximately 11%).

Description of Facilities and Financing Plan. DASNY will lend Birch Family Services approximately $1,430,000 from the proceeds of the Series 2015 Bonds ("Birch Family Services' Allocable Portion") which amount will be used for legal fees, costs of issuance, debt service reserve requirements, and to finance or refinance debt incurred for the following project:

- 137-31 80th Street, Howard Beach, New York (the "Facility") – the acquisition, construction and renovation of a 2,538 square-foot two-story building to be used for a group residential home for six developmentally disabled adults.

The governmental funding source for the Facility is OPWDD and the Facility is supported by PPAs, which Birch Family Services 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 an Operating Certificate. However, the Facility is awaiting a new Certificate of Occupancy. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Birch Family Services owns the Facility. Birch Family Services will grant DASNY a real property mortgage on the Facility, a subordinate lien on the furniture, fixtures and equipment financed with bond proceeds and constituting a portion of the Facility, and a lien on the Public Funds attributable to the Facility.

Other Properties. Birch Family Services also owns 9 properties and leases another 13 properties throughout New York City.

Description of Employees. Birch Family Services employs a total of approximately 913 employees, of which approximately 16 employees are employed at the Facility. Birch Family Services expects that the operation of the Facility will require it to employ additional personnel.

Debt Service Coverage.

The actual Total Debt Service Coverage Ratio of Birch Family Services for Fiscal Year 2014 and the Pro Forma Total Debt Service Coverage Ratio (which includes Birch Family Services' Allocable Portion of the Series 2015 Bonds) are as follows:

	2014 Actual	**2014 Pro Forma**
Revenues	$56,218,538	$56,218,538
Expenses	55,957,558	55,957,558
Total Net Revenue	260,980	260,980
Less Extraordinary Revenue Items		
Plus Extraordinary Revenue Items		
Plus Depreciation and Amortization	1,498,098	1,498,098
Plus Current Interest Expense	490,267	490,267
New PPA Program Revenues		136,162
Total Net Revenues Available for Debt Service	2,249,345	2,385,507
Maximum Annual Debt Service	1,773,603	1,909,765
Total Debt Service Coverage Ratio	1.27	1.25

Financials.

Audited financial statements for Birch Family Services' fiscal years ended June 30, 2012, June 30, 2013 and June 30, 2014 were prepared by BDO USA, LLP. Such audited financial statements are attached as Appendix B-I. Such audited financial statements 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, 2014 through October 31, 2014, 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 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 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-I.

Fiscal Year Ended June 30,

	2010	**2011**	**2012**	**2013**	**2014**
Current Assets	$ 7,869,255	$ 6,513,111	$ 7,971,234	$ 9,973,155	$ 9,549,960
Net Fixed Assets	8,819,528	12,218,913	12,551,359	12,269,559	12,291,409
Other	1,664,856	963,379	1,336,783	1,395,560	1,082,563
Total	18,353,639	19,695,403	21,859,376	23,638,274	22,923,932
Current Liabilities	7,619,458	8,361,761	9,420,374	9,309,738	7,845,006
Other Liabilities	7,768,649	8,171,052	8,837,279	10,662,080	11,151,490
Net Assets	2,965,532	3,162,590	3,601,723	3,666,456	3,927,436
Total	18,353,639	19,695,403	21,859,376	23,638,274	22,923,932
Operating Revenue:					
Program Revenue	46,788,808	50,084,261	52,248,634	54,176,272	54,411,001
Nonprogram Revenue	1,238,248	1,177,102	1,378,399	1,295,151	1,807,537
Total	48,027,056	51,261,363	53,627,033	55,471,423	56,218,538
Operating Expenses	47,565,638	51,064,305	53,187,900	55,406,690	55,957,558
Change in Net Assets	461,418	197,058	439,133	64,733	260,980
Net Assets, Beginning of Year	2,504,114	2,965,532	3,162,590	3,601,723	3,666,456
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	2,965,532	3,162,590	3,601,723	3,666,456	3,927,436
Cash & Equivalents	2,886,893	1,543,775	3,555,425	4,736,865	3,485,809

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 $9,973,155 and $9,549,960 at the end of the fiscal years of 2013 and 2014, 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: As a result of the new reimbursement methodology being implemented by OPWDD, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING,", Birch Family Services expects it will receive a reduction in OPWDD operating revenue of approximately 1.15% compared to the 2013-14 revenue, which will be phased-in over four years. This decrease does not impact the PPA payments supporting debt service. This decrease is also exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. OPWDD will also re-base each agency's rate on July 1, 2015 utilizing the CFR cost data for 2013, which could alter the agency's original target rates. Other than the foregoing, 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 2013 and 2014 were $515,202 and $936,884, respectively. See Appendix C-II for interim unaudited financial information through October 31, 2014.

(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 Facility.

Liquidity and Capital Resources. As of June 30, 2014, Birch Family Services had $3,485,809 in unrestricted cash and cash equivalents and $5,004,753 in net accounts receivable.

As of June 30, 2014, Birch Family Services had an available line of credit of $7 million with Citibank, N.A. The line of credit is revolving and is secured by all business personal property of Birch Family Services, including accounts receivable, a portion of which includes Public Funds and thus constitutes a Prior Pledge as to such funds. There was a balance of $650,000 outstanding at June 30, 2014.

Long-Term Debt. As of June 30, 2014, Birch Family Services had $10,025,545 in outstanding long-term indebtedness. Approximately $6,360,177 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 $3,665,368 is secured by a security interest in Birch Family Services' Public Funds, which constitutes a Prior Pledge. Birch Family Services has not incurred any long-term debt subsequent to June 30, 2014.

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 E. Farley, Esq., Jay R. Fialkoff, Esq., Jay R. Indyke, Sharon Jones 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. Lisa Gilday has worked for Birch Family Services for over 20 years and became the Chief Operating Officer in July 2014.

Continuing Disclosure.

As described in this paragraph, during the past five years, Birch Family Services has failed to provide certain secondary market disclosure pursuant to Rule 15c2-12 in connection with its previous continuing disclosure undertakings. Such failures include (i) late filings (up to 102 days after the deadline set forth in its continuing disclosure undertakings) of its audited financial statements with respect to each of its fiscal years ended June 30, 2009 through and including June 30, 2012; and (ii) failure to file its Annual Information with respect to each of its fiscal years ended June 30, 2009 through and including June 30, 2012. Birch Family Services has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

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COMMUNITY RESOURCE CENTER FOR THE DEVELOPMENTALLY DISABLED, INC.

General Operations. Community Resource Center for the Developmentally Disabled, Inc., ("CRCDD") was founded in 1976. Operating out of eight facilities, CRCDD provides a wide range of residential services to the developmentally disabled community of New York City. CRCDD's mission is to provide programs of care, service, habilitation, rehabilitation and social/recreational activities geared to the functioning capacity and developmental needs of each individual in our care, so that they may be helped to experience living independently, making meaningful choices, enjoy personal relationships, communicate freely and receive effective services. CRCDD's primary funding sources are OPWDD (approximately 96%) and miscellaneous other sources (approximately 4%). CRCDD 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 Project. DASNY will lend CRCDD approximately $740,000 from the proceeds of the 2015 Bonds ("CRCDD's Allocable Portion"), which will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and, together with funds on the deposit with the trustee for the 2007B Bonds (as defined herein), to finance or refinance debt incurred for the following project (the "Facility"):

- 631 Pelham Parkway North, Bronx, New York: to refinance existing loans made from the proceeds of the New York City Industrial Development Agency ("NYCIDA") Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2007B-1 (the "2007B Bonds"), which were used for the purchase and renovation of a residential facility for 11 developmentally disabled adults in a 5,950 square foot, two-story building.

The governmental funding source for the Facility is OPWDD, and the Facility is supported by a PPA, which CRCDD has received. This means the project is pre-approved by OPWDD for principal and interest reimbursement by OPWDD. The Facility has received a Certificate of Occupancy and an Operating Certificate. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

The Facility is leased to CRCDD. CRCDD will grant DASNY a subordinate security interest in the furniture, equipment and other assets financed with bond proceeds and constituting a portion of the Facility, and a lien on the Public Funds attributable to the Facility.

Other Properties. CRCDD also owns three residences and leases five other residences and properties in New York City.

Description of Employees. CRCDD employs approximately 131 full-time and approximately 112 part-time employees in New York City. The Facility is not expected to require CRCDD to employ new employees.

Debt Service Coverage.

The actual Total Debt Service Coverage Ratio of CRCDD for Fiscal Year 2014 and the Pro Forma Total Debt Service Coverage Ratio (which includes CRCDD's Allocable Portion of the Series 2015 Bonds) are as follows:

	2014 Actual	**2014 Pro Forma**
Revenues	$15,489,255	$15,489,255
Expenses	16,217,438	16,217,438
Total Net Income (after adjustment)	(728,183)	(728,183)
Less Extraordinary Revenue Items		
Plus Extraordinary Expense Items	911,125	911,125
Plus Depreciation and Amortization	191,547	191,547
Plus Current Interest Expense	151,067	151,067
New PPA Program Revenues		
Total Net Revenues Available for Debt Service	525,556	525,556
Maximum Annual Debt Service	351,867	343,267
Total Debt Service Coverage Ratio	1.49	1.53

Financials.

Audited financial statements for CRCDD's fiscal years ending June 30, 2012 and June 30, 2013 were prepared by Stephen J. Ganns, CPA. Audited financial statements for CRCDD's fiscal year ending June 30, 2014 were prepared by Cornick Garber Sandler, LLP. Such audited financial statements are attached as Appendix B-II. Interim unaudited financial information covering the period from July 1, 2014 through October 31, 2014 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 Result of Operations.

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

The following is a summary of financial information for CRCDD for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by CRCDD 's management and derived from the audited financial statements of CRCDD 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-II.

	Fiscal Year Ended June 30,				
	2010	**2011**	**2012**	**2013**	**2014**
Current Assets	$ 2,694,461	$ 2,945,627	$ 5,240,564	$ 3,916,204	$ 5,227,811
Net Fixed Assets	2,730,059	2,596,682	2,369,132	2,223,781	2,101,713
Other Assets	158,627	132,490	272,575	253,628	270,450
Total	5,583,147	5,674,799	7,882,271	6,393,613	7,599,974
Current Liabilities	1,745,702	1,511,803	3,587,300	1,952,092	4,060,486
Other Liabilities	2,928,805	2,859,077	2,599,233	2,427,774	2,253,924
Net Assets	908,640	1,303,919	1,695,738	2,013,747	1,285,564
Total	5,583,147	5,674,799	7,882,271	6,393,613	7,599,974
Operating Revenue:					
Program Revenue	13,896,706	15,240,211	13,894,177	14,753,925	14,869,477
Nonprogram Revenue	496,775	575,617	582,293	649,735	619,778
Total	14,393,481	15,815,828	14,476,470	15,403,660	15,489,255
Operating Expenses	13,701,317	15,420,549	14,084,651	15,085,651	15,306,313
Change in Net Assets	692,164	395,279	391,819	318,009	182,942
Net Assets, Beginning of Year	168,011	908,640	1,303,919	1,695,738	2,013,747
Prior Period Adjustment	48,465	0	0	0	(728,183)
Net Assets, End of Year	908,640	1,303,919	1,695,738	2,013,747	1,285,564
Cash & Equivalents	929,033	1,265,757	3,636,360	2,104,496	2,430,285

Management Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal – Current assets were $5,227,811 and $3,916,204 at the end of the 2014 and 2013 fiscal years, respectively. (b) External – CRCDD has lines of credit from Valley National Bank in the aggregate amount of $1,000,000.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING,", CRCDD expects it will receive an increase in OPWDD revenue of approximately 6.43% compared to the 2013-14 revenue, which will be phased-in over four years. This increase is exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. OPWDD will also re-base each agency's rate on July 1, 2015 utilizing the CFR cost data for 2013, which could alter the agency's original target rates. Other than the foregoing, CRCDD 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 2013 and 2014 were $206,086 and $180,935, respectively. See Appendix C-II for interim unaudited financial information through October 31, 2014.

(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. CRCDD's total operations have not materially increased or decreased in recent years.

Liquidity and Capital Resources. As of June 30, 2014, CRCDD had $2,430,285 in unrestricted cash and cash equivalents and $2,638,744 in net accounts receivable.

As of June 30, 2014, CRCDD had no outstanding balance of on its $1,000,000 line of credit with Valley National Bank. The line of credit is secured by all assets of CRCDD, including accounts receivable, a portion of which is attributable to Public Funds and thus constitutes a Prior Pledge. There were no other loans outstanding as of June 30, 2014.

Long-Term Debt. As of June 30, 2014, CRCDD has $2,334,926 in outstanding long-term indebtedness, which is secured by a security interest in CRCDD's Public Funds, and thus constitutes a Prior Pledge with respect to such funds. CRCDD has not incurred any long-term debt subsequent to June 30, 2014.

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 CRCDD 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 CRCDD to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers. The affairs of CRCDD are governed by a Board of Directors of eight. The officers are comprised of: Mr. James R. Hays, Chairperson, Samuel Marquez, Vice Chairperson, and Maria Cancel, Secretary. Other members of the Board of Directors are: Rev. James Borstelmann, Mr. James G. Donahue, Sr. Patrice Owens, Sr. Mary Mazza, and Mr. Edward Singleton. The Board of Directors meets at least four times a year. Five members of the Board constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers. Kevin M. Meade has been employed at CRCDD since 1982 and has served as its Executive Director since 1999. Robert A Cutting has been employed at CRCDD since 1986 and has served as it Associate Executive Director since 1999. Vivienne Whyte has been employed at CRCDD since 1990 as the Senior Accountant.

Continuing Disclosure.

As described in this paragraph, during the past five years, CRCDD has failed to provide certain secondary market disclosure pursuant to Rule 15c2-12 in connection with its previous continuing disclosure undertakings. Such failures include (i) late filings (up to 236 days after the deadline set forth in its continuing disclosure undertakings) of its audited financial statements with respect to each of its fiscal years ended June 30, 2011 and June 30, 2013; (ii) failure to file its audited financial statements with respect to each of its fiscal years ended June 30, 2009 and June 30, 2010; and (iii) failure to file its Annual Information with respect to each of its fiscal years ended June 30, 2009 through and including June 30, 2013. CRCDD has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

General Operations. The Eden II School for Autistic Children, Inc. ("Eden II") was founded in 1976. Operating out of 13 facilities, Eden II provides a wide range of services to individuals with autism spectrum disorders or individuals with autistic-like communication and behavior disorders, as defined by the Autism Society of America. Eden II students and adult consumers reside in New York City and the counties of Long Island. Eden II provides the following range of services:

- Day school programs for pre-school and school age children
- A vocational program for adolescents
- Residential programs for adolescents and adults
- Family support services
- Adult day training and day habilitation programs
- Community outreach services including parent training, community lectures and seminars, professional consultations, after-school services, and summer camps

Eden II's success in providing quality services lies in its commitment to state of the art programming. Applied Behavior Analysis, the only empirically validated intervention for individuals with autism, provides the framework for all Eden II programs. Treatment programs are tailored to fit the individual and are implemented within a community-based context, designed to facilitate community living. The goal for all consumers of Eden II is independence and community integration.

Eden II's primary funding sources for its 2014 Fiscal Year were: OPWDD (approximately 56%), SED (approximately 43%), and miscellaneous other sources (approximately 1%).

Description of Facilities and Financing Plan. DASNY will lend Eden II approximately $4,000,000 from the proceeds of the Series 2015 Bonds ("Eden II's Allocable Portion"), which will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and, together with funds on the deposit with the respective trustees for the 2005A Bonds, the 2006D Bonds and the 2007A Bonds (each such term as defined herein), to refinance debt incurred in the acquisition of the following facilities (the "Facilities"):

- 682 Collfield Avenue, Staten Island, New York ("Collfield Avenue"): to refinance existing loans which were used for the acquisition of a 2,604 square-foot 2-story building to be used as a residential facility for five developmentally disabled individuals and respite for two individuals.

- 94 Wright Avenue, Staten Island, New York ("Wright Avenue"): to refinance existing loans made from the proceeds of the NYCIDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2005A-1 (the "2005A Bonds"), which were used for the acquisition of a 13,800-square-foot 2-story building to be used as a day habilitation facility for 46 developmentally disabled individuals.

- 106 Grayson Street, Staten Island, New York ("Grayson Street"): to refinance existing loans made from the proceeds of the 2005A Bonds, which were used for the acquisition of a 2,700-square-foot 2-story building to be used as a residential facility for eight developmentally disabled individuals.

- 155 Dix Hills Road, Huntington, New York ("Dix Hills Road"): to refinance existing loans made from the proceeds of the Suffolk County Industrial Development Agency ("SCIDA") Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2006D-1 (the "2006D Bonds"), which were used for the acquisition of a 2,780-square-foot 2-story building to be used as a residential facility for six developmentally disabled individuals.

- 131 Cambon Avenue, St. James, New York ("Cambon Avenue"): to refinance existing loans made from the proceeds of the SCIDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2007C-1 (the "2007C Bonds"),for the acquisition of a 3,284-square-foot 2-story building to be used as a residential facility for six developmentally disabled individuals.

The governmental funding source for the Facilities is OPWDD, and all of the facilities are supported by PPAs, which Eden II has received. This means the projects are pre-approved by OPWDD for principal and interest reimbursement by OPWDD. Each of the Facilities has received a Certificate of Occupancy and an Operating Certificate. However, the Operating Certificate for Collfied Avenue does not cover all of the units, and Eden II is in the process of obtaining an updated Operating Certificate. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Eden II owns each of the Facilities. Eden II will grant DASNY a mortgage on the real property with respect to the Facilities, a subordinate lien on the furniture, fixtures and equipment financed with bond proceeds and constituting a portion of the Facilities, and a lien on the Public Funds attributable to the Facilities.

Other Properties. Eden II also owns and operates three properties and leases another five properties throughout New York City and Long Island. Additional owned properties are expected to open in January and July of 2015.

Employees. Eden II employs a total of approximately 423 full-time and 187 part-time employees, of which approximately 130 full-time and 22 part time employees are employed at the Facilities. Eden II does not expect that the operation of the Facility will require it to employ additional personnel.

Debt Service Coverage.

The actual Total Debt Service Coverage Ratio of Eden II for Fiscal Year 2014 and the Pro Forma Total Debt Service Coverage Ratio (which includes Eden II's Allocable Portion of the Series 2015 Bonds) are as follows:

	2014 Actual	2014 Pro Forma
Total Revenues	$29,711,534	$29,711,534
Total Expenses	28,096,278	28,096,278
Net Income (after adj.)	1,615,256	1,615,256
Less Extraordinary Revenue Items	(11,101)	(11,101)
Plus Extraordinary Expense Items	2,191	2,191
Plus Depreciation and Amortization	763,122	783,903
Plus Current Interest Expense	425,356	467,099
New PPA Revenues		
Total Net Revenues Available for Debt Service	2,794,824	2,857,348
Maximum Annual Debt Service	1,113,917	1,098,917
Total Debt Service Coverage Ratio	2.51	2.60

Financials.

Audited financial statements for Eden II's fiscal years ended June 30, 2013 and June 30, 2014 were prepared by BDO USA, LLP. Audited financial statements for Eden II's fiscal year ended June 30, 2012 were prepared by Holtz Rubenstein Reminick LLP. Such audited financial statements are attached as Appendix B-III. Interim unaudited financial information relating to Eden II, prepared by Eden II's Management and covering the period from July 1, 2014 through October 31, 2014 is attached as Appendix C-III. 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 Eden II for the most recently ended five (5) fiscal years for which audited financial statements were available and has been prepared by Eden II's Management and derived from Eden II'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-III.

Fiscal Year Ended June 30,

	2010	2011	2012	2013	2014
Current Assets	$ 7,329,182	$ 6,480,741	$ 7,563,747	$ 6,338,928	$ 7,868,099
Net Fixed Assets	9,602,661	13,626,925	13,551,088	11,861,565	16,140,495
Other	1,019,665	364,665	245,000	2,314,950	22,69,241
Total	17,951,508	20,472,331	21,359,835	20,515,443	26,277,835
Current Liabilities	5,311,696	4,507,125	3,035,210	3,776,828	4,635,693
Other Liabilities	10,834,055	13,802,612	13,796,698	10,390,341	13,678,612
Net Assets	1,805,757	2,162,594	4,527,927	6,348,274	7,963,530
Total	17,951,508	20,472,331	21,359,835	20,515,443	26,277,835
Operating Revenue:					
Program Revenue	22,731,998	23,535,084	23,708,485	24,113,351	24,132,291
Nonprogram Revenue	2,521,742	2,158,979	5,232,404	4,390,466	5,581,434
Total	25,253,740	25,694,063	28,940,889	28,503,817	29,713,725
Operating Expenses	25,055,711	25,983,811	26,319,646	26,649,819	28,096,278
Unrealized Gain/Loss	(146,084)	362	(84,803)	(33,651)	(2,191)
Change in Temporarily Restricted Net Assets	0	646,223	(171,107)	0	0
Change in Net Assets	51,945	356,837	2,365,333	1,820,347	1,615,256
Net Assets, Beginning of Year	1,753,812	1,805,757	2,162,594	4,527,927	6,348,274
Net Assets, End of Year	1,805,757	2,162,594	4,527,927	6,348,274	7,963,530
Cash & Equivalents	336,674	672,550	315,550	482,635	743,618

Management Discussion of Results of Operations.

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

(2) Sources of Liquidity: Eden II had current assets of $7,868,099 and $6,338,928 at the end of the fiscal years of 2014 and 2013 respectively.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING,", Eden II expects it will receive a reduction in OPWDD revenue of approximately 5.1% compared to the 2013-14 revenue, which will be phased-in over four years. This decrease does not impact the PPA payments supporting debt service. This decrease is also exclusive of additional revenue resulting from other actions such as the cost of living increases (2% increases each for salaries and fringe benefits for support and direct care staff effective January 1, 2015, and an additional 2% each for salaries and fringe benefits for support, direct care and clinical staff effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. OPWDD will also re-base each agency's rate on July 1, 2015 utilizing the CFR cost data for 2013, which could alter the agency's original target rates. Other than the foregoing, Eden II 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 2014 and 2013 were $3,156,894 and $1,954,836, respectively. See Appendix C-III for interim unaudited financial information through October 31, 2014.

(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. The number of persons served by Eden II'S total operations have not materially increased or decreased in recent years.

Liquidity and Capital Resources. As of June 30, 2014, Eden II had $743,618 in unrestricted cash and cash equivalents and $2,984,607 in net program services accounts receivable.

Eden II has a $3,000,000 line of credit with Santander Bank (formerly Sovereign Bank), secured by general intangibles and accounts receivable, which includes Public Funds, and thus constitutes a Prior Pledge with respect to such funds.

In connection with the renovation of one of its properties, Eden II has obtained a $4.73 million bridge loan with FJC. As of June 30, 2014, $1,125,000 has been drawn and is outstanding on the loan.

In November 2014, Eden II acquired a new property to be converted into an additional residential facility for seven developmentally disabled individuals. The property was acquired through a line of credit totaling $1,352,100. As of November 30, 2014, $692,461 has been drawn on such line of credit.

Long-Term Debt. As of June 30, 2014, Eden II had $9,789,278 in outstanding long-term indebtedness. Approximately $1,364,278, of this indebtedness is secured by mortgages, and is not secured by a security interest in Eden II's Public Funds, and thus constitutes a Prior Pledge with respect to such funds. The balance of approximately $8,425,000 is secured by a security interest in Eden II's Public

Funds. Other than as set forth in the preceding paragraph, Eden II has not incurred any long-term debt subsequent to June 30, 2014.

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 Eden II 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 Eden II to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers. A Board of Trustees (the "Board") whose members number no less than seven and no more than twenty-five governs the affairs of Eden II. There are currently twenty three members of the Eden II Board.

The officers are comprised of: R. Shanx Ravisankar, Chair, Donald M. Russo, Vice Chair, Gregg Iliceto, CPA, Treasurer, and James Caldarella, Secretary. Other members of the Board of Directors are: Sheldon Becher, Cafo Boga, Rick Chou, D.O., Chris Drewes, Esq., Stephanie Dussel, Robert Fitzsimmons, Michael Giangregorio, Steve Kirschbaum, John Lavelle, Barbara Maxwell, Laura Moretti, Bernardo Pace, Ph.D., Shanker Ramamurthy, David Rose, John Rudin, Ralph Scamardella, Terry Tarangelo, Christine Thiverge, Esq. and Anthony Tucci, Esq. The Board meets at least four times a year. A majority of the trustees in office shall constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers.

Joanne Gerenser, Ph.D., has been employed at Eden II since 1982, and has served as its Executive Director since 1996. Dr. Gerenser is a distinguished professional, having been credited with over 50 presentations and publications. She has won numerous awards for contributions in the field of autism. Dr. Gerenser earned a doctorate in Speech and Hearing Science at the City University of New York Graduate Center; a master's degree in Speech and Hearing Sciences at The Ohio State University, and a B.A. in Speech Pathology and Audiology from SUNY - Geneseo.

Other key employees include Daniel Rauch, CPA, Chief Financial Officer. Mr. Rauch joined Eden II in 2014 as the Chief Financial Officer. Prior to joining Eden II, he served as the chief financial officer at several not-for-profit organizations including a continuing care retirement community and acute care hospitals. He also has over 10 years of experience at the national accounting firm of Deloitte & Touche. Besides being a Certified Public Accountant, he is also a Certified Internal Auditor. He received a Bachelor of Business Administration from the University of Notre Dame.

Continuing Disclosure.

As described in this paragraph, during the past five years, Eden II has failed to provide certain secondary market disclosures pursuant to Rule 15c2-12 in connection with its previous continuing disclosure undertakings. Such failures include (i) the late filings (102 days after the deadline set forth in its continuing disclosure undertakings) of its audited financial statements with respect to its fiscal year ended June 30, 2011; and (ii) failure to file its Annual Information with respect to each of its fiscal years ended June 30, 2009 through and including June 30, 2013. Eden II has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

HASC CENTER, INC.

General Operations. HASC Center, Inc. ("HASC Center") was founded in 1963. Operating out of 34 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 Vocational and Educational Services for Individuals with Disabilities program of SED ("VESID") (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. DASNY will lend HASC Center approximately $4,700,000 from the proceeds of the 2015 Bonds ("HASC Center's Allocable Portion"), which will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and, together with funds on the deposit with the respective trustees for the 2000A Bonds, the 2004A Bonds, the 2007A Bonds and the 2008A Bonds (each such term as defined herein), to finance or refinance debt incurred for the following projects (collectively, the "Facilities"):

- 2102-2106 Avenue I, Brooklyn, New York ("Avenue I"): to refinance existing loans for the purchase and renovation of a residential facility for ten developmentally disabled adults in a 3,536 square foot, two-story building.

- 1221 E. 14th Street, Brooklyn, New York ("14th Street"): to refinance existing loans made from the proceeds of the NYCIDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2000A-1 (the "2000A Bonds"), which were used for the purchase and renovation of a day habilitation facility for 84 developmentally disabled adults in a 7,500 square foot, one-story building.

- 2173 Coney Island Avenue, Brooklyn, New York ("Coney Island Avenue"): to refinance existing loans made from the proceeds of the NYCIDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2004A-1 (the "2004A Bonds"), which were used for the purchase and renovation of a residential facility for 11 developmentally disabled adults in a 2,077 square foot, three-story building.

- 373 Webster Avenue, Brooklyn, New York ("Webster Avenue"): to refinance existing loans made from the proceeds of the NYCIDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2007A-1 (the "2007A Bonds"), which were used for the purchase and renovation of a residential facility for 8 developmentally disabled adults in a 2,060 square foot, two-story building.

- 1857 E. 13th Street, Brooklyn, New York ("13th Street"): to refinance existing loans made from the proceeds of the 2007A Bonds, which were used for the purchase and renovation of a residential facility for 12 developmentally disabled adults in a 5,124 square foot, two-story building.

- 804 Ditmas Avenue, Brooklyn, New York ("Ditmas Avenue"): to refinance existing loans made from the proceeds of the NYCIDA Civic Facility Revenue Bonds (Special

Needs Facilities Pooled Program), Series 2008A-1 (the "2008A Bonds"), which were used for the purchase and renovation of a residential facility for 10 developmentally disabled adults in a 1,575 square foot, two-story building.

- 918 50th Street, Brooklyn, New York ("50th Street): to refinance existing loans made from the proceeds of the 2008A Bonds, which were used for the purchase and renovation of a residential facility for 10 developmentally disabled adults in a 1,374 square foot, two-story building.

The governmental funding source for the Facilities is OPWDD, and all of the facilities are supported by PPAs, which HASC Center has received. This means the projects are pre-approved by OPWDD for principal and interest reimbursement by OPWDD. Each of the Facilities, other than Avenue I, has received a Certificate of Occupancy and an Operating Certificate. Avenue I, Ditmas Avenue and 50th Street are in the process of qualifying for new Certificates of Occupancy or Certificates of Completion. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

HASC Center owns each of the Facilities other than 14th Street, which is leased to HASC Center. HASC Center will grant DASNY a real property mortgage on the Facilities other than 14th Street, a subordinate security interest in the furniture, equipment and other assets financed with bond proceeds and constituting a portion of the Facilities, and a lien on the Public Funds attributable to all of the Facilities.

Certain facilities of HASC Center located at 2416 Kings Highway, Brooklyn, New York and 390 Berry Street, Brooklyn, New York were financed with the proceeds of the 2000A Bonds and the 2008A Bonds, respectively. In connection with the issuance of the 2015 Bonds, HASC Center will be required to comply with certain federal tax requirements relating to such facilities. However, such facilities are not considered to be part of the "Facilities" or the "Project" under HASC Center's Series 2015 Loan Agreement, and HASC Center will not grant DASNY a security interest in such facilities or the Public Funds attributable thereto.

Other Properties. HASC Center also owns 16 residences and leases 18 other residences and properties in Brooklyn, New York.

Description of Employees. HASC Center employs approximately 302 full-time and 757 part-time employees in New York City and no other employees elsewhere in the State of New York. The new residential Facilities located at Avenue I will require it to employ approximately 45 new employees.

Debt Service Coverage.

The actual Total Debt Service Coverage Ratio of HASC Center for Fiscal Year 2014 and the Pro Forma Total Debt Service Coverage Ratio (which includes HASC Center's Allocable Portion of the Series 2015 Bonds) are as follows:

	2014 Actual	2014 Pro Forma
Revenues	$35,894,309	$35,894,309
Expenses	32,452,030	32,452,030
Total Net Revenue	3,442,279	3,442,279
Less Extraordinary Revenue Items		
Plus Extraordinary Expense Items		
Plus Depreciation and Amortization	1,165,311	1,165,311
Plus Current Interest Expense	471,204	471,204
New PPA Program Revenues		186,288
Total Net Revenues Available for Debt Service	5,078,794	5,265,082
Maximum Annual Debt Service	2,147,479	2,283,767
Total Debt Service Coverage Ratio	2.365	2.305

Financials.

Audited financial statements for HASC Center's fiscal years ending June 30, 2012 through June 30, 2014 were prepared by J. Gliksman CPA PC and are attached as Appendix B-IV. Interim unaudited financial information covering the period from July 1, 2014 through October 31, 2014 is attached as Appendix C-IV. 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-IV.

	Fiscal Year Ended June 30,				
	2010	**2011**	**2012**	**2013**	**2014**
Current Assets	$17,451,569	$19,339,894	$21,351,284	$24,670,830	$27,216,252
Net Fixed Assets	12,595,849	11,809,352	13,287,897	14,739,756	14,645,961
Other Assets	2,548,296	3,053,722	3,071,239	3,424,672	3,651,621
Total	32,595,714	34,283,968	37,710,420	42,835,258	45,513,834
Current Liabilities	5,067,632	4,702,703	5,841,465	4,601,352	4,586,334
Other Liabilities	8,194,942	7,479,605	6,638,360	9,728,539	8,979,854
Net Assets	19,333,140	22,101,660	25,230,595	28,505,367	31,947,646
Total	32,595,714	34,283,968	37,710,420	42,835,258	45,513,834
Operating Revenue:					
Program Revenue	31,900,896	32,832,020	33,441,357	33,789,260	34,790,461
Nonprogram Revenue	682,810	331,804	596,770	940,588	1,103,848
Total	32,583,706	33,163,824	34,038,127	34,729,848	35,894,309
Operating Expenses	29,081,967	29,905,999	30,909,192	31,455,076	32,452,030
Change in Net Assets	3,501,739	3,257,825	3,128,935	3,274,772	3,442,279
Net Assets, Beginning of Year	15,831,401	19,333,140	22,101,660	25,230,595	28,505,367
Prior Period Adjustment	0	(489,305)	0	0	0
Net Assets, End of Year	19,333,140	22,101,660	25,230,595	28,505,367	31,947,646
Cash & Equivalents	9,979,295	11,546,439	9,988,154	9,988,154	11,034,442

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 $27,216,252 and $24,670,830 at the end of the 2014 and 2013 fiscal years, respectively. (b) External – HASC Center has a line of credit from Capital One Bank in the amount of $2,500,000.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING,", HASC Center expects it will receive a reduction in OPWDD revenue of approximately 2.7% compared to the 2013-14 revenue, which will be phased-in over four years. This decrease does not impact the PPA payments supporting debt service. This decrease is also exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. OPWDD will also re-base each agency's rate on July 1, 2015 utilizing the CFR cost data for 2013, which could alter the agency's original target rates. Other than the foregoing, HASC Center 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 2014 and 2013 were $982,337 and $867,834, respectively. See Appendix C-II for interim unaudited financial information through October 31, 2014.

(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. HASC Center's total operations have increased due to the opening of Avenue I.

Liquidity and Capital Resources. As of June 30, 2014, HASC Center had $11,034,442 in unrestricted cash and cash equivalents and $408,173 in net accounts receivable.

As of June 30, 2014, HASC Center had a $2,500,000 line of credit with Capital One Bank. As of October 1, 2014 the outstanding balance was $500,000. The line of credit is secured by all business assets of HASC Center, which include Public Funds, and thus constitutes a Prior Pledge as to such funds. There were no other loans outstanding as of October 31, 2014.

Long-Term Debt. As of June 30, 2014, HASC Center has $9,303,503 in outstanding long-term indebtedness. Approximately $1,773,502 of this indebtedness is secured by mortgages, and is not secured by a security interest in HASC Center's Public Funds. The balance of approximately $7,530,001 is secured by a security interest in HASC Center's Public Funds, and thus constitutes a Prior Pledge as to such funds. HASC Center has not incurred any long-term debt subsequent to June 30, 2014.

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 a nine 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: Mr. Fishel Beigel, 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.

During the past five years, HASC Center has complied in all material respects with its continuing disclosure undertakings made pursuant to Rule 15c2-12 in connection with its DASNY financings. With respect to continuing disclosure undertakings made pursuant to Rule 15c2-12 in connection with financings by HASC through Industrial Development Agencies in the State of New York (each, an "IDA"), the audited financial statements of HASC were not filed with the Nationally Recognized Municipal Securities Information Repositories, including, where appropriate, the Electronic Municipal Market Access system of the Municipal Securities Rulemaking Board (collectively, the "NRMSIRs") within the required timeframe of not later than 180 days of the end of the previous fiscal year. In accordance with the process set forth in the continuing disclosure undertakings with respect to the IDA financings, and according to HASC's records, HASC filed its audited financial statements with the Program Facilitator and The Bank of New York Mellon, as Dissemination Agent, on time for fiscal years 2010, 2011, 2013 and 2014, 102 days late in 2009 and 20 days late in 2012. HASC did not have control of when the reports were actually submitted to the NRMSIRs by the Dissemination Agent. HASC failed to file its Annual Information pursuant to the continuing disclosure undertakings with respect to the IDA financings with respect to each of its fiscal years ended June 30, 2009 through and including June 30, 2012. HASC filed such Annual Information on time with respect to its fiscal years ended June 30, 2013 and June 30, 2014. HASC has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

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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 2014 Fiscal Year were: OPWDD (approximately 98%) and miscellaneous other sources (approximately 2%).

Description of Facilities and Financing Plan. DASNY will lend Lifespire approximately $3,450,000 from the proceeds of the Series 2015 Bonds ("Lifespire's Allocable Portion"). Such amount will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and, together with funds on the deposit with the respective trustees for the 2004A Bonds and the 2008A Bonds, to finance or refinance debt incurred in connection with projects at the following facilities (collectively, the "Facilities"):

- 163 East 125th Street, New York, New York ("125th Street") - to refinance existing loans made from the proceeds of the 2004A Bonds, which were used for the acquisition, renovation and furnishing of an 28,000 square-foot one-story building used as a day habilitation facility for 300 developmentally disabled adults.

- 61-56 219th Street, Bayside, New York ("219th Street") - to refinance existing loans made from the proceeds of the 2008A Bonds, which were used for the acquisition, renovation and furnishing of a 3,684 square-foot four-story building to be used as a residence for 10 developmentally disabled adults.

- 1171 Sterling Place, Brooklyn, New York ("Sterling Place") - to refinance existing loans made from the proceeds of the 2008A Bonds, which were used for the renovation and furnishing of a 4,831 square-foot five-story building to be used as an intermediate care facility for 6 developmentally disabled adults.

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. Each of the Facilities has a Certificate of Occupancy and an Operating Certificate. Lifespire is in the process of qualifying for an updated Certificate of Compliance for Sterling Place. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Lifespire owns each of the Facilities other than 125th Street, which is leased to Lifespire. Lifespire will grant DASNY a real property mortgage on the Facilities other than 125th Street, a subordinate security interest in the furniture, equipment and other assets financed with bond proceeds and constituting a portion of the facilities, and a lien on the Public Funds attributable to all of the Facilities.

Certain facilities of Lifespire located at 3015 Lafayette Avenue, Bronx, New York, 830 East 52nd Street, Brooklyn, New York, 25-15 50th Street, Woodside, New York, 450 19th Street, Brooklyn, New York, 213 48th Street, Brooklyn, New York, and 1687 Castle Hill Avenue, Bronx, New York were financed with the proceeds of the 2004A Bonds and the 2008A Bonds, respectively. In connection with the issuance of the 2015 Bonds, Lifespire will be required to comply with certain federal tax requirements relating to such facilities. However, such facilities are not considered to be part of the "Facilities" or the "Project" under Lifespire's Series 2015 Loan Agreement, and Lifespire will not grant DASNY a security interest in such facilities or the Public Funds attributable thereto.]

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 approximately 1,163 full-time and 296 part-time employees in New York City and Westchester County. Lifespire does not expect that the operation of the Facilities will require it to employ additional personnel.

Debt Service Coverage.

The actual Total Debt Service Coverage Ratio of Lifespire for Fiscal Year 2014 and the Pro Forma Total Debt Service Coverage Ratio (which includes Lifespire's Allocable Portion of the Series 2015 Bonds) are as follows:

	2014 Actual	2014 Pro Forma
Revenues	$98,874,451	$98,874,451
Expenses	99,423,073	99,423,073
Total Net Revenue	(548,622)	(548,622)
Less Extraordinary Revenue Items		
Plus Extraordinary Expense Items	1,900,973	1,900,973
Plus Depreciation and Amortization	1,774,915	1,774,915
Plus Current Interest Expense	2,404,612	2,404,612
New PPA Program Revenues		
Total Net Revenues Available for Debt Service	5,531,878	5,531,878
Maximum Annual Debt Service	5,012,044	5,012,044
Total Debt Service Coverage Ratio	1.104	1.104

Financials. Audited financial statements for Lifespire's fiscal years ended June 30, 2012 through June 30, 2014 were prepared by MBAF-CPAs, LLC (predecessor to MBAF-ERE CPAs, LLC) and are attached as Appendix B-V. Interim unaudited financial information prepared by Lifespire's Management covering the period from July 1, 2014 through October 31, 2014 is attached as Appendix C-V. 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 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,

	2010	**2011**	**2012**	**2013**	**2014**
Current Assets	$40,740,254	$41,543,217	$55,147,172	$68,429,807	$65,113,713
Net Fixed Assets	19,956,497	18,555,175	19,301,407	17,868,535	17,526,446
Other	11,482,683	11,653,646	8,356,158	10,254,811	10,041,137
Total	72,179,434	71,752,038	82,804,737	96,553,153	92,681,296
Current Liabilities	24,862,807	26,523,603	35,522,231	34,643,396	32,337,437
Other Liabilities	34,300,815	26,616,278	36,214,975	36,729,192	35,711,916
Net Assets	13,015,812	18,612,157	11,067,531	25,180,565	24,631,943
Total	72,179,434	71,752,038	82,804,737	96,553,153	92,681,296
Operating Revenue:					
Program Revenue	103,587,506	103,181,862	103,289,400	102,886,815	101,641,989
Nonprogram Revenue	247,895	152,212	(1,438,773)	1,703,830	(866,565)
Total	103,835,401	103,334,074	101,850,627	104,590,645	100,775,424
Pension-Related Change	0	0	0	5,477,652	(1,900,973)
Operating Expenses	103,570,238	102,603,545	101,181,632	99,107,843	99,423,073
Change in Net Assets	1,863,632	5,596,345	(7,544,626)	11,471,504	(548,622)
Net Assets, Beginning of Year	11,152,180	13,015,812	18,612,157	11,067,531	25,180,565
Prior Period Adjustment	1,597,096	0	0	2,636,380	0
Net Assets, End of Year	13,015,812	18,612,157	11,067,531	25,180,565	24,631,943
Cash & Equivalents	19,420,012	22,407,985	24,876,092	19,880,055	18,179,568

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 $65,113,713 and $68,429,807 at the end of the fiscal years of 2014 and 2013, 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: As a result of the new reimbursement methodology being implemented by OPWDD, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING,", Lifespire expects it will receive an increase in OPWDD revenue of approximately 1.02% compared to the 2013-14 revenue, which will be phased-in over four years. This increase is exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. OPWDD will also re-base each agency's rate on July 1, 2015 utilizing the CFR cost data for 2013, which could alter the agency's original target rates. Other than the foregoing, 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 2013 and 2014 were $105,534 and $192,021, respectively. See APPENDIX C-V for interim unaudited financial information through October 31, 2014.

(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, 2014, Lifespire had $18,179,568 in unrestricted cash and cash equivalents and $130,426 in net accounts receivable.

As of June 30, 2014, Lifespire had an available line of credit of $5 million with J.P. Morgan Chase. The proceeds of the line of credit are to be used for operating expenses. The line of credit is secured by a lien on Lifespire's receivables, which include Public Funds, and thus constitutes a Prior Pledge as to such funds. There was no outstanding balance as of June 30, 2014.

As of June 30, 2014, Lifespire had an available line of credit of $5 million with Bank of America for the purpose of site acquisition. The line of credit is secured by a lien on each applicable acquired site. There was an outstanding balance on such line of credit of $547,382 as of June 1, 2014.

Long-Term Debt. As of June 30, 2014, Lifespire had $18,035,083 in outstanding long-term indebtedness. Of this amount, $16,185,000 is secured by a security interest in certain receivables of Lifespire, which may include Lifespire's Public Funds, and thus constitutes a Prior Pledge as to such funds. See Notes 11, 13 and 14 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, 2014.

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 seventeen. The officers are comprised of: Jeffrey Goodman, Chairman, Michael R.. Dillon, Vice Chairman, Anne Dunbar, Treasurer and Ellen R. Greene, Secretary. Other members of the Board are: Margaret Davino, Laura Gaffney, Michael S. Gross, Jerome Greene, Lawrence Hirsch, Mathew Hoffman, Robert Krakow, Audrey Lieberman, Denise Nicoletti, Julian Palmo, Suzanne Revell, Helen Sturm and John Castro-Tie. 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: 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.

As described in this paragraph, during the past five years, Lifespire has failed to provide certain secondary market disclosure pursuant to Rule 15c2-12 in connection with its previous continuing disclosure undertakings. Such failures include (i) late filings (up to 206 days after the deadline set forth in its continuing disclosure undertakings) of its audited financial statements with respect to each of its fiscal years ended June 30, 2009 and June 30, 2011; and (ii) failure to file its Annual Information with respect to each of its fiscal years ended June 30, 2009 through and including June 30, 2012. Lifespire has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

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QSAC, INC.

General Operations. QSAC, Inc. ("QSAC") was founded in 1978. Operating out of 32 facilities, QSAC provides a wide range of in-home and residential services to the developmentally disabled community of New York City and Long Island. QSAC's mission is to provide support and assistance to individuals with developmental and related disabilities and their families. In order to achieve its mission, QSAC 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 of care givers which enhance the family's quality of life; and to provide excellent services as defined by the consumers of service. QSAC's primary funding sources are OPWDD (approximately 82%), SED (approximately 14%), the New York State Department of Health (approximately 2%) and miscellaneous other sources (approximately 2%). QSAC 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 Project. DASNY will lend QSAC approximately $915,000 from the proceeds of the 2015 Bonds ("QSAC's Allocable Portion"), which will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and to finance or refinance debt incurred for the following project (the "Facility"):

- 26 Cotton Lane, Levittown, New York: the purchase and renovation of a residential facility for 6 developmentally disabled adults in a 3,240 square foot, two-story building.

The governmental funding source for the Facility is OPWDD, and the Facility is supported by a PPA, which QSAC has received. This means the project is pre-approved by OPWDD for principal and interest reimbursement by OPWDD. The Facility has not yet received its Certificate of Occupancy or its Operating Certificate, both of which are expected to be received in February 2015. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

QSAC owns the Facility. QSAC will grant DASNY a real property mortgage on the Facility, a subordinate lien on the furniture, fixtures and equipment financed with bond proceeds and constituting a portion of the Facility, and a lien on Public Funds attributable to the Facility.

Other Properties. QSAC also owns 15 residences and leases 17 other residences and office properties in New York City and on Long Island.

Description of Employees. QSAC employs approximately 712 full-time and 523 part-time employees in New York City. The Facility is not expected to require QSAC to employ new employees.

<u>Debt Service Coverage</u>.

The actual Total Debt Service Coverage Ratio of QSAC for Fiscal Year 2014 and the Pro Forma Total Debt Service Coverage Ratio (which includes QSAC's Allocable Portion of the Series 2015 Bonds) are as follows:

	2014 Actual	**2014 Pro Forma**
Revenues	$49,718,256	$49,718,256
Expenses	48,017,876	48,017,876
Total Net Revenue	1,700,380	1,700,380
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	0	0
Plus Depreciation and Amortization	483,303	483,303
Plus Current Interest Expense	372,434	372,434
New PPA Program Revenues		79,368
Total Net Revenues Available for Debt Service	2,556,117	2,635,485
Maximum Annual Debt Service	1,286,031	1,365,399
Total Debt Service Coverage Ratio	1.99	1.93

<u>Financials</u>.

Audited financial statements for QSAC's fiscal years ending June 30, 2012 through June 30, 2014 were prepared by Grassi & Co., CPAs, P.C. and are attached as Appendix B-VI. Interim unaudited financial information covering the period from July 1, 2014 through October 31, 2014 is attached as Appendix C-VI. Significant accounting policies are contained in the audited financial statements.

Management's 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 QSAC for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by QSAC's management and derived from the audited financial statements of QSAC 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-VI.

	Fiscal Year Ended June 30,				
	2010	**2011**	**2012**	**2013**	**2014**
Current Assets	$ 8,849,082	$11,847,020	$12,275,793	$14,862,868	$15,311,375
Net Fixed Assets	5,002,349	4,539,606	4,322,839	9,268,332	9,396,671
Other Assets	1,000,694	961,696	912,700	1,034,073	325,888
Total	14,852,125	17,348,322	17,511,332	25,165,273	25,033,934
Current Liabilities	8,554,020	10,738,006	11,063,312	11,870,954	12,019,751
Other Liabilities	4,758,299	4,224,033	3,731,363	10,369,008	8,388,492
Net Assets	1,539,806	2,386,283	2,716,657	2,925,311	4,625,691
Total	14,852,125	17,348,322	17,511,332	25,165,273	25,033,934
Operating Revenue:					
Program Revenue	33,925,034	36,289,561	36,651,714	42,158,306	48,230,226
Nonprogram Revenue	1,131,095	1,259,342	1,426,288	2,092,603	1,488,030
Total	35,056,129	37,548,903	38,078,002	44,250,909	49,718,256
Operating Expenses	34,633,537	36,702,426	37,747,628	44,042,255	48,017,876
Change in Net Assets	422,592	846,477	330,374	208,654	1,700,380
Net Assets, Beginning of Year	1,739,119	1,539,806	2,386,283	2,716,657	2,925,311
Prior Period Adjustment	(621,905)	0	0	0	0
Net Assets, End of Year	1,539,806	2,386,283	2,716,657	2,925,311	4,625,691
Cash & Equivalents	705,917	1,704,558	1,566,754	4,449,526	3,918,501

Management Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal – QSAC had current assets of $15,311,375 and $14,862,868 at the end of the fiscal years of June 30, 2014 and 2013, respectively. (b) External – QSAC has a line of credit from Astoria Bank in the amount of $3,500,000.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING,", QSAC expects it will receive an increase in OPWDD revenue of approximately 5.18% compared to the 2013-14 revenue, which will be phased-in over four years. This increase is exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. OPWDD will also re-base each agency's rate on July 1, 2015 utilizing the CFR cost data for 2013, which could alter the agency's original target rates. Other than the foregoing, QSAC 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 2014 and 2013 were $1,488,030 and $2,092,603, respectively. See Appendix C-II for interim unaudited financial information through October 31, 2014.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally affects the revenue of such program. QSAC has experienced gradual growth in all OPWDD programs over the past several years in both number of persons served and total revenue.

Liquidity and Capital Resources. As of June 30, 2014, QSAC had $3,918,501 in unrestricted cash and cash equivalents and $5,295,539 in net accounts receivable.

As of June 30, 2014, QSAC had a $3,500,000 line of credit with Astoria Bank, with no outstanding balance as of June 30, 2014. The line of credit is secured by all business assets of QSAC, which include Public funds, and thus constitutes a Prior Pledge as to such funds. There were no other loans outstanding as of November 1, 2014, other than one vehicle loan with an outstanding balance of $1,965.00. The loan is secured by the related vehicles.

Long-Term Debt. As of June 30, 2014, QSAC has $8,388,492 in outstanding long-term indebtedness, which is secured by mortgages or security interests in equipment. QSAC has not incurred any long-term debt subsequent to June 30, 2014.

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 QSAC 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 QSAC to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers. The affairs of QSAC are governed by a Board of Directors of seventeen. The officers are comprised of: Yvette Watts, President, Janice Silber, 1st Vice-President, Paul Halvatzis, 2nd Vice-President, Diana Parisy, Secretary, and Evan Metalios, Esq., Treasurer. Other members of the Board of Directors are: Linda Culliton, Linda L. Foster, Esq., Danielle Guarino, Robyn E. Koven, M.S. Ed., Larry Litwack, Gilbert Louis, Pratima Malhotra, Robin Ponsolle, Stuart Riback, Marianne Ross, Michael Serao and Julia Vill. The Board of Directors meets once a month. Nine members of the Board constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers. Gary Maffei has been the Executive Director of QSAC since 1992. He holds a Master's Degree in Public Administration from Long Island University. QSAC has several other key employees including Paul Naranjo, Division Director – Administrative and Financial Services.

Continuing Disclosure.

As described in this paragraph, during the past five years, QSAC has failed to provide certain secondary market disclosure pursuant to Rule 15c2-12 in connection with its previous continuing disclosure undertakings. Such failures include (i) late filings (up to 240 days after the deadline set forth in its continuing disclosure undertakings) of its audited financial statements with respect to each of its fiscal years ended June 30, 2011 through and including June 30, 2013; (ii) failure to file its audited financial statements with respect to each of its fiscal years ended June 30, 2009 and June 30, 2010; and (ii) failure to file its Annual Information with respect to each of its fiscal years ended June 30, 2009 through and including June 30, 2013. QSAC has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

SERVICES FOR THE UNDERSERVED, INC.
AND
SUS-DEVELOPMENTAL DISABILITIES SERVICES, INC.

General Operations. Services for the UnderServed, Inc. ("SUS") and its five affiliates were founded in and after 1978. Operating out of 64 facilities and its corporate offices at 305 7th Avenue, New York, New York, SUS and its affiliates provide a wide range of in-home and residential services to the developmentally disabled, mentally ill, people living with AIDS and other communities of New York City. The mission of SUS and its affiliates is to provide support and assistance to individuals with special needs to live with dignity in the community, direct their own lives and attain personal fulfillment. In order to achieve their mission, SUS and its affiliates provide services with the following goals: (i) to assist individuals to develop to their fullest level of independence; (ii) to allow individuals choice in determining what their lives will be like; (iii) to help families stay together by providing relief, training and support of care givers which enhance the family's quality of life; and (iv) to provide excellent services as defined by the consumers of service. SUS 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.

SUS-Developmental Disabilities Services, Inc. ("SUS-DD") is a subsidiary of SUS and is the entity that, along with SUS, will receive the loan from the proceeds of the Series 2015 Bonds. SUS-DD is also 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. Since SUS and SUS-DD will both receive the loan from the proceeds of the Series 2015 Bonds, this Appendix includes financial information about SUS and its related organizations, which include all SUS subsidiaries, including SUS-DD, notwithstanding that the Series 2015 Participants are only SUS and SUS-DD. The other affiliates of SUS will not have any obligations to make payments under the Loan Agreement.

SUS-DD's sole funding source for its 2014 Fiscal Year was OPWDD.

On December 4, 2014, SUS and Palladia, Inc. and affiliates (collectively, "Palladia"), 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, consummated a merger, resulting in SUS becoming the sole member of Palladia. As a result of this transaction, the existing structure and entities of Palladia are expected to continue, but SUS is expected to exercise control oversight in its capacity as sole member. The not-for profit status of the SUS and Palladia entities is unchanged by the acquisition. For the fiscal year ended June 30, 2014, Palladia had revenues of approximately $45 million. In connection with the acquisition, SUS provided an initial $3.5 million of liquidity to Palladia.

Description of Facility and Financing Plan. DASNY will lend SUS and SUS-DD approximately $6,290,000 from the proceeds of the Series 2015 Bonds ("SUS and SUS-DD's Allocable Portion"). Such amount will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and, together with funds on the deposit with the respective trustees for the 2003A Bonds, the 2005A Bonds and the 2007B Bonds (each such term as defined herein), to finance or refinance debt incurred to acquire and renovate the following facilities (collectively, the "Facilities") for developmentally disabled adults:

- 945 Crescent Street, Brooklyn, New York ("Crescent Street"): for the renovation of a 3,748 square foot, two-story building to be used as a residence for six developmentally disabled adults.

- 125 Hull Street, Brooklyn, New York ("Hull Street"): for the renovation of a 3,486 square foot, three-story building to be used as a residence for six developmentally disabled adults.

- 3311 Rombouts Avenue, Bronx, New York ("Rombouts Avenue"): for the renovation of a 2,378 square foot, three-story building to be used as a residence for six developmentally disabled adults.

- 115-70 Lefferts Boulevard (a/k/a 115-49 118th Street), South Ozone Park, New York ("Lefferts Boulevard"): the renovation of a 12,070 square foot, three-story building to be used as a day habilitation facility for 48 developmentally disabled adults.

- 150 Vernon Avenue, Brooklyn, New York ("Vernon Avenue"): to refinance existing loans made from the proceeds of the New York State Rehabilitation Association Pooled Loan Program No. 2 Insured Revenue Bonds Series 2003A (the "2003A Bonds"), which were used for the renovation of a 17,000 square foot, three-story building to be used as an intermediate care facility for 40 developmentally disabled adults.

- 2892 Valentine Avenue, Bronx, New York ("2892 Valentine Avenue"): to refinance existing loans made from the proceeds of the 2003A Bonds, which were used for the renovation of a 3,661 square foot, three-story building to be used as an intermediate care facility for ten developmentally disabled adults.

- 2886 Valentine Avenue, Bronx, New York ("2886 Valentine Avenue"): to refinance existing loans made from the proceeds of the 2003A Bonds, which were used for the renovation of a 4,196 square foot, three-story building to be used as a residence for ten developmentally disabled adults.

- 3316 Avenue J, Brooklyn, New York ("Avenue J"): to refinance existing loans made from the proceeds of the 2005A Bonds, which were used for the renovation of a 3,740 square foot, two-story building to be used as a residence for eight developmentally disabled adults.

- 211 Buffalo Avenue, Brooklyn, New York ("Buffalo Avenue"): to refinance existing loans made from the proceeds of the 2005A Bonds, which were used for the renovation of a 2,160 square foot, two-story building to be used as a residence for six developmentally disabled adults.

- 1578 Park Place, Brooklyn, New York ("Park Place"): to refinance existing loans made from the proceeds of the 2005A Bonds, which were used for the renovation of a 2,770 square foot, one-story building to be used as a residence for four developmentally disabled adults.

- 887 Jefferson Avenue Brooklyn, New York ("Jefferson Avenue"): to refinance existing loans made from the proceeds of the 2007B Bonds, which were used for the renovation of a 4,800 square foot, three-story building to be used as a residence for ten developmentally disabled adults.

- 1109 Bushwick Avenue Brooklyn, New York ("Bushwick Avenue"): to refinance existing loans made from the proceeds of the 2007B Bonds, which were used for the renovation of a 1,753 square foot, three-story building to be used as a residence for six developmentally disabled adults.

- 1975 Crotona Avenue, Bronx, New York ("Crotona Avenue"): approximately $856,021 to refinance existing loans made from the proceeds of the 2007B Bonds, which were used for the renovation of a 4,500 square foot, three-story building to be used as a residence for eight developmentally disabled adults.

The governmental funding source for the Facilities is OPWDD, and the Facilities are supported by PPAs, which SUS 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 renovation of the Facilities and financing or refinancing costs incurred in connection therewith. SUS has received a Certificate of Occupancy for each of the Facilities other than Hull Street, and has received an Operating Certificate for all of the Facilities. Crescent Street, Hull Street, 2886 Valentine Avenue and 2892 Valentine Avenue are in the process of obtaining new Certificates of Occupancy. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

SUS-DD owns the Facilities and will grant to DASNY a real property mortgage on each of the Facilities and a subordinate lien on furniture, fixtures and equipment financed with bond proceeds and constituting a portion of the Facilities. SUS and SUS-DD will also grant DASNY a lien on the Public Funds attributable to the Facilities.

Certain facilities of SUS and SUS-DD located at 125 Eastern Parkway, Brooklyn, New York, 3214 Throop Avenue, Brooklyn, New York, 2894 Valentine Avenue, Brooklyn, New York, 104-22 Rosita Road, Ozone Park, New York and 187-45 Hillburn Avenue, Hollis, New York were financed with the proceeds of the 2003A Bonds. In connection with the issuance of the 2015 Bonds, SUS and SUD-DD will be required to comply with certain federal tax requirements relating to such facilities. However, such facilities are not considered to be part of the "Facilities" or the "Project" under SUS and SUD-DD's Series 2015 Loan Agreement, and SUS and SUD-DD will not grant DASNY a security interest in such facilities or the Public Funds attributable thereto.

Other Properties. SUS-DD and other SUS affiliates own 44 other properties and lease another 20 residential and day program properties in the Boroughs of New York City and lease office space in Manhattan and Brooklyn. These do not include individual apartments which SUS rents on behalf of its consumers.

Employees. SUS employs a staff of approximately 1,240, of which approximately 1,174 are full-time employees and 66 are part-time employees. Approximately 280 full-time and 43 part-time employees are employed at the Facilities.

Debt Service Coverage.

The actual Total Debt Service Coverage Ratio of SUS and SUS-DD for Fiscal Year 2014 and the Pro Forma Total Debt Service Coverage Ratio (which includes SUS and SUS-DD's Allocable Portion of the Series 2015 Bonds) are as follows:

	2014 Actual	2014 Pro Forma
Total Revenues	$92,935,465	$92,935,465
Total Expenses	89,198,943	89,198,943
Net Income (after adj.)	3,736,522	3,736,522
Less Extraordinary Revenue Items		
Plus Extraordinary Revenue Items		
Depreciation	2,833,294	2,833,294
Interest Expense	1,049,937	1,049,937
PPA Reimbursement		325,996
Net Revenues Available for Debt Service	7,619,753	7,945,749
Maximum Annual Debt Service	2,962,238	3,209,234
Total Debt Service Coverage Ratio	2.57	2.48

Financials. Audited financial statements for SUS and its affiliates for the fiscal years ended June 30, 2012 through June 30, 2014 were prepared by BDO USA, LLP, and are attached as Appendix B-VII. Interim unaudited financial information for SUS and its affiliates prepared by SUS's and SUS-DD's Management covering the period from July 1, 2014 through October 31, 2014 is attached as Appendix C-VII. 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 SUS and its affiliates for the most recently ended five (5) fiscal years for which audited financial statements were available and has been prepared by SUS's Management and derived from SUS'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-IV.

	Fiscal Year Ended June 30,				
	2010	2011	2012	2013	2014
Current Assets	$22,581,553	$22,524,676	$19,685,739	$25,284,260	$25,218,218
Net Fixed Assets	35,120,095	37,196,087	37,453,557	35,546,212	36,198,047
Other	4,685,858	4,781,499	5,449,163	4,936,323	5,194,405
Total	62,387,506	64,502,262	62,588,459	65,766,795	66,610,670
Current Liabilities	8,052,992	7,525,660	10,387,645	11,246,768	12,476,871
Other Liabilities	35,842,764	39,589,429	34,035,718	37,003,463	32,880,713
Net Assets	18,491,750	17,387,173	18,165,096	17,516,564	21,253,086
Total	62,387,506	64,502,262	62,588,459	65,766,795	66,610,670
Operating Revenue:					
Program Revenue	88,002,715	85,672,714	69,939,169	79,592,581	91,902,365
Nonprogram Revenue	937,331	973,905	393,462	719,676	1,033,100
Total	88,940,046	86,646,619	70,332,631	80,312,257	92,935,465
Operating Expenses	87,993,305	86,000,342	69,554,708	77,752,761	89,198,943
Gain (Loss) From Discontinuing Operations[1]	0	(1,232,840)	0	0	0
Other Changes[2]	0	(537,502)	0	(3,208,028)	0
Change in Net Assets	946,741	(1,104,577)	777,923	(648,532)	3,736,522
Net Assets, Beginning of Year	17,545,009	18,491,750	17,387,173	18,165,096	17,516,564
Net Assets, End of Year	18,491,750	17,387,173	18,165,096	17,516,564	21,253,086
Cash & Equivalents	6,285,077	12,721,945	9,623,798	10,730,608	7,916,434

[1] See Note 16 to audited financial statements presented in Appendix B-IV.

[2] See Notes 5, 17 and 18 to audited financial statements presented in Appendix B-IV.

Management's Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal – SUS had current assets of $25,218,218 and $25,284,260 at the end of the fiscal years of 2014 and 2013, respectively. (b) External – SUS has available an $6 million line of credit with Bank of America for operating expenses and a capital line of credit with Bank of America of $4 million. SUS is in the process of obtaining an increase in the $6 million line of credit to 410 million, in connection with the Palladia merger.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING,", SUS expects it will receive a reduction in OPWDD revenue of approximately 0.71% compared to the 2013-14 revenue, which will be phased-in over four years. This decrease does not impact the PPA payments supporting debt service. This decrease is also exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. OPWDD will also re-base each agency's rate on July 1, 2015 utilizing the CFR cost data for 2013, which could alter the agency's original target rates. Other than the foregoing and the merger with Palladia described above, SUS 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 2014 and 2013 was $895,987 and $594,893, respectively. See Appendix C-VII for interim unaudited financial information through October 31, 2014.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally affect the revenue of such program. In 2011, SUS terminated a home attendant contract with the City of New York, resulting a decrease in revenue of approximately $20 million. Subsequent to the termination of such contract, SUS pursued program growth in other areas, resulting in an increase in revenue of approximately $22 million since 2012.

Liquidity and Capital Resources. As of June 30, 2014, SUS had $7,916,434 in unrestricted cash and cash equivalents and $15,108,112 in net accounts receivable.

As of June 30, 2014, SUS had an available operating line of credit of $6 million with Bank of America. The line of credit is secured by SUS's accounts receivable and all business assets, including Public Funds, and thus constitutes a Prior Pledge as to such funds. There was an outstanding balance of $700,000 as of June 30, 2014. SUS is in the process of obtaining an increase in the $6 million line of credit to $10 million, in connection with the Palladia merger.

As of June 30, 2011, SUS had a line of credit of $4 million with Bank of America for the purpose of acquisition and renovation of certain property. SUS executes a negative pledge of SUS with respect to each applicable property. There was an outstanding balance of $2,873,675 as of June 30, 2014, which is expected to be repaid with proceeds of the Series 2015 Bonds.

Long-Term Debt. As of June 30, 2014, SUS had $18,291,404 in outstanding long-term indebtedness. Of this amount, $11,510,565 is secured by a security interest in certain receivables of SUS, which may include SUS's Public Funds, and thus constitutes a Prior Pledge as to such funds. See Notes 8 and 9 of SUS's Audited Financial Statements under titles of "Mortgages and Loans Payable" and "Bonds Payable." Neither SUS nor SUS-DD has incurred any long-term debt subsequent to June 30, 2014.

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 SUS or SUS-DD 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 SUS or SUS-DD to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement.

Management.

Directors and Officers: The affairs of SUS are governed by a Board of Directors of not less than seven nor more than sixteen. The officers are comprised of: Andrew Hurwitz, Chair, Gareth Old, Vice-Chair, John A. McKesson, Treasurer and James N. Donna, Secretary. Other members of the Board of Directors are: Earl D. Brown, Sherrie Dulworth, Peter Friedland, Annette Hall, Jacquie A. Holmes, Edward Hubbard, Adam Kellner, Anthony Lemma, Joshua Liston, Marcus Mayo, Carolyn P. Powell, Jennifer Press Marden, Beverly C. Reid, Joann Y. Sacks, Ph.D, and Andrew Zimmern. The Board of Directors meets at least four times per year. A majority of the Board of Directors constitutes a quorum. The members of the Board of Directors serve without compensation.

Executive and Administrative Officers: Donna Colonna has been employed by SUS since 1997 and has been the President and Chief Executive Officer of SUS since January 2002. She holds a M.S. degree from Pace University and a B.A. from Hunter College. She currently serves as President of the Interagency Council of Developmental Disabilities Agencies, Inc., Board Chair of Coordinated Behavioral Care, Inc., First Vice-Chairperson of New York Integrated Network, member of the Leadership Council of Support Center for Nonprofit Management, and board member of the Coalition of Behavioral Health Agencies Inc. and CDCH Charter School. Michael Whelan joined SUS as Chief Financial Officer in July 2009. Mr. Whelan is a Chartered Accountant and also is an International Member of the Connecticut Society of Certified Public Accountants.

Continuing Disclosure.

As described in this paragraph, during the past five years, SUS and SUS-DD have failed to provide certain secondary market disclosure pursuant to Rule 15c2-12 in connection with its previous continuing disclosure undertakings. Such failures include (i) late filings (up to 102 days after the deadline set forth in its continuing disclosure undertakings) of its audited financial statements with respect to each of its fiscal years ended June 30, 2009 through and including June 30, 2011 and June 30, 2013; (ii) failure to link to all applicable CUSIP numbers its audited financial statements with respect to its fiscal year ended June 30, 2013; and (iii) failure to file its Annual Information with respect to each of its fiscal years ended June 30, 2009 through and including June 30, 2011. SUS and SUS-DD have adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

WILDWOOD PROGRAMS, INC.

General Operations. Wildwood Programs, Inc. ("Wildwood") was founded in 1967. Operating out of 23 facilities, Wildwood provides a wide range of in-home educational and residential services to the developmentally disabled community of the Capital District of New York State. Wildwood's mission is to provide support and assistance to individuals with developmental and related disabilities and their families. In order to achieve its mission, Wildwood provides services whose goals are: (i) to assist individuals to develop to their fullest level of independence; (ii) to allow individuals choice in determining what their lives will be like; (iii) to help families stay together by providing relief, training and support of care givers which enhance the family's quality of life; and (iv) to provide excellent services as defined by the consumers of service. Wildwood 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.

Wildwood's funding sources for its 2014 Fiscal Year were: OPWDD (approximately 55%), SED (approximately 38%), and other miscellaneous sources (approximately 7%).

Description of Facility and Financing Plan. DASNY will lend Wildwood approximately $315,000 from the proceeds of the Series 2015 Bonds ("Wildwood's Allocable Portion"). Such amount will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and to refinance debt incurred to acquire, renovate and furnish the following facility (the "Facility"):

- 1117 & 1119 Helderberg Avenue, Schenectady, New York: the acquisition, construction, renovation and furnishing of a residential facility for five developmentally disabled adults in a 2,352-square-foot, two-story building.

The governmental funding source for the Facility is OPWDD, and the Facility is supported by two PPAs, which Wildwood has received. This means the Facility is preapproved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the acquisition and renovation of the Facility and financing or refinancing costs incurred in connection therewith. The Facility has a Certificate of Occupancy and an Operating Certificate. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Wildwood owns the Facility, and will grant to DASNY a first priority mortgage on such Facility and a subordinate lien on furniture, fixtures and equipment financed with bond proceeds and constituting a portion of the Facility. Wildwood will also grant DASNY a lien on the Public Funds attributable to the Facility.

Other Properties. Wildwood also owns or leases approximately 40 other properties in the Capital District.

Employees. Wildwood employs approximately 480 full-time and 36 part-time employees in the Capital District of upstate New York. Wildwood expects the operation of the Facility will require it to employ an additional 10 personnel.

Debt Service Coverage.

The actual Total Debt Service Coverage Ratio of Wildwood for Fiscal Year 2014 and the Pro Forma Total Debt Service Coverage Ratio (which includes Wildwood's Allocable Portion of the Series 2015 Bonds) are as follows:

	2014 Actual	2014 Pro Forma
Total Revenues	$33,517,870	$33,517,870
Total Expenses	33,239,705	33,239,705
Net Income (after adj.)	278,165	278,165
Less Extraordinary Revenue Items	(48,382)	(48,382)
Plus Extraordinary Revenue Items		0
Depreciation	1,348,084	1,348,084
Interest Expense	530,696	530,696
PPA Reimbursement		31,306
Net Revenues Available for Debt Service	2,108,563	2,139,869
Maximum Annual Debt Service	1,493,560	1,524,866
Total Debt Service Coverage Ratio	1.412	1.403

Financials. Audited financial statements for Wildwood's fiscal years ended June 30, 2012, June 30, 2013 and June 30, 2014 were prepared by Marvin and Company, P.C. Such audited financial statements are attached as Appendix B-VIII. Interim unaudited financial information prepared by Wildwood's Management covering the period from July 1, 2014 through October 31, 2014 is attached as Appendix C-VIII. Significant accounting policies are contained in the audited financial statements.

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Management's 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 Wildwood for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by Wildwood's Management and derived from Wildwood's audited financial statements 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-VIII.

Fiscal Year Ended June 30,

	2010	**2011**	**2012**	**2013**	**2014**
Current Assets	$ 7,913,121	$ 7,969,689	$ 7,275,233	$ 7,012,379	$ 7,521,745
Net Fixed Assets	15,143,433	14,748,417	14,193,151	13,161,569	12,548,631
Other	6,244,156	6,778,435	7,737,667	8,019,813	8,130,321
Total	29,300,710	29,496,541	29,206,051	28,193,761	28,200,697
Current Liabilities	5,570,627	5,460,378	4,365,384	3,727,417	4,297,189
Other Liabilities	12,497,445	11,347,004	11,313,431	10,820,764	9,979,763
Net Assets	11,232,638	12,689,159	13,527,236	13,645,580	13,923,745
Total	29,300,710	29,496,541	29,206,051	28,193,761	28,200,697
Operating Revenue:					
Program Revenue	31,201,878	31,333,347	31,687,645	32,193,416	32,250,194
Nonprogram Revenue	1,010,044	802,207	1,033,590	542,755	1,033,713
Total	32,211,922	32,135,554	32,721,235	32,736,171	33,283,907
Operating Expenses	30,875,527	31,168,359	32,329,378	33,181,315	33,239,705
Change in interest in net assets of related party	(262,653)	299,472	391,857	372,881	185,581
Change in fair value of Swap contract	0	189,854	(439,111)	190,607	48,382
Change in Net Assets	876,212	1,456,521	838,077	118,344	278,165
Net Assets, Beginning of Year	10,356,426	11,232,638	12,689,159	13,527,236	13,645,580
Net Assets, End of Year	11,232,638	12,689,159	13,527,236	13,645,580	13,923,745
Cash & Equivalents	2,899,318	4,158,748	2,895,176	2,624,525	2,908,005

Management's Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal - Wildwood had current assets of $7,521,745 and $7,012,379 at the end of the fiscal years of 2014 and 2013, respectively; (b) External – Wildwood has available lines of credit aggregating $2.25 million from Citizens Bank, N.A. and KeyBank, N.A.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING,", Wildwood expects it will receive a reduction in OPWDD revenue of approximately 3.31% compared to the 2013-14 revenue, which will be phased-in over four years. This decrease does not impact the PPA payments supporting debt service. This decrease is also exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. OPWDD will also re-base each agency's rate on July 1, 2015 utilizing the CFR cost data for 2013, which could alter the agency's original target rates. Other than the foregoing, Wildwood 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 investment for fiscal years 2014 and 2013 were $853,090 and $361,904, respectively. See APPENDIX C-VIII for interim unaudited financial information through October 31, 2014.

(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. Wildwood's total operations have increased due to the expansion of residential services provided.

Liquidity and Capital Resources. As of June 30, 2014, Wildwood had $2,908,005 in unrestricted cash and cash equivalents and $4,098,530 in net accounts receivable.

As of June 30, 2014, Wildwood had available lines of credit as follows: two lines of credit with KeyBank, N.A., each for $500,000, and two lines of credit with Citizens Bank, N.A., in the respective amounts of $500,000 and $750,000. The loans with respect to the lines of credit are unsecured. As of June 30, 2014, a total of $280,000 was outstanding under the lines of credit.

Long-Term Debt. As of June 30, 2014, Wildwood had $9,449,260 in outstanding long term indebtedness. Of this amount, $8,952,029 is secured by a security interest in certain receivables of Wildwood, which may include Wildwood's Public Funds, and thus constitutes a Prior Pledge as to such funds. See Note 7 of Wildwood's Audited Financial Statements under titles "Leases" and "Long-Term Debt." Wildwood has not incurred any long term debt subsequent to June 30, 2014.

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 Wildwood 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 Wildwood to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers. The affairs of Wildwood are governed by a Board of Directors of not less than 7 nor more than 30. The officers are comprised of: Karen Nagy, President; John Fitzgerald, Vice-President; Richard Lipman, Treasurer; and Adam M. Breault, Secretary. Other members of the Board of Directors are: Kevin G. Banes, Laura Betz, Greg Cowl, Janet Deixler, William B. Hedberg, Robin Hickey, Richard Kehl, Edward S. Knapp, Carol Kriss, Peter Loyola, Dawn Mengel, Peter Nickel, Roseanne O'Brien and Wilma Schmeler. The Board of Directors meets at least five times per year. A majority of the members of the Board constitute a quorum. The members of the Board of Directors serve without compensation.

Executive and Administrative Officers. Maryann Allen is the Executive Director and Chief Executive Officer, having been appointed to such position in 2001. She is a 1978 graduate of St. Lawrence University where she received a B.A. in Government and English Literature, *magna cum laude.* She is a member of Phi Beta Kappa, and a 1981 *cum laude* graduate of Albany Law School. Ms. Allen began her legal career at Nixon, Hargrave, Devans and Doyle in Rochester, New York. She returned to the Albany area in 1983, and in 1990 she became the first woman partner at Bouck, Holloway, Kiernan and Casey in Albany where her practice was concentrated in civil litigation. In 1995 she co-founded Allen Johnson and Longergan, LLP in Albany, again concentrating in insurance and personal injury defense litigation. Since assuming her leadership role at Wildwood, Ms. Allen has maintained her law license and provides advice on an informal basis to the firm she co-founded. As the parent of an adult child with a developmental disability, Ms. Allen has worked tirelessly in a variety of consultative and volunteer roles at Wildwood, including, President of the Wildwood Programs Board of Directors, Chair of the Wildwood Legislative and Advocacy Committee, Co-Chair of the Parent Sub-Committee of Wildwood School's Future Planning Committee and a member of the Wildwood Education Committee.

Gary R. Milford is the Deputy Executive Director for Finance of Wildwood. Mr. Milford was appointed to such position in 1984. Richard L. Walley is the Deputy Executive Director for Services of Wildwood. Mr. Walley was appointed to such position in 2001.

Continuing Disclosure.

As described in this paragraph, during the past five years, Wildwood has failed to provide certain secondary market disclosure pursuant to Rule 15c2-12 in connection with its previous continuing disclosure undertakings. Such failures include (i) the late filing (102 days after the deadline set forth in its continuing disclosure undertakings) of its audited financial statements with respect to its fiscal year ended June 30, 2009; and (ii) failure to file its Annual Information with respect to its fiscal year ended June 30, 2009. Wildwood has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

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YOUNG ADULT INSTITUTE, INC.

General Operations. Young Adult Institute, Inc. ("YAI") was founded in 1957. Today, YAI provides a wide range of in-home, residential, vocational training, educational and early intervention services to the developmentally disabled community of the State of New York. YAI's mission is to provide support and assistance to individuals with developmental and related disabilities and their families. To achieve its mission, YAI provides services whose goals are: (i) to assist individuals to develop to their fullest level of independence; (ii) to allow individuals choice in determining what their lives will be like; (iii) to help families stay together by providing relief, training and support of care givers which enhance the family's quality of life; and (iv) to provide excellent services as defined by the consumers of service. YAI 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.

YAI's funding sources for its 2014 Fiscal Year were: OPWDD (approximately 99%) and miscellaneous other sources (approximately 1%).

Description of Facilities and Financing Plan. DASNY will lend YAI approximately \$7,470,000 from the proceeds of the Series 2015 Bonds ("YAI's Allocable Portion"). Such amount will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and, together with funds on the deposit with the respective trustees for the 2004C Bonds, the 2004D Bonds, the 2005B Bonds, the 2006D Bonds the 2006A Bonds, the 20056B Bonds, the 2006C Bonds, the 2006E Bonds, the 2006F Bonds, the 2007A Bonds and the 2007C Bonds (each such term as defined herein), to refinance debt incurred to acquire, construct, renovate and/or furnish the following residential facilities (collectively, the "Facilities") for developmentally disabled adults:

- 31 Edith Place, Merrick, New York ("Edith Place"): for the acquisition, renovation and furnishing of a 1,600 square foot, two-story building to be used as a residence for five developmentally disabled adults.

- 305 E. 206th Street, Bronx, New York ("206th Street"): to refinance existing loans made from the proceeds of the NYCIDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2004C-1 (the "2004C Bonds"), which were used for the acquisition, renovation and furnishing of a 2,936 square foot, two-story building to be used as a residence for ten developmentally disabled adults.

- 146 Villa Avenue, Yonkers, New York ("Villa Avenue"): to refinance existing loans made from the proceeds of the County of Westchester Industrial Development Agency ("CWIDA") Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2004D-1 (the "2004D Bonds"), which were used for the acquisition, renovation and furnishing of a 2,184 square foot, two-story building to be used as a residence for eight developmentally disabled adults.

- 62 Woodland Avenue, Rye Brook, New York ("Woodland Avenue"): to refinance existing loans made from the proceeds of the CWIDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2005B (the "2005B Bonds"), which were used for the acquisition, renovation and furnishing of a 2,336 square foot, two-story building to be used as a residence for eight developmentally disabled adults.

- 261 King Street, Port Chester, New York ("King Street"): to refinance existing loans made from the proceeds of the 2005B Bonds, which were used for the acquisition, renovation and furnishing of a 2,443 square foot, three-story building to be used as a residence for seven developmentally disabled adults.

- 56 Woodycrest Avenue, Yonkers, New York ("Woodycrest Avenue"): to refinance existing loans made from the proceeds of the 2005B Bonds, which were used for the acquisition, renovation and furnishing of a 2,097 square foot, two-story building to be used as a residence for six developmentally disabled adults.

- 281 W. 261st Street, Bronx, New York ("261st Street"): to refinance existing loans made from the proceeds of the NYCIDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2006A-1 (the "2006A Bonds"), which were used for the acquisition, renovation and furnishing of a 3,344 square foot, three-story building to be used as a residence for ten developmentally disabled adults.

- 48-46 58th Place, Woodside, New York ("58th Place"): to refinance existing loans made from the proceeds of the 2006A Bonds, which were used for the acquisition, renovation and furnishing of a 3,300 square foot, three-story building to be used as a residence for fourteen developmentally disabled adults.

- 3737 Martin Court, Seaford, New York ("Martin Court"): to refinance existing loans made from the proceeds of the Nassau County Industrial Development Agency ("NCIDA") Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2006B-1 (the "2006B Bonds"), which were used for the acquisition, renovation and furnishing of a 1,788 square foot, two-story building to be used as a residence for seven developmentally disabled adults.

- 54-37 Browvale Lane, Little Neck, New York ("Browvale Lane"): to refinance existing loans made from the proceeds of the NYCIDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2006C-1 (the "2006C Bonds"), which were used for the acquisition, renovation and furnishing of a 1,318 square foot, one-story building to be used as a residence for twelve developmentally disabled adults.

- 82-24 209th Street, Hollis Hills, New York ("209th Street"): to refinance existing loans made from the proceeds of 2006C Bonds, which were used for the acquisition, renovation and furnishing of a 2,230 square foot, two-story building to be used as a residence for seven developmentally disabled adults.

- 3079 Hull Avenue, Bronx, New York ("Hull Avenue"): to refinance existing loans made from the proceeds of the 2006C Bonds, which were used for the acquisition, renovation and furnishing of a 4,300 square foot, two-story building to be used as a residence for ten developmentally disabled adults.

- 135-39 Union Turnpike, Kew Gardens, New York ("Union Turnpike"): to refinance existing loans made from the proceeds of the 2006C Bonds, which were used for the acquisition, renovation and furnishing of a 4,300 square foot, three-story building to be used as a residence for eight developmentally disabled adults.

- 677 White Plains Road, Tarrytown, New York ("White Plains Road"): to refinance existing loans made from the proceeds of the CWIDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2006E-1 (the "2006E Bonds"), which were used for the acquisition, renovation and furnishing of a 43,565 square foot, two-story building used as a day habilitation facility for 260 developmentally disabled adults.

- 61 Parkway Drive, Port Chester, New York (“Parkway Drive”): to refinance existing loans made from the proceeds of the 2006E Bonds, which were used for the acquisition, renovation and furnishing of a 2,812 square foot, two-story building to be used as a residence for seven developmentally disabled adults.

- 18 LaMarcus Avenue, Glen Cove, New York (“LaMarcus Avenue”): to refinance existing loans made from the proceeds of the NCIDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2006F-1 (the “2006F Bonds”), which were used for the acquisition, renovation and furnishing of a 3,768 square foot, two-story building to be used as a residence for eight developmentally disabled adults.

- 41-76 Little Neck Parkway, Little Neck, New York (“Little Neck Parkway”): to refinance existing loans made from the proceeds of the 2007A Bonds, which were used for the acquisition, renovation and furnishing of a 2,470 square foot, two-story building to be used as a residence for seven developmentally disabled adults.

- 18 North Howell Avenue, Centereach, New York (“Howell Avenue”): to refinance existing loans made from the proceeds of the 2007C Bonds, which were used for the acquisition, renovation and furnishing of a 4,111 square foot, two-story building to be used as a residence for six developmentally disabled adults.

The governmental funding source for the Facilities is OPWDD, and the Facilities are supported by PPAs, which YAI 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 of the Facilities and financing or refinancing costs incurred in connection therewith. Each of the Facilities has a Certificate of Occupancy, and an Operating Certificate. YAI is in the process of obtaining updated Certificates of Occupancy or Certificates of Compliance for King Street, Union Turnpike, White Plains Road and Parkway Drive. (See the information in this Official Statement entitled “PART 11 - BONDHOLDERS’ RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.”)

YAI owns each of the Facilities and will grant DASNY a first priority mortgage on each of the Facilities and a lien on the Public Funds attributable to each of the Facilities.

Certain facilities of YAI located at 3353 Nostrand Avenue, Brooklyn, New York, 123 East 36th Street, New York, New York, 460 West 34th Street, New York, New York, 421 North Barry Avenue, Mamaroneck, New York, 580 Broadway, Hastings-on-Hudson, New York, 197 Canterbury Road, Williston Park, New York, 20 West 13th Street, New York, New York, 332 89th Street, Queens, New York, 29-42 Tiffany Place, Brooklyn, New York, 2422 Bragg Street, Brooklyn, New York, 2140 Glebe Avenue, Bronx, New York, 1015 Avenue Z, Brooklyn, New York, 211-11 Northern Boulevard, Queens, New York, 3340-42 Nostrand Avenue, Brooklyn, New York, 24 Belvidere Place, New Rochelle, New York, 302 Jerusalem Avenue, Hicksville, New York and 1241 Round Swamp Road, Old Bethpage, New York, were financed with the proceeds of the 2004C Bonds, the 2004D Bonds, the 2005B Bonds, 2006B Bonds, the 2006C Bonds, the 2006E Bonds and the 2006F Bonds, respectively. In connection with the issuance of the 2015 Bonds, YAI will be required to comply with certain federal tax requirements relating to such facilities. However, such facilities are not considered to be part of the “Facilities” or the “Project” under YAI's Series 2015 Loan Agreement, and YAI will not grant DASNY a security interest in such facilities or the Public Funds attributable thereto.

Other Properties. YAI also owns 46 and leases 64 other properties in the Boroughs of New York City and Nassau, Rockland, Suffolk and Westchester Counties.

Employees. YAI employs approximately 1869 full-time and 498 part-time employees in the State of New York, of which a total of approximately 275 full-time equivalent employees, a majority of whom are full time, are employed at the Facilities. YAI does not expect that the operation of the Facilities will require it to employ additional personnel.

Debt Service Coverage.

The actual Total Debt Service Coverage Ratio of YAI for Fiscal Year 2014 and the Pro Forma Total Debt Service Coverage Ratio (which includes YAI's Allocable Portion of the Series 2015 Bonds) are as follows:

	2014 Actual	**2014 Pro Forma**
Revenues	$176,988,698	$176,988,698
Expenses	174,211,464	174,211,464
Total Net Revenue	2,777,234	2,777,234
Less Extraordinary Revenue Items		
Plus Extraordinary Expense Items		
Plus Depreciation and Amortization	4,127,198	4,127,198
Plus Current Interest Expense	1,725,197	1,725,197
New PPA Program Revenues		76,000
Total Net Revenues Available for Debt Service	8,629,629	8,705,629
Maximum Annual Debt Service	6,782,431	6,718,431
Total Debt Service Coverage Ratio	1.2724	1.2958

Financials. **A**udited financial statements for YAI's fiscal years ended June 30, 2012 through June 30, 2014 were prepared by Grassi & Co., CPAs, P.C. Such audited financial statements are attached as Appendix B-IX. Interim unaudited financial information prepared by YAI's Management covering the period from July 1, 2014 through October 31, 2014 is attached as Appendix C-IX. Significant accounting policies are contained in the audited financial statements.

Management's 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 YAI for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by YAI's Management and derived from YAI'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-IX.

Fiscal Year Ended June 30,

	2010	2011	2012	2013	2014
Current Assets	$ 55,301,492	$ 61,818,151	$ 67,189,061	$ 56,313,212	$ 54,311,494
Net Fixed Assets	41,693,320	39,599,751	37,827,580	37,618,851	34,839,214
Other	167,50,111	13,754,433	1,2836,403	12,220,017	14,996,595
Total	113,744,923	115,172,335	117,853,044	106,152,080	104,147,303
Current Liabilities	54,818,370	54,533,992	43,580,878	55,981,566	40,947,295
Other Liabilities	53,307,144	49,048,764	60,488,883	31,212,658	41,464,918
Net Assets	5,619,409	11,589,579	13,783,283	18,957,856	21,735,090
Total	113,744,923	115,172,335	117,853,044	106,152,080	104,147,303
Operating Revenue:					
Program Revenue	166,167,352	197,360,203	176,286,422	178,604,006	176,672,348
Nonprogram Revenue	2,143,053	2,563,652	1,459,985	997,527	316,350
Total	168,310,405	199,923,855	177,746,407	179,601,533	176,988,698
Operating Expenses	180,575,189	193,953,685	174,451,695	174,426,960	174,211,464
Loss from Discontinued Operations	0	0	(1,101,008)	0	0
Change in Net Assets	(12,264,784)	5,970,170	2,193,704	5,174,573	2,777,234
Net Assets, Beginning of Year	17,884,193	5,619,409	11,589,579	13,783,283	18,957,856
Net Assets, End of Year	5,619,409	11,589,579	13,783,283	18,957,856	21,735,090
Cash & Equivalents	4,628,091	2,490,720	7,323,106	9,859,068	13,933,654

Management's Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal - YAI had current assets of $54,311,494 and $56,313,212 at the end of the fiscal years of 2014 and 2013, respectively; (b) External - YAI has available lines of credit totaling $26,000,000 from Bank of America.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2015 PARTICIPANT FUNDING,", YAI expects it will receive a reduction in OPWDD revenue of approximately 4.05% compared to the 2013-14 revenue, which will be phased-in over four years. This decrease does not impact the PPA payments supporting debt service. This decrease is also exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. OPWDD will also re-base each agency's rate on July 1, 2015 utilizing the CFR cost data for 2013, which could alter the agency's original target rates. Other than the foregoing, YAI 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, membership dues, and interest/investment for fiscal years 2014 and 2013 were $861,076 and $997,527, respectively. See APPENDIX C-IX for interim unaudited financial information through October 31, 2014.

(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. YAI's total operations have decreased due to decreases in non-Medicaid transportation and OPWDD funding, as well as decreases in funding for Family Support Services and contracts for New York State and New York City that were not renewed for Fiscal Year 2014.

Liquidity and Capital Resources. As of June 30, 2014, YAI had $13,933,654 in unrestricted cash and cash equivalents and $25,159,796 in net accounts receivable.

As of June 30, 2014, YAI had available lines of credit totaling $26,000,000 as follows: an $18 million line of credit with Bank of America; and an $8 million line of credit with Bank of America. The loans with respect to the lines of credit are secured by YAI's business personal property and accounts receivable, which includes Public Funds and thus constitutes a Prior Pledge as to such funds and certain real property of YAI, respectively. Approximately $18,013,700 was outstanding as of June 30, 2014.

Long-Term Debt. As of June 30, 2014, YAI had $26,821,545 in outstanding long term indebtedness, which is secured by a security interest in certain receivables of YAI, which may include YAI's Public Funds, and thus constitutes a Prior Pledge as to such funds. See Notes 7 and 8 of YAI's Audited Financial Statements under titles of "Notes and Mortgages Payable" and "Capital Lease Obligations." YAI has not incurred any long-term debt subsequent to June 30, 2014.

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 YAI 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 YAI to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Internal Revenue Service Examination. On May 20, 2013, the Internal Revenue Service (the "IRS") notified YAI that the IRS was opening an examination of YAI's executive compensation, possible unrelated business income and operations. For a number of reasons, including inquiries by federal and New York State officials, YAI engaged an independent compensation consultant in December 2011 to conduct a study and prepare a report regarding YAI's executive compensation. As a result of the report prepared by such consultant, YAI discovered that certain amounts payable under its Supplemental Executive Retirement Plan (the "SERP") may be subject to federal excise taxes, and on February 19, 2013, YAI voluntarily reported this information to the IRS. Upon its receipt of the aforementioned study, YAI entered into negotiations with its current and former executives to reduce the amounts payable under the SERP to levels determined to be reasonable according to the study. Subsequently, as required for all non-profits in New York State pursuant to Executive Order 38 (Cuomo 2012), YAI's Board has worked directly with an independent consultant which, on an annual basis, conducts a formal study and submits a report to the Board directly showing the comparison of YAI executive pay to other providers in the field. The YAI Board relies on this study to determine executive pay on an annual basis.

Although the IRS examination remains in progress and the result is unknown, YAI believes that the examination currently is limited to the question of whether certain amounts previously paid to executives under the SERP will be subject to sanctions. Accordingly, YAI does not expect the outcome of such matter will have any adverse effect on YAI's status as an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. YAI has covenanted in its Loan Agreement that it will not take any action which would adversely affect such federal income tax status, and that it will conduct its operations in the manner which will conform to the standards necessary to qualify YAI as an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Management.

Directors and Officers. The affairs of YAI are governed by a 12 member Board of Trustees. The officers are comprised of: George Contos, Esq., Chairman; Lewis Lindenberg, Esq., Secretary; and Robert Dean Ellis, Treasurer. Other Members of the Board of Trustees are: J.D. Blanck, Ph.D, Kevin Hogan, Jane Levine, Jeffery Lieberman, Jeffrey A. Mordos, John Rufer, Richard Paul Rosenbaum, and David B. Stafford. The Board of Trustees meets at least four times per year. The members of the Board of Trustees serve without compensation.

Executive and Administrative Officers. Matthew Sturiale, L.C.S.W., is the Chief Executive Officer of YAI. He has over 35 years of experience in the field of developmental and intellectual disabilities. He originally joined YAI in 1979, was appointed Executive Vice President for Empowerment and Services in 2012, and became Chief Executive Officer in March 2014. He received his Master of Social Work degree from Fordham University in 1978. He has served as an adjunct instructor at Manhattan Community College and the College of New Rochelle, and has provided social work internship opportunities to students at Hunter College, Fordham University, Adelphi University and Stony Brook University. Other key officers of YAI include Sanjay Dutt, Chief Financial Officer.

Continuing Disclosure.

As described in this paragraph, during the past five years, YAI has failed to provide certain secondary market disclosure pursuant to Rule 15c2-12 in connection with its previous continuing disclosure undertakings. Such failures include (i) the late filing (161 days after the deadline set forth in its continuing disclosure undertakings) of its audited financial statements with respect to its fiscal year ended June 30, 2009; and (ii) failure to file its Annual Information with respect to its fiscal year ended June 30, 2009. YAI has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF SERIES 2015 PARTICIPANTS

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APPENDIX B-I

BIRCH FAMILY SERVICES, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2014, JUNE 30, 2013 AND JUNE 30, 2012)

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Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2014

Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2014

Birch Family Services, Inc. and Affiliate

Contents

B-I-2

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Independent Auditor's Report

Board of Directors
Birch Family Services, Inc. and Affiliate
New York, New York

We have audited the accompanying combining financial statements of Birch Family Services, Inc. and Affiliate ("Birch and Affiliate"), which comprise the combining statement of financial position as of June 30, 2014, and the related combining statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combining financial statements.

Management's Responsibility for the Combining Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combining 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 combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combining financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combining financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

IBDO

Opinion

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of Birch Family Services, Inc. and Affiliate as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Birch Family Services, Inc. and Affiliate's 2013 combining financial statements, and we expressed an unmodified audit opinion on those audited combining financial statements in our report dated November 25, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited combining financial statements from which it has been derived.

BDO USA, LLP

November 21, 2014

B-I-3

Birch Family Services, Inc. and Affiliate

Combining Statement of Financial Position (with comparative totals for 2013)

June 30,	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined Total 2014	Combined Total 2013
Assets					
Current:					
Cash and cash equivalents (Note 3)	$ 3,018,079	$467,730	$ -	$ 3,485,809	$4,736,865
Restricted cash (Note 3)	598,915	-	-	598,915	590,794
Accounts receivable, net of allowance for doubtful accounts of $51,427 and $-0- for 2014 and 2013, respectively (Notes 3, 8 and 9)	5,004,753	-	-	5,004,753	4,322,013
Pledges receivable (Note 3)	-	73,000	-	73,000	9,255
Prepaid expenses and other assets	386,900	583	-	387,483	314,228
Due from affiliate (Notes 2 and 15)	52,345	-	(52,345)	-	-
Total Current Assets	9,060,992	541,313	(52,345)	9,549,960	9,973,155
Assets Limited to Use (Note 4)	701,193	-	-	701,193	1,104,698
Deferred Bond, Loan Financing and Other Program Costs (Note 3)	381,370	-	-	381,370	290,862
Fixed Assets, Net (Notes 3, 5, 7 and 8)	12,291,409	-	-	12,291,409	12,269,559
	$22,434,964	$541,313	$(52,345)	$22,923,932	$23,638,274
Liabilities and Net Assets					
Current:					
Accounts payable and accrued expenses	$ 2,439,913	$ 41,976	$ -	$ 2,481,889	$ 2,184,168
Accrued compensation	1,419,353			1,419,353	1,252,602
Due to affiliate (Notes 2 and 15)	-	52,345	(52,345)	-	-
Due to governmental agencies, current portion (Notes 3 and 6)	896,072	-	-	896,072	219,587
Bonds payable, current portion (Note 7)	575,000	-	-	575,000	725,000
Loans and mortgages payable, current portion (Note 8)	1,742,336	-	-	1,742,336	797,763
Capital leases, current portion (Note 16)	80,356	-	-	80,356	90,774
Line of credit (Note 9)	650,000	-	-	650,000	2,000,000
Total Current Liabilities	7,803,030	94,321	(52,345)	7,845,006	7,269,394
Due to Governmental Agencies, Net of Current Portion (Notes 3 and 6)	3,374,647	-	-	3,374,647	3,889,852
Bonds Payable, Net of Current Portion (Note 7)	3,090,368	-	-	3,090,368	5,231,374
Loans and Mortgages Payable, Net of Current Portion (Note 8)	4,617,841	-	-	4,617,841	3,507,723
Capital Leases, Net of Current Portion (Note 16)	68,634	-	-	68,634	73,475
Total Liabilities	18,954,520	94,321	(52,345)	18,996,496	19,971,818
Commitments and Contingencies (Notes 3, 5, 7, 8, 9, 11, 12 and 14)					
Net Assets (Note 3):					
Unrestricted	3,339,856	330,376	-	3,670,232	3,453,517
Temporarily restricted (Note 13)	140,588	116,616	-	257,204	212,939
	$22,434,964	$541,313	$(52,345)	$22,923,932	$23,638,274

See accompanying notes to combining financial statements.

B-I-4

Birch Family Services, Inc. and Affiliate

Combining Statement of Activities
(with comparative totals for 2013)

Year ended June 30,	Unrestricted		Temporarily Restricted			Combined Total	
	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	2014	2013
Revenue and Other Support:							
Tuition revenue	$32,281,259	$ -	$ -	$ -	$-	$32,281,259	$32,381,182
Medicaid revenue for community services	17,847,273	-	-	-	-	17,847,273	17,053,008
Federal and New York State grants	4,282,469	-	-			4,282,469	4,742,087
Training and consultant services	132,865	-	-	-	-	132,865	114,629
Contributions	-	58,235	381,093	99,483		538,811	359,506
Donated services	316,227	-	-	-	-	316,227	76,415
Donated costs (Note 10)	545,353	-	-	-	-	545,353	524,997
Day care private fees	-	-	-	-	-	-	29,341
Special events	-	224,215	-	-	-	224,215	165,505
Less: Direct costs of special events	-	(31,780)	-	-	-	(31,780)	(30,233)
Interest income	8,572	3	-	-	-	8,575	20,424
Other income	73,271	-	-	-	-	73,271	34,567
Net assets released from restriction (Note 13)	366,014	70,297	(366,014)	(70,297)	-	-	-
Total Revenue and Other Support	55,853,303	370,970	15,079	29,186	-	56,218,538	55,471,423
Expenses:							
Program services:							
Educational services	33,839,942	53,454	-	-	-	33,893,396	34,474,825
Community services	15,686,532	-	-	-	-	15,686,532	15,182,273
Total Program Services	49,526,474	53,454	-	-	-	49,579,928	49,657,098
Supporting services:							
Management and general	6,062,666	25,617	-	-	-	6,088,283	5,474,017
Fundraising	-	289,347	-	-	-	289,347	275,575
Total Expenses	55,589,140	368,418	-	-	-	55,957,558	55,406,690
Change in Net Assets	264,163	(47,448)	15,079	79,186	-	260,980	64,733
Net Assets, Beginning of Year (Note 2(p))	3,075,693	377,824	125,509	87,430	-	3,666,456	3,601,723
Net Assets, End of Year	$ 3,339,856	$330,376	$140,588	$116,616	$-	$ 3,927,436	$ 3,666,456

See accompanying notes to combining financial statements.

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Birch Family Services, Inc. and Affiliate

Combining Statement of Functional Expenses
(with comparative totals for 2013)

Year ended June 30,	Program Services						Combined Total	
	Educational Services	Community Services	Total Program Services	Management and General	The Herbert G. Birch Services Fund, Inc.	Eliminations	2014	2013
Salaries and Related Expenses:								
Salaries	$21,762,987	$ 7,863,818	$29,646,805	$2,770,617	$207,874	$-	$32,625,296	$32,924,831
Payroll taxes and employee benefits	5,373,923	1,979,933	7,353,856	698,533	42,998	-	8,095,387	7,294,278
Total Salaries and Related Expenses	27,136,910	9,863,751	37,000,661	3,469,150	250,872	-	40,720,683	40,219,109
Other Expenses:								
Contracted personal services	840,759	769,419	1,610,178	-	-	-	1,610,178	1,891,730
Advertising	389	-	389	133,843	-	-	134,232	74,168
Auto expense	-	21,349	21,349	1,360	-	-	22,709	36,417
Donated costs from Administration for Children's Services, Health and Human Services and Agency for Child Development	545,353	-	545,353	-	-	-	545,353	524,998
Facility and equipment costs	2,715,257	709,215	3,424,472	701,266	20,883	-	4,146,621	4,090,322
Food	566,425	365,496	931,921	1,418	-	-	933,339	953,934
Insurance	104,807	177,233	282,040	45,523	-	-	327,563	303,484
Interest expense	155,513	256,837	412,350	77,917	-	-	490,267	691,613
Equipment rental	96,517	37,826	134,343	37,174	-	-	171,517	175,520
Office supplies, printing and postage	141,612	20,674	162,286	127,423	13,596	-	303,305	335,500
Professional fees	110,637	7,500	118,137	779,456	7,320	-	904,913	909,920
Program operational expenses	571,011	1,857,119	2,428,130	14,849	42,283	-	2,485,262	2,168,832
Repairs and maintenance	330,976	348,346	679,322	139,701	-	-	819,023	801,179
Licenses and other fees	5,440	8,953	14,393	51,856	-	-	66,249	85,710
Staff development	30,028	1,374	31,402	50,514	-	-	81,916	89,220
Telephone	25,384	101,467	126,851	19,856	-	-	146,707	143,723
Transportation	8,767	301,145	309,912	35,219	-	-	345,131	347,251
Start up expenses	-	-	-	-	-	-	-	64,817
Miscellaneous	53,310	171	53,481	117,547	33,464	-	204,492	46,525
Total Expenses Before Depreciation and Amortization	33,439,095	14,847,875	48,286,970	5,804,072	368,418	-	54,459,460	53,955,972
Depreciation and Amortization	400,847	838,657	1,239,504	258,594	-	-	1,498,098	1,450,718
Total Expenses	$33,839,942	$15,686,532	$49,526,474	$6,062,666	$368,418	$-	$55,957,558	$55,406,690

See accompanying notes to combining financial statements.

7

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B-I-6

Combining Statement of Cash Flows (with comparative totals for 2013)

Year ended June 30,

	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined Total 2014	Combined Total 2013
Cash Flows From Operating Activities:					
Change in net assets	$ 279,242	$ (18,262)	$ -	$ 260,980	$ 64,733
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,498,098	-	-	1,498,098	1,450,718
Amortization of bond and loan financing costs	-	-	-	-	31,180
Amortization of bond premium	-	-	-	-	(9,564)
(Increase) decrease in:					
Accounts receivable	(682,740)	-	-	(682,740)	(323,566)
Pledges receivable	-	(63,745)	-	(63,745)	(4,255)
Prepaid expenses and other assets	(72,672)	(583)	-	(73,255)	(122,727)
Due from affiliate	67,646	-	(67,646)	-	-
Deferred bond, loan financing and program costs	(90,508)	-	-	(90,508)	(83,260)
Increase (decrease) in:					
Accounts payable and accrued expenses	260,817	36,904	-	297,721	645,026
Accrued compensation	166,751	-	-	166,751	(44,718)
Due to affiliate	-	(67,646)	67,646	-	-
Due to governmental agencies	161,280	-	-	161,280	(480,086)
Net Cash Provided By (Used In) Operating Activities	1,587,914	(113,332)	-	1,474,582	1,123,481
Cash Flows From Investing Activities:					
Purchase of fixed assets	(1,519,948)	-	-	(1,519,948)	(1,168,918)
Change in assets limited to use	403,505	-	-	403,505	(6,697)
Net Cash Used In Investing Activities	(1,116,443)	-	-	(1,116,443)	(1,175,615)
Cash Flows From Financing Activities:					
Proceeds from bonds payable	-	-	-	-	1,365,000
Repayment of bonds payable	(2,291,006)	-	-	(2,291,006)	(564,248)
Proceeds from loans and mortgages payable	3,704,672	-	-	3,704,672	817,652
Repayment of loans and mortgages payable	(1,649,481)	-	-	(1,649,481)	(2,010,569)
Proceeds from capital lease obligations	82,102	-	-	82,102	106,768
Repayments of capital lease obligations	(97,361)	-	-	(97,361)	(111,096)
Proceeds from line of credit	-	-	-	-	4,500,000
Payments on line of credit	(1,350,000)	-	-	(1,350,000)	(2,500,000)
Net Cash (Used In) Provided By Financing Activities	(1,601,074)	-	-	(1,601,074)	1,603,507
Net (Decrease) Increase in Cash and Cash Equivalents	(1,129,603)	(113,332)	-	(1,242,935)	1,551,373
Cash and Cash Equivalents, Beginning of Year	4,746,597	581,062	-	5,327,659	3,776,286
Cash and Cash Equivalents, End of Year	$ 3,616,994	$ 467,730	$ -	$ 4,084,724	$ 5,327,659
Supplemental Disclosures of Cash Flow Information:					
Cash paid for interest	$ 490,267	$ -	$ -	$ 490,267	$ 691,613
Noncash transactions related to capital leases	82,102	-	-	82,102	106,768

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 8 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 5 Intermediate Care Facilities ("ICFs"), 5 Individual Residential Alternative Facilities ("IRAs") and 2 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 training and consultation.

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.

(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) Restricted Cash

Birch has restricted cash at one financial institution for its programs in the amount of $598,915 at June 30, 2014.

(e) 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

(f) 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.

(g) 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.

(h) 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.

In April 2014, New York State finalized a waiver with the Federal government that will allow the state to reinvest $8 billion in Federal savings generated by Medicaid Redesign Team ("MRT") reforms. The MRT waiver amendment will transform the state's health care system, bend the Medicaid cost curve, and ensure access to quality care for all Medicaid members. The Medicaid 1115 waiver amendment will enable New York to facilitate innovation and lower health care costs over the long term, especially for essential safety net providers. The waiver allows the state to reinvest over a five-year period $8 billion of the $17.1 billion in Federal savings generated by MRT reforms. The waiver amendment dollars will address critical issues throughout the state and allow for comprehensive reform through a Delivery System Reform Incentive Payment ("DSRIP") program. The DSRIP program will promote community-level collaborations and focus on system reform. Safety net providers will be required to collaborate to implement innovative projects focusing on system transformation, clinical improvement and population health improvement. Birch and Affiliate is taking the necessary steps to be at the forefront of MRT reforms and initiatives.

(i) 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, 2014, there was no unrelated business income.

(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 combining 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, 2014, 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, 2014, 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 2011.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

B-I-8

(p) Reclassifications

Certain amounts in the 2013 combining financial statements have been reclassified to the 2014 presentation. None of these reclassifications, however, affected the prior year change in net assets. The result of the reclassifications increased temporarily restricted net assets and decreased unrestricted net assets by $125,509 each. The reclassifications had no effect on total net assets.

(q) Comparative Financial Information

The combining financial statements include certain prior year summarized comparative information. 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Birch and Affiliate's combining financial statements for the year ended June 30, 2013 from which the summarized information was derived.

4. Assets Limited to Use

Assets limited to use consisting of cash and cash equivalents at June 30, 2014 amount to $701,193 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.

Birch Family Services, Inc. and Affiliate

Notes to Combining Financial Statements

(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, 2014	Birch	Fund	Combined
Land	$ 1,513,261	$-	$ 1,513,261
Building and building improvements	11,476,240	-	11,476,240
Leasehold improvements	5,622,701	-	5,622,701
Furniture, fixtures and equipment	3,205,570	-	3,205,570
Vehicles and equipment under capital lease obligations	740,731	-	740,731
Total fixed assets	22,558,503	-	22,558,503
Less: Accumulated depreciation	(10,267,094)	-	(10,267,094)
Fixed assets, net	$ 12,291,409	$-	$ 12,291,409

Depreciation expense for the year ended June 30, 2014 was $1,498,098.

6. Due to Governmental Agencies

Due to governmental agencies at June 30, 2014 consists of the following:

June 30, 2014	
Advanced funds by Office of People With Developmental Disabilities ("OPWDD") under various contracts for the construction and rehabilitation of several residencies	$1,140,015
Due to the New York City Education Department	3,010,886
Due to the Administration for Children's Services	1,404
Grant advances and consumer funds from other governmental agencies	118,414
	4,270,719
Less: Current portion	(896,072)
	$3,374,647

7. Bonds Payable

Issuer	Description	Date of Issuance	Original Amount	Total Payments (1997-2014)	Balance at June 30, 2014	Collateral
NYCIDA	Series 1997B at 8.375% per annum, due February 1, 2022	February 6, 1997	$2,195,000	$(2,195)	$ -	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	(235,000)	65,000	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	(295,000)	130,000	Leasehold mortgage liens and security interests in Brooklyn IRA facility
DASNY	Series 2012A-1 at 3.0% per annum, due June 1, 2019	February 29, 2012	2,425,000	(615,000)	1,810,000	Leasehold mortgage liens and security interests in St. Nicholas and Wyckoff ICF facilities
DASNY	Series 2013A-1 at 3.0% per annum, due June 1, 2028	March 13, 2013	1,300,000	(40,000)	1,260,000	Leasehold mortgage liens and security interests in Irwin IRA facilities
DASNY	Series 2013A-2 at 7.65% per annum, due June 1, 2028	March 13, 2013	65,000	(65,000)	-	Leasehold mortgage liens and security interests in Irwin IRA facilities
DASNY	Mortgage - semiannual payments of principal plus interest at 6.0157% per annum, due February 15, 2020	April 29, 1996	754,000	(437,319)	316,681	Real property, improvements, gifts, grants and bequests for Flatlands Avenue project
	Subtotal				3,581,681	
	Premium on bonds payable				83,687	
					$3,665,368	

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Required principal and interest payments are as follows:

2015	$ 575,000
2016	620,000
2017	510,000
2018	490,000
2019	500,000
Thereafter	970,368
Total	$3,665,368

8. Loans and Mortgages Payable

Loans and mortgages payable consist of:

June 30, 2014	
Loan payable to Citibank, due April 18, 2017, payable in monthly installments of $8,333 including interest of 5.46%, secured by related property	$ 283,344
Loan payable to FJC, due December 31, 2015, payable upon maturity	1,034,000
Mortgage payable to Citibank, due February 11, 2022, payable in monthly installments of $5,082 including interest of 6.11%, secured by related property	467,555
Mortgage payable to Citibank, due May 1, 2024, payable in monthly installments of $3,533 including interest of 5.06%, secured by related property	420,406
Mortgage payable to Citibank, due June 10, 2025, payable in monthly installments of $3,393 including interest of 5.12%, secured by related property	447,874
Mortgage payable to Citibank, due June 10, 2015, payable in monthly installments of $1,666 including interest of 5.60%, secured by related property	19,978
Mortgage payable to Citibank, due November 10, 2023, payable in monthly installments of $26,347 including interest of 3.45%, secured by related property	2,555,537
Mortgage payable to Citibank, due June 10, 2025, payable in monthly installments of $3,597 including interest of 5.12%, secured by related property	474,773
Mortgage payable to Citibank, due June 10, 2015, payable in monthly installments of $2,774 including interest of 5.60%, secured by related property	33,288

B-I-10

June 30, 2014	
Mortgage payable to Citibank, due September 22, 2020, payable in monthly installments of $5,274 including interest of 3.06%, secured by related property	$ 395,544
Mortgage payable to Citibank, due September 22, 2017, payable in monthly installments of $5,843 including interest of 2.57%, secured by related property	227,878
Total loans and mortgages payable	6,360,177
Less: Current maturities	1,742,336
	$4,617,841

Required principal payments are as follows:

	Birch	Fund	Total
2015	$1,742,336	$ -	$1,742,336
2016	663,178	-	663,178
2017	655,357	-	655,357
2018	528,360	-	528,360
2019	520,083	-	520,083
Thereafter	2,250,863	-	2,250,863
	$6,360,177	$	$6,360,177

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 2014 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, 2014 was $650,000. Subsequent to June 30, 2014, there was an additional drawdown of $1,500,000 and repayments totaling $1,150,000 on the line of credit.

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 combining financial statements as donated costs. Total city-administered support at June 30, 2014 has been recorded as follows:

Health insurance	$ 36
Lease/rental - real property	44,775
Pension	292
Human Resource Administration agency insurance package	15
	$45,118

Additionally, donated costs from the Department of Health and Human Services and Head Start programs in the amount of $500,235 are included.

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,	
2015	$ 3,213,448
2016	2,775,029
2017	2,445,033
2018	1,129,590
2019	965,839
Thereafter	1,152,678
Total	$11,681,617

Rental expense for the year ended June 30, 2014 was $3,199,856.

12. Pension Plans

(a) *Retirement Plan*

Birch has a 401(a) profit sharing defined contribution plan which provides retirement benefits to substantially all eligible employees. Employees become eligible to participate after completion of one year of service and 1,000 hours of eligible service, as defined in the Plan document, and attainment of age 21. Retirement expense for the year ended June 30, 2014 was $1,143,533.

(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. For the year ended June 30, 2014, Birch did not make any contributions into the 403(b) plan.

(c) *457(b) Plan*

Birch has a Section 457(b) deferred compensation plan for one key employee. The fully funded liability and the corresponding asset related to the plan amounted to approximately $50,417 and is included in accrued compensation and prepaid expenses and other assets 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, 2014, the accumulated postretirement benefit obligation amounted to $5,473 and is included in accrued compensation in the accompanying combining statement of financial position.

13. Temporarily Restricted Net Assets

Birch and Affiliate's temporarily restricted net assets that are available for the following purposes:

June 30, 2014	
Hillcrest Music Fund	$ 3,258
Family Literacy Program	47,916
Hillcrest Parents Fund	29,675
Greenhouse project	20,000
Special Projects General Operating	112,724
Special Needs Training, Socialization and Development	27,863
Other	15,768
	$257,204

Birch and Affiliate's net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

June 30, 2014	
Family Literacy Program	$ 52,083
Hillcrest PFA Fund	8,530
SEC TWP iPad	9,584
Other	100
New Frontier programs	366,014
	$436,311

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, which is included in due to governmental agencies on the accompanying combining statement of financial position.

B-I-12

(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. In 2014, Birch has yet to receive a settlement with the workers' compensation trust. As such, a provision for the amount of the full liability has not been recorded in the accompanying combining financial statements for the assessment.

15. Transactions With Affiliate

Birch charges the Fund for salaries, fringe benefits, rent and other administrative expenses. Total fees charged for the year ended June 30, 2014 were $271,168.

The amount due from the Fund at June 30, 2014 was $52,345.

16. Capital Leases

Birch leases various automobiles and copiers under capital leases that expire at various dates through 2018, which require monthly payments of principal and interest rates ranging from 2.0% - 6.81%. 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, 2014.

June 30,	
2015	$ 80,356
2016	42,614
2017	22,697
2018	5,576
Total minimum lease payments	151,243
Less: Amount representing interest	(2,253)
Present value of net minimum lease payments	148,990
Less: Current portion	(80,356)
	$ 68,634

17. Subsequent Events

Birch and Affiliate have performed subsequent event procedures through November 21, 2014, 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.

Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2013

B-I-13

Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2013

Birch Family Services, Inc. and Affiliate

Contents

B-I-14

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Independent Auditor's Report

Board of Directors
Birch Family Services, Inc. and Affiliate
New York, New York

We have audited the accompanying combining financial statements of Birch Family Services, Inc. and Affiliate ("Birch and Affiliate"), which comprise the combining statement of financial position as of June 30, 2013, and the related combining statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combining financial statements.

Management's Responsibility for the Combining Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combining 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 combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combining financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combining financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO

Opinion

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of Birch Family Services, Inc. and Affiliate as of June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Birch Family Services, Inc. and Affiliate's 2012 combining financial statements, and we expressed an unmodified audit opinion on those audited combining financial statements in our report dated December 14, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited combining financial statements from which it has been derived.

BDO USA, LLP

November 25, 2013

Birch Family Services, Inc. and Affiliate

Combining Statement of Financial Position
(with comparative totals for 2012)

June 30,	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined Total 2013	Combined Total 2012
Assets					
Current:					
Cash and cash equivalents (Note 3)	$ 4,155,803	$581,062	$ -	$ 4,736,865	$ 3,555,425
Restricted cash (Note 3)	590,794	-	-	590,794	220,861
Accounts receivable, net of allowance for doubtful accounts of $18,700 for 2012 (Notes 3, 8 and 9)	4,322,013			4,322,013	3,998,447
Pledges receivable (Note 3)	-	9,255	-	9,255	5,000
Prepaid expenses and other assets	314,228	-	-	314,228	191,501
Due from affiliate (Notes 2 and 15)	119,991	-	(119,991)	-	-
Total Current Assets	9,502,829	590,317	(119,991)	9,973,155	7,971,234
Assets Limited to Use (Note 4)	1,104,698	-	-	1,104,698	1,098,001
Deferred Bond, Loan Financing and Other Program Costs (Note 3)	290,862	-	-	290,862	238,782
Fixed Assets, Net (Notes 3, 5, 7 and 8)	12,269,559	-	-	12,269,559	12,551,359
	$23,167,948	$590,317	$(119,991)	$23,638,274	$21,859,376
Liabilities and Net Assets					
Current:					
Accounts payable and accrued expenses	$ 2,179,096	$ 5,072	$ -	$ 2,184,168	$ 1,539,142
Accrued compensation	1,252,602	-	-	1,252,602	1,297,320
Due to affiliate (Notes 2 and 15)	-	119,991	(119,991)	-	-
Due to governmental agencies (Notes 3 and 6)	2,259,931	-	-	2,259,931	2,740,017
Bonds payable, current portion (Note 7)	725,000	-	-	725,000	500,000
Loans and mortgages payable, current portion (Note 8)	797,263	-	-	797,263	1,396,018
Capital leases, current portion (Note 16)	90,774	-	-	90,774	98,369
Line of credit (Note 9)	2,000,000	-	-	2,000,000	-
Total Current Liabilities	9,304,666	125,063	(119,991)	9,309,738	7,570,866
Due to Governmental Agencies, Net of Current Portion (Notes 3 and 6)	1,849,508	-	-	1,849,508	1,849,508
Bonds Payable, Net of Current Portion (Note 7)	5,231,374	-	-	5,231,374	4,665,186
Loans and Mortgages Payable, Net of Current Portion (Note 8)	3,507,723	-	-	3,507,723	4,101,885
Capital Leases, Net of Current Portion (Note 16)	73,475	-	-	73,475	70,208
Total Liabilities	19,966,746	125,063	(119,991)	19,971,818	18,257,653
Commitments and Contingencies (Notes 3, 5, 7, 8, 9, 11, 12 and 14)					
Net Assets (Note 3):					
Unrestricted	3,201,202	377,824	-	3,579,026	3,512,087
Temporarily restricted (Note 13)	-	87,430	-	87,430	89,636
	$23,167,948	$590,317	$(119,991)	$23,638,274	$21,859,376

See accompanying notes to combining financial statements.

Birch Family Services, Inc. and Affiliate

Combining Statement of Activities
(with comparative totals for 2012)

Year ended June 30,

	Unrestricted		Temporarily Restricted		Combined Total	
	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	2013	2012
Revenue and Other Support:						
Tuition revenue	$32,381,182	$ -	$ -	$ -	$32,381,182	$31,619,716
Medicaid revenue for community services	17,053,008	-	-	-	17,053,008	15,306,638
Federal and New York State grants	4,742,082	-	-	-	4,742,082	5,210,170
Training and consultant services	114,629	-	-	-	114,629	112,110
Contributions	258,448	44,011	57,047	-	359,506	190,729
Donated services	76,415	-	-	-	76,415	56,034
Donated costs (Note 10)	524,997	-	-	-	524,997	733,921
Day care private fees	29,341	-	-	-	29,341	150,570
Special events	-	165,505	-	-	165,505	203,905
Less: Direct costs of special events	-	(30,233)	-	-	(30,233)	(20,598)
Interest income	20,421	3	-	-	20,424	23,959
Other income	34,567	-	-	-	34,567	39,879
Net assets released from restriction (Note 13)	-	59,253	(59,253)	-	-	-
Total Revenue and Other Support	55,235,090	238,539	(2,206)	-	55,471,423	53,627,033
Expenses:						
Program services:						
Educational services	34,424,971	49,854	-	-	34,474,825	34,053,019
Community services	15,182,273	-	-	-	15,182,273	13,464,527
Total Program Services	49,607,244	49,854	-	-	49,657,098	47,517,546
Supporting services:						
Management and general	5,456,234	17,783	-	-	5,474,017	5,643,256
Fundraising	-	275,575	-	-	275,575	27,098
Total Expenses	55,063,478	343,212	-	-	55,406,690	53,187,900
Change in Net Assets	171,612	(104,673)	(2,206)	-	64,733	439,133
Net Assets, Beginning of Year	3,029,590	482,497	89,636	-	3,601,723	3,162,590
Net Assets, End of Year	$ 3,201,202	$ 377,824	$ 87,430	$ -	$ 3,666,456	$ 3,601,723

See accompanying notes to combining financial statements.

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Birch Family Services, Inc. and Affiliate

Combining Statement of Functional Expenses
(with comparative totals for 2012)

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	2013	2012
Salaries and Related Expenses:									
Salaries	$ 22,425,671	$ 7,892,121	$ 30,317,792	$ 2,435,599	$ 32,753,391	$171,440	$ -	$32,924,831	$32,199,072
Payroll taxes and employee benefits	4,932,356	1,762,042	6,694,398	561,198	7,255,596	38,682	-	7,294,278	6,788,118
Total Salaries and Related Expenses	27,358,027	9,654,163	37,012,190	2,996,797	40,008,987	210,122	-	40,219,109	38,987,190
Other Expenses:									
Contracted personal services	1,106,131	785,599	1,891,730	-	1,891,730	-	-	1,891,730	1,643,507
Advertising	389	-	389	73,779	74,168	-	-	74,168	94,540
Auto expense	490	35,749	36,239	178	36,417	-	-	36,417	46,011
Donated costs from ACS, HHS and ACD	524,998	-	524,998	-	524,998	-	-	524,998	733,921
Facility and equipment costs	2,671,545	670,957	3,342,502	693,470	4,035,972	54,350	-	4,090,322	3,934,852
Food	593,382	359,675	953,057	877	953,934	-	-	953,934	953,936
Insurance	81,085	137,406	218,491	84,993	303,484	-	-	303,484	262,835
Interest expense	236,270	313,713	549,983	141,630	691,613	-	-	691,613	614,299
Equipment rental	89,218	48,794	138,012	37,508	175,520	-	-	175,520	168,899
Office supplies, printing and postage	160,598	35,832	196,430	87,802	284,232	51,268	-	335,500	242,075
Professional fees	77,657	6,219	83,876	819,454	903,330	6,590	-	909,920	971,193
Program operational expenses	629,194	1,524,453	2,153,647	15,185	2,168,832	-	-	2,168,832	1,462,916
Repairs and maintenance	351,452	318,158	669,610	131,569	801,179	-	-	801,179	772,409
Indirect gala expenses	-	-	-	-	-	-	-	-	20,301
Licenses and other fees	1,735	11,276	13,011	72,699	85,710	-		85,710	116,187
Staff development	40,663	416	41,079	48,141	89,220	-	-	89,220	120,434
Telephone	35,724	87,386	123,110	20,613	143,723	-	-	143,723	186,844
Transportation	13,163	295,771	308,934	38,317	347,251	-	-	347,251	300,160
Start up expenses	-	66,817	66,817	-	66,817	-	-	66,817	-
Miscellaneous	7,023	6,091	13,114	12,529	25,643	20,882	-	46,525	147,319
Total Expenses Before Depreciation and Amortization	33,978,744	14,358,475	48,337,219	5,275,541	53,612,760	343,212	-	53,955,972	51,779,828
Depreciation and Amortization	446,227	823,798	1,270,025	180,693	1,450,718	-	-	1,450,718	1,408,072
Total Expenses	$34,424,971	$15,182,273	$49,607,244	$5,456,234	$55,063,478	$343,212	$ -	$55,406,690	$53,187,900

See accompanying notes to combining financial statements.

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Combining Statement of Cash Flows
(with comparative totals for 2012)

Year ended June 30,

	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined Total 2013	Combined Total 2012
Cash Flows From Operating Activities:					
Change in net assets	$ 171,612	$(106,879)	$ -	$ 64,733	$ 439,133
Adjustments to reconcile change in net assets to net cash provided by operating activities:					
Depreciation and amortization	1,450,718	-	-	1,450,718	1,383,101
Amortization of bond and loan financing costs	31,180	-	-	31,180	23,896
Amortization of bond premium	(9,564)	-		(9,564)	-
(Increase) decrease in:					
Accounts receivable	(323,566)	-	-	(323,566)	678,507
Pledges receivable	-	(4,255)	-	(4,255)	5,000
Prepaid expenses and other assets	(126,435)	3,708	-	(122,727)	17,400
Due from affiliate	(107,311)	-	107,311	-	-
Deferred bond, loan financing and program costs	(83,260)	-	-	(83,260)	(46,487)
Increase (decrease) in:				-	
Accounts payable and accrued expenses	639,954	5,072	-	645,026	(942,242)
Accrued compensation	(44,718)	-	-	(44,718)	(9,602)
Deferred revenue	-	-	-	-	(3,165)
Due to affiliate	-	107,311	(107,311)	-	-
Due to governmental agencies	(480,086)	-	-	(480,086)	2,166,050
Net Cash Provided By Operating Activities	1,118,524	4,957	-	1,123,481	3,711,591
Cash Flows From Investing Activities:					
Purchase of fixed assets	(1,168,918)	-	-	(1,168,918)	(1,715,547)
Change in assets limited to use	(6,697)	-	-	(6,697)	(350,813)
Net Cash Used In Investing Activities	(1,175,615)	-	-	(1,175,615)	(2,066,360)
Cash Flows From Financing Activities:					
Proceeds from bonds payable	1,365,000	-	-	1,365,000	2,629,771
Repayment of bonds payable	(564,248)	-	-	(564,248)	(219,085)
Proceeds from loans and mortgages payable	817,652	-	-	817,652	1,877,413
Repayment of loans and mortgages payable	(2,010,569)	-	-	(2,010,569)	(2,688,377)
Proceeds from capital lease obligations	106,768	-	-	106,768	86,369
Repayments of capital lease obligations	(111,096)	-	-	(111,096)	(120,693)
Proceeds from line of credit	4,500,000	-	-	4,500,000	5,000,000
Payments on line of credit	(2,500,000)	-	-	(2,500,000)	(6,051,599)
Net Cash Provided By Financing Activities	1,603,507	-	-	1,603,507	513,799
Net Increase in Cash and Cash Equivalents	1,546,416	4,957	-	1,551,373	2,159,030
Cash and Cash Equivalents, Beginning of Year	3,200,181	576,105	-	3,776,286	1,617,256
Cash and Cash Equivalents, End of Year	$ 4,746,597	$581,062	$ -	$ 5,327,659	$ 3,776,286
Supplemental Disclosures of Cash Flow Information:					
Cash paid for interest	$ 691,613	$ -	$ -	$ 691,613	$ 614,299
Noncash transactions related to capital leases	106,768	-	-	106,768	86,369

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 8 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 5 Intermediate Care Facilities ("ICFs"), 5 Individual Residential Alternative Facilities ("IRAs") and 2 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 training and consultation.

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.

(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) Restricted Cash

Birch has restricted cash at one financial institution for its programs in the amount of $590,794 at June 30, 2013.

(e) 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

B-I-19

(f) 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.

(g) 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.

(h) 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.

(i) 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

Birch Family Services, Inc. and Affiliate

Notes to Combining Financial Statements

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, 2013, there was no unrelated business income.

(j) 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.

(k) 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 combining 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, 2013, 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, 2013, 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 2010.

(l) 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.

(m) 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.

(n) 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.

(o) 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, 2013 amount to $1,104,698 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.

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, 2013

	Birch	Fund	Combined
Land	$ 1,513,261	$-	$ 1,513,261
Building and building improvements	10,356,092	-	10,356,092
Leasehold improvements	5,539,047	-	5,539,047
Furniture, fixtures and equipment	3,015,818	-	3,015,818
Vehicles and equipment under capital lease obligations	659,826	-	659,826
Total fixed assets	21,084,044	-	21,084,044
Less: Accumulated depreciation	(8,814,485)	-	(8,814,485)
Fixed assets, net	$12,269,559	$-	$12,269,559

6. Due to Governmental Agencies

Due to governmental agencies at June 30, 2013 consists of the following:

June 30, 2013	
Advanced funds by Office of People With Developmental Disabilities ("OPWDD") under various contracts for the construction and rehabilitation of several residencies	$2,258,527
Due to the New York City Education Department	1,849,508
Due to the Administration for Children's Services	1,404
	$4,109,439

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7. Bonds Payable

Issuer	Description	Date of Issuance	Original Amount	Total Payments (1997-2013)	Balance at June 30, 2013	Collateral
NYCIDA	Series 1997B at 8.375% per annum, due February 1, 2022	February 6, 1997	$2,195,000	$(450,000)	$1,745,000	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	(205,000)	95,000	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	(260,000)	165,000	Leasehold mortgage liens and security interests in Brooklyn IRA facility
DASNY	Series 2012A-1 at 7.5% per annum, due June 1, 2019	February 29, 2012	2,425,000	(260,000)	2,165,000	Leasehold mortgage liens and security interests in St. Nicholas and Wyckoff ICF facilities
DASNY	Series 2013A-1 at 7.65% per annum, due June 1, 2028	March 13, 2013	1,300,000	-	1,300,000	Leasehold mortgage liens and security interests in Irwin IRA facilities
DASNY	Series 2013A-2 at 7.65% per annum, due June 1, 2028	March 13, 2013	65,000	(5,000)	60,000	Leasehold mortgage liens and security interests in Irwin IRA facilities
DASNY	Mortgage - semiannual payments of principal plus interest at 6.0157% per annum, due February 15, 2020	April 29, 1996	754,500	(433,333)	321,167	Real property, improvements, gifts, grants and bequests for Flatlands Avenue project
	Subtotal				5,851,167	
	Premium on bonds payable				105,207	
					$5,956,374	

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Required principal and interest payments are as follows:

2014	$ 734,564
2015	734,564
2016	759,564
2017	694,564
2018	689,564
Thereafter	2,343,554
Total	$5,956,374

8. Loans and Mortgages Payable

Loans and mortgages payable consist of:

June 30, 2013	
Loan payable to Citibank, due April 18, 2017, payable in monthly installments of $8,333 including interest of 5.46%, secured by related property	$ 383,333
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	818,981
Mortgage payable to Citibank, due April 14, 2014, payable in monthly installments including interest of 6.75%, secured by related property	137,043
Mortgage payable to Citibank, due February 11, 2022, payable in monthly installments of $5,082 including interest of 6.10%, secured by related property	528,541
Mortgage payable to Citibank, due May 1, 2024, payable in monthly installments of $3,533 including interest of 5.06%, secured by related property	462,800
Mortgage payable to Citibank, due May 1, 2014, payable in monthly installments of $9,490 including interest of 6.00%, secured by related property	104,388
Mortgage payable to Citibank, due June 10, 2025, payable in monthly installments of $3,393 including interest of 5.12%, secured by related property	488,591
Mortgage payable to Citibank, due June 10, 2015, payable in monthly installments of $1,666 including interest of 5.60%, secured by related property	39,976

June 30, 2013	
Mortgage payable to Citibank, due June 10, 2025, payable in monthly installments of $3,597 including interest of 5.12%, secured by related property	$ 517,934
Mortgage payable to Citibank, due June 10, 2015, payable in monthly installments of $2,774 including interest of 5.60%, secured by related property	66,574
Mortgage payable to Citibank, due September 22, 2020, payable in monthly installments of $5,274 including interest of 3.06%, secured by related property	458,831
Mortgage payable to Citibank, due September 22, 2017, payable in monthly installments of $5,843 including interest of 2.57%, secured by related property	297,994
Total loans and mortgages payable	4,304,986
Less: Current maturities	797,263
	$3,507,723

Required principal payments are as follows:

	Birch	Fund	Total
2014	$ 797,263	$-	$ 797,263
2015	555,833	-	555,833
2016	502,558	-	502,558
2017	485,892	-	485,892
2018	349,972	-	349,972
Thereafter	1,613,468	-	1,613,468
	$4,304,986	$-	$4,304,986

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 2013 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, 2013 was $2,000,000. Subsequent to June 30, 2013, there were no additional drawdowns or repayments on the line of credit.

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 combining financial statements as donated costs. Total city-administered support at June 30, 2013 has been recorded as follows:

Health insurance	$ 73,290
Lease/rental - real property	66,249
Pension	22,982
Gas and heating fuel	8,521
Water	1,624
HRA agency insurance package	1,668
Real property taxes	18,537
	$192,871

Additionally, donated costs from the Department of Health and Human Services in the amount of $332,126 are included.

11. Leased Facilities

B-I-23

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,	
2014	$ 2,947,485
2015	2,934,799
2016	2,702,572
2017	2,316,285
2018	1,049,256
Thereafter	2,035,774
Total	$13,986,171

Rental expense for the year ended June 30, 2013 was $3,158,155.

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 average contribution percentage used for 2013 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, 2013 was $1,051,543.

(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 fully funded liability related to the plan amounted to approximately $50,417 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, 2013, 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, 2013	
Hillcrest Music Fund	$ 3,258
Family Literacy Program	40,000
Hillcrest Parents Fund	30,712
Other	13,460
	$87,430

The Fund's net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

June 30, 2013	
Domestic Violence Projects	$ 4,635
Hillcrest Music Fund	38,217
Hillcrest Art and Book Funds	4,763
Other	11,638
	$59,253

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. In 2013, Birch has yet to receive a settlement with the workers' compensation trust. As such, a provision for the amount of the full liability has not been recorded in the accompanying combining financial statements for the assessment.

15. Transactions With Affiliate

Birch charges the Fund for salaries, fringe benefits, rent and other administrative expenses. Total fees charged for the year ended June 30, 2013 were $229,651.

The amount due from the Fund at June 30, 2013 was $119,991.

B-I-24

16. Capital Leases

Birch leases various automobiles and copiers under capital leases that expire at various dates through 2018, which require monthly payments of principal and interest rates ranging from 2.0% - 6.81%. 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, 2013.

June 30,	
2014	$ 90,774
2015	53,420
2016	14,560
2017	8,364
2018	4,045
Total minimum lease payments	171,163
Less: Amount representing interest	6,914
Present value of net minimum lease payments	164,249
Less: Current portion	(90,774)
	$ 73,475

17. Subsequent Events

Birch and Affiliate have performed subsequent event procedures through November 25, 2013, 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.

Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2012

Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2012

Birch Family Services, Inc. and Affiliate

Contents

B-I-26

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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

B-I-27

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		Combined Total	
	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	2012	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	$13,464,527	$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.

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.

(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.

B-I-30

(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.

(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

B-I-33

Birch Family Services, Inc. and Affiliate

Notes to Combining Financial Statements

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.

B-I-34

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.

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

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.

B-I-35

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.

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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APPENDIX B-II

COMMUNITY RESOURCE CENTER FOR THE DEVELOPMENTALLY DISABLED, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2014, JUNE 30, 2013 AND JUNE 30, 2012)

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Cornick Garber Sandler
Certified Public Accountants & Advisors

COMMUNITY RESOURCE CENTER
FOR THE
DEVELOPMENTALLY DISABLED, INC.

JUNE 30, 2014

Cornick Garber Sandler
Certified Public Accountants & Advisors

COMMUNITY RESOURCE CENTER
FOR THE
DEVELOPMENTALLY DISABLED, INC.

JUNE 30, 2014

Table of Contents

Cornick Garber Sandler
Certified Public Accountants & Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Resource Center for the Developmentally Disabled, Inc.
Bronx, New York

Report on the Financial Statements

We have audited the accompanying financial statements of COMMUNITY RESOURCE CENTER FOR THE DEVELOPMENTALLY DISABLED, INC. (the "Agency") which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Cornick, Garber & Sandler, LLP
825 Third Avenue, New York, NY
cgscpa.com

Cornick Garber Sandler
Certified Public Accountants & Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Resource Center for the Developmentally Disabled, Inc.

Page Two

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Resource Center for the Developmentally Disabled, Inc. as of June 30, 2014, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued the reports dated October 30, 2014 on our consideration of the internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering an entity's internal control over financial reporting and compliance.

Cornick, Garber + Sandler, LLP
CERTIFIED PUBLIC ACCOUNTANTS

New York, New York
October 30, 2014

Cornick, Garber & Sandler, LLP
825 Third Avenue, New York, NY
cgscpa.com

Cornick Garber Sandler

COMMUNITY RESOURCE CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014

ASSETS

Current assets:		
Cash and cash equivalents		$ 2,430,285
Accounts receivable		2,638,744
Prepaid expenses		158,782
Total current assets		5,227,811
Fixed assets:		
Property and equipment (at cost, less accumulated depreciation of $2,753,408)		2,101,713
Other assets:		
Refinancing costs (at cost, less accumulated amortization of $134 446)	$ 94,079	
Due from related party	26,888	
Debt service reserve	105,784	
Security deposits	43,699	
Total other assets		270,450
TOTAL ASSETS		$ 7,599,974

LIABILITIES

Current liabilities:		
Accounts payable		$ 537,870
Accrued expenses		3,330,519
Current portion of long-term debt.		
Bonds payable	$ 177,633	
Lease payable	14,464	192,097
Total current liabilities		4,060,486
Long-term liabilities:		
Long-term debt, net of current portion above.		
Bonds payable	2,157,293	
Lease payable	8,126	2,165,419
Security deposit - Grace Outreach		2,120
Deferred rent		86,385
Total liabilities		6,314,410

NET ASSETS

Unrestricted net assets		1,285,564
TOTAL		$ 7,599,974

See accompanying notes

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Cornick Garber Sandler
Certified Public Accountants & Advisors

COMMUNITY RESOURCE CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

Revenue:		
Government fees	$ 14,869,477	
Consumer participation	438,843	
Other income	180,935	
Total revenue		$ 15,489,255
Functional expenses:		
Program services expenses	13,423,609	
General and administrative expenses	1,540,090	
Total functional expenses		14,963,699
Increase in unrestricted net assets before depreciation, amortization, interest expense and retroactive rate adjustment of prior year government fees		525,556
Depreciation and amortization expense		(191,547)
Interest expense		(151,067)
Net increase in unrestricted net assets before retroactive rate adjustment of prior year government fees		182,942
Retroactive rate adjustment of prior year government fees		(911,125)
Net decrease in unrestricted net assets		(728,183)
Unrestricted net assets - July 1, 2013		2,013,747
UNRESTRICTED NET ASSETS - JUNE 30, 2014		$ 1,285,564

See accompanying notes

Cornick Garber Sandler
Certified Public Accountants & Advisors

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

	Program Services	General and Administrative	Total Expenses
Payroll	$ 6,539,987	$ 820,554	$ 7,360,541
Payroll taxes and fringe benefits	2,807,452	309,644	3,117,096
Rent - property	388,793	129,898	518,691
Food	371,171	4,919	376,090
Assessment fees	610,001		610,001
Professional clinical services	108,506		108,506
Children and family services	2,361		2,361
Day Hab Services	1,518,888		1,518,888
Supplies - housekeeping and laundry	133,966		133,966
Repairs and maintenance	124,824	15,865	140,689
Recreation and consumer care	53,646	887	54,533
Bank fees		18,539	18,539
Professional fees		123,681	123,681
Insurance	146,874	8,307	155,181
Equipment	57,575		57,575
Dues and subscriptions		15,274	15,274
Telephone	29,573	32,315	61,888
Vehicle lease and expenses	57,328	11,600	68,928
Operating equipment leases	22,609	3,811	26,420
Training - staff	26,277	6,675	32,952
Transportation - staff	16,292	1,072	17,364
Supplies - program/medical	129,087		129,087
Utilities	126,135		126,135
Transportation - consumers	111,888		111,888
Postage and office supplies	23,723	7,558	31,281
Medical equipment maintenance	6,219		6,219
Computer expense		29,491	29,491
VOICF replacement reserve	7,500		7,500
Miscellaneous	2,934		2,934
Total Expenses	$ 13,423,609	$ 1,540,090	$ 14,963,699

See accompanying notes

B-II-5

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:		
Net decrease in unrestricted net assets	$ (728,183)	
Adjustments to reconcile results of operations to net cash effect of operating activities:		
Depreciation and amortization expense	191,547	
Change in assets and liabilities:		
Accounts receivable	(1,049,990)	
Prepaid expenses	64,172	
Due from related party	9,313	
Debt service reserve	6,440	
Security deposits	(26,552)	
Accounts payable	(37,798)	
Accrued expenses	2,143,659	
Rent payable	9,009	
Net cash provided by operating activities		$ 581,617
Cash flows from investing activities:		
Purchase of property and equipment		(69,479)
Cash flows from financing activities:		
Payments of bonds payable	(157,881)	
Capital lease payments	(14,556)	
Net cash used for financing activities		(172,437)
Net increase in cash and cash equivalents		339,701
Cash and cash equivalents - July 1, 2013		2,090,584
CASH AND CASH EQUIVALENTS - JUNE 30, 2014		$ 2,430,285
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest		$ (151,067)

See accompanying notes

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - Summary of Significant Accounting Policies

Organization and Nature of Activities

Community Resource Center for the Developmentally Disabled, Inc. ("the Agency") is a non-profit corporation organized under the laws of the State of New York. It commenced operations on March 14, 1979 and currently operates residential facilities for individuals with developmental disabilities in New York City and Westchester County, New York.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. For the purpose of preparing these financial statements, the Agency has considered subsequent events occurring through October 30, 2014, the date these financial statements became available for distribution.

Basis of Presentation

The Agency follows the reporting format of the standard on "Financial Statements of Not-For-Profit Organizations" issued by the Financial Accountings Standards Board which requires that information about financial position and activities is reported according to three categories of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. At June 30, 2014, all of the Agency's assets were unrestricted. The Agency's policy is to separately report any restricted amounts only if the restriction has not been satisfied by year-end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(Continued)

NOTE A - Summary of Significant Accounting Policies (Continued)

Depreciation and Amortization of Property and Equipment

In accordance with the New York State Office for People with Developmental Disabilities ("NYSOPWDD") regulations, the cost of equipment, vehicles, furniture and fixtures and capital leases are capitalized and depreciated or amortized using the straight-line method over a period of 60 months. The buildings located at 61 Florence Street, 1463 Arnow Avenue, and 755 East 147th Street (Wales Avenue) are depreciated using the straight-line method over 20 to 25 years. Leasehold improvements are amortized over the shorter of the lease term or useful life.

Revenue

The Agency receives revenues from the NYSOPWDD and the Social Security Administration under the Medicaid program for billable client services and recognizes these fees and income when these services are provided. The revenue is based on established rates multiplied by the number of units of service provided.

In early 2011, NYSOPWDD submitted a system wide net rate reduction plan to the Centers for Medicaid and Medicare Services (CMS). However, CMS did not approve NYSOPWDD's request to reduce those rates until September 2014. The rate reduction affected the period July 1, 2011 to June 30, 2014. Per instruction from NYSOPWDD, the Agency continued to bill and receive revenue based on the rate that was in effect prior to the reduction because it was not clear if CMS would approve the rate reduction or to what extent. Accordingly, management did not record any provision for the rate reduction in the financial statement for the period ended June 30, 2012 and 2013. The net effect of the retroactive change in rates finally approved in September 2014 is included in the current year's statement of activities. The $911,125 net retroactive rate adjustment applicable to the period prior to July 1, 2013 is separately stated and is comprised of the following elements:

Decrease in reimbursed revenue	**$(1,554,865)**
Increase in reimbursed revenue	**643,740**
Net decrease	**$ (911,125)**

The effect of the net rate reduction applicable to the Agency's current year operations has been included with its revenues for the year ended June 30, 2014.

(Continued)

B-II-6

NOTE A - Summary of Significant Accounting Policies (Continued)

Contributions

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, 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 had no temporarily or permanently restricted net assets at June 30, 2014 or for the year then ended.

Income Tax Status

The Agency is a not-for-profit organization that is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code.

Management evaluated the Agency's tax positions for all open tax years and has concluded that the Agency had taken no uncertain tax positions that require recognition or disclosure in the accompanying financial statements. Generally, the Agency is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before June 2011, which is the standard statute of limitations look-back period.

Cash and Cash Equivalents

The Agency considers as cash equivalents all highly liquid investments with a maturity of three months or less when purchased.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount. There were no accounts receivable balances older than 90 days as of June 30, 2014 and the Agency considers all accounts receivable at that date to be fully collectible. When applicable, the Agency determines the allowance based on historical write-off experience and customer specific data.

(Continued)

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The cost of providing the various programs and activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Refinancing Costs

Costs incurred in connection with obtaining mortgages are capitalized and amortized on a straight-line basis over the term of the mortgage.

NOTE B - Property and Equipment

At June 30, 2014, property and equipment is summarized as follows:

Land	$ 162,800
Buildings	2,441,138
Equipment, vehicles, furniture, fixtures and leasehold and building improvements	2,251,183
Total	4,855,121
Less accumulated depreciation	(2,753,408)
Balance	$2,101,713

NOTE C - Related Party Transactions

As of June 30, 2014, the related party owed $26,888 to the Agency. This amount is owed to the Agency by CRCDD Housing Co., Inc., an affiliated organization managed but not financially controlled by the Agency. CRCDD Housing Co. has negotiated a rent increase with the United States Department of Housing and Urban Development. This increase will enable CRCDD Housing Co. to increase payments to the Agency and thus reduce outstanding debt.

(Continued)

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE D - Retirement Plans

The Agency has a defined contribution profit-sharing plan for all qualified employees under the requirements of Section 401(a) of the Internal Revenue Code which provides for annual contributions at the discretion of the Agency's board of directors. The contribution authorized for the fiscal year ended June 30, 2014 was $227,096

The Agency also maintains a Section 403(b) salary deferral plan which provides for contributions by eligible electing employees. No matching contributions are payable by the Agency.

NOTE E - Line of Credit

Pursuant to an arrangement with a bank, the Agency has a $1,000,000 secured line of credit which is renewable annually but could be cancelled by the bank or the Agency at any time. The line is collateralized by all assets of the Agency. Interest is payable at the LIBOR floating rate plus 2.5%. At June 30, 2014, the Agency had no debt outstanding under this line of credit.

NOTE F - Bonds Payable

Capital Improvement Bond Payable - NYSOPWDD

On August 30, 2005, the Agency closed on a bond related to the purchase of the "Arnow" facility. The bond of $875,700 is payable in annual installments of principal plus interest at 4.783% a year through February 2020. The bond is collateralized by the Arnow facility. The monthly reimbursement rate for this facility includes an amount equal to the mortgage payment.

Dormitory Authority of the State of New York Administration Bond Payable

In February 2002, the Agency borrowed $1,478,000 from the Dormitory Authority of the State of New York Administration Bond through NYSOPWDD. This bond, which is collateralized by the facility located at 755 East 147th Street and Wales Avenue ("Wales"), is payable in semi-annual installments of principal and interest of 5.381% through August 2026. The monthly reimbursement rate for this facility includes an amount equal to the mortgage payment.

(Continued)

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE F - Bonds Payable (Continued)

New York City Industrial Development Agency

In October 2007, the Agency borrowed $1,160,000 from the New York City Industrial Development Agency. The proceeds from the bond were used for building renovations and the purchase of furniture and equipment for 631 Pelham Parkway ("Pelham"). The bond is collateralized by the Pelham facility and is payable in annual installments of principal plus variable interest at 4.10% to 5.30% a year through July 2027. Debt service reserve fund related to this loan was $105,784 at June 30, 2014. The monthly reimbursement rate for this facility includes an amount equal to the mortgage payment.

At June 30, 2014, the outstanding principal balance of the bonds is payable as follows:

	Wales	Arnow	Pelham	Total
Years ending June 30:				
2015	$ 60,000	$ 62,633	$ 55,000	$ 177,633
2016	60,000	65,000	55,000	180,000
2017	70,000	68,900	55,000	193,900
2018	70,000	72,300	55,000	197,300
2019	70,000	75,800	55,000	200,800
Thereafter	724,345	110,948	550,000	1,385,293
	$ 1,054,345	$ 455,581	$ 825,000	$ 2,334,926

NOTE G - Commitments and Contingency

Employment Agreement

On July 1, 2010, the Agency executed a five year employment agreement with its executive director providing for an annual base compensation of $161,600, with yearly adjustments being the higher of the NYSOPWDD trend or 4.0%. Compensation expense for the year ended June 30, 2014 was $188,850.

(Continued)

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE H - Commitments and Contingency (Continued)

Leases

The Agency leases its current office and various residences for the developmentally disabled under operating leases expiring at various dates through July 2025. The leases are subject to escalation charges for operating expenses and real estate taxes. Rent expense for the year ended June 30, 2014 was approximately $519,000. The rentals under these leases are recorded for financial accounting purposes on a straight-line basis. Accrued future rentals of $86,385 at June 30, 2014 give effect to both future scheduled increases and certain concessions at lease inception. This liability will be reduced in future years to the extent that the minimal rentals payable in those years exceeds the average net expense recorded on the straight-line basis.

The Agency leases autos and office equipment under operating leases expiring at various dates through November 2019. Rent expense related to these leases for the year ended June 30, 2014 was approximately $29,000.

The Agency leases office equipment under capital leases expiring at various dates through November 2015. Depreciation of assets under capital leases is included in depreciation expense. The cost of assets and accumulated depreciation under capital leases was approximately $69,000 and $37,000, respectively, at June 30, 2014.

The Agency subleased space to an unrelated party to August 31, 2014. The amount of rental revenue for the year ended June 30, 2014 was approximately $28,000 and is included in other income on the statement of activities.

(Continued)

COMMUNITY RESOURCE CENTER FOR THE DEVELOPMENTALLY DISABLED, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE H - Commitments and Contingency (Continued)

Leases (Continued)

Future minimum lease payments under scheduled capital and operating leases are due as follows:

	Capital Leases	Operating Leases	Total
Years ending June 30:			
2015	$ 17,041	$ 250,472	$ 267,513
2016	7,100	261,978	269,078
2017		265,238	265,238
2018		270,589	270,589
2019		276,066	276,066
Thereafter		1,478,388	1,478,388
Total minimum lease payments	24,141	$ 2,802,731	$ 2,826,872
Less amount representing interest between 7.250% - 7.959%	1,551		
Obligations under capital lease	22,590		
Less current portion	14,464		
Long-term portion	$ 8,126		

Contingency

As noted in Note A, receivables and revenue are recorded based on established rates that might be subject to the retroactive change. In addition, 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 that is the major source of the Agency's income.

(Continued)

COMMUNITY RESOURCE CENTER FOR THE DEVELOPMENTALLY DISABLED, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE I - Concentration of Risk

The Agency maintains both interest bearing and non-interest bearing cash accounts at one financial institution. The Agency's accounts at the institution are insured by the Federal Deposit Insurance Corporation (F.D.I.C.) up to $250,000. From time to time, the Agency's balances exceed this limit. At June 30, 2014, the uninsured cash balance was approximately $1,956,000. The Agency believes it is not exposed to any significant credit risk on cash.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Resource Center for the Developmentally Disabled, Inc.
1776 Eastchester Road, Suite 225
Bronx, New York 10461-2330

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Community Resource Center for the Developmentally Disabled, Inc. ("the Agency") which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued the report thereon dated October 30, 2014.

Internal Control over Financial Reporting

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing the audit, we considered the Agency's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 14-1 described in the accompanying schedule of findings and responses to be material weaknesses.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that are not identified.

(Continued)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Recourse Center for the Developmentally Disabled, Inc
1776 Eastchester Road, Suite 225
Bronx, New York 10461-2330

Page Two

The Agency's Response to Findings

The Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Cornick, Garber + Sandler, LLP
CERTIFIED PUBLIC ACCOUNTANTS

New York, New York
October 30, 2014

Cornick Garber Sandler
Certified Public Accountants & Advisors

COMMUNITY RESOURCE CENTER FOR THE DEVELOPMENTALLY DISABLED, INC.

SCHEDULE OF FINDINGS AND RESPONSE

FOR THE YEAR ENDED JUNE 30, 2014

Financial Statements Findings:

14-1 Journal Entries

Condition: Journal entries are prepared during the normal course of business. However, in our audit procedures, we noted that the contractor employed by the Agency to review and approve the journal entries posted to the general ledger did not perform these services.

Criteria: Internal controls should be in place that provides adequate oversight for all adjustments to the financial records.

Effect: Financial statement may be materially misstated due to posting improper adjustments.

Recommendation: The Agency should more directly supervise the independent and knowledgeable contractor employed for this purpose to assure itself that their services are provided on a regular basis, such as weekly or monthly, and that appropriate evidence of the review be obtained.

Management's Response:
Journal entries are reviewed periodically, but not on a regular basis. As a corrective action going forward, they will be reviewed by the authorized person independent from initiation of journal entry on a monthly basis with documentation of the review.

Compliance Findings:

None.

Cornick Garber Sandler
Certified Public Accountants & Advisors

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS AND GRANTS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS WHEN AUDITOR'S PROCEDURES DISCLOSE NO MATERIAL INSTANCES OF NONCOMPLIANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Resource Center for the Developmentally Disabled, Inc.
1776 Eastchester Road, Suite 225
Bronx, New York 10461-2330

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Community Resource Center for the Developmentally Disabled, Inc. ("the Agency") which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued the report thereon dated October 30, 2014.

Compliance with laws, regulations, contracts and grants applicable to the Agency is the responsibility of the Agency's management.

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

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

Cornick, Garber + Sandler, LLP
CERTIFIED PUBLIC ACCOUNTANTS

New York, New York
October 30, 2014

COMMUNITY RESOURCE CENTER
FOR THE
DEVELOPMENTALLY DISABLED, INC.

JUNE 30, 2013

COMMUNITY RESOURCE CENTER
FOR THE
DEVELOPMENTALLY DISABLED, INC.

JUNE 30, 2013

Table of Contents

STEPHEN J. GANNS *Certified Public Accountant*

steve@gannscpa.com

7-11 South Broadway • Suite 209 • White Plains, New York 10601
Phone 914.682.7007 • Fax 914.946.8286

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Resource Center for the Developmentally Disabled, Inc.
Bronx, New York

Report on the Financial Statements

I have audited the accompanying financial statements of COMMUNITY RESOURCE CENTER FOR THE DEVELOPMENTALLY DISABLED, INC. (the "Agency") which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

(Continued)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Resource Center for the Developmentally Disabled, Inc.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Resource Center for the Developmentally Disabled, Inc. as of June 30, 2013, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my reports dated November 19, 2013 on my consideration of the internal control over financial reporting and on my tests of compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering an entity's internal control over financial reporting and compliance.

Stephen J. Ganns, CPA

Stephen J. Ganns, C.P.A.
White Plains, New York
November 19, 2013

COMMUNITY RESOURCE CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

ASSETS

Current assets:		
Cash and cash equivalents		$ 2,104,496
Accounts receivable		1,588,754
Prepaid expenses		222,954
Total current assets		3,916,204
Fixed assets:		
Property and equipment (at cost, less accumulated depreciation of $2,569,723)		2,223,781
Other assets:		
Refinancing costs (at cost, less accumulated amortization of $126,584)	$ 101,941	
Due from related party	36,201	
Security deposits	115,486	
Total other assets		253,628
TOTAL ASSETS		$ 6,393,613

LIABILITIES

Current liabilities:		
Accounts payable		$ 575,668
Accrued expenses		1,102,710
Current portion of long-term debt:		
Loans payable (NYSOPWDD)	$ 84,150	
Bonds payable	175,100	
Lease payable	14,464	273,714
Total current liabilities		1,952,092
Long-term liabilities:		
Long-term debt, net of current portion above:		
Bonds payable	2,325,569	
Lease payable	22,682	2,348,251
Security deposit- Grace Outreach		2,147
Deferred rent		77,376
Total current liabilities		2,427,774
Total liabilities		4,379,866
NET ASSETS		
Unrestricted net assets		2,013,747
TOTAL		$ 6,393,613

See accompanying notes

COMMUNITY RESOURCE CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Revenue:		
Medicaid	$ 14,753,925	
Consumer participation	443,649	
Other income	206,086	
Total revenue		$ 15,403,660
Functional expenses:		
Program services expenses	13,215,238	
General and administrative expenses	1,526,503	
Total functional expenses		14,741,741
Increase in unrestricted net assets before depreciation, amortization and interest expense		661,919
Depreciation and amortization expense		(210,473)
Interest expense		(133,437)
Increase in unrestricted net assets		318,009
Unrestricted net assets:		
Beginning of year - July 1, 2012		1,695,738
UNRESTRICTED NET ASSETS: END OF YEAR - JUNE 30, 2013		$ 2,013,747

See accompanying notes

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013

	Program Services	General and Administrative	Total Expenses
Payroll	$ 6,849,867	$ 789,179	$ 7,839,046
Payroll taxes and fringe benefits	2,794,629	326,907	3,121,536
Rent - property	378,936	133,895	512,831
Food	316,832	8,077	324,909
Assessment fees	627,855		627,855
Professional clinical services	105,426		105,426
Day Hab Services	1,073,748		1,073,748
Supplies - household housekeeping/laundry	129,787	7,979	137,766
Repairs and maintenance	117,275		117,275
Recreation and consumer care	63,163	880	64,043
Bank fees		20,525	20,525
Professional fees		113,884	113,884
Insurance	133,739	11,029	144,768
Equipment	61,170	1,708	62,878
Dues/subscriptions/hiring fees	6,480	19,691	26,171
Telephone	29,490	30,346	59,836
Lease and vehicle expense	44,563	18,694	63,257
Lease of equipment	23,216	3,885	27,101
Training - staff	28,844	5,983	34,827
Transportation - staff	16,844	1,541	18,385
Supplies - program/medical	125,517	5,236	130,753
Utilities	113,170		113,170
Transportation - consumers	121,429	34	121,463
Supplies	26,293		26,293
Supplies - medical equipment/maintenance	4,423		4,423
Computer expense		27,030	27,030
Building registration/bond administration expense	8,337		8,337
VOICF replacement reserve	7,500		7,500
Miscellaneous	6,705		6,705
Total Expenses	$ 13,215,238	$ 1,526,503	$ 14,741,741

See accompanying notes

B-II-16

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:		
Increase in unrestricted net assets	$ 318,009	
Adjustments to reconcile results of operations to net cash effect of operating activities:		
Depreciation and amortization expense	210,473	
Change in assets and liabilities:		
Accounts receivable	(216,291)	
Prepaid expenses	8,787	
Due from related party	8,981	
Security deposits	2,047	
Accounts payable	344,941	
Accrued expenses	(962,285)	
Rent payable	11,380	
Net cash used for operating activities		$ (273,958)
Cash flows from investing activities:		
Purchase of property and equipment		(57,261)
Cash flows from financing activities:		
Payment of NYSOPWDD loans payable, net	(1,023,044)	
Payments of bonds payable	(155,580)	
Lease obligations for new equipment	(22,021)	
Net cash used for financing activities		(1,200,645)
Net decrease in cash and cash equivialents		(1,531,864)
Cash and cash equivalents - July 1, 2012		3,636,360
CASH AND CASH EQUIVALENTS - JUNE 30, 2013		$ 2,104,496
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest		$ 133,437

See accompanying notes

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - Summary of Significant Accounting Policies

Organization and Nature of Activities

Community Resource Center for the Developmentally Disabled, Inc. ("the Agency") is a non-profit corporation organized under the laws of the State of New York. It commenced operations on March 14, 1979 and currently operates residential facilities for individuals with developmental disabilities in New York City and Westchester County.

Basis of Accounting

The accompanying 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 Agency has considered subsequent events occurring through November 19, 2013 for the purpose of preparing these financial statements.

Basis of Presentation

The Agency follows the reporting format of the standard on "Financial Statements of Not-For-Profit Organizations" issued by the Financial Accountings Standards Board which requires that information about financial position and activities is reported according to three categories of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted nėt assets. At June 30, 2013, 100% of all assets were unrestricted. The Agency's policy is to separately report any restricted amounts only if the restriction has not been satisfied by year-end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Depreciation and Amortization of Property and Equipment

In accordance with the New York State Office for People with Developmental Disabilities ("NYSOPWDD") regulations, the cost of equipment, vehicles, furniture and fixtures and capital leases are capitalized and depreciated or amortized using a straight-line method over a period of 60 months. The buildings located at 61 Florence Street, 1463 Arnow Avenue, and 755 East 147th Street (Wales Avenue) are depreciated using a straight-line method over 20 to 25 years.

(Continued)

B-II-17

NOTE A - Summary of Significant Accounting Policies (Continued)

Depreciation and Amortization of Property and Equipment (Continued)

Leasehold improvements are amortized over the shorter of the lease term or useful life.

Revenue

The Agency receives revenues for services from the NYSOPWDD and the Social Security Administration for billable client services and recognizes these fees and income when earned.

Contributions

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, 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 had no temporarily or permanently restricted net assets for the fiscal year ended June 30, 2013.

Income Tax Status

The Agency is a not-for-profit organization that is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code.

Cash and Cash Equivalents

The Agency considers as cash equivalents all highly liquid investments with a maturity of three months or less when purchased.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount. There were no accounts receivable balances older than 90 days as of June 30, 2013. The Agency considers all accounts receivable 100% collectible. The allowance for doubtful accounts, the Company's best estimate of the amount of probable credit losses in existing accounts receivable, equals zero at June 30, 2013. The Company determines the allowance based on historical write-off experience and customer specific data.

(Continued)

NOTE A - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The cost of providing the various programs and activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Refinancing Costs

Costs incurred in connection with obtaining mortgages are capitalized and amortized on a straight-line basis over the term of the mortgage.

NOTE B - Property and Equipment

At June 30, 2013, property and equipment is summarized as follows:

Equipment, vehicles, furniture, fixtures and leasehold and building improvements	$2,189,566
Land	162,800
Buildings	2,441,138
	4,793,504
Less accumulated depreciation	2,569,723
Total	$2,223,781

NOTE C - Related Party Transactions

As of June 30, 2013, the related party owed $36,201 to the Agency. This amount is owed to the Agency by CRCDD Housing Co., Inc., an affiliated organization managed but not financially controlled by the Agency. To recoup the monies owed, the related party and the Agency have negotiated a rent increase in CRCDD Housing Co., Inc.'s annual rent. The related party has also agreed on a year to year review of the rent and agreed to an increase for 2012 that will allow the balance to be reduced.

(Continued)

NOTE C - Related Party Transactions (Continued)

The entity CRCDD Housing Co., Inc. is a HUD housing project, which in the past provided shelter for some of the Agency's clients. There is currently a management arrangement only between the two entities. Therefore, the entity does not qualify to be consolidated or reported as an equity investment on the books of the Agency.

NOTE D - Retirement Plans

The Agency adopted a retirement trust as of June 30, 1988 for all qualified employees. The plan conforms to the requirements of Section 401 (a) of the Internal Revenue Code of 1986. Information as to vested and non-vested earned benefits, as well as plan assets, under the retirement trust is readily available. Since the retirement plan is a "profit sharing" plan, the Agency may make contributions between minimum and maximum amounts at its discretion.

The Section 403(b) of the Internal Revenue Code is a salary deferral plan which both the Agency and its employees can make contributions to.

The Agency contributed $232,164 to the plans for the benefit of its employees for the year ended June 30, 2013.

NOTE E - Net Assets

Net assets as of July 01, 2012	$1,695,738
Current year changes in net assets	318,009
NET ASSETS AS OF June 30, 2013	$2,013,747

NOTE F - Loans Payable to the New York State Office for People with Developmental Disabilities

The Agency owes the NYSOPWDD, (formerly NYSOMRDD) approximately $84,000 for assessments, improvements and other expenses on the operations of the Agency's facilities. During the year ended June 30, 2013, the Agency has paid approximately $31,700 a week to repay their obligations to NYSOPWDD as of June 30, 2012 plus additional assessments during the year ended June 30, 2013.

(Continued)

B-II-18

NOTE G - Line of Credit

Pursuant to an arrangement with a bank, the Agency was able to borrow up to $500,000 under a secured line of credit which was renewable annually and could be cancelled by the bank or the Agency at any time. The line was secured by all assets of the Agency. Interest was payable at the bank's prime rate plus one percent, which was 4.25% as at June 30, 2013. As at June 30, 2013, the Agency had no related debt outstanding. The line of credit was canceled by the Agency on July 8, 2013.

On August 6, 2013, the Agency entered into an agreement with another bank for a line of credit up to $1,000,000. The line of credit is renewable annually, secured by the Agency's assets, and bears the interest at the LIBOR rate plus 2%.

NOTE H - Bonds Payable

Capital Improvement Bond Payable - NYSOPWDD

In December 2002, the Agency was approved for a Capital Improvement Fund Contract from NYSOPWDD (formerly NYSOMRDD) for $933,047 to purchase their new facility ("Arnow") and make the necessary improvements to the building. As of June 30, 2006, the Agency returned $58,047 of funds to the NYSOPWDD. On August 30, 2005, tha Agency closed on the bond related to this capital improvement fund contract. The bond in the amount of $875,700 has a life of 15 years and will be paid in full in the year 2020. The interest rate is 4.783034%.

Dormitory Authority of the State of New York Administration Bond Payable

The Agency received a Dormitory Authority of the State of New York Administration Bond through NYSOPWDD (formerly NYSOMRDD). The bond has a life of 25 years and will be paid in full in the year 2025. The interest rate is 5.554%. This bond is for the facility located at 755 East 147th Street and Wales Avenue ("Wales"). The Agency receives an amount equal to the mortgage payment each month in the reimbursement rate for this facility.

New York City Industrial Development Agency

In October 2007, the Agency entered into an agreement to borrow funds from the New York City Industrial Development Agency for the building renovation, and purchase of furniture and equipment for 631 Pelham Parkway. The maximum amount of the borrowings is $1,160,000 with a variable interest rate of 4.10% to 5.30%. The bond has a life of 18 years and will be paid in full in the year 2027.

(Continued)

NOTE H- Bonds Payable (Continued)

New York City Industrial Development Agency (Continued)

The bonds are payable as follows:

	Wales	Arnow	Pelham	Total
Years ending June 30:				
2014	$ 60,000	$ 60,100	$ 55,000	$ 175,100
2015	60,000	63,400	55,000	178,400
2016	60,000	65,000	55,000	180,000
2017	70,000	69,900	55,000	194,900
2018	70,000	73,100	55,000	198,100
Thereafter	784,244	184,925	605,000	1,574,169
	$1,104,244	$ 516,425	$ 880,000	$2,500,669

B-II-19

NOTE I - Commitments

Employment Agreement

On July 1, 2010, the Agency executed a five year employment agreement with its executive director providing for an annual base compensation of $161,600 per year, with yearly adjustments being the higher of the NYSOPWDD, (formerly NYSOMRDD) trend or 4.0%.

Leases

The Agency leases its current office and various residences for the developmentally disabled under operating leases expiring at various dates through July 2025. Rent expense for the year ended June 30, 2013 was approximately $513,000. The rentals under these leases are recorded for financial accounting purposes on a straight-line basis. Accrued future rentals of $77,376 at June 30, 2013 give effect to both future scheduled increases and certain concessions at lease inception. This liability will be reduced in future years to the extent that the minimal rentals payable in those years exceeds the average net expense recorded on the straight-line basis. In accordance with generally accepted accounting principles, the straight-line rent adjustment amounted to $11,380 for the year ended June 30, 2013.

The Agency leases autos and office equipment under operating leases expiring at various times through March 2014. Rent expense related to these leases for the year ended June 30, 2013 was approximately $34,000.

(Continued)

NOTE I - Commitments (Continued)

Leases (Continued)

The Agency leases office equipment under capital leases expiring at various times through November 2015. Depreciation of assets under capital leases is included in depreciation expense. The cost of assets and accumulated depreciation under capital leases was approximately $107,000 and $75,000, respectively, at June 30, 2013.

Future minimum lease payments under scheduled capital and operating leases are due as follows:

	Capital Leases	Operating Leases	Total
Years ending June 30:			
2014	$ 17,041	$ 246,539	$ 263,580
2015	17,041	102,877	119,918
2016	7,100	82,576	89,676
2017		83,054	83,054
2018		85,546	85,546
Thereafter		272,346	272,346
Total minimum lease payments	41,182	$ 872,938	$ 914,120
Less amount representing interest between 7.250% - 7.959%	4,036		
Obligations under capital lease	37,146		
Less current portion	14,464		
Long-term portion	$ 22,682		

(Continued)

NOTE J - Concentration of Risk

The Agency maintains both interest bearing and non-interest bearing cash accounts at one financial institution. The Agency's accounts at the institution are insurable by the Federal Deposit Insurance Corporation (F.D.I.C.) up to $250,000. From time to time, the Agency's balance may exceed this limit. At June 30, 2013, the uninsured cash balance was approximately $1,952,000. The Agency believes it is not exposed to any significant credit risk on cash.

NOTE K - Rental Revenue

The Agency subleases space to an unrelated party, for an annual rent, in equal monthly installments payable in advance, which is set to expire on August 31, 2014. The amount of rental revenue for the year ended June 30, 2013 amounted to approximately $37,000 and is included in other income on the statement of activities.

STEPHEN J. GANNS *Certified Public Accountant*

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Resource Center for the Developmentally Disabled, Inc.
378 East 151st Street
Bronx, New York 10455

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Community Resource Center for the Developmentally Disabled, Inc. ("the Agency") which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued the report thereon dated November 19, 2013.

Internal Control Over Financial Reporting

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing the audit, I considered the Agency's internal control over financial reporting as a basis for designing my audit procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Agency's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies 13-1 and 13-2 described in the accompanying schedule of findings and responses to be material weaknesses.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that Ire not identified.

(Continued)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Recourse Center for the Developmentally Disabled, Inc
378 East 151st Street
Bronx, New York 10455

The Agency's Response to Findings

The Agency's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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

Stephen J. Ganns, CPA

Stephen J. Ganns, C.P.A.
White Plains, New York
November 19, 2013

COMMUNITY RESOURCE CENTER FOR THE DEVELOPMENTALLY DISABLED, INC.

SCHEDULE OF FINDINGS AND RESPONSE

FOR THE YEAR ENDED JUNE 30, 2013

Financial Statements Findings:

13-1 Journal Entries

Condition: Journal entries are prepared during the normal course of business. However, in my audit procedures, I noted that the journal entries posted to the general ledger were not reviewed and approved on a consistent basis. Also, adequate documentation was not maintained for all entries.

Criteria: Internal controls should be in place that provides adequate oversight for all adjustments to the financial records.

Effect: Financial statement may be materially misstated due to posting improper adjustments.

Recommendation: Someone independent and knowledgeable of the preparation of journal entries should review all adjustments on a regular basis, such as weekly or monthly, then initial and date to provide evidence of the review.

Management's Response:
Journal entries are reviewed periodically, but not on a regular basis. As a corrective action going forward, they will be reviewed by the authorized person independent from initiation of journal entry on a monthly basis.

13-2 Lack of Supporting Documentation

Condition: My audit procedures disclosed transactions, such as purchases of food, where the proper supporting documentation was not able to be located causing a deficiency in the audit trail.

Criteria: Internal controls should be in place that provides adequate oversight for all activities related to the financial reporting.

Effect: Financial statement may be materially misstated due posting fraudulent or improper transactions.

Recommendation: I recommend the Agency maintain and file all documentation which supports any and all activity within the entity. The acceptance of purchases should be supported by the proper documentation with indication of the matching to the purchase order and verification of the quantity of items delivered.

(Continued)

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

SCHEDULE OF FINDINGS AND RESPONSE

FOR THE YEAR ENDED JUNE 30, 2013

13-2 Lack of Supporting Documentation (Continued)

Management's Response:
Management will address this issue that requires all supporting documentation, such as signed, dated and reviewed purchase slips, filed with purchase orders and invoices.

Compliance Findings:

None.

**COMMUNITY RESOURCE CENTER
FOR THE
DEVELOPMENTALLY DISABLED, INC.**

JUNE 30, 2012

COMMUNITY RESOURCE CENTER
FOR THE
DEVELOPMENTALLY DISABLED, INC.

JUNE 30, 2012

Table of Contents

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Community Resource Center for the Developmentally Disabled, Inc.
Bronx, New York

I have audited the accompanying statement of financial position of COMMUNITY RESOURCE CENTER FOR THE DEVELOPMENTALLY DISABLED, INC. (the "Agency") as of June 30, 2012 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Generally Accepted Government Auditing Standards* ("GAGAS"), issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2012, 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.

In accordance with GAGAS, I have also issued a report dated November 28, 2012 on my consideration of the Agency's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with GAGAS and should be read in conjunction with this report in considering the results of my audit.

Stephen J. Ganns, CPA

Stephen J. Ganns, C.P.A.
White Plains, New York
November 28, 2012

Accounting and Tax Services • Financial and Estate Planning

COMMUNITY RESOURCE CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

ASSETS

Current assets:		
Cash and cash equivalents		$ 3,636,360
Accounts receivable		1,372,463
Prepaid expenses		231,741
Total current assets		5,240,564
Fixed assets:		
Property and equipment (at cost, less accumulated depreciation of $2,367,112)		2,369,132
Other assets:		
Refinancing costs (at cost, less accumulated amortization of $118,723)	$ 109,802	
Due from related party	45,182	
Security deposits	117,591	
Total other assets		272,575
TOTAL ASSETS		$ 7,882,271

LIABILITIES

Current liabilities:		
Accounts payable		$ 230,727
Accrued expenses		2,064,995
Current portion of long-term debt:		
Loan payables (NYSOPWDD)	$ 1,107,194	
Bonds payable	161,900	
Lease payable	22,484	1,291,578
Total current liabilities		3,587,300
Long-term liabilities:		
Long-term debt, net of current portion above:		
Bonds payable	2,494,349	
Lease payable	36,683	2,531,032
Security deposit- Grace Outreach		2,205
Deferred rent		65,996
Total liabilities		6,186,533

NET ASSETS

Unrestricted net assets		1,695,738
TOTAL		$ 7,882,271

See accompanying notes

COMMUNITY RESOURCE CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

Revenue:		
Medicaid	13,894,177	
Consumer participation	446,992	
Other income	135,301	
Total revenue		$ 14,476,470
Functional expenses:		
Program expenses	12,211,322	
General and administrative expenses	1,506,167	
Total functional expenses		13,717,489
Increase in unrestricted net assets before depreciation, amortization and interest expense		758,981
Depreciation and amortization expense		213,963
Interest expense		153,199
Increase in unrestricted net assets		391,819
Unrestricted net assets:		
Beginning of year - July 1, 2011		1,303,919
UNRESTRICTED NET ASSETS, END OF YEAR - JUNE 30, 2012		$ 1,695,738

See accompanying notes

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

	Program Services	General and Administrative	Total Expenses
Payroll	6,859,049	787,691	$ 7,646,740
Payroll taxes and fringe benefits	2,830,574	325,065	3,155,639
Rent - property	377,361	132,679	510,040
Food	293,744	8,106	301,850
Assessment fees	556,101		556,101
Professional clinical services	123,545		123,545
Supplies - household housekeeping/laundry	134,309	5,408	139,717
Repairs and maintenance	108,665		108,665
Recreation and consumer care	74,877	1,598	76,475
Bank fees		5,530	5,530
Professional fees		138,793	138,793
Insurance	124,779	10,598	135,377
Equipment	60,187	660	60,847
Dues/subscriptions/hiring fees	10,301	16,815	27,116
Telephone	35,816	14,080	49,896
Lease and vehicle expense	73,926	7,805	81,731
Lease of equipment	25,403	3,869	29,272
Training - staff	25,452	6,133	31,585
Transportation - staff	35,347	3,552	38,899
Supplies - program/medical	124,149	8,851	133,000
Utilities	118,249		118,249
Transportation - consumers	122,729		122,729
Sheltered workshop	36,735		36,735
Supplies	22,601		22,601
Supplies - medical equipment/maintenance	9,526		9,526
Healthcare enhancement and adjustments	4,796	2,663	7,459
Computer expense		26,271	26,271
Building registration/bond administration expense	10,775		10,775
VOICF replacement reserve	7,500		7,500
Miscellaneous	4,826		4,826
Total Expenses	$ 12,211,322	$ 1,506,167	$ 13,717,489

See accompanying notes

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities:		
Increase in unrestricted net assets	$ 391,819	
Adjustments to reconcile results of operations to net cash effect of operating activities:		
Depreciation and amortization expense	213,963	
Change in assets and liabilities:		
Accounts receivable	107,247	
Prepaid expenses	(31,581)	
Due from related party	3,680	
Security deposits	(98,333)	
Accounts payable	(68,867)	
Accrued expenses	1,128,168	
Rent payable	14,268	
Net cash provided by operating activities		$ 1,660,374
Cash flows from investing activities:		
Purchase of property and equipment		(31,868)
Cash flows from financing activities:		
Proceeds from NYSOPWDD loans payable	737,698	
Payments of bonds payable	24,774	
Payments of notes payable	-	
Lease obligations for new equipment	(20,377)	
Net cash provided by financing activities		742,095
Net increase in cash and cash equivalents		2,370,603
Cash and cash equivalents - July 1, 2011		1,266,757
CASH AND CASH EQUIVALENTS - JUNE 30, 2012		$ 3,636,360
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest		153,199

See accompanying notes

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - Summary of Significant Accounting Policies

Organization and Nature of Activities

Community Resource Center for the Developmentally Disabled, Inc. ("the Agency") is a non-profit corporation organized under the laws of the State of New York. It commenced operations on March 14, 1979 and currently operates residential facilities for individuals with developmental disabilities in New York City and Westchester County.

Basis of Accounting

The accompanying 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 Agency has considered subsequent events occurring through November 28, 2012 for the purpose of preparing these financial statements.

Basis of Presentation

The Agency follows the reporting format of the standard on "Financial Statements of Not-For-Profit Organizations" issued by the Financial Accountings Standards Board which requires that information about financial position and activities is reported according to three categories of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. At June 30, 2012, 100% of all assets were unrestricted. The Agency's policy is to separately report any restricted amounts only if the restriction has not been satisfied by year-end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Depreciation and Amortization of Property and Equipment

In accordance with the New York State Office for People with Developmental Disabilities ("NYSOPWDD") regulations, the cost of equipment, vehicles, furniture and fixtures and capital leases are capitalized and depreciated or amortized using a straight-line method over a period of 60 months. The buildings located at 61 Florence Street, 1463 Arnow Avenue, and 755 East 147th Street (Wales Avenue) are depreciated using a straight-line method over 20 years.

(Continued)

NOTE A - Summary of Significant Accounting Policies (Continued)

Depreciation and Amortization of Property and Equipment (Continued)

Leasehold improvements are amortized over the shorter of the lease term or useful life.

Revenue

The Agency receives revenues for services from the NYSOPWDD and the Social Security Administration for billable client services and recognizes these fees and income when earned.

Contributions

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, 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 had no temporarily or permanently restricted net assets for the fiscal year ended June 30, 2012.

Income Tax Status

The Agency is a not-for-profit organization that is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code.

Cash and Cash Equivalents

The Agency considers as cash equivalents all highly liquid investments with a maturity of three months or less when purchased.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount. There were no accounts receivable balances older than 90 days as of June 30, 2012. The Agency considers all accounts receivable 100% collectible. The allowance for doubtful accounts, the Company's best estimate of the amount of probable credit losses in existing accounts receivable, equals zero at June 30, 2012. The Company determines the allowance based on historical write-off experience and customer specific data.

(Continued)

NOTE A - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The cost of providing the various programs and activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Refinancing Costs

Costs incurred in connection with obtaining mortgages are capitalized and amortized on a straight-line basis over the term of the mortgage.

NOTE B - Property and Equipment

At June 30, 2012, property and equipment is summarized as follows:

Equipment, vehicles, furniture, fixtures and leasehold and building improvements	$2,132,306
Land	162,800
Building	2,441,138
	4,736,244
Less accumulated depreciation	2,367,112
Total	$2,369,132

NOTE C - Related Party Transactions

As of June 30, 2012, the related party owed $45,182 to the Agency. This amount is owed to the Agency by CRCDD Housing Co., Inc., an affiliated organization managed but not financially controlled by the Agency. To recoup the monies owed, the related party and the Agency have negotiated a rent increase in CRCDD Housing Co., Inc's annual rent. The related party has also agreed on a year to year review of the rent and agreed to an increase for 2011 that will allow the balance to be reduced.

(Continued)

NOTE C - Related Party Transactions (Continued)

The entity CRCDD Housing Co., Inc. is a HUD housing project, which in the past provided shelter for some of the Agency's clients. There is currently a management arrangement only between the two entities. Therefore, the entity does not qualify to be consolidated or reported as an equity investment on the books of the Agency.

NOTE D - Retirement Plans

The Agency adopted a retirement trust as of June 30, 1988 for all qualified employees. The plan conforms to the requirements of Section 401 (a) of the Internal Revenue Code of 1986. Information as to vested and non-vested earned benefits, as well as plan assets, under the retirement trust is readily available. Since the retirement plan is a "profit sharing" plan, the Agency may make contributions between minimum and maximum amounts at its discretion.

The Section 403(b) of the Internal Revenue Code is a salary deferral plan which both the Agency and its employees can make contributions to.

The Agency contributed $267,803 to the plans for the benefit of its employees for the year ended June 30, 2012.

NOTE E - Net Assets

Net assets as of July 01, 2011	$1,303,919
Current year changes in net assets	391,819
NET ASSETS AS OF June 30, 2012	$1,695,738

NOTE F - Loans Payable to the New York State Office for People with Developmental Disabilities

The Agency owes the NYSOPWDD, (formerly NYSOMRDD) approximately $1,107,000 for assessments, improvements and other expenses on the operations of the Agency's facilities. During the year ended June 30, 2012, the Agency has paid approximately $47,600 a week to repay their obligations to NYSOPWDD.

(Continued)

NOTE G - Line of Credit

Pursuant to an arrangement with a bank, the Agency may borrow up to $500,000 under a secured line of credit which is renewable annually and may be cancelled by the bank or the Agency at any time. The line is secured by all assets of the Agency. Interest is payable at the bank's prime rate plus one percent, which was 4.25% as at June 30, 2012. As at June 30, 2012, the Agency has no related debt outstanding.

NOTE H- Bonds Payable

Capital Improvement Bond Payable - NYSOPWDD

In December 2002, the Agency was approved for a Capital Improvement Fund Contract from NYSOPWDD (formerly NYSOMRDD) for $933,047 to purchase their new facility ("Arnow") and make the necessary improvements to the building. As of June 30, 2006, the Agency returned $58,047 of funds to the NYS Office for People with Developmental Disabilities. On August 30, 2005, the Agency closed on the bond related to this capital improvement fund contract. The bond in the amount of $875,700 has a life of 15 years and will be paid in full in the year 2020. The interest rate is 4.783034%.

Dormitory Authority of the State of New York Administration Bond Payable

The Agency received a Dormitory Authority of the State of New York Administration Bond through NYSOMRDD. The bond has a life of 25 years and will be paid in full in the year 2025. The interest rate is 5.554%. This bond is for the facility located at 755 East 147th Street and Wales Avenue ("Wales"). The Agency receives an amount equal to the mortgage payment each month in the reimbursement rate for this facility.

New York City Industrial Development Agency

In October 2007, the Agency entered into an agreement to borrow funds from the New York City Industrial Development Agency for the building renovation, and purchase of furniture and equipment for 631 Pelham Parkway. The maximum amount of the borrowings is $1,160,000 with a variable interest rate of 4.10% to 5.30%. At June 30, 2011, the payable balance was $935,000. The Bond has a life of 18 years and will be paid in full in the year 2027.

(Continued)

NOTE H- Bonds Payable (Continued)

The bonds are payable as follows:

	Wales	Arnow	Pelham	Total
Years ending June 30:				
2013	$ 50,000	$ 56,900	$ 55,000	$ 161,900
2014	60,000	60,100	55,000	175,100
2015	60,000	63,400	55,000	178,400
2016	60,000	65,000	55,000	180,000
2017	70,000	69,900	55,000	194,900
Thereafter	851,601	254,348	660,000	1,765,949
	$ 1,151,601	$ 569,648	$ 935,000	$ 2,656,249

NOTE I - Commitments

Employment Agreement

On July 1, 2010, the Agency executed a five year employment agreement with its executive director providing for an annual base compensation of $161,600 per year, with yearly adjustments being the higher of the NYSOPWDD, (formerly NYSOMRDD) trend or 4.0%.

Leases

The Agency leases its current office and various residences for the developmentally disabled under operating leases expiring at various dates through July 2025. Rent expense for the year ended June 30, 2012 was approximately $510,000. The rentals under these leases are recorded for financial accounting purposes on a straight-line basis. Accrued future rentals of $65,996 at June 30, 2012 give effect to both future scheduled increases and certain concessions at lease inception. This liability will be reduced in future years to the extent that the minimal rentals payable in those years exceeds the average net expense recorded on the straight-line basis. In accordance with generally accepted accounting principles, the straight-line rent adjustment amounted to $14,268 for the year ended June 30, 2012.

The Agency leases autos and office equipment under operating leases expiring at various times through March 2014. Rent expense related to these leases for the year ended June 30, 2012 was approximately $33,000.

(Continued)

NOTE I - Commitments (Continued)

The Agency leases office equipment under capital leases expiring at various times through November 2015. Depreciation of assets under capital leases is included in depreciation expense. The cost of assets and accumulated depreciation under capital leases was approximately $107,000 and $34,000, respectively, at June 30, 2012.

Future minimum lease payments under scheduled capital and operating leases are due as follows:

	Capital Leases	Operating Leases	Total
Years ending June 30:			
2013	$ 24,130	$ 249,145	$ 273,275
2014	17,041	231,846	248,887
2015	17,041	100,549	117,590
2016	7,100	80,635	87,735
2017		83,054	83,054
Thereafter		357,892	357,892
Total minimum lease payments	65,312	$1,103,121	$ 1,168,433
Less amount representing interest between 7.250% - 7.959%	6,145		
Obligations under capital lease	59,167		
Less current portion	22,484		
Long-term portion	$ 36,683		

(Continued)

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE J - Concentration of Risk

The Agency maintains both interest bearing and non-interest bearing cash accounts at one financial institution. The Agency's interest bearing accounts at the institution are insurable by the Federal Deposit Insurance Corporation (F.D.I.C.) up to $250,000 and unlimited coverage for non-interest bearing accounts. From time to time, the Agency's balance may exceed this limit. At June 30, 2012, the uninsured cash balance was approximately $341,000. The Agency believes it is not exposed to any significant credit risk on cash.

NOTE K - Rental Revenue

The Agency subleases space to an unrelated party, for an annual rent, in equal monthly installments payable in advance, which is set to expire on August 31, 2014. The amount of rental revenue for the year ended June 30, 2012 amounted to approximately $36,000 and is included in other income on the statement of activities.

B-II-30

NOTE L – Recorded Revenue & Contingent Liability

The New York State Office for Persons with Developmental Disabilities (OPWDD) submitted a system wide ICF rate reduction plan to the Centers for Medicaid and Medicare Services (CMS) in early 2011. The reduction was to take place for the rate period 7/1/2011 to 6/30/2012. However, as of the date of this statement, CMS has not approved OPWDD's request to reduce those rates.

The agency continues to receive the rate revenue that was in existence prior to the reduction and has been instructed by Joanne Howard, the Director of the Bureau of Rate Setting for OPWDD in a letter issued first on August 1, 2011 and reemphasized in a letter dated February 16, 2012 not to use the extra revenue for programs and service and that the CMS will take it back in a lump sum when they approve the rate cut.

In correspondence dated September 14, 2012 additional direction was provided from Eileen Bureau of the OPWDD CFR Unit indicating that these funds must be recorded as revenue on the agencies audited financial statements and the CFR. The amount of revenue recorded that may be recouped at a later date is $358,595.

STEPHEN J. GANNS *Certified Public Accountant*

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REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS AND GRANTS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS WHEN AUDITOR'S PROCEDURES DISCLOSE NO MATERIAL INSTANCES OF NONCOMPLIANCE

The Board of Directors
Community Resource Center for the Developmentally Disabled, Inc.
378 East 151st Street
Bronx, New York 10455

I have audited the financial statements for the year ended June 30, 2012 and thereon dated November 28, 2012.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Generally Accepted Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the Agency is the responsibility of the Agency's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on the overall compliance with such provisions was not an objective of my audit of the financial statements. Accordingly, I do not express such an opinion.

The result of my tests disclose no instances of noncompliance that are required to be reported herein under Generally Accepted Government Auditing Standards.

This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.

Stephen J. Ganns, C.P.A.
White Plains, New York
November 28, 2012

STEPHEN J. GANNS *Certified Public Accountant*

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

The Board of Directors
Community Resource Center for the Developmentally Disabled, Inc.
378 East 151st Street
Bronx, New York 10455

I have audited the financial statements of Community Resource Center for the Developmentally Disabled, Inc. ("the Agency") as at and for the year ended June 30, 2012 and have issued the report thereon dated November 28, 2012. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing the audit, we considered the Agency's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Agency's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and timely corrected.

The consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

We consider the following deficiencies in CRCDD's internal control to be material weaknesses:

1) Not all general journal entries posted to general journal have appropriate supporting documentation with evidence of its review and approval. We suggest that CRCDD developed the procedures that ensure that each general journal entry is reviewed and approved with initials of authorized person before recording into general journal.

2) The dates on several checks issued on June 30, 2012 were changed to July 1, 2012 after mailing checks out to vendors. This created discrepancies between the dates on the actual checks and records in Fund EZ (accounting software) and led to the incorrect bank reconciliation for the period ended June 30, 2012 with overstatement of cash balance of approximately $144,000.

3) It was noted that six vehicles purchased with finance lease were not capitalized and continued to be paid after the expiration of leases. We believe that appropriate support and approval of journal entries mentioned in item 1) will also help to ensure that payments are made on the valid agreements and are recorded in general ledger using appropriate accounts.

Steve Ganns CPA

Stephen J. Ganns, C.P.A.
White Plains, New York
November 28, 2012

COMMUNITY RESOURCE CENTER FOR THE
DEVELOPMENTALLY DISABLED, INC.

FINDINGS AND RECOMMENDATIONS - INTERNAL
ACCOUNTING AND COMPLIANCE

FOR THE YEAR ENDED JUNE 30, 2012

Prior Year Recommendations and Follow-up:

None.

Current Year Recommendations:

None.

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APPENDIX B-III

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2014, JUNE 30, 2013 AND JUNE 30, 2012)

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Eden II School For Autistic Children, Inc.

Financial Statements
Year Ended June 30, 2014

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.

Eden II School For Autistic Children, Inc.

Financial Statements
Year Ended June 30, 2014

B-III-2

Eden II School For Autistic Children, Inc.

Contents

BDO

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100 Park Avenue
New York, NY 10017

Independent Auditor's Report

Board of Trustees
Eden II School for Autistic Children, Inc.
Staten Island, New York

We have audited the accompanying financial statements of Eden II School for Autistic Children, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eden II School for Autistic Children, Inc. as of June 30, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2013 financial statements, and we expressed an unmodified audit opinion on the School's audited financial statements in our report, dated November 26, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BDO USA, LLP

December 1, 2014

B-III-3

Eden II School For Autistic Children, Inc.

Statement of Financial Position (with comparative totals for 2013)

June 30,	2014	2013
Assets (Note 11)		
Current Assets:		
Cash and cash equivalents (Note 2)	$ 743,618	$ 482,635
Program services receivable, net of allowance for doubtful accounts of $1,215,859 (Notes 3 and 4)	2,984,607	3,100,028
Grants and contracts receivable, net of allowance for doubtful accounts of $308,685 (Note 5)	3,841,039	2,500,721
Prepaid expenses and other assets	298,835	255,544
Total Current Assets	7,868,099	6,338,928
Debt Service Reserve Funds (Note 6)	1,288,980	1,276,065
Deferred Debt Issuance Costs, Net of Accumulated Amortization of $542,204 (Note 2)	980,261	1,038,885
Property and Equipment, Net (Notes 2, 7, 8, 9 and 10)	16,140,495	11,861,565
	$26,277,835	$20,515,443
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,896,905	$1,236,955
Accrued compensation	1,827,804	1,795,579
Due to state and local agencies	222,833	75,520
Due to related party, current portion (Note 16)	25,000	25,000
Due to DASNY, current portion (Note 8)	33,000	30,600
Bonds payable, current portion (Notes 9 and 18)	520,000	505,000
Mortgages and notes payable, current portion (Note 10)	110,151	108,174
Total Current Liabilities	4,635,693	3,776,828
Long-Term Liabilities:		
Interest rate swap liability (Notes 2, 3 and 17)	147,442	158,543
Due to related party, less current maturities (Note 16)	3,227,743	396,046
Due to DASNY, less current maturities (Note 8)	19,300	52,300
Loan payable	1,125,000	-
Bonds payable, less current maturities (Notes 9 and 18)	7,905,000	8,425,000
Mortgages and notes payable, less current maturities (Note 10)	1,254,127	1,358,452
Total Liabilities	18,314,305	14,167,169
Commitments and Contingencies (Notes 14 and 18)		
Net Assets:		
Unrestricted net assets (Note 2)	7,488,414	5,873,158
Temporarily restricted net assets (Note 15)	475,116	475,116
Total Net Assets	7,963,530	6,348,274
	$26,277,835	$20,515,443

See accompanying notes to financial statements.

Eden II School For Autistic Children, Inc.

Statement of Activities
(with comparative totals for 2013)

Year ended June 30,	Unrestricted	Temporarily Restricted	Totals 2014	Totals 2013
Changes in Unrestricted Net Assets:				
Revenue:				
Program and public support services revenue (Note 12)	$24,132,291	$ -	$24,132,291	$24,113,351
Grants and contract services (Note 13)	1,961,198	-	1,961,198	1,938,410
Other revenue	452,241	-	452,241	403,144
Total Revenue	26,545,730	-	26,545,730	26,454,905
Expenses:				
Program services:				
Educational services	9,628,453	-	9,628,453	9,351,802
Residential services	7,925,935	-	7,925,935	7,262,866
Adult habilitational services	3,621,281	-	3,621,281	3,077,458
Family support	1,771,649	-	1,771,649	1,969,331
Community outreach	1,631,438	-	1,631,438	1,184,615
Total Program Services	24,578,756	-	24,578,756	22,846,072
Supporting services:				
Management and general	3,238,187	-	3,238,187	3,474,662
Fundraising	279,335	-	279,335	329,079
Total Supporting Services	3,517,522	-	3,517,522	3,803,741
Total Expenses	28,096,278	-	28,096,278	26,649,813
Change in Net Assets Before Non-operating Revenues	(1,550,548)	-	(1,550,548)	(194,908)
Non-operating Revenues:				
Contributions	3,156,894	-	3,156,894	1,954,836
Gain on swap agreement	11,101	-	11,101	94,080
Unrealized loss on debt service reserve funds	(2,191)	-	(2,191)	(33,651)
Total Non-operating Revenues	3,165,804	-	3,165,804	2,015,265
Change in Net Assets	1,615,256	-	1,615,256	1,820,357
Net Assets, Beginning of Year	5,873,158	475,116	6,348,274	4,527,927
Net Assets, End of Year	$7,488,414	$475,116	$ 7,963,530	$ 6,348,284

See accompanying notes to financial statements.

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Eden II School For Autistic Children, Inc.

Statement of Functional Expenses
(with comparative totals for 2013)

Year ended June 30,

	Program Services						Supporting Services		Totals	
	Educational	Residential	Adult Habilitational	Family Support	Community Outreach	Total Program Services	Management and General	Fundraising	2014	2013
Salaries and Wages and Fringe Benefits:										
Salaries and wages	$6,576,421	$4,577,606	$2,360,127	$1,298,754	$1,135,945	$15,948,853	$1,898,566	$195,515	**$18,042,936**	$17,520,728
Fringe benefits	1,978,926	1,247,764	550,065	329,365	316,642	4,422,762	523,374	52,917	**4,999,053**	4,727,558
Total Salaries and Wages and Fringe Benefits	8,555,347	5,825,370	2,910,192	1,628,119	1,452,587	20,371,615	2,421,942	248,432	**23,041,989**	22,248,286
Other Expenses:										
Food	248	230,057	383	2,170	-	232,858	-	-	**232,858**	216,541
Repairs and maintenance	168,037	139,894	71,771	8,640	18,864	407,206	40,132	-	**447,338**	371,583
Utilities	116,496	117,893	56,313	10,873	6,799	308,374	39,756	1,892	**350,022**	312,903
Travel	29,124	158,086	180,291	55,451	11,157	434,109	38,532	822	**473,463**	442,109
Staff training and development	7,579	7,424	3,345	3,108	10,406	31,862	27,520	2,435	**61,817**	52,953
Consultants and contractual services	18,191	22,868	-	-	5,416	46,475	173,007	1,653	**221,135**	197,022
Consumable supplies	154,790	279,577	111,241	29,754	31,015	606,377	44,805	4,825	**656,007**	578,217
Insurance	20,055	30,663	9,623	1,282	574	62,197	111,370	-	**173,567**	126,355
Professional fees	-	2,500	-	-	-	2,500	62,250	-	**64,750**	130,225
Rent	364,309	13,584	45,418	3,063	64,884	491,258	23,425	-	**514,683**	453,857
Interest	85,289	191,962	64,175	14,973	-	356,399	68,957	-	**425,356**	438,049
Facility tax	-	122,202	-	-	-	122,202	-	-	**122,202**	119,168
Miscellaneous	24,342	17,859	8,191	2,283	24,793	77,468	96,482	19,276	**193,226**	149,598
Depreciation	84,646	413,507	160,338	11,933	2,689	673,113	90,009	-	**763,122**	812,953
Bad debt expense	-	352,489	-	-	2,254	354,743	-	-	**354,743**	-
Total Expenses	$9,628,453	$7,925,935	$3,621,281	$1,771,649	$1,631,438	$24,578,756	$3,238,187	$279,335	**$28,096,278**	$26,649,819

See accompanying notes to financial statements.

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B-III-6

Eden II School For Autistic Children, Inc.

Statement of Cash Flows
(with comparative totals for 2013)

Year ended June 30,	2014	2013
Cash Flows From Operating Activities:		
Change in net assets	$ 1,615,256	$ 1,820,347
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	678,561	783,904
Bad debt expense	354,743	-
Gain on swap agreement	(11,101)	(94,080)
Unrealized loss on debt service reserve funds	2,191	33,651
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Program services receivable	(239,322)	993,189
Grants and contracts receivable	(1,340,318)	457,927
Pledges receivable	-	43,427
Prepaid expenses and other assets	(43,291)	(102,639)
Debt service reserve funds	(15,106)	(270,144)
Deferred issuance costs	58,624	(459,349)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	659,950	138,180
Accrued compensation	32,225	668,037
Due to state and local agencies	147,313	(43,312)
Due to related party	2,831,697	(1,750,904)
Net Cash Provided By Operating Activities	4,731,422	2,218,234
Cash Flows From Investing Activities:		
Purchases of property and equipment	(4,957,491)	(713,489)
Change in restricted cash - escrow	-	245,000
Net Cash Used In Investing Activities	(4,957,491)	(468,489)
Cash Flows From Financing Activities:		
Payments on mortgages and notes payable	(102,348)	(4,439,360)
Proceeds from line of credit	8,965,000	3,550,000
Repayments of line of credit	(7,840,000)	(3,550,000)
Payments to DASNY	(30,600)	(28,300)
Proceeds from bonds payable	-	3,305,000
Payments on bonds payable	(505,000)	(420,000)
Net Cash Provided By (Used In) Financing Activities	487,052	(1,582,660)
Increase in Cash and Cash Equivalents	260,983	167,085
Cash and Cash Equivalents, Beginning of Year	482,635	315,550
Cash and Cash Equivalents, End of Year	$ 743,618	$ 482,635
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 425,356	$ 438,049

See accompanying notes to financial statements.

Eden II School For Autistic Children, Inc.

Notes to Financial Statements

1. Nature of Organization

Eden II School for Autistic Children, Inc. (the "School") is a nonprofit organization whose purpose is to provide instruction, respite and socialization programs for autistic and autistic-like school age and preschool children and adults. Services are also provided for day and vocational training. In addition, the School operates an Intermediate Care Facility and five residential care facilities.

The School provides a wide range of services to individuals with autism spectrum disorders or individuals with autistic-like communication and behavior disorders, as defined by the Autism Society of America. The School's students and adult consumers reside in New York City and the counties of Long Island.

Success in providing quality services lies in the School's commitment to state of the art programming. Applied Behavior Analysis, the only empirically validated intervention for individuals with autism, provides the framework for all of the School's programs. Treatment programs are tailored to fit the individual, and are implemented within a community-based context designed to facilitate community living. The goal for all of the School's consumers is independence and community integration.

The School provides the following range of services:

- Day school programs for pre-school and school age children.
- A vocational program for adolescents.
- Adult day training and day habilitation programs.
- Residential programs for adolescents and adults.
- Family support services.
- Community outreach services including parent training, community lectures and seminars, professional consultations, after-school services, and summer camps.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the School have been prepared on the accrual basis. In the 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 the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

(ii) **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School 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

The School considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

(d) Fair Value Measurement

Accounting Standards Codification ("ASC") 820-10, "Fair Value Measurement", defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. ASC 820-10 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 820-10 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 School classifies fair value balances based on the fair value hierarchy defined by ASC 820-10 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.

(e) 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(f) Program Service Receivables and Allowance for Doubtful Accounts

Program service receivables are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts.

B-III-7

Management specifically analyzes accounts receivable, historical bad debts, current funding trends and changes in payment terms and rates when evaluating the allowance for doubtful accounts.

(g) Pledges Receivable

Pledges receivable consist of unconditional promises to give. Pledges receivable expected to be collected within one year are recorded at net realizable value. Pledges receivable 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 a discount rate applicable to the year in which the promises are received.

(h) Derivative Instruments and Hedging Activities

The School accounts for interest rate swaps in accordance with ASC 815, "Accounting for Derivative Instruments and Certain Hedging Activities," as amended, which requires that all derivative instruments be recorded on the statement of financial position at their respective fair values. The fair value of the interest rate swap held is based on a value provided by a third-party financial institution. The School does not enter into derivative instruments for any purpose other than to limit the variability of a portion of its interest payments. That is, the School does not speculate using derivative instruments.

(i) Property and Equipment, Net

Purchases of property and equipment with a cost of $1,000 or higher are recorded at cost. Donated assets are recorded at fair market value at the date of donation. Property and equipment is depreciated or amortized over the estimated useful lives of the underlying assets ranging from 5 to 25 years, using the straight-line method. Repairs and maintenance are charged to expense in the period incurred. Construction-in-progress is recorded at cost and includes capitalization of architecture, construction fees and interest cost during the construction period. Depreciation commences when construction is complete and the asset is placed into service.

(j) Impairment of Fixed Assets

The School reviews fixed assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the future cash flows from the use of the asset are less than the carrying amount of that asset. As of June 30, 2014, there have been no such losses.

(k) Debt Issuance Costs

Debt issuance costs are deferred and amortized on a straight-line basis over the life of the related debt. Amortization expense for the year ended June 30, 2014 was $58,624.

(l) Contributions

Contributions received and unconditional promises to give that are reasonably determinable are recorded as public support at fair value, as determined by management, in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

It is the School's policy to record temporarily restricted donations and contributions received in the same accounting period that the restriction is satisfied in unrestricted net assets at the time of donation.

The School 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 those long-lived assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(m) Income Taxes

The School 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 and therefore has made no provision for income taxes in the accompanying financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2014.

The School adopted the provisions of ASC 740, "Income Taxes", on January 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 not be sustained upon examination by a taxing authority. The implementation of ASC 740 had no impact on the School's financial statements. The School does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. The School has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, the School 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 June 30, 2014, there were no interest or penalties recorded or included in the statement of activities. The School is subject to routine audits by taxing authorities. As of June 30, 2014, the School was not subject to any examination by a taxing authority. Management believes it is no longer subject to income tax examinations for the years prior to 2011.

(n) Functional Allocation of Expenses

Expenses are recorded in the period incurred. Expenses are allocated into functional categories depending on the ultimate purpose of the expense.

3. Investments and Fair Value Measurements

The School'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 School's policies regarding this hierarchy.

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. The School's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels.

B-III-8

The fair value of the money market funds, U.S. Treasury obligations and fixed income funds, which consist of debt service reserve funds held by the School and an interest rate swap, are estimated using Level 2 inputs, which are based on model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Below sets forth tables of assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

	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 Unobservable Inputs (Level 3)	Balance as of June 30, 2014
Assets				
Debt service reserve funds:				
Money market funds	$ 382,753	$ -	$-	$ 382,753
U.S. Treasury obligations	685,552	-	-	685,552
Fixed income funds	220,675	-	-	220,675
	$1,288,980	$ -	$-	$1,288,980
Liabilities				
Interest rate swap	$ -	$158,543	$-	$ 158,543

4. Program Services Receivable

Program services receivable as of June 30, 2014 consist of the following:

June 30, 2014	Amount
New York City Board of Education	$ 1,015,881
Medicaid	2,030,485
Long Island School Districts	254,307
Other receivables	899,793
	4,200,466
Less: Allowance for doubtful accounts	(1,215,859)
Total	$ 2,984,607

5. Grants and Contracts Receivable

Grants and contracts receivable, net, as of June 30, 2014 consist of the following

June 30, 2014	
New York City Department of Health and Mental Hygiene ("NYC-DOHMH")	$ 441,026
Individuals with Disabilities Education Act ("IDEA")	137,202
New York State Office for People With Developmental Disabilities Family Support Services	32,650
Legislative grants	3,121,894
Other	416,952
	4,149,724
Less: Allowance for doubtful accounts	(308,685)
Total	$3,841,039

6. Debt Service Reserve Funds

The School has debt service reserve funds in connection with the Dormitory Authority of the State of New York ("DASNY") and the New York City Industrial Development Agency ("IDA") bond issuances. These balances are limited under terms of debt indentures. The funds as of June 30, 2014 are as follows:

June 30, 2014				
DASNY		381 Carlton Boulevard	Staten Island	$ 32,282
IDA	2004C	150 Granite Avenue	Staten Island	411,532
IDA	2005A	106 Grayson Street and 94 Wright Avenue	Staten Island	350,471
IDA	2006D	155 Dix Hills Road	Huntington	117,717
IDA	2007C	131 Cambon Avenue	Saint James	131,300
IDA	2013A	15 Beach Street	Staten Island	245,678
				$1,288,980

7. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following at June 30, 2014:

June 30, 2014	
Land	$ 1,487,524
Building and improvements	11,700,771
Equipment	1,343,262
Construction-in-progress	10,964,082
	25,495,639
Less: Accumulated depreciation	(9,355,144)
Total	$16,140,495

B-III-9

Depreciation and amortization expense for the year ended June 30, 2014 was $678,561. Management believes that the estimated cost to complete construction-in-progress is approximately $4,150,000.

8. Due to DASNY

Due to DASNY as of June 30, 2014 consists of the following:

June 30, 2014	
The School has entered into a bond financing with DASNY in the amount of $399,500. This tax-exempt bond covers the purchase and renovation of the Carlton Boulevard Intermediate Care Facility located on Staten Island, New York, which serves as collateral against the bond. The bond will be paid to DASNY over a period of 25 years through June 1, 2015.	$ 52,300
Less: Current maturities	(33,000)
Total	$ 19,300

The aggregate amounts of principal payments due to DASNY during each of the years following June 30, 2014 and thereafter are as follows:

Year ending June 30,	Amount
2016	$19,300

9. Bonds Payable

Bonds payable as of June 30, 2014 consist of the following:

June 30, 2014	
In August 2004, the School refinanced the IDA bonds with the New York City IDA. These bonds are Special Needs Facilities Pooled Series 2004 C bond issues. The bonds consist of Series 2004 C-1 tax-exempt bonds in the amount of $3,630,000 and Series 2004 C-2 taxable bonds in the amount of $170,000. The proceeds of the bonds financed the cost of acquiring, equipping and renovating a building purchased by the School at 150 Granite Avenue, Staten Island, which serves as collateral for the bonds. Serial and term fixed rate bonds were issued at rates ranging from 4.5% to 6.625% through July 1, 2029. The debt service reserve fund is invested in U.S. Treasury obligations earning 3.125% until May 15, 2019, which is credited every year and will help to offset the net loan repayments. During the year ended June 30, 2014, approximately $70,000 of the restricted cash was redeemed and applied towards the outstanding bond principal.	$2,160,000

June 30, 2014	
In March 2005, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the New York City Special Needs Facilities Program, issued Series 2005 A-1 tax-exempt bonds in the amount of $3,465,000 and Series 2005 A-2 taxable bonds in the amount of $170,000. The proceeds of the bonds financed the cost of acquiring, equipping and renovating buildings purchased by the School at 106 Grayson Avenue and 94 Wright Avenue; the properties serve as collateral for the bonds. Serial and term fixed rate bonds were issued at rates ranging from 3.1% to 4.75% through July 1, 2020. The debt service reserve fund is invested in money market funds at the trustee, Bank of New York Mellon. Interest is credited every year and will help to offset the net loan repayments.	$1,710,000
In June 2006, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the Suffolk County Industrial Development Agency Special Needs Facilities Program, issued Series 2006 D-1 tax-exempt bonds in the amount of $965,000 and Series 2006 D-2 taxable bonds in the amount of $55,000. The proceeds of the bonds financed the cost of acquiring, equipping and renovating a building, which included property and equipment, purchased by the School at 155 Dix Hills Road. The property serves as collateral for the bonds. The facility is leased to the School for a period of 13 years, expiring July 1, 2019. Lease payments are equal to IDA's interest and principal on the bonds. At the expiration of the 13 year term to IDA's interest and principal on the bonds, ownership of the facility reverts to the School for $1. Serial and term fixed rate bonds were issued at rates ranging from 4.15% to 6.05% through July 1, 2019. The debt service reserve fund is invested in government-backed securities earning 4.875% annually through September 27, 2018, which is credited every year and helps to offset the net loan payments.	470,000
In January 2007, the School and the Suffolk County Industrial Development Agency Special Needs Facilities Program issued Series 2007 C-1 tax-exempt bonds in the amount of $1,360,000 and Series 2007 C-2 taxable bonds in the amount of $100,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building purchased by the School at 131 Cambon Avenue. The property serves as collateral for the bonds. Serial and term fixed rate bonds were issued at rates ranging from 4.1% to 5.25% through July 1, 2022. The debt service reserve fund is invested in government-backed securities earning 3.75% annually through March 27, 2019, which is credited every year and helps to offset the net loan repayments.	855,000
In April 2013, the School and the Build NYC Resource Corporation issued Series 2013A-1 2013A-2 revenue bonds through the Special Needs Facilities Pooled Program in the amount of $3,305,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building purchased at 15 Beach Street.	3,230,000
	8,425,000
Less: Current maturities	(520,000)
	$7,905,000

The aggregate amounts of principal payments on the bonds payable during each of the five years following June 30, 2014 and thereafter are as follows:

Year ending June 30,	Amount
2015	$ 520,000
2016	540,000
2017	560,000
2018	570,000
2019	710,000
Thereafter	5,525,000
	$8,425,000

10. Mortgages and Notes Payable

Mortgages and notes payable as of June 30, 2014 consist of the following:

June 30, 2014	
The School received a $354,750 mortgage loan from a financial institution for a building. The mortgage, due September 1, 2017, is payable in monthly installments of $3,263, including interest at 7.38% per annum. The School has the option to renew the loan for an additional five years. The loan is secured by the property on Dixon Avenue, Staten Island.	$ 112,843
The School executed a 15 year term note (the "Collfield Note") adjustable every five years, interest to be charged at a rate equal to one (1) month LIBOR, plus 4.00% per annum (4.2% as of June 30, 2013), which matures on December 15, 2024. The monthly payment approximates $14,160. This debt is secured by the property at 682 Collfield Avenue, Staten Island and with a general lien.	1,251,435
	1,364,278
Less: Current maturities	(110,151)
	$1,254,127

The aggregate amounts of principal payments on the long-term debt during each of the five years following June 30, 2014 and thereafter are as follows:

Year ending June 30,	Amount
2015	$ 110,151
2016	118,963
2017	128,561
2018	108,546
2019	787,947
Thereafter	1,364,278

The Collfield Note has a variable rate which exposes the School to a variability in interest payments due to changes in interest rates. The School believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, the School entered into an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. The swap changes a portion of the variable rate cash flow exposure on the note to fixed cash flows. Under the terms of the rate swap, the School receives variable interest rate payments and makes fixed interest rate payments on a notional principal amount, thereby creating the equivalent of fixed-rate debt (see Note 18).

11. Line of Credit

The School has executed a line of credit for $2,000,000 with a bank, which expires on January 1, 2014. The agreement requires interest to be charged at a rate equal to the bank's prime rate plus 1.75%, with a minimum rate of 6.00% (6.00% as of June 30, 2014). The line is secured by a general lien. As of June 30, 2014, there was no balance outstanding on the line of credit.

The School obtained a bridge loan from FJC, a Foundation of Philanthropic Funds, amounting to $4,730,000 for the renovation of 15 Beach Street for use as a School and agency headquarters. As of June 30, 2014, $1,125,000 was drawn on the loan. The loan has a maturity date of March 31, 2017 and interest is payable quarterly at the prime rate published in the Wall Street Journal (3.25% at June 30, 2014) plus 3%.

B-III-11

12. Program and Public Support Services Revenue

For the year ended June 30, 2014, program and public support services revenue consists of the following:

Year ended June 30, 2014	
New York City Office of People With Developmental Disabilities ("OPWDD"):	
Medicaid	$13,123,945
Other	460,940
New York City Board of Education	8,636,676
Long Island School Districts	1,778,064
Other revenue	132,666
	$24,132,291

Medicaid revenue is reimbursed to the School at the net reimbursement rates as determined by each program's cost report. Reimbursement rates are subject to revisions under the provisions of cost reimbursement regulations. Adjustments for the State Education Department rate reconciliation are recognized in the year reconciled.

Certain programs of the School are funded by the OPWDD and are eligible for property cost reimbursement. Once the rates have been finalized by the OPWDD, the School receives additional revenue through a rate adjustment for these programs. The financial statements include the cost of the projects. The revenue is recorded once received by the School.

13. Grants and Contract Services

For the year ended June 30, 20 14, grants and contract service revenues consist of the following:

Year ended June 30, 2014	
Consulting and Outreach	$1,313,186
Education:	
IDEA	201,428
Other	135,394
OPWDD and NYC-DOHMH	311,190
	$1,961,198

14. Pension Plan

The School has a Federally qualified defined contribution pension plan covering substantially all full-time employees who meet certain eligibility requirements. The amount contributed to the plan is a fixed percentage of participants' compensation. Pension expense amounted to $426,951 for the year ended June 30, 2014.

15. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2014 are available for the following purposes:

June 30, 2014	
NYC Adult Services	$425,116
Wright Avenue Facility	50,000
	$475,116

For the year ended June 30, 2014, there were no releases from restriction.

16. Related Party Transactions

The Foundation for the Advancement of Autistic Persons, Inc. (the "Foundation"), which was established to solicit charitable contributions and other funds, and provide other benefits and support the mission of the School and other organizations dedicated to the support of individuals with autism, shares certain members of management with the School. The School provides management and personnel services to the Foundation. Income for these services was $100,000 for the year ended June 30, 2014. At June 30, 2014, the amount due to the School from the Foundation was $1,945,316.

The Foundation provides advances with no stated due date to the School. At June 30, 2014, the balance of this advance was $5,198,059. The Foundation requires that $25,000 be repaid each year. The remaining portion has no specified due date.

17. Derivative Financial Instruments

The School has entered into an interest rate swap agreement to limit the effects of increases in interest rates on a variable rate bond. The change in fair value of the interest rate swap is recognized in the statement of activities. The differential is accrued as interest rates change.

The terms of the swap agreement are summarized below:

June 30, 2014	Notional Amount	Fair Value
Interest rate swap agreement with Sovereign Bank. The bank pays a variable rate of interest based on U.S. LIBOR with a fixed rate of 8.05%. The agreement provides for monthly settlement and matures in December 2024.	$1,324,133	$1,251,976

18. Commitments and Contingencies

(a) The School's program costs are subject to audit by various government agencies. In the opinion of the School management, any liabilities which might be incurred would not have a material effect on the School's financial position or results of operations.

(b) The School has lease agreements for rental space which expire at various dates through 2019. Rent expense for the year ended June 30, 2014 was $462,174. In addition to these facilities, the School leases equipment and vehicles under noncancelable operating leases. Noncancelable minimum lease payments are as follows:

Year ending June 30,	Amount
2015	$ 348,334
2016	289,334
2017	285,874
2018	288,489
2019	299,462
Thereafter	869,418
	$2,380,911

(c) The School is currently in the process of reconciling pre-operational costs (final expenditure reports) with the OPWDD for properties located at:

a) 131 Cambon Avenue, St. James, New York

b) 155 Dix Hills Road, Huntington, New York

c) 682 Collfield Avenue, Staten Island, New York

The estimated recovery of pre-operational costs is approximately $500,000. These amounts have not been recorded in the financial statements.

As of the financial statement date, the School also has outstanding rate appeals for fiscal years ended June 30, 2009 and 2010.

19. Concentrations of Credit Risk

Financial instruments, which potentially subject the School to credit risk, consist principally of temporary cash investments. The School places its temporary cash investments with various financial institutions. The School maintains its cash in bank deposit accounts which, at times, may exceed Federally insured limits.

20. Subsequent Events

The School's management has performed subsequent events procedures through December 1, 2014, 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.

B-III-13

Eden II School For Autistic Children, Inc.

Financial Statements
Year Ended June 30, 2013

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.

BDO

Eden II School For Autistic Children, Inc.

Financial Statements
Year Ended June 30, 2013

Eden II School For Autistic Children, Inc.

Contents

BDO

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100 Park Avenue
New York, NY 10017

Independent Auditor's Report

Board of Trustees
Eden II School for Autistic Children, Inc.
Staten Island, New York

We have audited the accompanying financial statements of Eden II School for Autistic Children, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eden II School for Autistic Children, Inc. as of June 30, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

November 26, 2013

B-III-15

Eden II School For Autistic Children, Inc.

Statement of Financial Position

June 30, 2013	
Assets (Note 11)	
Current Assets:	
Cash and cash equivalents (Note 2)	$ 482,635
Program services receivable, net of allowance for doubtful accounts of $821,949 (Notes 3 and 4)	3,636,125
Grants and contracts receivable, net of allowance for doubtful accounts of $347,852 (Note 5)	1,960,867
Prepaid expenses and other assets	259,301
Total Current Assets	6,338,928
Debt Service Reserve Funds (Note 6)	1,276,065
Debt Issuance Costs, Net of Accumulated Amortization of $483,580 (Note 2)	1,038,885
Property and Equipment, Net (Notes 2, 7, 8, 9 and 10)	11,861,565
	$20,515,443
Liabilities and Net Assets	
Current Liabilities:	
Accounts payable and accrued expenses	$ 1,236,955
Accrued compensation	1,795,579
Due to state and local agencies	75,520
Due to related party, current portion (Note 16)	25,000
Due to DASNY, current portion (Note 8)	30,600
Bonds payable, current portion (Notes 9 and 18)	505,000
Mortgages and notes payable, current portion (Note 10)	108,174
Total Current Liabilities	3,776,828
Long-Term Liabilities:	
Interest rate swap liability (Notes 2, 3 and 17)	158,543
Due to related party, less current maturities (Note 16)	396,046
Due to DASNY, less current maturities (Note 8)	52,300
Bonds payable, less current maturities (Notes 9 and 18)	8,425,000
Mortgages and notes payable, less current maturities (Note 10)	1,358,452
Total Liabilities	14,167,169
Commitments and Contingencies (Notes 14 and 18)	
Net Assets:	
Unrestricted net assets (Note 2)	5,873,158
Temporarily restricted net assets (Note 15)	475,116
Total Net Assets	6,348,274
	$20,515,443

See accompanying notes to financial statements.

Eden II School For Autistic Children, Inc.

Statement of Activities

Year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total
Changes in Unrestricted Net Assets:			
Revenue:			
Program and public support services revenue (Note 12)	$24,113,351	$ -	$24,113,351
Grants and contract services (Note 13)	2,010,173	-	2,010,173
Other revenue	331,377	-	331,377
Total Revenue	26,454,901	-	26,454,901
Expenses:			
Program services:			
Educational services	11,411,651	-	11,411,651
Residential services	7,397,067	-	7,397,067
Adult habilitational services	4,840,745	-	4,840,745
Family support	249,364	-	249,364
Total Program Services	23,898,827	-	23,898,827
Supporting services:			
Management and general	2,441,925	-	2,441,925
Fundraising	309,067	-	309,067
Total Supporting Services	2,750,992	-	2,750,992
Total Expenses	26,649,819	-	26,649,819
Change in Net Assets Before Non-operating Revenues	(194,918)	-	(194,918)
Non-operating Revenues:			
Contributions	1,954,836	-	1,954,836
Gain on swap agreement	94,080	-	94,080
Unrealized loss on debt service reserve funds	(33,651)	-	(33,651)
Total Non-operating Revenues	2,015,265	-	2,015,265
Change in Net Assets	1,820,347	-	1,820,347
Net Assets, Beginning of Year	4,052,811	475,116	4,527,927
Net Assets, End of Year	$ 5,873,158	$475,116	$ 6,348,274

See accompanying notes to financial statements.

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Eden II School For Autistic Children, Inc.

Statement of Functional Expenses

Year ended June 30, 2013

	Program Services					Supporting Services		
	Educational	Residential	Adult Habilitational	Family Support	Total Program Support	Management and General	Fundraising	Total
Salaries and Wages and Fringe Benefits:								
Salaries and wages	$ 8,110,481	$4,474,096	$3,214,764	$177,718	$15,977,059	$1,292,885	$242,310	$ 17,512,254
Fringe benefits	2,215,202	1,190,263	842,085	46,615	4,294,165	347,526	66,757	**4,708,448**
Total Salaries and Wages and Fringe Benefits	10,325,683	5,664,359	4,056,849	224,333	20,271,224	1,640,411	309,067	**22,220,702**
Other Expenses:								
Food	3,606	211,979	957	-	216,542	-	-	**216,542**
Repairs and maintenance	134,410	180,719	137,533	13,692	466,354	30,680	-	**497,034**
Utilities	75,188	78,659	42,797	-	196,644	24,341	-	**220,985**
Travel	22,295	9,894	54,753	4,080	91,022	24,600	-	**115,622**
Client expense	6,071	144,598	17,869	-	168,538	-	-	**168,538**
Equipment rental	20,210	66,581	68,238	258	155,287	6,652	-	**161,939**
Staff training and development	25,118	15,723	9,468	-	50,309	20,599	-	**70,908**
Consultants and contractual services	28,792	26,459	-	-	55,251	141,770	-	**197,021**
Consumable supplies	174,440	142,754	99,377	5,052	421,623	70,630	-	**492,253**
Telephone	30,313	28,003	16,772	-	75,088	16,831	-	**91,919**
Insurance	20,695	36,633	25,824	1,949	85,101	93,363	-	**178,464**
Dues and subscriptions	-	-	-	-	-	26,819	-	**26,819**
Professional fees	-	-	-	-	-	115,225	-	**115,225**
Rent	338,795	-	18,609	-	357,404	47,294	-	**404,698**
Interest	88,780	238,683	85,531	-	412,994	54,105	-	**467,099**
Facility tax	-	119,162	-	-	119,162	-	-	**119,162**
Public relations	-	-	-	-	-	17,411	-	**17,411**
Miscellaneous	31,671	14,213	6,171	-	52,055	31,520	-	**83,575**
Depreciation and amortization	85,584	418,648	199,997	-	704,229	79,674	-	**783,903**
Total Expenses	$11,411,651	$7,397,067	$4,840,745	$249,364	$23,898,827	$2,441,925	$309,067	$26,649,819

See accompanying notes to financial statements.

7

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B-III-18

Year ended June 30, 2013	
Cash Flows From Operating Activities:	
Change in net assets	$ 1,820,347
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	783,904
Gain on swap agreement	(94,080)
Unrealized loss on debt service reserve funds	33,651
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Program services receivable	993,189
Grants and contracts receivable	457,927
Pledges receivable	43,427
Prepaid expenses and other assets	(102,639)
Debt service reserve funds	(270,144)
Deferred issuance costs	(459,349)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	138,180
Accrued compensation	668,037
Due to state and local agencies	(43,312)
Due to related party	(1,750,904)
Net Cash Provided By Operating Activities	2,218,234
Cash Flows From Investing Activities:	
Purchases of property and equipment	(713,489)
Change in restricted cash - escrow	245,000
Net Cash Used In Investing Activities	(468,489)
Cash Flows From Financing Activities:	
Payments on mortgages and notes payable	(4,439,360)
Proceeds from line of credit	3,550,000
Repayments of line of credit	(3,550,000)
Payments to DASNY	(28,300)
Proceeds from bonds payable	3,305,000
Payments on bonds payable	(420,000)
Net Cash Used in Financing Activities	(1,582,660)
Increase in Cash and Cash Equivalents	167,085
Cash and Cash Equivalents, Beginning of Year	315,550
Cash and Cash Equivalents, End of Year	$ 482,635
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the year for interest	$ 459,239

See accompanying notes to financial statements.

1. Nature of Organization

Eden II School for Autistic Children, Inc. (the "School") is a nonprofit organization whose purpose is to provide instruction, respite and socialization programs for autistic and autistic-like school age and preschool children and adults. Services are also provided for day and vocational training. In addition, the School operates an Intermediate Care Facility and five residential care facilities.

The School provides a wide range of services to individuals with autism spectrum disorders or individuals with autistic-like communication and behavior disorders, as defined by the Autism Society of America. The School's students and adult consumers reside in New York City and the counties of Long Island.

Success in providing quality services lies in the School's commitment to state of the art programming. Applied Behavior Analysis, the only empirically validated intervention for individuals with autism, provides the framework for all of the School's programs. Treatment programs are tailored to fit the individual, and are implemented within a community-based context designed to facilitate community living. The goal for all of the School's consumers is independence and community integration.

The School provides the following range of services:

- Day school programs for pre-school and school age children.
- A vocational program for adolescents.
- Adult day training and day habilitation programs.
- Residential programs for adolescents and adults.
- Family support services.
- Community outreach services including parent training, community lectures and seminars, professional consultations, after-school services, and summer camps.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the School have been prepared on the accrual basis. In the 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 the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

(ii) **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School 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

The School considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

(d) Fair Value Measurement

Accounting Standards Codification ("ASC") 820-10, "Fair Value Measurement", defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. ASC 820-10 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 820-10 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 School classifies fair value balances based on the fair value hierarchy defined by ASC 820-10 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.

(e) 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(f) Program Service Receivables and Allowance for Doubtful Accounts

Program service receivables are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts.

Management specifically analyzes accounts receivable, historical bad debts, current funding trends and changes in payment terms and rates when evaluating the allowance for doubtful accounts.

(g) Pledges Receivable

Pledges receivable consist of unconditional promises to give. Pledges receivable expected to be collected within one year are recorded at net realizable value. Pledges receivable 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 a discount rate applicable to the year in which the promises are received.

(h) Derivative Instruments and Hedging Activities

The School accounts for interest rate swaps in accordance with ASC 815, "Accounting for Derivative Instruments and Certain Hedging Activities," as amended, which requires that all derivative instruments be recorded on the statement of financial position at their respective fair values. The fair value of the interest rate swap held is based on a value provided by a third-party financial institution. The School does not enter into derivative instruments for any purpose other than to limit the variability of a portion of its interest payments. That is, the School does not speculate using derivative instruments.

(i) Property and Equipment, Net

Purchases of property and equipment with a cost of $1,000 or higher are recorded at cost. Donated assets are recorded at fair market value at the date of donation. Property and equipment is depreciated or amortized over the estimated useful lives of the underlying assets ranging from 5 to 25 years, using the straight-line method. Repairs and maintenance are charged to expense in the period incurred. Construction-in-progress is recorded at cost and includes capitalization of architecture, construction fees and interest cost during the construction period. Depreciation commences when construction is complete and the asset is placed into service.

(j) Impairment of Fixed Assets

The School reviews fixed assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the future cash flows from the use of the asset are less than the carrying amount of that asset. As of June 30, 2013, there have been no such losses.

(k) Debt Issuance Costs

Debt issuance costs are deferred and amortized on a straight-line basis over the life of the related debt. Amortization expense for the year ended June 30, 2013 was $59,905.

(l) Contributions

Contributions received and unconditional promises to give that are reasonably determinable are recorded as public support at fair value, as determined by management, in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

It is the School's policy to record temporarily restricted donations and contributions received in the same accounting period that the restriction is satisfied in unrestricted net assets at the time of donation.

The School 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 those long-lived assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(m) Income Taxes

The School 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 and therefore has made no provision for income taxes in the accompanying financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2013.

The School adopted the provisions of ASC 740, "Income Taxes", on January 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 not be sustained upon examination by a taxing authority. The implementation of ASC 740 had no impact on the School's financial statements. The School does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. The School has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, the School 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 June 30, 2013, there were no interest or penalties recorded or included in the statement of activities. The School is subject to routine audits by taxing authorities. As of June 30, 2013, the School was not subject to any examination by a taxing authority. Management believes it is no longer subject to income tax examinations for the years prior to 2010.

(n) Functional Allocation of Expenses

Expenses are recorded in the period incurred. Expenses are allocated into functional categories depending on the ultimate purpose of the expense.

3. Investments and Fair Value Measurements

The School'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 School's policies regarding this hierarchy.

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. The School's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels.

B-III-20

The fair value of the money market funds, U.S. Treasury obligations and fixed income funds, which consist of debt service reserve funds held by the School and an interest rate swap, are estimated using Level 2 inputs, which are based on model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Below sets forth tables of assets and liabilities measured at fair value on a recurring basis as of June 30, 2013:

	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 Unobservable Inputs (Level 3)	Balance as of June 30, 2013
Debt Service Reserve Funds				
Money market funds	$ 378,959	$ -	$ -	$ 378,959
U.S. Treasury obligations	674,967	-	-	674,967
Fixed income funds	222,139	-	-	222,139
	$1,276,065	$ -	$ -	$1,276,065
Liabilities				
Interest rate swap	$ -	$158,543	$ -	$ 158,543

4. Program Services Receivable

Program services receivable as of June 30, 2013 consist of the following:

June 30, 2013	Amount
New York City Board of Education	$ 936,371
Medicaid	1,925,677
Long Island School Districts	895,421
Other receivables	700,605
	4,458,074
Less: Allowance for doubtful accounts	(821,949)
Total	$3,636,125

5. Grants and Contracts Receivable

Grants and contracts receivable, net, as of June 30, 2013 consist of the following

June 30, 2013	
New York City Department of Health and Mental Hygiene ("NYC-DOHMH")	$ 367,770
Individuals with Disabilities Education Act ("IDEA")	51,408
New York State Office for People With Developmental Disabilities Family Support Services	59,541
Legislative grants	1,830,000
	2,308,719
Less: Allowance for doubtful accounts	(347,852)
Total	$1,960,867

6. Debt Service Reserve Funds

The School has debt service reserve funds in connection with the Dormitory Authority of the State of New York ("DASNY") and the New York City Industrial Development Agency ("IDA") bond issuances. These balances are limited under terms of debt indentures. The funds as of June 30, 2013 are as follows:

June 30, 2013				
DASNY		381 Carlton Boulevard	Staten Island	$ 32,282
IDA	2004C	150 Granite Avenue	Staten Island	405,019
IDA	2005A	106 Grayson Street and 94 Wright Avenue	Staten Island	346,678
IDA	2006D	155 Dix Hills Road	Huntington	115,108
IDA	2007C	131 Cambon Avenue	Saint James	131,326
IDA	2013A	15 Beach Street	Staten Island	245,652
				$1,276,065

7. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following at June 30, 2013:

June 30, 2013	
Land	$ 1,487,524
Building and improvements	11,441,881
Equipment	1,269,866
Construction-in-progress	6,338,877
	20,538,148
Less: Accumulated depreciation	(8,676,583)
Total	$11,861,565

B-III-21

Depreciation and amortization expense for the year ended June 30, 2013 was $723,999. Management believes that the estimated cost to complete construction-in-progress is approximately $5,518,000.

8. Due to DASNY

Due to DASNY as of June 30, 2013 consists of the following:

June 30, 2013	
The School has entered into a bond financing with DASNY in the amount of $399,500. This tax-exempt bond covers the purchase and renovation of the Carlton Boulevard Intermediate Care Facility located on Staten Island, New York, which serves as collateral against the bond. The bond will be paid to DASNY over a period of 25 years through June 1, 2015.	$ 82,900
Less: Current maturities	(30,600)
Total	$ 52,300

The aggregate amounts of principal payments due to DASNY during each of the years following June 30, 2013 and thereafter are as follows:

Year ending June 30,	Amount
2014	$30,600
2015	33,000
2016	19,300
	$82,900

9. Bonds Payable

Bonds payable as of June 30, 2013 consist of the following:

June 30, 2013	
In August 2004, the School refinanced the IDA bonds with the New York City IDA. These bonds are Special Needs Facilities Pooled Series 2004 C bond issues. The bonds consist of Series 2004 C-1 tax-exempt bonds in the amount of $3,630,000 and Series 2004 C-2 taxable bonds in the amount of $170,000. The proceeds of the bonds financed the cost of acquiring, equipping and renovating a building purchased by the School at 150 Granite Avenue, Staten Island, which serves as collateral for the bonds. Serial and term fixed rate bonds were issued at rates ranging from 4.5% to 6.625% through July 1, 2029. The debt service reserve fund is invested in U.S. Treasury obligations earning 3.125% until May 15, 2019, which is credited every year and will help to offset the net loan repayments. During the year ended June 30, 2013, approximately $900,000 of the restricted cash was redeemed and applied towards the outstanding bond principal.	$2,230,000

June 30, 2013	
In March 2005, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the New York City Special Needs Facilities Program, issued Series 2005 A-1 tax-exempt bonds in the amount of $3,465,000 and Series 2005 A-2 taxable bonds in the amount of $170,000. The proceeds of the bonds financed the cost of acquiring, equipping and renovating buildings purchased by the School at 106 Grayson Avenue and 94 Wright Avenue; the properties serve as collateral for the bonds. Serial and term fixed rate bonds were issued at rates ranging from 3.1% to 4.75% through July 1, 2020. The debt service reserve fund is invested in money market funds at the trustee, Bank of New York Mellon. Interest is credited every year and will help to offset the net loan repayments.	$1,910,000
In June 2006, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the Suffolk County Industrial Development Agency Special Needs Facilities Program, issued Series 2006 D-1 tax-exempt bonds in the amount of $965,000 and Series 2006 D-2 taxable bonds in the amount of $55,000. The proceeds of the bonds financed the cost of acquiring, equipping and renovating a building, which included property and equipment, purchased by the School at 155 Dix Hills Road. The property serves as collateral for the bonds. The facility is leased to the School for a period of 13 years, expiring July 1, 2019. Lease payments are equal to IDA's interest and principal on the bonds. At the expiration of the 13 year term to IDA's interest and principal on the bonds, ownership of the facility reverts to the School for $1. Serial and term fixed rate bonds were issued at rates ranging from 4.15% to 6.05% through July 1, 2019. The debt service reserve fund is invested in government-backed securities earning 4.875% annually through September 27, 2018, which is credited every year and helps to offset the net loan payments.	540,000
In January 2007, the School and the Suffolk County Industrial Development Agency Special Needs Facilities Program issued Series 2007 C-1 tax-exempt bonds in the amount of $1,360,000 and Series 2007 C-2 taxable bonds in the amount of $100,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building purchased by the School at 131 Cambon Avenue. The property serves as collateral for the bonds. Serial and term fixed rate bonds were issued at rates ranging from 4.1% to 5.25% through July 1, 2022. The debt service reserve fund is invested in government-backed securities earning 3.75% annually through March 27, 2019, which is credited every year and helps to offset the net loan repayments.	945,000
In April 2013, the School and the Build NYC Resource Corporation issued Series 2013A-1 2013A-2 revenue bonds through the Special Needs Facilities Pooled Program in the amount of $3,305,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building purchased at 15 Beach Street.	3,305,000
	8,930,000
Less: Current maturities	(505,000)
	$8,425,000

B-III-22

The aggregate amounts of principal payments on the bonds payable during each of the five years following June 30, 2013 and thereafter are as follows:

Year ending June 30,	Amount
2014	$ 505,000
2015	520,000
2016	540,000
2017	560,000
2018	570,000
Thereafter	6,235,000
	$8,930,000

10. Mortgages and Notes Payable

Mortgages and notes payable as of June 30, 2013 consist of the following:

June 30, 2013	
The School received a $354,750 mortgage loan from a financial institution for a building. The mortgage, due September 1, 2017, is payable in monthly installments of $3,263, including interest at 7.38% per annum. The School has the option to renew the loan for an additional five years. The loan is secured by the property on Dixon Avenue, Staten Island.	$ 142,483
The School executed a 15 year term note (the "Collfield Note") adjustable every five years, interest to be charged at a rate equal to one (1) month LIBOR, plus 4.00% per annum (4.2% as of June 30, 2013), which matures on December 15, 2024. The monthly payment approximates $14,160. This debt is secured by the property at 682 Collfield Avenue, Staten Island and with a general lien.	1,324,143
	1,466,626
Less: Current maturities	(108,174)
	$1,358,452

The aggregate amounts of principal payments on the long-term debt during each of the five years following June 30, 2013 and thereafter are as follows:

Year ending June 30,	Amount
2014	$ 108,174
2015	110,677
2016	119,287
2017	129,866
2018	110,536
Thereafter	888,086
	$1,466,626

The Collfield Note has a variable rate which exposes the School to a variability in interest payments due to changes in interest rates. The School believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, the School entered into an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. The swap changes a portion of the variable rate cash flow exposure on the note to fixed cash flows. Under the terms of the rate swap, the School receives variable interest rate payments and makes fixed interest rate payments on a notional principal amount, thereby creating the equivalent of fixed-rate debt (see Note 18).

11. Line of Credit

The School has executed a line of credit for $2,000,000 with a bank, which expires on January 1, 2014. The agreement requires interest to be charged at a rate equal to the bank's prime rate plus 1.75%, with a minimum rate of 6.00% (6% as of June 30, 2013). The line is secured by a general lien. As of June 30, 2013, there was no balance outstanding on the line of credit.

The School obtained a bridge loan from FJC, a Foundation of Philanthropic Funds, amounting to $4,730,000 for the renovation of 15 Beach Street for use as a School and agency headquarters. As of June 30, 2013, no amounts have been drawn on the loan. The loan has a maturity date of March 31, 2017 and interest is payable quarterly at the prime rate published in the Wall Street Journal (3.25 % at June 30, 2013) plus 3%.

12. Program and Public Support Services Revenue

For the year ended June 30, 2013, program and public support services revenue consists of the following:

Year ended June 30, 2013	
New York City Office of People With Developmental Disabilities ("OPWDD"):	
Medicaid	$12,736,002
Other	703,410
New York City Board of Education	8,657,629
Long Island School Districts	1,875,120
Other revenue	141,190
	$24,113,351

Medicaid revenue is reimbursed to the School at the net reimbursement rates as determined by each program's cost report. Reimbursement rates are subject to revisions under the provisions of cost reimbursement regulations. Adjustments for the State Education Department rate reconciliation are recognized in the year reconciled.

Certain programs of the School are funded by the OPWDD and are eligible for property cost reimbursement. Once the rates have been finalized by the OPWDD, the School receives additional revenue through a rate adjustment for these programs. The financial statements include the cost of the projects. The revenue is recorded once received by the School.

B-III-23

13. Grants and Contract Services

For the year ended June 30, 2013, grants and contract service revenues consist of the following:

Year ended June 30, 2013	
Consulting and Outreach	$1,100,758
Education:	
IDEA	281,387
Other	284,464
OPWDD and NYC-DOHMH	282,951
Other	60,613
	$2,010,173

14. Pension Plan

The School has a Federally qualified defined contribution pension plan covering substantially all full-time employees who meet certain eligibility requirements. The amount contributed to the plan is a fixed percentage of participants' compensation. Pension expense amounted to $397,273 for the year ended June 30, 2013.

15. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2013 are available for the following purposes:

June 30, 2013	
NYC Adult Services	$425,116
Wright Avenue Facility	50,000
	$475,116

For the year ended June 30, 2013, there were no releases from restriction.

16. Related Party Transactions

The Foundation for the Advancement of Autistic Persons, Inc. (the "Foundation"), which was established to solicit charitable contributions and other funds, and provide other benefits and support the mission of the School and other organizations dedicated to the support of individuals with autism, shares certain members of management with the School. The School provides management and personnel services to the Foundation. Income for these services was $100,000 for the year ended June 30, 2013. In addition, the Foundation agreed to pay approximately $232,000 to the School to cover the School's cost of living adjustment for payroll during 2013. At June 30, 2013, the amount due to the School from the Foundation was $1,936,198.

The Foundation provides advances with no stated due date to the School. At June 30, 2013, the balance of this advance was $2,357,244. The Foundation requires that $25,000 be repaid each year. The remaining portion has no specified due date.

17. Derivative Financial Instruments

The School has entered into an interest rate swap agreement to limit the effects of increases in interest rates on a variable rate bond. The change in fair value of the interest rate swap is recognized in the statement of activities. The differential is accrued as interest rates change.

The terms of the swap agreement are summarized below:

June 30, 2013	Notional Amount	Fair Value
Interest rate swap agreement with Sovereign Bank. The bank pays a variable rate of interest based on U.S. LIBOR with a fixed rate of 8.05%. The agreement provides for monthly settlement and matures in December 2024.	$1,324,133	$(158,543)

18. Commitments and Contingencies

(a) The School's program costs are subject to audit by various government agencies. In the opinion of the School management, any liabilities which might be incurred would not have a material effect on the School's financial position or results of operations.

(b) The School has lease agreements for rental space which expire at various dates through 2019. Rent expense for the year ended June 30, 2013 was $251,652. In addition to these facilities, the School leases equipment and vehicles under noncancelable operating leases. Noncancelable minimum lease payments are as follows:

Year ending June 30,	Amount
2014	$ 328,883
2015	394,554
2016	317,946
2017	289,417
2018	198,724
Thereafter	33,120
	$1,562,644

(c) The School is currently in the process of reconciling pre-operational costs (final expenditure reports) with the OPWDD for properties located at:

a) 131 Cambon Avenue, St. James, New York

b) 155 Dix Hills Road, Huntington, New York

c) 682 Collfield Avenue, Staten Island, New York

The estimated recovery of pre-operational costs is approximately $500,000. These amounts have not been recorded in the financial statements.

In addition, the School received initial approval for rate appeals for its Individual Residence Alternative ("IRA") program for the fiscal year ended June 30, 2008 of $125,477, which was recorded in the statement of activities.

As of the financial statement date, the School also has outstanding rate appeals for fiscal years ended June 30, 2009 and 2010.

19. Concentrations of Credit Risk

Financial instruments, which potentially subject the School to credit risk, consist principally of temporary cash investments. The School places its temporary cash investments with various financial institutions. The School maintains its cash in bank deposit accounts which, at times, may exceed Federally insured limits.

20. Subsequent Events

The School's management has performed subsequent events procedures through November 26, 2013, 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.

HOLTZ
RUBENSTEIN
REMINICK

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

Year Ended June 30, 2012

B-III-25

HOLTZ
RUBENSTEIN
REMINICK

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Contents

Year Ended June 30, 2012 — *Pages*

Financial Statements

HOLTZ
RUBENSTEIN
REMINICK

Financial Statements

B-III-26

HOLTZ
RUBENSTEIN
REMINICK
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Independent Auditor's Report

Board of Trustees
Eden II School for Autistic Children, Inc.
Staten Island, New York

We have audited the accompanying statement of financial position of Eden II School for Autistic Children, Inc. (the "School") as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the School'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 Eden II School for Autistic Children, 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.

Holtz Rubenstein Reminick LLP

New York, New York
November 20, 2012

Worldwide Representation by DFK International

Holtz Rubenstein Reminick LLP

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Financial Position

June 30, 2012

Assets	
Current Assets:	
Cash and cash equivalents	$ 315,550
Program services receivable, net (Note 3)	4,629,314
Grants and contracts receivable, net (Note 4)	2,418,794
Pledges receivable	43,427
Prepaid expenses and other assets	156,662
Total Current Assets	7,563,747
Restricted Cash - Escrow	245,000
Debt Service Reserve Funds (Note 5)	1,039,572
Deferred Debt Issuance Costs, net of accumulated amortization of $423,675	639,441
Property and Equipment, net (Note 6)	11,872,075
Total Assets	$ 21,359,835
Liabilities and Net Assets	
Current Liabilities:	
Accounts payable and accrued expenses	$ 1,098,775
Accrued compensation	1,127,542
Due to state and local agencies	118,832
Due to related party, current portion (Note 16)	25,000
Due to DASNY, current portion (Note 7)	28,300
Bonds payable, current portion (Note 8)	420,000
Long-term debt, current portion (Note 9)	216,761
Total Current Liabilities	3,035,210
Long-Term Liabilities:	
Interest Rate Swap Agreement (Note 9)	252,623
Due to related party, long-term portion (Note 16)	2,146,950
Due to DASNY, long-term portion (Note 7)	82,900
Bonds payable, long-term portion (Note 8)	5,625,000
Long-term debt, long-term portion (Note 9)	5,689,225
Total Liabilities	16,831,908
Commitments and Contingencies (Note 17)	
Unrestricted Net Assets	4,052,811
Temporarily Restricted Net Assets	475,116
Total Net Assets	4,527,927
Total Liabilities and Net Assets	$ 21,359,835

B-III-27

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Activities

Year Ended June 30, 2012

Changes in Unrestricted Net Assets:	
Revenue:	
Program and public support services revenue (Note 11)	$ 23,708,485
Grants and contract services (Note 12)	4,112,410
Contributions (Note 13)	660,458
Other revenue	288,429
Net assets released from restrictions	171,107
Total unrestricted revenue	28,940,889
Expenses:	
Program services:	
Educational services	11,092,557
Residential services	7,349,129
Adult habilitational services	4,902,578
Family support	283,900
Total program services	23,628,164
Supporting services:	
Management and general	2,308,494
Fundraising	382,988
Total supporting services	2,691,482
Total expenses	26,319,646
Change in Unrestricted Net Assets before Other Changes	2,621,243
Other Changes in Unrestricted Net Assets:	
Unrealized loss on investments	(134,885)
Unrealized gain on debt service reserves	50,082
Increase in Unrestricted Net Assets	2,536,440
Changes in Temporarily Restricted Net Assets:	
Net assets released from restrictions	(171,107)
Decrease in Temporarily Restricted Net Assets	(171,107)
Increase in Net Assets	2,365,333
Net Assets, beginning of year	2,162,594
Net Assets, end of year	$ 4,527,927

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Functional Expenses

Year Ended June 30, 2012

	Program Services					Supporting Services		
	Educational	Residential	Adult Habilitational	Family Support	Total Program Services	Management and General	Fundraising	Total
Salaries and Wages	$ 7,729,144	$4,367,526	$ 3,140,319	$206,126	$ 15,443,115	$ 1,268,368	$ 284,353	$ 16,995,836
Fringe Benefits	2,190,715	1,263,120	918,537	56,156	4,428,528	337,088	97,868	4,863,484
Food	5,132	201,161	498	-	206,790	-	-	206,790
Repairs and Maintenance	150,311	167,166	148,853	11,403	477,733	24,863	-	502,596
Utilities	85,702	73,576	41,902	-	201,180	12,165	-	213,345
Travel	19,293	6,408	87,093	2,959	115,754	28,971	-	144,725
Client Expense	5,004	126,474	13,093	-	144,571	-	-	144,571
Equipment Rental	22,636	71,632	68,920	620	163,808	7,087	-	170,895
Staff Training and Development	26,411	5,504	6,954	-	38,869	47,210	-	86,079
Consultants and Contractual Services	44,845	31,070	-	-	75,915	156,349	-	232,264
Consumable Supplies	181,132	118,565	89,050	4,767	393,514	88,460	-	481,974
Telephone	30,752	27,607	14,959	120	73,437	15,946	-	89,383
Insurance	22,522	32,220	23,912	692	79,346	78,377	-	157,723
Dues and Subscriptions	-	-	-	-	-	24,388	-	24,388
Professional Fees	-	-	-	-	-	49,003	-	49,003
Rent	318,969	-	33,550	-	352,519	36,004	-	388,523
Interest	124,957	257,103	93,511	-	475,571	28,371	-	503,942
Facility Tax	-	105,604	-	-	105,604	-	-	105,604
Public Relations	-	-	-	-	-	9,668	-	9,668
Miscellaneous	35,094	24,654	14,558	1,057	75,363	40,187	767	116,317
Depreciation and Amortization	99,939	469,739	206,869	-	776,547	55,989	-	832,536
Total Functional Expenses	$11,092,557	$7,349,129	$ 4,902,578	$ 283,900	$ 23,628,164	$ 2,308,494	$ 382,988	$ 26,319,646

See notes to financial statements.

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EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Cash Flows

Year Ended June 30, 2012

Cash Flows from Operating Activities:	
Changes in net assets	$ 2,365,333
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	832,536
Unrealized loss on interest rate swap agreement	134,885
Unrealized gain on debt service reserves	(50,082)
Changes in operating assets and liabilities:	
Decrease (increase) in assets:	
Program services receivable	655,601
Grants and contracts receivable	(2,154,886)
Pledges receivable	31,573
Prepaid expenses and other assets	27,706
Debt service reserve	(3,699)
(Decrease) increase in liabilities:	
Accounts payable and accrued expenses	(388,719)
Accrued compensation	(148,793)
Due to state and local agencies	58,263
Due to related party	793,632
Net Cash Provided by Operating Activities	2,153,350
Cash Flows from Investing Activities:	
Purchase of property, plant and equipment	(702,918)
Net Cash Used in Investing Activities	(702,918)
Cash Flows from Financing Activities:	
Payments on long-term debt	(486,297)
Proceeds from line of credit	400,000
Repayments of line of credit	(1,400,000)
Payments to DASNY	(25,800)
Payments on bonds payable	(415,000)
Proceeds from escrow account	119,665
Net Cash Used in Financing Activities	(1,807,432)
Decrease in Cash and Cash Equivalents	(357,000)
Cash and Cash Equivalents, beginning of year	672,550
Cash and Cash Equivalents, end of year	$ 315,550
Supplemental Cash Flow Information:	
Cash paid during the year for interest	$ 503,942

See notes to financial statements.

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2012

1. Description of Business

Eden II School for Autistic Children, Inc. (the "School") is a nonprofit organization whose purpose is to provide instruction, respite and socialization programs for autistic and autistic-like school age and preschool children and adults. Services are also provided for day and vocational training. In addition, the School operates an Intermediate Care Facility and five residential care facilities.

The School provides a wide range of services to individuals with autism spectrum disorders or individuals with autistic-like communication and behavior disorders, as defined by the Autism Society of America. The School's students and adult consumers reside in New York City and the counties of Long Island.

Success in providing quality services lies in the School's commitment to state of the art programming. Applied Behavior Analysis, the only empirically validated intervention for individuals with autism, provides the framework for all of the School's programs. Treatment programs are tailored to fit the individual, and are implemented within a community-based context designed to facilitate community living. The goal for all of the School's consumers is independence and community integration.

The School provides the following range of services:

- Day school programs for pre-school and school age children.
- A vocational program for adolescents.
- Adult day training and day habilitation programs.
- Residential programs for adolescents and adults.
- Family support services.
- Community outreach services including parent training, community lectures and seminars, professional consultations, after-school services, and summer camps.

2. Significant Accounting Policies

Basis of presentation - The financial statements of the School have been prepared on the accrual basis. The net assets of the School are classified and reported as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in achieving the primary objectives of the School.

Temporarily restricted - Net assets that are subject to donor-imposed stipulations that will be met either by the actions of the School and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statement of activities as net assets released from restrictions.

Permanently restricted - Net assets that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be permanently retained. At June 30, 2012, the School had no permanently restricted net assets.

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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - All highly liquid investments with maturities of three months or less are considered to be cash equivalents.

Program service receivables and allowance for doubtful accounts - Program service receivables are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts.

Pledges receivable - Pledges receivable consist of unconditional promises to give. Pledges receivable expected to be collected within one year are recorded at net realizable value. Pledges receivable 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 a discount rate applicable to the year in which the promises are received. Pledges receivable at June 30, 2012 are $43,427, of which $29,360 is due within one year and $14,067 is due within two to five years. These amounts are restricted for construction of the new facility.

Fair value - Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. The School must determine whether its assets and liabilities recorded at fair value were based on Level 1 (valued based on quoted prices in an active market for identical assets), Level 2 (valued based on significant other observable inputs), or Level 3 (valued based on significant unobservable inputs) measurements within the fair value hierarchy.

Derivative instruments and hedging activities - The School accounts for interest rate swaps in accordance with ASC 815, *"Accounting for Derivative Instruments and Certain Hedging Activities"*, as amended, which requires that all derivative instruments be recorded on the statement of financial position at their respective fair values. The fair value of the interest rate swap held is based on a value provided by a third-party financial institution. The School does not enter into derivative instruments for any purpose other than to limit the variability of a portion of its interest payments. That is, the School does not speculate using derivative instruments.

Property and equipment, net - Purchases of property and equipment with a cost of $1,000 or higher are recorded at cost. Donated assets are recorded at fair market value at the date of donation. Property and equipment is depreciated or amortized over the estimated useful lives of the underlying assets ranging from 5 to 25 years, using the straight-line method. Repairs and maintenance are charged to expense in the period incurred. Construction-in-progress is recorded at cost and includes capitalization of architecture, construction fees and interest cost during the construction period. Depreciation commences when construction is complete and the asset is placed into service.

Debt issuance costs - Debt issuance costs are deferred and amortized on a straight-line basis over the life of the related debt. Amortization expense for the year ended June 30, 2012 was $57,949.

Contributions - Contributions received and unconditional promises to give that are reasonably determinable are recorded as public support at fair value, as determined by management, in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

It is the School's policy to record temporarily restricted donations and contributions received in the same accounting period that the restriction is satisfied in unrestricted net assets at the time of donation.

The School 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 those long-lived assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Income taxes - The School was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes is required.

Uncertain tax positions - As of June 30, 2012, the School evaluated its tax positions and concluded that has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of ASC No. 740, *"Accounting for Uncertainty in Income Taxes"*. Generally, the School is no longer subject to income tax examinations by the United States federal, state or local tax authorities for the years before 2009, which is the standard stature of limitations look-back period.

Doubtful accounts - Management must make estimates of the uncollectability of accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, current funding trends and changes in payment terms and rates when evaluating the need for any allowance for doubtful accounts.

Functional allocation of expenses - Expenses are recorded in the period incurred. Expenses are allocated into functional categories depending on the ultimate purpose of the expense.

Evaluation of subsequent events - Management has evaluated subsequent events through November 20, 2012, the date the financial statements are available for issuance, for inclusion or disclosure in the financial statements.

3. Program Services Receivable

Program services receivable as of June 30, 2012 consists of the following:

		Amount
New York City Board of Education	$	2,320,776
Medicaid		1,721,052
Long Island School Districts		549,395
Other		837,538
		5,428,761
Less Allowance for Doubtful Accounts		799,447
	$	4,629,314

4. Grants and Contracts Receivable

Grants and contracts receivable as of June 30, 2012 consist of the following:

		Amount
New York City Department of Health and Mental Hygiene	$	393,151
Individuals with Disabilities Education Act ("IDEA")		156,367
New York State Office for People With Developmental Disabilities Family Support Services		69,505
Other		2,170,125
		2,789,148
Less Allowance for Doubtful Accounts		370,354
	$	2,418,794

5. Debt Service Reserve Funds

The School has debt service reserve funds in connection with the Dormitory Authority of the State of New York ("DASNY") and the New York City Industrial Development Agency ("IDA") bond issuances. These balances are limited under terms of debt indentures. The funds as of June 30, 2012 are as follows:

				Amount
DASNY		381 Carlton Boulevard	Staten Island	$ 32,282
IDA	2004C	150 Granite Avenue	Staten Island	412,108
IDA	2005A	106 Grayson Street and 94 Wright Avenue	Staten Island	346,500
IDA	2006D	155 Dix Hills Road	Huntington	115,854
IDA	2007C	131 Cambon Avenue	Saint James	132,828
				$ 1,039,572

The debt service reserve funds are held with a financial institution and consist of various United States treasuries and bonds. These investments are considered to be Level 1 under the fair value hierarchy.

6. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following at June 30, 2012:

	Amount
Land	$ 1,487,524
Building and Improvements	11,396,596
Equipment	1,213,176
Construction in Progress	5,727,365
	19,824,661
Less Accumulated Depreciation	(7,952,586)
	$ 11,872,075

Depreciation and amortization expense for the year ended June 30, 2012 was $774,589.

7. Due to DASNY

Due to DASNY as of June 30, 2012 consists of the following:

The School has entered into a bond financing with DASNY in the amount of $399,500. This tax-exempt bond covers the purchase and renovation of the Carlton Boulevard Intermediate Care Facility located on Staten Island, New York, which serves as collateral against the bond. The bond will be paid to DASNY over a period of 25 years through June 1, 2015.	$ 111,200
Less Current Maturities	(28,300)
	$ 82,900

The aggregate amounts of principal payments due to DASNY during each of the five years following June 30, 2012 and thereafter are as follows:

Years Ending June 30,	Amount
2013	$ 28,300
2014	30,600
2015	33,000
2016	19,300
	$ 111,200

8. Bonds Payable

Bonds payable as of June 30, 2012 consist of the following:

In August 2004, the School refinanced the IDA bonds with the New York City Industrial Development Agency. These bonds are Special Needs Facilities Pooled Series 2004 C and 2004 D bond issues. The bonds consist of (Series 2004 C-1 and 2004 D-1 tax-exempt in the amount of $3,630,000 and Series 2004 C-2 and 2004 D-2 taxable in the amount of $170,000). The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building purchased by the School at 150 Granite Avenue, Staten Island, which serves as collateral for the bonds. Interest is at 6.50% through July 1, 2029. The Debt Service Reserve Fund will receive a guaranteed investment earning rate of 4.00%, which will be credited every six months and will help to offset the net loan repayments. During the year ended June 30, 2011, approximately $900,000 of the restricted cash was redeemed and applied towards the outstanding bond principal.	$ 2,300,000
In March 2005, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the New York City Special Needs Facilities Program, issued Series 2005 A-1, B-1 and C-1 tax-exempt bonds in the amount of $3,465,000 and Series 2005 A-2, B-2 and C-2 taxable bonds in the amount of $170,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating buildings purchased by the School at 106 Grayson Avenue and 94 Wright Avenue; the properties serve as collateral for the bonds. Interest is at 4.53% through July 1, 2020. The Debt Service Reserve Fund will receive a guaranteed investment earning rate of 4.03%, which will be credited every six months and will help to offset the net loan repayments.	2,100,000
In June 2006, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the Suffolk County Industrial Development Agency Special Needs Facilities Program, issued Series 2006 D tax-exempt bonds in the amount of $965,000 and Series 2006 D taxable bonds in the amount of $55,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building, which is included in property and equipment, purchased by the School at 155 Dix Hills Road. The property serves as collateral for the bonds. The facility is leased to the School for a period of 13 years, expiring July 1, 2019. Lease payments are equal to IDA's interest and principal on the bonds. At the expiration of the 13 year term to IDA's interest and principal on the bonds, ownership of the facility reverts to the School for $1. Interest is at 4.72% through July 1, 2019. The debt service reserve fund will receive a guaranteed investment earning rate of 5.14%, which will be credited every six months and will help to offset the net loan payments.	610,000
In January 2008, the School and the Suffolk County Industrial Development Agency Special Needs Facilities Program issued Series 2007 C tax-exempt bonds in the amount of $1,332,800 and Series 2007 C taxable bonds in the amount of $98,000. The proceeds of the bonds are to finance the cost of acquiring, equipping andult renovating a building purchased by the School at 131 Cambon Avenue. The property serves as collateral for the bonds. Interest is at 4.93%, through July 1, 2022. The Debt Service Reserve Fund will receive a guaranteed investment earning rate of 2.00%, which will be credited every six months and will help to offset the net loan repayments.	1,035,000
Subtotal	6,045,000
Less Current Maturities	(420,000)
	$ 5,625,000

Notes to Financial Statements

Year Ended June 30, 2012

The aggregate amounts of principal payments on the bond payable during each of the five years following June 30, 2012 and thereafter are as follows:

Years Ending June 30,	Amount
2013	$ 420,000
2014	435,000
2015	455,000
2016	470,000
2017	490,000
Thereafter	3,775,000
	$ 6,045,000

9. Long-Term Debt

Long-term debt as of June 30, 2012 consists of the following:

The School received a $354,750 mortgage loan from a financial institution for a building. The mortgage, due September 1, 2017, is payable in monthly installments of $3,263, including interest at 7.375% per annum. The School has the option to renew the loan for an additional five years. The loan is secured by the property on Dixon Avenue, Staten Island.	$ 170,022
The School executed a 15 year term note (the "Collfield Note") adjustable every five years, interest to be charged at a rate equal to one (1) month LIBOR, plus 4.00% per annum (7.85% as of June 30, 2011), which matures on December 15, 2024. The monthly payment approximates $14,160. This debt is secured by the property at 682 Collfield Avenue, Staten Island, and with a general lien.	1,390,964
The School executed a five year term note, interest to be charged at a rate equal to the prime rate, plus 3.00% per annum (6.25% as of June 30, 2012), which matures on March 31, 2016. Interest is payable quarterly and the total principal balance is due at maturity. This debt is secured by the property at 15-65 Beach Street, Staten Island, and with a general lien.	4,345,000
Subtotal	5,905,986
Less Current Maturities	(216,761)
	$ 5,689,225

The aggregate amounts of principal payments on the long-term debt during each of the five years following June 30, 2012 and thereafter are as follows:

Years Ending June 30,	Amount
2013	$ 216,761
2014	216,761
2015	216,761
2016	4,561,565
2017	191,174
Thereafter	502,964
	$ 5,905,986

Notes to Financial Statements

Year Ended June 30, 2012

The Collfield Note has a variable rate which exposes the School to a variability in interest payments due to changes in interest rates. The School believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, the School entered into an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. The swap changes a portion of the variable rate cash flow exposure on the note to fixed cash flows. Under the terms of the interest rate swap, the School receives variable interest rate payments and makes fixed interest rate payments on a notional principal amount, thereby creating the equivalent of fixed-rate debt.

The interest rate swap contract effective December 15, 2009 requires that the School pay fixed-rates of interest (8.05%) and receive interest variable rates of interest on a $1,535,000 notional amount of indebtedness through December 15, 2024. At June 30, 2012, the value of the swap contract was a liability of $252,623.

The swap interest agreement is valued based on discounted cash flows and prevailing interest rates. The swap interest agreement is considered to be a Level 2 instrument under the fair value hierarchy. Changes in the value of the interest rate swap are reflected as a charge based on an allocation between various programs in the accompanying statement of activities.

Interest expense and the settlement of the swap for the year ended June 30, 2012 amounted to approximately $121,000.

10. Line of Credit

The School has executed a line of credit for $2,000,000 with a bank, which expired on January 1, 2012. The agreement requires interest to be charged at a rate equal to the bank's prime rate plus 1.75%, with a minimum rate of 6.00% (6.00% as of June 30, 2012). This debt is secured with a general lien. As of June 30, 2012, there was no balance outstanding on the line of credit.

11. Program and Public Support Services Revenue

For the year ended June 30, 2012, program and public support services revenue consists of the following:

	Amount
New York City Office of People With Developmental Disabilities:	
Medicaid	$ 12,882,731
Other	657,917
New York City Board of Education	8,243,748
Long Island School Districts	1,794,017
Other	130,072
	$ 23,708,485

Medicaid revenue is reimbursed to the School at the net reimbursement rates as determined by each program's cost report. Reimbursement rates are subject to revisions under the provisions of cost reimbursement regulations. Adjustments for State Education Department rate reconciliation are recognized in the year reconciled.

Certain programs of the School are funded by the Office of People With Developmental Disabilities ("OPWDD") and are eligible for property cost reimbursement. Once the rates have been finalized by OPWDD, the School receives additional revenue through a rate adjustment for these programs. The financial statements include the cost of the projects. The revenue is recorded once received by the School.

12. Grants and Contract Services

For the year ended June 30, 2012, grants and contract services revenue consists of the following:

		Amount
Consulting and Outreach	$	1,159,500
Education:		
IDEA		324,837
Other		237,075
OPWDD and NYC-DOHMH		241,998
Other (a)		2,149,000
	$	4,112,410

(a) Other represents a grant in the amount of $2,149,000 that was restricted to and used for purchase and rehabilitation of a new facility in the Stapleton section of Staten Island, N ew York.

13. Contributions

Included in contributions are amounts of $556,700 that were restricted to and used for purchase and rehabilitation of a new facility in the Stapleton section of Staten Island, New York.

14. Pension Plan

The School has a federally qualified defined contribution pension plan covering substantially all full-time employees who meet certain eligibility requirements. The amount contributed to the Plan is a fixed percentage of participants' compensation. Pension expense amounted to approximately $420,000 for the year ended June 30, 2012.

15. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2012 are available for the following purposes:

		Amount
NYC Adult Services	$	425,116
Wright Avenue Facility		50,000
	$	475,116

16. Related Party Transactions

The Foundation for the Advancement of Autistic Persons, Inc. (the "Foundation"), which was established to solicit charitable contributions and other funds, and provide other benefits and support the mission of the School and other organizations dedicated to the support of individuals with autism, shares certain members of management with the School. The School provides management and personnel services to the Foundation. Income for these services was $100,000 for the year ended June 30, 2012.

The Foundation has provided an advance with no stated due date to the School. At June 30, 2012, the balance of this advance was $3,749,997. The Foundation requires that $25,000 be repaid each year. The remaining portion has no specified due date. The amount presented on the statement of position is offset by amounts due from the Foundation, which at June 30, 2012 totaled $1,578,047. The balance on the statement of financial position is $2,171,950.

17. Commitments and Contingencies

The School's program costs are subject to audit by various government agencies. In the opinion of the School management, any liabilities which might be incurred would not have a material effect on the School's financial position or results of operations.

The School has lease agreements for rental space which expire at various dates through 2017. Rent expense for the year ended June 30, 2012 was $388,523. In addition to these facilities, the School leases equipment and vehicles under noncancelable operating leases. Non-cancelable minimum lease payments are as follows:

Years Ending June 30,		Amount
2013	$	332,073
2014		149,114
2015		106,680
2016		87,515
2017		22,606
	$	697,988

18. Concentrations of Credit Risk

Financial instruments, which potentially subject the School to credit risk, consist principally of temporary cash investments. The School places its temporary cash investments with various financial institutions. The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

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APPENDIX B-IV

HASC CENTER, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2014, JUNE 30, 2013 AND JUNE 30, 2012)

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B-IV-1

HASC CENTER, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014

CONTENTS

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JOSEPH GLIKSMAN, CPA
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PEER REVIEW PROGRAM

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, 2014 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, 2014 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

November 23, 2014

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
(With Comparative Totals for June 30, 2013)

	2014	2013
Current Assets		
Cash and Cash Equivalents	$ 11,034,442	$ 8,970,896
Investments	8,726,069	7,882,287
Accounts Receivable (Less Allowance for Bad Debts $4,000)	408,173	280,731
Management Fees Receivable	225,228	137,158
Medicaid and Grants Receivable	6,514,338	7,159,609
Prepaid Expenses	234,150	135,394
Prepaid Interest	25,897	56,800
Note Receivable - BKFHC	47,955	47,955
Total Current Assets	**$ 27,216,252**	**$ 24,670,830**
Fixed Assets		
Land	$ 2,481,500	$ 2,481,500
Building	16,211,602	15,472,585
Leasehold Improvements	2,893,944	2,763,647
Vehicles	464,890	464,890
Machinery & Equipment	670,734	602,257
Furniture & Fixtures	482,231	409,326
Accumulated Depreciation	(8,558,940)	(7,454,449)
Total Fixed Assets	**$ 14,645,961**	**$ 14,739,756**
Other Assets		
Due from BKFHC	$ 604,124	$ 404,124
Discounted Note Receivable - BKFHC	261,096	242,825
Reserve Funds	1,098,087	1,157,686
Security Deposits	88,248	86,944
Retirement Trust Fund	913,736	785,942
Bond Closing Costs (Net of Amortization of $563,902)	686,330	747,151
Total Other Assets	**$ 3,651,621**	**$ 3,424,672**
TOTAL ASSETS	**$ 45,513,834**	**$ 42,835,258**

See notes to financial statements

B-IV-3

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
(With Comparative Totals for June 30, 2013)

Current Liabilities	**2014**	**2013**
Accounts Payable	$ 630,871	$ 482,370
Due to Employees HCI	415,523	715,524
Accrued Wages & Taxes	1,296,545	1,138,590
Accrued Expenses	55,000	64,271
Loans & Leases Payable	529,602	553,561
Advances Due OPWDD	58,971	58,970
Mortgages Payable	887,383	875,627
Mortgage and Interest Payable	712,439	712,439
Total Current Liabilities	**$ 4,586,334**	**$ 4,601,352**
Other Liabilities		
Loans & Leases Payable	$ 8,000	$ 10,052
Advances Due OPWDD	250,218	250,218
Retirement Trust Fund	913,736	785,942
Mortgages Payable	7,807,900	8,682,327
Total Other Liabilities	**$ 8,979,854**	**$ 9,728,539**
TOTAL LIABILITIES	**$ 13,566,188**	**$ 14,329,891**
Net Assets		
Unrestricted Net Assets	$ 31,284,711	$ 28,229,621
Temporarily Restricted Net Assets	47,343	47,343
Board Designated Net Assets	615,592	228,403
Total Net Assets	**$ 31,947,646**	**$ 28,505,367**
TOTAL LIABILITIES AND NET ASSETS	**$ 45,513,834**	**$ 42,835,258**

HASC CENTER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(With Comparative Totals for June 30, 2013)

	Unrestricted 2014	**Unrestricted 2013**
Revenue		
Workshop Sales	$ 59,913	$ 73,807
Grants	41,598	5,855
Program Service Fees	34,790,461	33,709,598
Management Income	20,000	72,754
Other Income	75,256	252,550
Interest Income	907,081	615,284
Total	**$ 35,894,309**	**$ 34,729,848**
Expenses		
Program Expenses	$ 30,184,316	$ 29,286,685
Management & General	2,267,714	2,168,391
Total	**$ 32,452,030**	**$ 31,455,076**
Change in Net Assets	$ 3,442,279	$ 3,274,772
Net Assets Beginning	28,505,367	25,230,595
NET ASSETS ENDING	**$ 31,947,646**	**$ 28,505,367**

B-IV-4

HASC CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014
(With Comparative Totals for June 30, 2013)

Expenses	Programs	General & Administrative	Total 2014	Total 2013
Salaries	$17,316,958	$ 1,190,285	$18,507,243	$17,510,841
Taxes & Fringe Benefits	4,889,869	584,337	5,474,206	6,156,571
Total Salaries and Benefits	**$22,206,827**	**$ 1,774,622**	**$23,981,449**	**$23,667,412**
Food	1,068,653	14,172	1,082,825	1,007,817
Repair & Maintenance	331,721	15,576	347,297	247,308
Utilities	530,753	31,206	561,959	535,337
Transportation	1,061,695	12,077	1,073,772	1,074,095
Auto Expense	152,581	2,887	155,468	149,318
Consumer Allowances & Incidental	408,213		408,213	366,924
Consumer Recreation	431,598	850	432,448	426,990
Consumer Salaries	51,823		51,823	58,217
Staff Training	30,526	662	31,188	20,749
Office Expense	136,746	61,869	198,615	174,089
Supplies	416,730	17,207	433,937	374,681
Postage	8,731	14,138	22,869	23,650
Advertising	25,738	35,327	61,065	27,323
Data Processing	98,491	6,146	104,637	108,158
Licenses & Fees	54,070	4,909	58,979	58,167
Professional Fees	136,005	128,344	264,349	218,716
Equipment Lease	55,196	9,742	64,938	64,318
Rent	1,167,453	61,350	1,228,803	1,187,052
Insurance	190,592	60,289	250,881	226,650
Interest	471,204		471,204	469,486
Depreciation & Amortization	1,148,970	16,341	1,165,311	968,619
TOTAL EXPENSES	**$30,184,316**	**$ 2,267,714**	**$32,452,030**	**$31,455,076**

HASC CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014
(With Comparative Totals for June 30, 2013)

	2014	2013
Cash Flows from Operations		
Increase in Net Assets	$ 3,442,279	$ 3,274,772
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operations:		
Non-Cash Items:		
Depreciation & Amortization	1,165,311	968,619
Increase (Decrease) in Cash Resulting from Changes in Operating Assets and Liabilities:		
Receivables, Prepaids, Etc.	509,493	(1,939,103)
Payables, Accruals, Etc.	(2,815)	(166,685)
Net Cash Provided by Operations	**$ 5,114,268**	**$ 2,137,603**
Cash Flows from Investing		
Investments	$ (843,782)	$ (2,506,559)
Advance to BKFHC	(306,341)	(3,711)
Purchase of Fixed Assets	(1,071,516)	(2,420,478)
Net Cash Used by Investing	**$ (2,221,639)**	**$ (4,930,748)**
Cash Flows from Financing		
Debt Reserve Fund	$ 59,599	$ (162,895)
Proceeds (Payments) of Loans	(26,011)	(899,842)
Proceeds (Payments) of Mortgages	(862,671)	2,838,624
Net Cash Provided (Used) by Financing	**$ (829,083)**	**$ 1,775,887**
Net Cash Provided (Used):	**$ 2,063,546**	**$ (1,017,258)**
Cash Balance Beginning	8,970,896	9,988,154
CASH BALANCE ENDING	**$ 11,034,442**	**$ 8,970,896**
Interest Paid	$ 471,204	$ 469,486

HASC CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 to 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, 2013 is presented for comparative purposes only, and was extracted from the financial statements prepared for that year, upon which an unqualified opinion dated December 23, 2013, was expressed.

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 November 23, 2014, the date of which financial statements were available to be issued.

Note C – Concentrations of Credit Risk

The agency maintains cash balances at Capital 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.

B-IV-6

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:

	2014	2013
Equity securities	$1,633,721	$1,345,261
U S government and agency bonds	253,063	452,986
Stock mutual funds & exchange traded funds	2,451,275	2,539,927
Fixed income funds	1,907,514	1,570,077
Cash & money market accounts	1,170,186	727,834
International funds & commodities	106,239	78,233
Accrued interest	2,277	2,233
Total	$7,524,275	$6,716,551

Additionally, investments includes a J P Morgan Annuity in the amount of $1,174,794, and an insurance policy with a cash value of $27,000. 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, 2014 was $163,803. Realized gains in fair market value of the investments for the year ended June 30, 2014 is reported in the statement of activities in the amount of $147,572. Unrealized gains in fair market value of the investments for the year ended June 30, 2014 is reported in the statement of activities in the amount of $534,048. Portfolio management expense for the year ended June 30, 2014 was $36,905.

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, Dormitory Authority of the State of New York (DASNY) and from Capital One Bank to finance construction or renovation of the residential sites. The combined original amount of the loans is $18,424,931. 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 2.75% to 8.75%. Interest expense for the year ended June 30, 2014 was $466,242. Principal installments due in each of the next five years are as follows:

Year ended June 30, 2015	$887,383
Year ended June 30, 2016	720,127
Year ended June 30, 2017	738,961
Year ended June 30, 2018	908,172
Year ended June 30, 2019	813,672

Note I – Loans Payable

The agency is liable for several notes for the financing of capitalized equipment and auto leases. The total balance at June 30, 2014 is $37,602. Interest expense at various rates ranging from 1%-13% for the year ended June 30, 2014 was $2,697. Principal installments due in each of the next five years are as follows:

Year ended June 30, 2015	$29,602
Year ended June 30, 2016	8,000

The agency has a line of credit with Capital One Bank in the amount of $2,000,000. Currently, $500,000 is outstanding. The agency expects to retire this loan with permanent financing during 2014.

Note J – Advance from OPWDD

Advance from OPWDD represents amounts advanced by the New York State Office for People With Developmental Disabilities to finance the renovation of new sites and the 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 $1,228,803, and future commitments are:

Year ended June 30, 2015	$759,290
Year ended June 30, 2016	672,164
Year ended June 30, 2017	692,329
Year ended June 30, 2018	713,098
Year ended June 30, 2019	584,573

B-IV-7

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 and is completely depreciated. Interest rates range from 1.9% to 13%. Total amount paid under expensed leases during the year ended June 30, 2014 was $64,938, and future required payments are:

Year ended June 30, 2015	$64,680
Year ended June 30, 2016	15,096

Note M – Due to Employees HCI

This represents the accrued health insurance expense for the unexpended funds in the year ended June 30, 2013 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, 2014 was $20,000. The two entities are under common management.

Hasc Center, Inc. purchased transportation services from a Not for Profit entity at a cost of $911,454 and $911,747 for the years ended June 30, 2014 and June 30, 2013 respectively. Hasc Center owed the other entity $84,554 and $163,588 as of June 30, 2012, and June 30, 2013 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 $17,500, and an additional $5,500 for employees over fifty years old. The agency matches 25% of employee contributions. The cost of the plan was $107,417 for the year ended June 30, 2014.

Note P – Contingencies

The agency receives payments from third party payors for services. These payments are subject to audit by various regulatory bodies which may give rise to contingent liabilities. The board has set up funds for such contingent liabilities, which is reflected in the financial statements as board designated funds.

HASC CENTER, INC.

FINANCIAL STATEMENTS

JUNE 30, 2013

HASC CENTER, INC.

CONTENTS

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PARTICIPANT: AICPA
PEER REVIEW PROGRAM

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, 2013 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, 2013 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 23, 2013

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for June 30, 2012)

	2013	2012
Current Assets		
Cash and Cash Equivalents	$ 8,970,896	$ 9,988,154
Investments	7,882,287	5,375,728
Accounts Receivable (Less Allowance for Bad Debts $4,000)	280,731	136,876
Management Fees Receivable	137,158	101,561
Medicaid and Grants Receivable	7,159,609	5,510,533
Prepaid Expenses	135,394	179,597
Prepaid Interest	56,800	10,880
Note Receivable - BKFHC	47,955	47,955
Total Current Assets	**$ 24,670,830**	**$ 21,351,284**
Fixed Assets		
Land	$ 2,481,500	$ 2,481,500
Building	15,472,585	13,276,265
Leasehold Improvements	2,763,647	2,747,982
Vehicles	464,890	561,806
Machinery & Equipment	602,257	385,562
Furniture & Fixtures	409,326	370,890
Accumulated Depreciation	(7,454,449)	(6,536,108)
Total Fixed Assets	**$ 14,739,756**	**$ 13,287,897**
Other Assets		
Due from BKFHC	$ 404,124	$ 454,281
Discounted Note Receivable - BKFHC	242,825	224,554
Reserve Funds	1,157,686	994,791
Security Deposits	86,944	84,724
Retirement Trust Fund	785,942	707,973
Bond Closing Costs (Net of Amortization of $503,081)	747,151	604,916
Total Other Assets	**$ 3,424,672**	**$ 3,071,239**
TOTAL ASSETS	**$ 42,835,258**	**$ 37,710,420**

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(With Comparative Totals for June 30, 2012)

Current Liabilities	2013	2012
Accounts Payable	$ 482,370	$ 438,147
Due to Employees HCI	715,524	715,523
Accrued Wages & Taxes	1,138,590	1,346,643
Accrued Expenses	64,271	58,171
Loans & Leases Payable	553,561	1,453,403
Advances Due OPWDD	58,970	58,970
Mortgages Payable	875,627	1,027,196
Mortgage and Interest Payable	712,439	743,412
Total Current Liabilities	**$ 4,601,352**	**$ 5,841,465**
Other Liabilities		
Loans & Leases Payable	$ 10,052	$ 10,052
Advances Due OPWDD	250,218	259,174
Retirement Trust Fund	785,942	707,973
Mortgages Payable	8,682,327	5,661,161
Total Other Liabilities	**$ 9,728,539**	**$ 6,638,360**
TOTAL LIABILITIES	**$ 14,329,891**	**$ 12,479,825**
Net Assets		
Unrestricted Net Assets	$ 28,229,621	$ 25,059,557
Temporarily Restricted Net Assets	47,343	47,343
Board Designated Net Assets	228,403	123,695
Total Net Assets	**$ 28,505,367**	**$ 25,230,595**
TOTAL LIABILITIES AND NET ASSETS	**$ 42,835,258**	**$ 37,710,420**

HASC CENTER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(With Comparative Totals for June 30, 2012)

	Unrestricted 2013	Unrestricted 2012
Revenue		
Workshop Sales	$ 73,807	$ 104,727
Grants	5,855	68,541
Program Service Fees	33,709,598	33,202,369
Management Income	72,754	134,261
Other Income	252,550	92,708
Interest Income	615,284	435,521
Total	**$ 34,729,848**	**$ 34,038,127**
Expenses		
Program Expenses	$ 29,286,685	$ 28,634,281
Management & General	2,168,391	2,274,911
Total	**$ 31,455,076**	**$ 30,909,192**
Change in Net Assets	$ 3,274,772	$ 3,128,935
Net Assets Beginning	25,230,595	22,101,660
NET ASSETS ENDING	**$ 28,505,367**	**$ 25,230,595**

HASC CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013
(With Comparative Totals for June 30, 2012)

Expenses	Programs	General & Administrative	Total 2013	Total 2012
Salaries	$16,469,291	$ 1,041,550	$17,510,841	$17,286,959
Taxes & Fringe Benefits	5,507,962	648,609	6,156,571	6,116,059
Total Salaries and Benefits	**$21,977,253**	**$ 1,690,159**	**$23,667,412**	**$23,403,018**
Food	993,817	14,000	1,007,817	932,999
Repair & Maintenance	235,380	11,928	247,308	209,787
Utilities	505,924	29,413	535,337	508,568
Transportation	1,064,275	9,820	1,074,095	1,151,838
Auto Expense	144,908	4,410	149,318	143,385
Consumer Allowances & Incidental	366,924		366,924	401,645
Consumer Recreation	426,510	480	426,990	393,657
Consumer Salaries	58,217		58,217	52,323
Staff Training	20,496	253	20,749	27,271
Office Expense	119,508	54,581	174,089	160,870
Supplies	361,623	13,058	374,681	364,430
Postage	12,575	11,075	23,650	41,558
Advertising	14,317	13,006	27,323	5,054
Data Processing	101,679	6,479	108,158	101,112
Licenses & Fees	45,005	13,162	58,167	49,773
Professional Fees	57,341	161,375	218,716	237,759
Equipment Lease	53,519	10,799	64,318	48,504
Rent	1,127,986	59,066	1,187,052	1,147,929
Insurance	179,376	47,274	226,650	191,203
Mortgage Fees			-	4,409
Interest	469,486		469,486	488,782
Depreciation & Amortization	950,566	18,053	968,619	843,318
TOTAL EXPENSES	**$29,286,685**	**$ 2,168,391**	**$31,455,076**	**$30,909,192**

HASC CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(With Comparative Totals for June 30, 2012)

	2013	2012
Cash Flows from Operations		
Increase in Net Assets	$ 3,274,772	$ 3,128,935
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operations:		
Non-Cash Items:		
Prior Period Adjustment	-	(489,305)
Depreciation & Amortization	968,619	843,318
Increase (Decrease) in Cash Resulting from Changes in Operating Assets and Liabilities:		
Receivables, Prepaids, Etc.	(1,939,103)	689,978
Payables, Accruals, Etc.	(166,685)	(151,568)
Net Cash Provided by Operations	**$ 2,137,603**	**$ 4,021,358**
Cash Flows from Investing		
Investments	$ (2,506,559)	$ (3,784,441)
Advance to BKFHC	(3,711)	218,898
Purchase of Fixed Assets	(2,420,478)	(2,240,864)
Net Cash Used by Investing	**$ (4,930,748)**	**$ (5,806,407)**
Cash Flows from Financing		
Debt Reserve Fund	$ (162,895)	$ 28,029
Proceeds (Payments) of Loans	(899,842)	1,389,372
Proceeds (Payments) of Mortgages	2,838,624	(1,190,637)
Net Cash Provided by Financing	**$ 1,775,887**	**$ 226,764**
Net Cash Used:	**$ (1,017,258)**	**$ (1,558,285)**
Cash Balance Beginning	9,988,154	11,546,439
CASH BALANCE ENDING	**$ 8,970,896**	**$ 9,988,154**
Interest Paid	$ 469,486	$ 488,782

HASC CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2012 is presented for comparative purposes only, and was extracted from the financial statements prepared for that year, upon which an unqualified opinion dated December 28, 2012, was expressed.

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 23, 2013, 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:

	2013	2012
Equity securities	$1,345,261	$1,699,970
U S government and agency bonds	452,986	473,564
Stock mutual funds & exchange traded funds	2,539,927	717,125
Fixed income funds	1,570,077	928,169
Cash & money market accounts	727,834	310,487
International Funds	78,233	110,775
Accrued interest	2,233	1,473
Total	$6,716,551	$4,241,563

Additionally, investments includes a J P Morgan Annuity in the amount of $1,138,739, and an insurance policy with a cash value of $27,000. 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, 2013 was $152,213. Realized gains in fair market value of the investments for the year ended June 30, 2013 is reported in the statement of activities in the amount of $77,924. Unrealized gains in fair market value of the investments for the year ended June 30, 2013 is reported in the statement of activities in the amount of $266,909. Portfolio management expense for the year ended June 30, 2013 was $34,058.

Note E – Accounts Receivable

Accounts Receivable represents amounts owed to Hase 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, Dormitory Authority of the State of New York (DASNY) and from Capitol One Bank to finance construction or renovation of the residential sites. The combined original amount of the loans is $18,424,931. 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 2.75% to 8.75%. Interest expense for the year ended June 30, 2013 was $469,037. Principal installments, due in each of the next five years are as follows:

Year ended June 30, 2014	$864,917
Year ended June 30, 2015	887,383
Year ended June 30, 2016	720,127
Year ended June 30, 2017	738,961
Year ended June 30, 2018	908,172

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, 2013 is $2,052. Interest expense at various rates ranging from 1%-13% for the year ended June 30, 2013 was $449. Principal installments, due in each of the next five years are as follows:

Year ended June 30, 2014	$2,052

The agency has a line of credit with Capital One Bank in the amount of $2,000,000. Currently $500,000 is outstanding . 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 $1,187,052, and future commitments are:

Year ended June 30, 2014	$737,175
Year ended June 30, 2015	759,290
Year ended June 30, 2016	672,164
Year ended June 30, 2017	692,329
Year ended June 30, 2018	713,098

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 and is completely depreciated. Interest rates range from 1.9% to 13%. Total amount paid under expensed leases during the year ended June 30, 2013 was $64,318, and future required payments are:

Year ended June 30, 2014	$28,182
Year ended June 30, 2015	21,099
Year ended June 30, 2016	15,096

Note M – Due to Employees HCI

This represents the accrued health insurance expense for the unexpended funds in the year ended June 30, 2013 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, 2013 was $72,754. 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 $911,747 for the years ended June 30, 2012 and June 30, 2013 respectively. Hasc Center owed the other entity $84,554 and $163,588 as of June 30, 2012, and June 30, 2013 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 $17,500, and an additional $5,500 for employees over fifty years old. The agency matches 25% of employee contributions. The cost of the plan was $117,547 for the year ended June 30, 2013.

Note P – Contingencies

The agency receives payments from third party payors for services. These payments are subject to audit by various regulatory bodies which may give rise to contingent liabilities. The board has set up funds for such contingent liabilities, which is reflected in the financial statements as board designated funds.

HASC CENTER, INC.

FINANCIAL STATEMENTS

JUNE 30, 2012

HASC CENTER, INC.

CONTENTS

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PARTICIPANT: AICPA
PEER REVIEW PROGRAM

B-IV-16

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. Glik 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

B-IV-17

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

B-IV-18

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**

See notes to financial statements

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

See notes to financial statements

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.

B-IV-20

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

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.

B-IV-21

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

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.

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APPENDIX B-V

LIFESPIRE, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2014, JUNE 30, 2013 AND JUNE 30, 2012)

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B-V-1

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

TABLE OF CONTENTS

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lifespire, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lifespire, Inc. and Subsidiary (the "Agency"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the 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.

B-V-2

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

MBAF CPAs, LLC

New York, NY
November 24, 2014

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS		
Cash and cash equivalents	$	18,179,568
Cash and cash equivalents designated for recoupments payable		16,518,610
Cash and cash equivalents designated for self funded insurance		5,732,607
Cash and cash equivalents designated for health reimbursement accounts		2,003,981
Cash and cash equivalents restricted to debt service escrow		4,050,918
Cash and cash equivalents designated - other		1,048,351
Investments		3,953,497
Debt service reserve fund due from New York State		318,841
Accounts receivable, net		130,426
Accrued income receivable		17,449,252
Due from related parties		923,636
Security deposits and prepaid expenses		638,265
Property and equipment, net		17,526,446
Deferred charges, net		4,206,898
TOTAL ASSETS	**$**	**92,681,296**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$	6,897,095
Accrued payroll		4,724,939
Accrued compensated absences		3,649,411
Recoupments payable		16,518,610
Mortgages payable - DASNY		1,850,083
Bonds payable - DASNY		10,045,000
Bonds payable - IDA		6,140,000
Lines of credit		547,382
Deferred rent		3,013,328
Self funded insurance liability		2,310,997
Pension liability		5,565,386
Postretirement health insurance liability		6,787,122
TOTAL LIABILITIES		68,049,353
NET ASSETS		
Unrestricted:		
Undesignated		10,549,405
Residential reserve for replacement		929,971
Property and equipment		5,006,900
Board designated - program expansion		1,077,795
Board designated - anticipated pension contributions		1,290,000
Board designated - self funded insurance		5,732,607
		24,586,678
Temporarily restricted		45,265
TOTAL NET ASSETS		24,631,943
TOTAL LIABILITIES AND NET ASSETS	**$**	**92,681,296**

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

B-V-3

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

REVENUE - PROGRAM OPERATIONS	
Program service fees	$ 97,224,712
Participants' share of room and board	3,307,496
Subcontract	497,939
DASNY bond fees	609,545
	101,639,692
Net assets released from restrictions	2,297
TOTAL REVENUE - PROGRAM OPERATIONS	101,641,989
EXPENSES	
Program services	93,884,777
Management and administration	5,538,296
TOTAL EXPENSES	99,423,073
CHANGE IN UNRESTRICTED NET ASSETS BEFORE OTHER REVENUE (EXPENSE) AND PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	2,218,916
OTHER REVENUE (EXPENSE)	
Investment income	188,727
Contributions and fundraising	3,294
Retroactive rate adjustments	(1,026,857)
Miscellaneous	(33,228)
TOTAL OTHER REVENUE (EXPENSE)	(868,064)
CHANGE IN UNRESTRICTED NET ASSETS BEFORE PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	1,350,852
Pension related change other than net periodic pension benefits (costs)	(1,270,277)
Post-retirement health care benefit change other than net periodic benefits (costs)	(630,696)
CHANGE IN UNRESTRICTED NET ASSETS	(550,121)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	
Donors	3,100
Fundraising	696
Net assets released from restrictions	(2,297)
	1,499
CHANGE IN NET ASSETS	(548,622)
NET ASSETS - BEGINNING OF YEAR	25,180,565
NET ASSETS - END OF YEAR	**$ 24,631,943**

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

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2014

UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	$ 25,136,799
Change in unrestricted net assets	(550,121)
UNRESTRICTED NET ASSETS - END OF YEAR	$ 24,586,678
TEMPORARILY RESTRICTED NET ASSETS - BEGINNING OF YEAR	$ 43,766
Change in temporarily restricted net assets	1,499
TEMPORARILY RESTRICTED NET ASSETS - END OF YEAR	$ 45,265

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services							
	Waiver Services	Vocational Services	Residential	Mental Health	Other Programs	Total Program Services	Management and Administration	Total Expenses
Salaries	$ 15,896,077	$ 33,597	$ 18,640,472	$ 671,675	$ 3,634,514	$ 38,876,335	$ 2,439,399	$ 41,315,734
Payroll taxes and benefits	6,561,533	13,442	6,834,103	218,868	1,318,789	14,946,735	772,084	15,718,819
Total personnel costs	22,457,610	47,039	25,474,575	890,543	4,953,303	53,823,070	3,211,483	57,034,553
Professional fees and contracted services	880,199	1,432	1,672,032	98,398	2,874,825	5,526,886	323,608	5,850,494
General and professional liability insurance	396,508	26,568	274,756	47,476	38,076	783,384	213,724	997,108
Supplies and expenses:								
Food, household supplies and services	124,639	2,446	2,613,204	2,673	16,918	2,759,880	16,657	2,776,537
Rent and real estate taxes	3,277,836	318,100	2,625,690	171,157	511,035	6,903,818	482,425	7,386,243
Transportation	9,657,072	144,221	1,061,652	49,763	100,940	11,013,648	133,292	11,146,940
Utilities and telephone	994,360	64,494	1,030,499	86,837	270,316	2,446,506	149,685	2,596,191
Maintenance and repair	316,611	11,017	804,497	20,403	73,747	1,226,275	64,261	1,290,536
General	1,079,403	298,845	2,972,598	87,164	798,701	5,236,711	928,233	6,164,944
Total expenses before interest, fees, and bond expense, and depreciation and amortization	39,184,238	914,162	38,529,503	1,454,414	9,637,861	89,720,178	5,523,368	95,243,546
Interest, fees, and bond expense	609,593	34,374	1,745,732	-	14,913	2,404,612	-	2,404,612
Depreciation and amortization	642,759	79,864	967,992	21,032	48,340	1,759,987	14,928	1,774,915
TOTAL EXPENSES	$ 40,436,590	$ 1,028,400	$ 41,243,227	$ 1,475,446	$ 9,701,114	$ 93,884,777	$ 5,538,296	$ 99,423,073

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

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B-V-5

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	(548,622)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		1,774,915
Amortization of bond issue costs		227,644
Unrealized gains on investments		(8,598)
Bad debt recovery		(263)
Changes in operating assets and liabilities:		
Accounts receivable		181,414
Note receivable		246,650
Accrued income receivable		605,164
Due from related parties		37,789
Security deposits and prepaid expenses		90,619
Accounts payable and accrued expenses		(569,354)
Accrued payroll		(2,179,925)
Accrued compensated absences		(214,802)
Recoupments payable		110,740
Self funded insurance liability		261,174
Pension liability		(486,703)
Postretirement health insurance liability		1,191,556
NET CASH PROVIDED BY OPERATING ACTIVITIES		719,398
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash and cash equivalents restricted to debt service escrow		(67,318)
Cash and cash equivalents restricted - other		911,715
Purchases of investments		(2,974,008)
Proceeds from sales of investments		2,810,585
Purchases of property and equipment		(1,432,826)
NET CASH USED IN INVESTING ACTIVITIES		(751,852)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of mortgages payable - DASNY		(446,875)
Repayments of bonds payable - DASNY		(615,000)
Proceeds from line of credit		547,382
Repayments of bonds payable - IDA		(875,000)
Payments of bond issuance costs		(16,785)
NET CASH USED IN FINANCING ACTIVITIES		(1,406,278)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,438,732)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		44,921,849
CASH AND CASH EQUIVALENTS - END OF YEAR	$	43,483,117
RECONCILIATION FOR UNRESTRICTED CASH & CASH EQUIVALENTS		
Cash and cash equivalents	$	18,179,568
Cash and cash equivalents designated for recoupments payable		16,518,610
Cash and cash equivalents designated for self funded insurance		5,732,607
Cash and cash equivalents designated for health reimbursement accounts		2,003,981
Cash and cash equivalents designated - other		1,048,351
CASH AND CASH EQUIVALENTS - END OF YEAR, UNRESTRICTED	$	43,483,117
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$	825,924

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

LIFESPIRE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

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. Lifespire Services, Inc. ("Parent") is the sole member of the Agency.

2. SIGNIFICANT ACCOUNTING POLICIES

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, disclosure and transition.

The Agency is subject to 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.

If applicable, the Agency would classify interest and penalties on underpayments of income tax as miscellaneous expenses.

The Agency files federal and New York State informational returns. With few exceptions, the Agency is no longer subject to federal or state income tax examinations by tax authorities for fiscal years before June 30, 2011.

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 the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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. 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:

B-V-6

Residential Reserve for Replacement - There is an amount of $929,971 as residential reserve for replacement. Such reserve was designated 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 $5,006,900 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 $1,077,795 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 $8,890,000 to finance its program operations.

Board Designated-Anticipated Pension Contributions - The Board has designated an amount of $1,290,000 of unrestricted net assets for defined benefit pension plan contributions anticipated to make during the year ended June 30, 2015.

Board Designated-Self Funded Insurance - The Board has designated an amount of $5,732,607 of unrestricted net assets for payments of current and future claims related to the Agency's self funded insurance plans.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 provides consulting services to other not-for-profit organizations. Lifespire consolidates the Organization because it has both (i) an economic interest in, and (ii) control over the Organization through a majority voting interest in its governing board. The Organization had no activity for the year ended June 30, 2014. Any inter-entity transactions are eliminated in consolidation.

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. Management has determined that estimates of program service fees and related recoupment payable (see Note 4) and self-insurance are subject to change in the near term. Actual results could differ from those estimates.

Subsequent Events

The Agency has evaluated events through November 24, 2014, 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. Restricted cash and cash equivalents as of June 30, 2014 are described in Note 5.

Investments

Investments are comprised of certificates of deposits with varying maturity dates and mutual funds. These investments are stated at fair value. Income from investments is considered unrestricted unless restricted by a donor.

Accounts Receivable, Net

All known uncollected accounts receivable have been adjusted to net realizable value as of June 30, 2014. The allowance for doubtful accounts, which amounts to $6,332 at June 30, 2014, is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts. Management generally uses 5% of total subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts based on historical experience and economic conditions.

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, the Social Security Administration ("SSA") and directly from the OPWDD. At June 30, 2014, substantially all of the accrued income receivable of $17,449,252 is due from these governmental agencies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Agency recognizes revenue as services are provided. The amount is determined by the funding agencies either by a fee for service or a cost based fee. These fees are subject to periodic review and revision by the funding agencies. During the year ended June 30, 2014, the Agency recognized $1,026,857 in retroactive rate adjustments.

The current third-party-payor programs, including Medicaid and Medicare, are based upon complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. No such fines, penalties and exclusions were imposed on the Agency during the fiscal year ended June 30, 2014.

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 capitalizes 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 losses were recognized for the year ended June 30, 2014.

In-Kind Contributions

In-kind contributions consist of property and services donated by state agencies and individuals which are measured at fair value at the date of donation. There were no in-kind contributions received by the Agency during the year ended June 30, 2014.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled $52,845 for the year ended June 30, 2014, and is included in general expenses in the accompanying consolidated statement of functional expenses.

Deferred Rent

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 $3,013,328 at June 30, 2014 relating to deferred rent. The change in this liability is reflected as a charge to rent and real estate taxes in the accompanying consolidated statement of functional expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Charges

Deferred charges comprise the following:

Bond Costs - Bond issuance costs, which also reflect bond premiums and discounts, are amortized over the life of the respective bond issue. Bond costs amounted to $1,193,570 at June 30, 2014, which is net of accumulated amortization. Amortization expense of these costs for the year ended June 30, 2014 was $227,644. Such amortization is included in interest, fees and bond expense of $2,404,612 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 cumulative rents incurred up to date. 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 $3,013,328 at June 30, 2014. For the year ended June 30, 2014, the decrease in deferred rent recovery amounted to $46,428 and is reflected as miscellaneous expenses in the accompanying consolidated statement of activities.

Self Funded Health and Workers' Compensation Insurance

The Agency is self funded for health and workers' compensation insurance on all employees. At June 30, 2014, the Agency recorded a liability of $2,310,997 for claims that have been incurred but not paid for employees covered by the self funded plans.

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.

Fair Value Measurements

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 codification 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 Agency. 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:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level 1 - Valuation based on quoted prices in active markets for identical assets or liabilities that the Agency 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.

Level 3 assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in the standard:

- 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).

The carrying amounts of the Agency's financial instruments (including cash and cash equivalents, receivables, accounts payable and accrued expenses, and lines of credit) approximates fair value due to the short-term nature of these instruments. Additionally, the carrying amount of the mortgages and bonds payable approximates fair value based on the variable nature of the interest rates.

Recent Accounting Pronouncements

In May 2014, the FASB issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2017 and in interim periods in annual periods beginning after December 15, 2018. Early application is not permitted. The Agency is currently evaluating the effect the update will have on its financial statements.

3. CASH AND CASH EQUIVALENTS DESIGNATED - OTHER

Cash and cash equivalents designated – other at June 30, 2014 comprised of the following:

	Restricted Cash Amount
Temporarily restricted contributions	$ 45,265
403(b) tax sheltered annuity plan	73,115
Residential reserve for replacement	929,971
	$ 1,048,351

4. CASH AND CASH EQUIVALENTS DESIGNATED FOR RECOUPMENTS PAYABLE

As of June 30, 2014, the Agency designated cash and cash equivalents of $16,518,610 to settle estimated recoupments payable.

The Agency entered into contracts with OPWDD for the operation of its facilities. Typically, there are over or under payments on these contracts, resulting from rates of reimbursements being subsequently adjusted and reconciled by OPWDD. However, the reconciliation process has not been completed for some contracts in the prior years. Once these reconciliations are completed or an OPWDD program audit is initiated, 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 as well as qualifying contractual expenses as a recoupment payable pursuant to these contracts until an audit has occurred, and a reconciliation or recoupment process is initiated by the Agency.

As of June 30, 2014, the Agency has a recoupment payable balance of $16,518,610. These amounts are expected to be recouped in the future through designated reductions of remittance payments or by demanding payment of full amount.

In October 2014, the Agency remitted payments totaling $7,116,144 relating to a portion of the recoupments payable balance at June 30, 2014.

The recoupment payable is related to transactions incurred as follows:

June 30,	
2014	$ 2,293,013
2013	2,832,545
2012	2,765,686
2011	87,199
2010 and prior	8,540,167
	$ 16,518,610

B-V-9

5. CASH AND CASH EQUIVALENTS RESTRICTED TO DEBT SERVICE ESCROW

The cash and cash equivalents related to debt service escrow of $4,050,918 is comprised of the following:

Debt Service Escrow:		
IDA – Bond 2002	$	922,186
IDA – Bond 2004		1,098,444
IDA – Bond 2008		587,530
DASNY – Bond 2010		840,382
DASNY – Bond 2011		248,838
DASNY – Bond 2013		353,538
	$	4,050,918

The Debt Service Escrow – IDA – regarding the Industrial Development Agency ("IDA") Bonds 2002, 2004 and 2008 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 13).

The Debt Service Escrow – DASNY - regarding the Dormitory Authority State of New York ("DASNY") Bonds 2010, 2011, and 2013 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 12).

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 $318,841 represents a portion of the loan proceeds retained by New York State under the terms and conditions set forth in the mortgage agreements for the properties listed in Note 10.

The monies are designated to be applied to scheduled debt service payments in the future by OPWDD.

7. INVESTMENTS

As of June 30, 2014, total investments are comprised of money market, bank certificates of deposit, and mutual funds stated at $3,953,497. Investments consisted of the following:

		Cost		Fair Value
Bank of America - money market	$	2,295,087	$	2,295,087
Morgan Stanley - certificates of deposit		1,233,860		1,249,714
Chase - mutual funds		414,981		408,696
Total	$	3,943,928	$	3,953,497

7. INVESTMENTS (CONTINUED)

Activity in investments is as follows for the year ended June 30, 2014:

Investments - beginning of year	$	3,781,476
Investment activity:		
Purchases		2,933,738
Investment returns (reinvested)		40,270
Sales and redemptions (at cost)		(2,775,085)
Withdrawals for operations		(35,500)
		163,423
Net appreciation in fair value of investments: unrealized gains		8,598
Investments - end of year	$	3,953,497

Money market, certificates of deposit, and mutual funds securities are valued at the quoted market price of shares held by the Agency at year end.

All of the investments are classified as level 1, as discussed in Note 2.

8. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties comprise the following:

Due from Related Parties

Due from related parties of $923,636 on the accompanying consolidated statement of financial position represents amounts owed from two not-for-profit entities as follows:

An amount of $153,403 is due from the Agency's Housing and Urban Development ("HUD") affiliate. Certain staff members of the Agency are also members of the Board of this not-for-profit HUD organization. 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. The Agency expects to be repaid for this amount when the affiliate has sufficient cash flow available.

An amount of $779,405 is due from the Parent. 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. The outstanding balance on this note, which is non-interest bearing, amounted to $551,921 at June 30, 2014.

- 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.

8. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

- On June 16, 2011, a $300,000 unsecured note was executed with the Parent, accruing interest at a rate of 6% per annum. The outstanding balance on this note amounts to $125,000 at June 30, 2014. 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 $46,984 as of June 30, 2014 relating to the above. Related party interest income amounted to $21,630 for the year ended June 30, 2014.

An amount of $9,172 is due to the Parent for funds that was received by the Agency as repayment of related party receivable that was previously forgiven by the Parent. The amount will be repaid to the Parent in the subsequent period.

Board members of the Parent are also Board members of the Agency.

Other Related Party Transactions

The Agency purchases supplies and services from ACRMD Community Mental Retardation Services Company, Inc. ("Community"), which is related because certain Agency employees are board members of Community. The Agency also receives payment from Community for the outsourced labor provided to assist with the processing and packaging of the inventory items which Community sells to the Agency as well as to other non-related entities. During the year ended June 30, 2014, purchases of supplies and services from Community totaled $638,711 and fees from Community for the provision of labor provided by the Agency totaled $119,007. At June 30, 2014, $59,122 was due to Community, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. Additionally, at June 30, 2014, approximately $11,000 was owed to the Agency for outstanding fees, which is included in accounts receivable in the accompanying consolidated statement of financial position. In addition, the Agency also received approximately $32,000 from Community 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, 2014.

The Agency purchases document storage, messenger, landscaping, and maintenance services from ACRMD Enterprises LLC ("Enterprise"), a wholly-owned subsidiary of Community. During the year ended June 30, 2014, purchases of these services from Enterprise totaled $126,534. In addition, during the year ended June 30, 2014, the Agency also received $11,223 from Enterprise for reimbursement of insurance costs. At June 30, 2014, $12,094 was due to Enterprise, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

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, 2014, no allowance was necessary because the related party receivables were determined to be fully collectible.

B-V-10

LIFESPIRE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

June 30, 2014	Cost	Estimated Useful Lives
Land	$ 4,709,267	
Construction in progress	444,840	
Buildings and improvements	27,128,852	5-20 years
Furniture and equipment	3,430,909	5 years
Vehicles	318,666	4 years
Leasehold improvements	8,047,112	Life of lease
	44,079,646	
Less: accumulated depreciation and amortization	(26,553,200)	
	$ 17,526,446	

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.

As of June 30, 2014, the Agency had approximately $866,000 of open commitments to contractors for construction on work being performed.

Depreciation and amortization expense was $1,774,915 for the year ended June 30, 2014.

10. MORTGAGES PAYABLE - DASNY

Mortgages payable – DASNY represents self-liquidating term-notes owed to DASNY, which has OPWDD as its agent.

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.

10. MORTGAGES PAYABLE – DASNY (CONTINUED)

Additional information for the mortgages payable - DASNY is reflected below.

Property	Maturity Date	Interest Rate	Outstanding at June 30, 2014
South Avenue	8/15/2015	7.68%	$ 39,091
213-233 48th Street (Sunset I)	2/15/2018	7.34%	391,610
87-21 121st Street (Queens)	2/15/2018	6.41%	1,017,750
Jumel	8/15/2018	6.41%	401,632
Total Mortgages Payable - DASNY			$ 1,850,083

The mortgage balances for the 213-233 48th Street and 87-21 121st Street locations are for the Day Habilitation Program. 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.

Under the terms of the mortgages payable – DASNY, the Agency is required to fulfill certain financial covenants.

B-V-11

11. LINES OF CREDIT

Under the terms of a line of credit agreement with Bank of America entered into on March 31, 2014, the Agency may borrow up to $5,000,000 at the bank's prime interest rate plus 0.5% (3.25% at June 30, 2014) through March 31, 2015, 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. The balance outstanding on this line of credit as of June 30, 2014 was $547,382. 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, 2015. 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% (3.25% at June 30, 2014) and is secured by a lien on the Agency's government receivables not otherwise encumbered. The government receivables totaled $17,449,252 at June 30, 2014 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, 2014.

12. BONDS PAYABLE - DASNY

Bonds payable – DASNY includes the following at June 30, 2014:

Series	Due Date	Interest Rates	Principal Due
2010 A-1 and A-2	July 2028	2.10% to 5.00%	$ 4,710,000
2011 A-1 and A-2	July 2026	1.40% to 4.00%	1,690,000
2013 A-1 and A-2	July 2038	2.00% to 4.00%	3,645,000
Total Bonds Payable - DASNY			$ 10,045,000

12. BONDS PAYABLE – DASNY (CONTINUED)

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 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 $103,339 was amortized as of June 30, 2014. The cost of bond discounts amounted to $78,516, of which $25,660 was amortized as of June 30, 2014.

The Agency is required to make deposits for interest and principal under the 2010 Bond loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2014	$ 495,000
2015	410,000
2016	415,000
2017	415,000
2018	415,000
Thereafter	2,560,000
	$ 4,710,000

The 2010 Bonds are secured ratably by each applicable mortgage on the properties and the DASNY's security interest in the pledged program service fees revenues subject to prior pledges.

Under the terms of the bonds payable – DASNY, the Agency is required to fulfill certain financial covenants.

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.

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 $166,854 of which $30,272 was amortized as of June 30, 2014. The cost of the bond discounts amounted to $12,469 of which $2,382 was amortized during the year ending June 30, 2014.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

12. BONDS PAYABLE – DASNY (CONTINUED)

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2014	$ 125,000
2015	125,000
2016	125,000
2017	130,000
2018	130,000
Thereafter	1,055,000
	$ 1,690,000

The 2011 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.

B-V-12

2013 A-1 and A-2

On March 13, 2013, a bond payable – DASNY was issued in the amount of $3,665,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2013A, subseries 2013A-1, and subseries 2013 A-2 (the "2013 Bonds").

The interest is payable to the bondholders on an annual basis commencing on July 1, 2013. The cost of the bond issuance amounted to $301,396 of which $17,427 was amortized as of June 30, 2014. The cost of the bond discounts amounted to $33,679 of which $1,552 was amortized during the year ending June 30, 2014.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2014	$ 160,000
2015	160,000
2016	165,000
2017	165,000
2018	165,000
Thereafter	2,830,000
	$ 3,645,000

The 2013 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.

13. BONDS PAYABLE - IDA

Bonds payable – IDA includes the following at June 30, 2014 :

Series	Due Date	Interest Rates	Principal Due
2002 C-1	July 1, 2017	6.50%	$ 1,380,000
2004 A-1 and B-1	July 1, 2023	4.15% to 5.05%	2,310,000
2004 C-1	July 1, 2014	5.25%	130,000
2008 A-1 and A-2	July 1, 2033	6.50%	2,320,000
Total Bonds Payable - IDA			$ 6,140,000

Bonds Payable – IDA - 2002

The Bonds payable – IDA – 2002 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 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 $283,657 was amortized as of June 30, 2014.

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
2014	$ 280,000
2015	280,000
2016	280,000
2017	540,000
	$ 1,380,000

Bonds Payable – IDA - 2004

Bonds Payable – IDA – 2004 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 to pay down $4,112,273 of indebtedness on four properties in a prior year. 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 $455,100 was amortized as of June 30, 2014.

13. BONDS PAYABLE – IDA (CONTINUED)

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
2014	$ 220,000
2015	220,000
2016	220,000
2017	220,000
2018	220,000
Thereafter	1,210,000
	$ 2,310,000

Series 2004 C-1 Bonds - The Agency used the Series C-1 bond proceeds 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 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 and the cost of bond discounts amounted to $41,281, and was fully amortized as of June 30, 2014.

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
2014	$ 130,000
	$ 130,000

Bonds Payable - IDA-2008

Bonds payable – IDA – 2008 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 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 $151,399 was amortized as of June 30, 2014.

The bond agreement has a first lien on the properties being mortgaged except for the facility located at 213 48th Street, Brooklyn, which is a second lien.

B-V-13

13. BONDS PAYABLE – IDA (CONTINUED)

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
2014	$ 170,000
2015	170,000
2016	175,000
2017	175,000
2018	180,000
Thereafter	1,450,000
	$ 2,320,000

Bonds Payable – IDA – General Terms

The Agency anticipates that, periodically, OPWDD will adjust the certain program service fees to provide the Agency with the sufficient amounts 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, which amounted to $609,545 for the year ended June 30, 2014, as well as the amounts held in cash and cash equivalents restricted to debt service escrow (Note 5).

The underlying properties secure the respective Bonds with first liens except where otherwise noted.

14. MATURITIES OF DEBT TO THIRD PARTIES

The short-term and long-term third-party debt is comprised of the following:

June 30, 2014	
Mortgages payable – DASNY	$ 1,850,083
Bonds payable – DASNY	10,045,000
Bonds payable – IDA	6,140,000
Line of credit	547,382
	$ 18,582,465

14. MATURITIES OF DEBT TO THIRD PARTIES (CONTINUED)

Approximate maturities of short-term and long-term third-party debt are as follows:

June 30,		
2015	$	2,607,432
2016		1,838,116
2017		1,884,850
2018		1,559,935
2019		1,130,132
Thereafter		9,562,000
	$	18,582,465

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.

15. SELF FUNDED INSURANCE

All Agency employees have an option to participate in the Agency's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions and is held in a separate reserve bank account. The Agency has contracted with Aetna, Inc., a third-party administrator, to provide administrative services for this health care benefits program. The health care benefits program has stop loss coverage of $150,000 per person and a total of one hundred fifty percent of claims estimated at the beginning of the policy year. As of June 30, 2014, cash designated for this program totaled $4,830,471 and the estimated liability for outstanding claims at June 30, 2014 totaled $1,070,398.

All Agency employees are covered by a self-funded worker's compensation benefits program administered by The Hartford Financial Services Group, Inc. The workers' compensation benefits program has a stop loss policy of $250,000 per incident, up to $1,300,000 for the current policy year. The workers' compensation claims are paid out of employer contributions and is held in a separate reserve bank account. As of June 30, 2014, cash designated for this program totaled $902,136 and the estimated liability for outstanding claims at June 30, 2014 totaled $1,240,599.

The Agency is partially self-insured for its workers compensation commitments. Accordingly, the Agency has provided $1,940,000 in Letters of Credit for performance guarantees, which are secured by certificates of deposits totaling $2,083,000 on the accompanying consolidated statement of financial position.

16. 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 2013 met the minimum funding requirements of ERISA.

The Agency, as the sponsor of the Plan, froze the Plan effective December 31, 2010. Although the Plan remains frozen, the Agency has the ability to unfreeze the Plan in the future, subject to certain conditions.

The Agency is required to contribute approximately $1,990,000 to its defined benefit plan for the year ended June 30, 2014.

Under U.S. GAAP, a liability is disclosed at fiscal year-end. The pension liability is an aggregation of the excess of total benefit obligation over fair value of plan assets at the end of the year. There is a cumulative amount totaling $5,565,386 of pension liability as of June 30, 2014.

The changes in the defined benefit pension obligations, plan assets and funded status for the year ended June 30, 2014 were as follows:

		Pension Benefits
Reconciliation of benefit obligation:		
Benefit obligation, beginning of year	$	33,085,407
Service cost		-
Interest cost		1,639,142
Actuarial loss		3,939,305
Benefits paid		(836,155)
Benefit obligation, end of year	$	37,827,699
Reconciliation of fair value of plan assets:		
Fair value of plan assets, beginning of year	$	27,033,318
Actual return on plan assets		4,074,974
Employer contributions		1,990,176
Benefits paid		(836,155)
Fair value of plan assets, end of year	$	32,262,313
Funded status, end of year	$	(5,565,386)

B-V-15

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Assumptions

Without the exception of the discount rate, the Agency's independent enrolled actuary certified the following significant weighted-average assumptions in order to determine benefit obligations net periodic pension cost as of June 30, 2014:

Discount rate	4.33%
Expected long-term rate of return on plan assets	7.00%
Rate of compensation increase	0.00%

Net periodic pension cost and other amounts recognized in the statement of activities for the year ended June 30, 2014 included the following components:

Sevice cost	$ -
Interest cost	1,639,142
Expected return on plan assets	(1,892,849)
Amortization of net loss	486,903
Net periodic pension cost	$ 233,196

Investment Strategies

With respect to the Plan assets, investments are to be made consistent with the safeguards and diversity to which a prudent investor would adhere to. 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. 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.

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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. 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.

Corporate Bonds - Valued at the closing price reported in the active market in which the bond is traded.

Equities - Valued at the closing price reported on the major stock exchanges.

Government Securities - Valued at the closing price reported in active market in which the individual security is traded.

Mutual Funds - Valued using market value as listed in active exchange markets.

Municipal Bonds - Valued at the closing price reported in active market in which the individual security is traded.

International 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.

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The pension plan asset allocations, along with respective dollar values and fair value measurements, at June 30, 2014, by asset category are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Funds	$ 2,466,514	$ 2,466,514	$ -	$ -
Equities:				
Basic Materials	340,466	340,466	-	-
Consumer Goods	458,037	458,037	-	-
Financials	1,707,397	1,707,397	-	-
Healthcare	520,771	520,771	-	-
Industrial Goods	343,901	343,901	-	-
Oil & Gas	627,487	627,487	-	-
Services	1,183,827	1,183,827	-	-
Technology	1,049,696	1,049,696	-	-
Utilities	25,494	25,494	-	-
Government Securities	1,486,991	1,486,991	-	-
Municipal Bonds	272,441	272,441	-	-
International Bonds	915,072	915,072	-	-
Corporate Bonds	8,068,223	8,068,223	-	-
Mutual Funds:				
Mid Cap Growth	905,878	905,878	-	-
Mid Cap Value	982,422	982,422	-	-
Small Cap Value	361,410	361,410	-	-
Large Cap Foreign	2,355,347	2,355,347	-	-
Large Cap Growth	4,791,100	4,791,100	-	-
Emerging Markets	2,432,532	2,432,532	-	-
REITs	967,307	967,307	-	-
	$ 32,262,313	$ 32,262,313	$ -	$ -

Transfer Between 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.

The plan administrators evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits.

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Expected Future Benefit Payments

Benefit payments for defined benefit pension plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

June 30,	Pension benefits expected to be paid
2015	$ 1,290,296
2016	1,048,030
2017	1,158,332
2018	1,249,892
2019	1,343,635
2020-2024	8,434,596
	$ 14,524,781

17. 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.

17. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

Determination of the Net Periodic Benefit Cost for the Fiscal Year

Net periodic benefit cost and other amounts recognized in unrestricted net assets for the year ended June 30, 2014 included the following components:

Service cost		$ 279,471
Interest cost		278,117
Amortization:		
(a) Transition obligation	-	
(b) Prior service cost	63,914	
(c) (Gain) loss	-	
Net amortization		63,914
Net periodic benefit cost		$ 621,502

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2014

Accumulated postretirement benefit liability at June 30, 2014	$ 6,787,122
Net liability recognized at June 30, 2014	$ 6,787,122

Net Amount Recognized in Consolidated Statement of Financial Position

Beginning of year	$ 5,595,566
Service cost	279,471
Interest cost	278,117
Expected return on plan assets	-
Employer contributions	(60,642)
Net (gain) loss	694,610
Prior service credit (cost)	-
End of year	$ 6,787,122

Assumptions

Mortality:	RP 2000 Separate Annuitants and Non-Annuitants Mortality Table projected to 2014 for males and females
Claim cost:	Monthly premium
Trend:	4.70% - 7.00% – based on the year of retirement
Funding method:	Projected Unit Credit Actuarial Cost Method

17. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

a) The discount rate was changed from 5.00% to 4.33% which increased the accumulated postretirement benefit liability by approximately $783,000.

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 Liability	Service Cost Plus Interest Cost
At trend	$ 6,787,122	$ 557,588
At trend + 1%	6,845,536	560,474
Dollar impact	58,411	2,886
Percentage impact	0.86%	0.52%
At trend – 1%	6,737,118	555,117
Dollar impact	(50,007)	(2,471)
Percentage impact	-0.74%	-0.44%

Expected Future Benefit Payments

Benefit payments for postretirement health care benefit plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

June 30,	Postretirement Benefits
2014	$ 76,538
2015	94,324
2016	110,206
2017	128,285
2018	152,995
2019-2023	1,162,705
	$ 1,725,053

18. TEMPORARILY RESTRICTED NET ASSETS

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2014, which are available for use in future years, were as follows:

	Balance at 6/30/13	Additions	Expenditures	Balance at 6/30/14
Program	$ 43,766	3,796	(2,297)	$ 45,265

The funds released from restrictions were used towards other expenses for some of the Agency's programs.

19. 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 9) 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 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.

B-V-18

On March 13, 2013, the Agency entered into a collective bargaining agreement with the Civil Service Employees Association, Inc. ("CSEA"). The collective bargaining agreement is set to expire on June 30, 2015. Approximately 73% of the Agency's labor is represented by the CSEA.

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,		
2015	$	5,748,198
2016		4,063,940
2017		3,604,962
2018		2,917,004
2019		2,867,194
Thereafter		11,654,266
	$	30,855,564

For the year ended June 30, 2014, rent expense was $6,942,039, which was generally recovered through fees for service from the funding sources.

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.

20. 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.

21. 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.

Approximately 11% of the Agency's accounts payable and accrued expenses as of June 30, 2014 were derived from one vendor.

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. A significant portion all of the Agency's revenue and receivables are received from Medicaid.

22. 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.

The Agency's self funded insurance liability is based upon estimated claims at current year end. The actual claims may exceed the recorded amount.

23. SUBSEQUENT EVENTS

The OPWDD, in consultation with the State Department of Health ("DOH") has begun the process of seeking significant programmatic and fiscal changes to the OPWDD service system. The new direction for OPWDD, "The People First" Waiver is being developed with a 5 year statewide comprehensive plan through 2015.

Subsequent to year end and in anticipation of the changes in the OPWDD funding stream, the Agency entered into a verbal agreement with other six New York State Agencies to form a Developmental Disabilities Individual Support and Care Coordination Organization ("DISCO"). A letter of intent to become a DISCO has been submitted to OPWDD. At this time it is undetermined if OPWDD will approve the letter of intent. Final request for applications ("RFA") to become a DISCO have not yet been released by OPWDD and the changes as proposed by the "People First Waiver" Plan are still under review for approval.

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

LIFESPIRE, INC. AND SUBSIDIARY

TABLE OF CONTENTS

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lifespire, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lifespire, Inc. and Subsidiary (the "Agency"), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

MBAF CPAs
NEW YORK 440 Park Avenue South, 3rd Floor, New York NY 10016 | T [illegible] | www.mbafcpa.com
VALHALLA 400 Columbus Avenue, Suite 200E, Valhalla NY 10595 | T [illegible] | www.mbafcpa.com

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

MBAF CPAs, LLC

Valhalla, NY
December 12, 2013

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS		
Cash and cash equivalents	$	19,880,055
Cash and cash equivalents designated for recoupments payable and deferred income		16,407,870
Cash and cash equivalents designated for self funded insurance		6,267,702
Cash and cash equivalents designated for health reimbursement accounts		2,366,222
Cash and cash equivalents restricted to debt service escrow		3,983,600
Cash and cash equivalents restricted - other		911,715
Investments		3,781,476
Debt service reserve fund due from New York State		318,841
Accounts receivable, net		311,577
Note receivable		246,650
Accrued income receivable		18,054,416
Due from related parties		961,425
Security deposits and prepaid expenses		728,884
Property and equipment, net		17,868,535
Deferred charges, net		4,464,185
TOTAL ASSETS	**$**	**96,553,153**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$	7,466,449
Accrued payroll		6,904,864
Accrued compensated absences		3,884,213
Recoupments payable and deferred income		16,407,870
Mortgages payable - DASNY		2,296,958
Bonds payable - DASNY		10,660,000
Bonds payable - IDA		7,015,000
Deferred rent		3,059,756
Self funded insurance liability		2,049,823
Pension liability		6,052,089
Postretirement health insurance liability		5,595,566
TOTAL LIABILITIES		71,372,588
NET ASSETS		
Unrestricted:		
Undesignated		9,876,020
Residential reserve for replacement		794,907
Property and equipment		4,135,765
Board designated - program expansion		1,047,973
Board designated - anticipated pension contributions		3,014,432
Board designated - self funded insurance		6,267,702
		25,136,799
Temporarily restricted		43,766
TOTAL NET ASSETS		25,180,565
TOTAL LIABILITIES AND NET ASSETS	**$**	**96,553,153**

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

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

REVENUE - PROGRAM OPERATIONS	
Program service fees	$ 98,460,715
Participants' share of room and board	3,282,156
Subcontract	488,931
DASNY bond fees	651,896
	102,883,698
Net assets released from restrictions	3,117
TOTAL REVENUE - PROGRAM OPERATIONS	102,886,815
EXPENSES	
Program services	92,851,996
Management and administration	6,255,847
TOTAL EXPENSES	99,107,843
CHANGE IN UNRESTRICTED NET ASSETS BEFORE OTHER REVENUE AND NON-OPERATING PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	3,778,972
OTHER REVENUE	
Investment income	101,884
Contributions and fundraising	3,650
Retroactive rate adjustments	1,423,511
Miscellaneous	169,635
TOTAL OTHER REVENUE	1,698,680
CHANGE IN UNRESTRICTED NET ASSETS BEFORE NON-OPERATING PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	5,477,652
Pension related change other than net periodic pension benefits (costs)	5,146,177
Postretirement health care benefit change other than net periodic benefits (costs)	847,675
CHANGE IN UNRESTRICTED NET ASSETS	11,471,504
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	
Donors	8,267
Net assets released from restrictions	(3,117)
	5,150
CHANGE IN NET ASSETS	11,476,654
NET ASSETS - BEGINNING OF YEAR (AS ORIGINALLY REPORTED)	11,067,531
PRIOR PERIOD ADJUSTMENTS (NOTE 25)	2,636,380
NET ASSETS - BEGINNING OF YEAR (AS RESTATED)	13,703,911
NET ASSETS - END OF YEAR	$ 25,180,565

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

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013

UNRESTRICTED NET ASSETS - BEGINNING OF YEAR (AS ORIGINALLY REPORTED)	$ 11,028,915
Prior period adjustments (Note 25)	2,636,380
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR (AS RESTATED)	13,665,295
Change in unrestricted net assets	11,471,504
UNRESTRICTED NET ASSETS - END OF YEAR	$ 25,136,799
TEMPORARILY RESTRICTED NET ASSETS - BEGINNING OF YEAR	$ 38,616
Change in temporarily restricted net assets	5,150
TEMPORARILY RESTRICTED NET ASSETS - END OF YEAR	$ 43,766

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

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services							
	Waiver Services	Vocational Services	Residential	Mental Health	Other Programs	Total Program Services	Management and Administration	Total Expenses
Salaries	$ 16,650,410	$ 35,505	$ 19,723,650	$ 753,318	$ 3,833,367	$ 40,996,250	$ 2,667,069	$ 43,663,319
Payroll taxes and benefits	5,328,057	10,710	5,868,971	216,148	1,192,953	12,616,839	681,847	13,298,686
Total personnel costs	21,978,467	46,215	25,592,621	969,466	5,026,320	53,613,089	3,348,916	56,962,005
Professional fees and contracted services	818,551	1,501	1,530,130	85,494	2,901,416	5,337,092	521,131	5,858,223
General and professional liability insurance	421,039	29,601	293,475	53,563	36,967	834,645	291,604	1,126,249
Supplies and expenses:								
Food, household supplies and services	156,072	2,032	2,723,224	2,962	14,997	2,899,287	15,788	2,915,075
Rent and real estate taxes	3,242,515	286,551	2,687,492	161,580	422,695	6,800,833	688,312	7,489,145
Transportation	9,458,364	134,185	1,170,247	67,338	101,595	10,931,729	151,357	11,083,085
Utilities and telephone	683,040	63,413	952,161	90,296	242,954	2,211,864	193,581	2,405,445
Maintenance and repair	293,657	10,390	663,732	19,162	45,138	1,032,079	53,074	1,085,153
General	1,079,335	371,746	2,455,553	106,611	592,465	4,605,710	918,390	5,524,100
Total expenses before interest, fees, and bond expense, and depreciation and amortization	38,311,040	945,634	38,068,636	1,556,472	9,384,547	88,266,328	6,182,153	94,448,481
Interest, fees, and bond expense	723,971	38,503	1,729,286	-	14,940	2,506,700	34,035	2,540,735
Depreciation and amortization	833,862	91,249	1,074,320	24,112	55,425	2,078,968	39,659	2,118,627
TOTAL EXPENSES	$ 39,868,873	$ 1,075,388	$ 40,872,241	$ 1,580,584	$ 9,454,912	$ 92,851,996	$ 6,255,847	$ 99,107,843

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

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 11,476,654
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	2,118,627
Amortization of bond issue costs	181,022
Unrealized loss on investments	14,216
Bad debt recovery	(532)
Loss on disposal of assets	21,762
Changes in operating assets and liabilities:	
Accounts receivable	141,007
Note receivable	110,850
Debt service reserve fund due from New York State	22,744
Accrued income receivable	(2,771,871)
Due from related parties	8,240
Security deposits and prepaid expenses	44,518
Deferred charges	(319,390)
Accounts payable and accrued expenses	(550,556)
Accrued payroll	(463,858)
Accrued compensated absences	110,215
Recoupments payable and deferred income	1,939,459
Self funded insurance liability	154,084
Pension liability	(5,948,674)
Postretirement health insurance liability	(243,038)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,045,469
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash and cash equivalents restricted to debt service escrow	69,440
Cash and cash equivalents restricted - other	(257,721)
Purchases of investments	(1,864,146)
Proceeds from sales of investments	1,236,585
Purchases of property and equipment	(707,517)
NET CASH USED IN INVESTING ACTIVITIES	(1,503,359)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayments of mortgages payable - DASNY	(478,650)
Proceeds from bonds payable - DASNY	3,665,000
Repayments of bonds payable - DASNY	(585,000)
Payments on lines of credit	(1,914,085)
Repayments of bonds payable - IDA	(1,005,000)
NET CASH USED IN FINANCING ACTIVITIES	(317,735)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,224,375
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR (AS RESTATED) (NOTE 25)	40,697,474
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 44,921,849
RECONCILIATION FOR UNRESTRICTED CASH & CASH EQUIVALENTS	
Cash and cash equivalents	19,880,055
Cash and cash equivalents designated for recoupments payable and deferred income	16,407,870
Cash and cash equivalents designated for self funded insurance	6,267,702
Cash and cash equivalents designated for health reimbursement accounts	2,366,222
CASH AND CASH EQUIVALENTS - END OF YEAR, UNRESTRICTED	$ 44,921,849
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	$ 908,942

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013

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. Lifespire Services, Inc. ("Parent") is the sole member of the Agency.

2. SIGNIFICANT ACCOUNTING POLICIES

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.

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.

If applicable, the Agency would classify interest and penalties on underpayments of income tax as miscellaneous expenses.

The Agency files tax returns in the federal and New York State jurisdictions. With few exceptions, the Agency is no longer subject to federal or state income tax examinations by tax authorities for fiscal years before June 30, 2010.

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 the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 $794,907 restricted as residential reserve for replacement. Such reserve was restricted 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 $4,135,765 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 $1,047,973 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 $8,918,000 to finance its program operations.

Board Designated-Anticipated Pension Contributions - The board has designated an amount of $3,014,432 of unrestricted net assets for defined benefit pension plan contributions anticipated to make during the year ended June 30, 2014.

Board Designated-Self Funded Insurance - The board has designated an amount of $6,267,702 of unrestricted net assets for payments of current and future claims related to the Agency's self funded insurance plans.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Lifespire consolidates the Organization because it has both (i) an economic interest in, and (ii) control over the Organization through a majority voting interest in its governing board. The Organization had no activity for the year ended June 30, 2013. Any inter-entity transactions are eliminated in consolidation.

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 December 12, 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. Restricted cash and cash equivalents as of June 30, 2013 are described in Notes 3 and 5.

Investments

Investments are comprised of certificates of deposits with varying maturity dates and mutual funds. These investments are stated at fair value. Income from investments 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, 2013. The allowance for doubtful accounts, which amounts to $6,595 at June 30, 2013, is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts. Management generally uses 5% of total subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts based on historical experience and economical conditions.

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, the Social Security Administration ("SSA") and directly from the OPWDD. At June 30, 2013, substantially all of the accrued income receivable of $18,054,416 is due from these governmental agencies.

B-V-26

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Agency recognizes revenue as services are provided. The amount is determined by the funding agencies either by a fee for service or a cost based fee. These fees are subject to review and revision by the funding agencies periodically. During the year ended June 30, 2013, the Agency recognized $1,423,511 in retroactive rate adjustments.

The current third-perty-payor programs, including Medicaid and Medicare, are based upon complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. No such fines, penalties and exclusions were imposed on the Agency during the fiscal year ended June 30, 2013.

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 capitalizes 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 losses were recognized for the year ended June 30, 2013.

In-Kind Contributions

In-kind contributions consist of property and services donated by state agencies and individuals which are measured at fair value at the date of donation. There were no in-kind contributions received by the Agency during the year ended June 30, 2013.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled $70,894 for the year ended June 30, 2013, and is included in general expenses in the accompanying consolidated statement of functional expenses.

Deferred Rent

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 $3,059,756 at June 30, 2013 relating to deferred rent. The change in this liability is reflected as a charge to rent and real estate taxes in the accompanying consolidated statement of functional expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Charges

Deferred charges comprise the following:

Bond Costs - Bond issuance costs, which also reflect bond premiums and discounts, are amortized over the life of the respective bond issue. Bond costs amounted to $1,404,429 at June 30, 2013, which is net of accumulated amortization. Amortization expense of these costs for the year ended June 30, 2013 was $181,022. Such amortization is included in interest, fees and bond expense of $2,540,735 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 $3,059,756 at June 30, 2013. For the year ended June 30, 2013, the addition to deferred rent recovery amounted to $155,277 and is reflected as miscellaneous revenue in the accompanying consolidated statement of activities.

Self Funded Health and Workers' Compensation Insurance

The Agency is self funded for health and workers' compensation insurance on all employees. The Agency records a liability for claims that have been incurred but not paid for employees covered by the self funded plans. The Agency recorded a liability for claims incurred but not paid of $2,049,823 at June 30, 2013.

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.

Fair Value Measurements

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 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 Agency. 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:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level 1 - Valuation based on quoted prices in active markets for identical assets or liabilities that the Agency 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.

Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the standard. The three valuation techniques 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 April 2013, the FASB issued an accounting standard update which requires not-for-profit entities to apply similar recognition and measurement bases for services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the recipient not-for-profit entity is not charged by the affiliate. The update requires that those services be measured at the cost recognized by the affiliate for the personnel providing those services unless such measurement would significantly overstate or understate the value of the service received, in which case the recipient non-for-profit entity may elect to recognize such services at the fair value of the service. The update is effective prospectively for fiscal years beginning after June 15, 2014, and interim periods thereafter, with early adoption permitted. The Agency is currently evaluating the effect the update will have on its financial statements.

Recoupments payable and deferred income

The Agency entered into contracts with OPWDD for the operation of its facilities. Typically, there are over or under payments on these contracts, resulting from rates of reimbursements being in excess of amounts earned, which are generally reconciled with OPWDD. However, the reconciliation process has not been completed for some contracts in the prior years. Once these reconciliations are completed or an OPWDD program audit is initiated, 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 as well as qualifying contractual expenses as a recoupment payable pursuant to these contracts until an audit has occurred, and a reconciliation or recoupment process is initiated by the appropriate Agency.

As of June 30, 2013, the Agency has a recoupment payable and deferred income balance of $16,407,870. These amounts are expected to be recouped in the future through designated reductions of remittance payments or by demanding payment of full amount.

B-V-27

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The recoupment payable is related to transactions incurred as follows:

June 30,	
2013	$ 5,043,870
2012	2,246,190
2011	87,199
2010	350,704
2009 and prior	8,679,907
	$ 16,407,870

3. CASH AND CASH EQUIVALENTS RESTRICTED - OTHER

Cash and cash equivalents restricted – other at June 30, 2013 comprised of the following:

June 30, 2013	Restricted Cash Amount	
Temporarily restricted contributions	$	43,766
403(b) tax sheltered annuity plan		73,042
Residential Reserve for Replacement		794,907
	$	911,715

4. CASH AND CASH EQUIVALENTS DESIGNATED FOR RECOUPMENTS PAYABLE AND DEFERRED INCOME

The Agency designated cash and cash equivalents of $16,407,870 to settle amounts included within recoupments payable and deferred income (Note 2).

5. CASH AND CASH EQUIVALENTS RESTRICTED TO DEBT SERVICE ESCROW

The cash and cash equivalents related to debt service escrow of $3,983,600 is comprised of the following:

Debt Service Escrow:		
IDA – Bond 2002	$	888,130
IDA – Bond 2004		1,138,852
IDA – Bond 2008		699,922
DASNY – Bond 2010		817,353
DASNY – Bond 2011		247,822
DASNY – Bond 2013		191,521
	$	3,983,600

The Debt Service Escrow – IDA – regarding the Industrial Development Agency ("IDA") Bonds 2002, 2004 and 2008 represents a portion of the loan proceeds, in addition to subsequent payments made

5. CASH AND CASH EQUIVALENTS RESTRICTED TO DEBT SERVICE ESCROW (CONTINUED)

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 14).

The Debt Service Escrow – DASNY - regarding the Dormitory Authority State of New York ("DASNY") Bonds 2010, 2011, and 2013 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 paymants are deposited into one of these accounts until payments to the bondholders are required to be made pursuant to the bond agreement (Note 13).

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 $318,841 represents a portion of the loan proceeds retained by New York State under the terms and conditions set forth in the mortgage agreements for the properties listed in Note 11.

The monies are designated to be applied to scheduled debt service payments in the future by OPWDD.

7. INVESTMENTS

As of June 30, 2013, total investments are comprised of bank certificates of deposit and mutual funds stated at $3,781,476. Investment activity for the year consisted of the following:

Bank of America	$ 2,160,087	$ 2,160,087
Morgan Stanley	1,215,089	1,230,133
Chase	405,329	391,256
Total	$ 3,780,505	$ 3,781,476

Activity in investments is as follows for the year ended June 30, 2013:

Investments - beginning of year	$ 3,168,131
Investment activity:	
Purchases	1,815,365
Investment returns (reinvested)	48,781
Sales and redemptions (at cost)	(1,230,365)
Withdrawals for operations	(6,220)
	627,561
Net depreciation in fair value of investments: unrealized loss	(14,216)
Investments - end of year	$ 3,781,476

All of the investments are classified as level 1, as discussed in Note 2.

8. NOTE RECEIVABLE

The note receivable balance of $246,650 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 $961,425 on the accompanying consolidated statement of financial position represents amounts owed from two not-for-profit entities as follows:

An amount of $153,403 is due from the Agency's Housing and Urban Development ("HUD") related party ("affiliate"). Certain staff members of the Agency are also members of the Board of this not-for-profit HUD organization. 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. The Agency expects to be repaid for this amount when the affiliate has sufficient cash flow available. There is also an amount of $13,200 representing management fee payable due from the affiliate, which was paid subsequent to the year ended June 30, 2013.

An amount of $808,022 is due from the Parent. 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. The outstanding balance on this note, which is non-interest bearing, amounted to $579,517 at June 30, 2013.
- 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.
- On June 16, 2011, a $300,000 unsecured note was executed with the Parent, accruing interest at a rate of 6% per annum. The outstanding balance on this note amounts to $125,000 at June 30, 2013. 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 $48,005 as of June 30, 2013 relating to the above. Related party interest income amounted to $21,375 for the year ended June 30, 2013.

Board members of the Parent are also Board members of the Agency.

Other Related Party Transactions

The Agency purchases supplies and services from ACRMD Community Mental Retardation Services Company, Inc. ("Community"), which is related because certain Agency employees are board members of Community. The Agency also receives payment from Community for the outsourced labor provided to assist with the processing and packaging of the inventory items which Community sells to the Agency as well as to

9. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

other non-related entities. During the year ended June 30, 2013, purchases of supplies and services from Community totaled $619,779 and fees from Community for the provision of labor provided by the Agency totaled $135,085. At June 30, 2013, $47,979 was due to Community, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. Additionally, at June 30, 2013, approximately $13,000 was owed to the Agency for outstanding fees, which is included in accounts receivable, net in the accompanying consolidated statement of financial position. In addition, the Agency also received approximately $30,000 from Community 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, 2013.

The Agency purchases document storage, messenger, landscaping, and maintenance services from ACRMD Enterprises LLC ("Enterprise"), a wholly-owned subsidiary of Community. During the year ended June 30, 2013, purchases of these services from Enterprise totaled $126,534. At June 30, 2013, $23,730 was due to Enterprise, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

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, 2013, no allowance was necessary because the related party receivables were determined to be fully collectible.

B-V-29

10. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

June 30, 2013	Cost	Estimated Useful Lives
Land	$ 4,549,267	
Construction in progress	48,034	
Buildings and improvements	26,582,525	5-20 years
Furniture and equipment	3,217,232	5 years
Vehicles	325,926	4 years
Leasehold improvements	7,934,562	Life of lease
	42,657,546	
Less: accumulated depreciation and amortization	(24,789,011)	
	$ 17,868,535	

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 $2,118,627 for the year ended June 30, 2013.

LIFESPIRE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013

11. MORTGAGES PAYABLE - DASNY

Mortgages payable – DASNY represents self-liquidating term-notes owed to DASNY, which has as its agent, the OPWDD.

As part of its program service fees, OPWDD makes direct payments to DASNY to satisfy certain 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, 2013
South Avenue	8/15/2015	7.68%	$ 71,991
213-233 48th Street (Sunset I)	2/15/2018	7.34%	483,085
87-21 121st Street (Queens)	2/15/2018	6.41%	1,250,250
Jumel	8/15/2018	6.41%	491,632
Total Mortgages Payable - DASNY			$ 2,296,958

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, 2013, one site that was mortgaged was paid in full under normal amortization terms.

Under the terms of the mortgages payable - DASNY, the Agency is required to fulfill certain financial covenants.

12. LINES OF CREDIT

Under the terms of a line of credit agreement with Bank of America entered into on March 31, 2013, the Agency may borrow up to $5,000,000 at the bank's prime interest rate plus 0.5% (3.25% at June 30, 2013) through March 31, 2014, 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. There was no balance outstanding on this line of credit as of June 30, 2013. 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, 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% (3.25% at June 30, 2013) and is secured by a lien on the Agency's government receivables not otherwise encumbered. The government receivables totaled

12. LINES OF CREDIT (CONTINUED)

$18,054,416 at June 30, 2013 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, 2013.

13. BONDS PAYABLE - DASNY

Bonds payable – DASNY includes the following at June 30, 2013:

Series	Due Date	Interest Rates	Principal Due
2010 A-1 and A-2	July 2028	2.10% to 5.00%	$ 5,185,000
2011 A-1 and A-2	July 2026	1.40% to 4.00%	1,810,000
2013 A-1 and A-2	July 2038	2.00% to 4.00%	3,665,000
Total Bonds Payable-DASNY			$ 10,660,000

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 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 $77,194 was amortized as of June 30, 2013. The cost of bond discounts amounted to $78,515, of which $19,245 was amortized as of June 30, 2013.

The Agency is required to make deposits for interest and principal under the 2010 Bond loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2013	$ 475,000
2014	495,000
2015	410,000
2016	415,000
2017	415,000
Thereafter	2,975,000
	$ 5,185,000

13. BONDS PAYABLE – DASNY (CONTINUED)

The 2010 Bonds are secured ratably by each applicable mortgage on the properties and the DASNY's security interest in the pledged program service fees revenues subject to prior pledges.

Under the terms of the bonds payable – DASNY, the Agency is required to fulfill certain financial covenants.

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.

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 $19,184 was amortized as of June 30, 2013. The cost of the bond discounts amounted to $12,469 of which $1,541 was amortized during the year ending June 30, 2013.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2013	$ 120,000
2014	125,000
2015	125,000
2016	125,000
2017	130,000
Thereafter	1,185,000
	$ 1,810,000

The 2011 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.

2013 A-1 and A-2

On March 13, 2013, a bond payable – DASNY was issued in the amount of $3,665,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2013A, subseries 2013A-1, and subseries 2013 A-2 (the "2013 Bonds").

13. BONDS PAYABLE – DASNY (CONTINUED)

The interest is payable to the bondholders on an annual basis commencing on July 1, 2013. The cost of the bond issuance amounted to $289,789 of which $1,304 was amortized as of June 30, 2013. The cost of the bond discounts amounted to $33,679 of which $119 was amortized during the year ending June 30, 2013.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2013	$ 15,000
2014	160,000
2015	160,000
2016	165,000
2017	165,000
Thereafter	3,000,000
	$ 3,665,000

The 2013 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.

14. BONDS PAYABLE - IDA

Bonds payable – IDA includes the following at June 30, 2013 :

Series	Due Date	Interest Rates	Principal Due
2002 C-1	July 1, 2017	5.50% to 6.50%	$ 1,660,000
2004 A-1 and B-1	July 1, 2023	3.05% to 5.05%	2,525,000
2004 C-1	July 1, 2014	5.25%	250,000
2008 A-1 and A-2	July 1, 2033	5.70% to 6.20%	2,580,000
Total Bonds Payable- IDA			$ 7,015,000

Bonds Payable - IDA-2002

The Bonds payable – IDA – 2002 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.

B-V-31

14. BONDS PAYABLE – IDA (CONTINUED)

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 $246,533 was amortized as of June 30, 2013.

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
2013	$ 280,000
2014	280,000
2015	280,000
2016	280,000
2017	540,000
	$ 1,660,000

Bonds Payable - IDA-2004

Bonds Payable – IDA – 2004 at June 30, 2013 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 to pay down $4,112,273 of indebtedness on four properties in a prior year. 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 $356,924 was amortized as of June 30, 2013.

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).

14. BONDS PAYABLE – IDA (CONTINUED)

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2013	$ 215,000
2014	220,000
2015	220,000
2016	220,000
2017	220,000
Thereafter	1,430,000
	$ 2,525,000

Series 2004 C-1 Bonds - The Agency used the Series C-1 bond proceeds 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 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 $42,517 was amortized as of June 30, 2013. The cost of bond discounts amounted to $41,281, of which $37,669 was amortized as of June 30, 2013.

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
2013	$ 120,000
2014	130,000
	$ 250,000

Bonds Payable - IDA-2008

Bonds payable – IDA – 2008 represents amounts owed to IDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2008 A. These bonds are segragated into Series 2008 A-1 and Series 2008 A-2 (taxable).

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 $131,711 was amortized as of June 30, 2013.

The bond agreement has a first lien on the properties being mortgaged except for the facility located at 213 48th Street, Brooklyn, which is a second lien.

B-V-32

14. BONDS PAYABLE – IDA (CONTINUED)

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
2013	$ 260,000
2014	170,000
2015	170,000
2016	175,000
2017	175,000
Thereafter	1,630,000
	$ 2,580,000

Bonds Payable – IDA – General Terms

The Agency anticipates that, periodically, OPWDD will adjust the certain program service fees to provide the Agency with the sufficient amounts 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 restricted to debt service escrow (Note 5).

The underlying properties secure the respective Bonds with first liens except where otherwise noted.

15. MATURITIES OF DEBT TO THIRD PARTIES

The short-term and long-term third-party debt is comprised of the following:

June 30, 2013	
Mortgages payable – DASNY	$ 2,296,958
Bonds payable – DASNY	10,660,000
Bonds payable – IDA	7,015,000
	$ 19,971,958

16. MATURITIES OF DEBT TO THIRD PARTIES (CONTINUED)

Approximate maturities of short-term and long-term third-party debt are as follows:

June 30,	
2014	$ 1,947,525
2015	2,075,091
2016	1,852,075
2017	1,884,125
2018	1,541,142
Thereafter	10,672,000
	$ 19,971,958

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.

17. SELF FUNDED INSURANCE

All Agency employees have an option to participate in the Agency's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions and is held in a separate reserve bank account. The Agency has contracted with Aetna, Inc., a third-party administrator, to provide administrative services for this health care benefits program. The health care benefits program has stop loss coverage of $150,000 per person and a total of one hundred fifty percent of claims estimated at the beginning of the policy year. As of June 30, 2013, cash designated for this program totaled $5,512,793 and the estimated liability for outstanding claims at June 30, 2013 totaled $901,599.

All Agency employees are covered by a self-funded worker's compensation benefits program administered by Hartford. The workers' compensation benefits program has a stop loss policy of $250,000 per incident, up to $1,300,000 for the current policy year. The workers' compensation claims are paid out of employer contributions and is held in a separate reserve bank account. As of June 30, 2013, cash designated for this program totaled $754,909 and the estimated liability for outstanding claims at June 30, 2013 totaled $1,148,224.

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 on the accompanying consolidated statement of financial position.

18. 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 2012 met the minimum funding requirements of ERISA.

The Agency, as the sponsor of the Plan, froze the Plan effective December 31, 2010. Although the Plan remains frozen, the Agency has the ability to unfreeze the Plan in the future, subject to certain conditions.

18. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The Agency is required to contribute approximately $1,260,000 to its defined benefit plan for the year ended June 30, 2014.

The benefits paid amounted to $716,326 during the fiscal year ended June 30, 2013.

Under U.S. GAAP, a liability is disclosed at fiscal year-end. The pension liability is an aggregation of the excess of total benefit obligation over fair value of plan assets at the end of the year. There is a cumulative amount totaling $6,052,089 of pension liability as of June 30, 2013.

The changes in the defined benefit pension obligations, plan assets and funded status for the year ended June 30 were as follows:

	Pension Benefits 2013
Reconciliation of benefit obligation:	
Benefit obligation, beginning of year	$ 36,073,121
Service cost	-
Interest cost	1,535,441
Actuarial gain	(3,806,829)
Benefits paid	(716,326)
Benefit obligation, end of year	$ 33,085,407
Reconciliation of fair value of plan assets:	
Fair value of plan assets, beginning of year	$ 24,072,358
Actual return on plan assets	2,413,065
Employer contributions	1,264,221
Benefits paid	(716,326)
Fair value of plan assets, end of year	$ 27,033,318
Funded status, end of year	$ (6,052,089)
Amounts recognized in the consolidated statement of financial position:	
Prepaid pension costs	$ 2,835,134
Accumulated change in unrestricted net assets	(8,887,223)
Funded status, end of year	$ (6,052,089)

18. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Assumptions

Without the exception of the discount rate, the Agency's independent enrolled actuary certified the following significant weighted-average assumptions in order to determine benefit obligations net periodic pension cost as of June 30, 2013:

Discount rate	5.00%
Expected long-term rate of return on plan assets	7.00%
Rate of compensation increase	0.00%

The discount rate was increased from 4.30% to 5.00%, which decreased the projected benefit obligation by approximately $3,617,000.

Net periodic pension cost and other amounts recognized in the statement of activities for the year ended June 30, 2013 included the following components:

Sevice cost	$	-
Interest cost		1,535,441
Expected return on plan assets		(1,930,575)
Amortization of net loss		856,858
Net periodic pension cost	$	461,724

Investment Strategies

With respect to the Plan assets, investments are to be made consistent with the safeguards and diversity to which a prudent investor would adhere to. 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. 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

18. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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. 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.

Corporate Bonds - Valued at the closing price reported in the active market in which the bond is traded.

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 a market-driven pricing model.

Governmental Securities - Valued at the closing price reported in active market in which the individual security is traded.

Mutual Funds - Valued using market value as listed in active exchange markets.

Municipal Bonds - Valued at the closing price reported in active market in which the individual security is traded.

International 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.

B-V-35

18. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The pension plan asset allocations, along with respective dollar values and fair value measurements, at June 30, 2013, by asset category are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Funds	$ 2,673,410	$ -	$ 2,673,410	$ -
Equities:				
Basic Materials	239,586	239,586	-	-
Consumer Goods	291,351	291,351	-	-
Financials	1,588,542	1,588,542	-	-
Healthcare	534,679	534,679	-	-
Industrial Goods	433,558	433,558	-	-
Oil & Gas	480,069	480,069	-	-
Services	718,995	718,995	-	-
Technology	866,858	866,858	-	-
Telecommunications	15,092	15,092	-	-
Government Securities	1,425,248	1,425,248	-	-
Municipal Bonds	289,699	289,699	-	-
International Bonds	786,823	786,823	-	-
Corporate Bonds	5,969,577	5,969,577	-	-
Mutual Funds:				
Mid Cap Growth	734,422	734,422	-	-
Mid Cap Value	775,971	775,971	-	-
Small Cap Growth	133,812	133,812	-	-
Small Cap Value	300,650	300,650	-	-
Large Cap Foreign	1,973,985	1,973,985	-	-
Large Cap Growth	3,958,366	3,958,366	-	-
Large Cap Value	251,370	251,370	-	-
Emerging Markets	1,807,847	1,807,847	-	-
REITs	783,408	783,408	-	-
	$ 27,033,318	$ 24,359,908	$ 2,673,410	$ -

Transfer Between 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.

The plan administrators evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. For the year ended June 30, 2013, there were no significant transfers in or out of levels 1, 2 or 3.

18. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Expected Future Benefit Payments

Benefit payments for defined benefit pension plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

June 30,	Pension benefits expected to be paid
2014	$ 1,157,962
2015	909,830
2016	1,015,713
2017	1,131,434
2018	1,235,808
2019-2023	7,902,281
	$ 13,353,028

19. 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 par 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.

B-V-36

19. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

Determination of the Net Periodic Benefit Cost for the Fiscal Year

Net periodic benefit cost and other amounts recognized in unrestricted net assets for the year ended June 30, 2013 included the following components:

Service cost		$ 315,992
Interest cost		249,921
Amortization:		
(a) Transition obligation	-	
(b) Prior service cost	63,914	
(c) (Gain)/loss	26,095	
Net Amortization		90,009
Net periodic benefit cost		$ 655,922

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2013

Accumulated postretirement benefit liability at June 30, 2013	$	(5,595,566)
Net liability recognized at June 30, 2013	$	(5,595,566)

Net Amount Recognized in Consolidated Statement of Financial Position

Beginning of year	$	(5,838,604)
Service cost		(315,992)
Interest cost		(249,921)
Expected return on plan assets		-
Employer contributions		51,285
Net gain/(loss)		757,666
Prior service credit/(cost)		-
End of year	$	(5,595,566)

LIFESPIRE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013

19. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

Assumptions

Mortality:	RP 2000 Separate Annuitants and Non-Annuitants Mortality Table projected to 2013 for males and females
Claim cost:	Monthly premium
Trend:	4.70% - 8.90% – based on the year of retirement
Funding method:	Projected Unit Credit Actuarial Cost Method

a) The discount rate was changed from 4.30% to 5.00% which decreased the accumulated postretirement benefit liability by approximately $782,000.

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 Liability	Service Cost Plus Interest Cost
At trend	$ 5,595,569	$ 565,913
At trend + 1%	5,653,284	568,401
Dollar impact	57,715	2,488
Percentage impact	1.03%	0.44%
At trend – 1%	5,546,147	563,800
Dollar impact	(49,422)	(2,113)
Percentage impact	-0.88%	-0.37%

19. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

Expected Future Benefit Payments

Benefit payments for postretirement health care benefit plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

Fiscal Year Ending June 30,	Postretirement Benefits
2013	$ 66,446
2014	78,985
2015	95,470
2016	110,726
2017	131,283
2018-2022	1,042,162
	$ 1,525,072

20. TEMPORARILY RESTRICTED NET ASSETS

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2013, which are available for use in future years, were as follows:

	Balance at 6/30/12	Additions	Expenditures	Balance at 6/30/13
Program	$ 38,616	8,267	(3,117)	$ 43,766

The funds released from restrictions were used towards other expenses for some of the Agency's programs.

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 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 10) 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.

B-V-37

21. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 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.

On March 13, 2013, the Agency entered into a collective bargaining agreement with the Civil Service Employees Association, Inc. ("CSEA"). The collective bargaining agreement is set to expire on June 30, 2015. Approximately 74% of the Agency's labor is represented by the CSEA.

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,	
2014	$ 6,582,544
2015	5,085,020
2016	3,722,000
2017	3,521,865
2018	3,113,271
Thereafter	15,343,877
	$ 37,368,577

For the year ended June 30, 2013, rent expense was $7,115,385, which was generally recovered through fees for service from the funding sources.

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. There are no employer contributions.

23. 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.

23. CONCENTRATION OF CREDIT RISK (CONTINUED)

Approximately 12% of the Agency's accounts payable and accrued expenses as of June 30, 2013 were derived from one vendor.

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. A significant portion all of the Agency's revenue and receivables are received from Medicaid.

24. 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, end 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.

The Agency's self funded insurance liability is based upon estimated claims at current year end. The actual claims may exceed the recorded amount.

25. PRIOR PERIOD ADJUSTMENT

The Agency has restated its previously issued 2012 financial statements to reflect its self funded health insurance and workers' compensation liabilities and related designated cash accounts. Previously, the Agency recognized contributions to the respective reserve accounts as expense. The Agency currently recognizes expense based on the date the claims were incurred.

The Agency also previously recognized legally restricted cash and cash equivalents as unrestricted cash and cash equivalents. The Agency now separated the cash and cash equivalents which is subject to legal restrictions of its use.

25. PRIOR PERIOD ADJUSTMENT (CONTINUED)

The net effect of the prior period adjustment resulted in an increase of prior year net assets by $2,636,380, as reflected below:

June 30, 2012	As Previously Reported	Adjustment	As Restated
Cash and cash equivalents restricted for debt service-escrow	$ -	$ 4,073,040	$ 4,073,040
Cash and cash equivalents related to debt service-escrow	$ 4,073,040	$ (4,073,040)	$ -
Cash and cash equivalents restricted- other	$ -	$ 653,994	$ 653,994
Cash and cash equivalents	$ 24,876,092	$ (653,994)	$ 24,222,098
Cash and cash equivalents designated for self funded insurance	$ -	$ 4,532,119	$ 4,532,119
Self funded insurance liability	$ -	$ (1,895,739)	$ (1,895,739)
Net assets, unrestricted	$ 11,028,915	$ 2,636,380	$ 13,665,295

26. SUBSEQUENT EVENTS

The OPWDD, in consultation with the State Department of Health ("DOH") has begun the process of seeking significant programmatic and fiscal changes to the OPWDD service system. The new direction for OPWDD, "The People First" Waiver is being developed with a 5 year statewide comprehensive plan through 2015.

Subsequent to year end and in anticipation of the changes in the OPWDD funding stream, the Agency entered into a verbal agreement with other six New York State Agencies to form a Developmental Disabilities Individual Support and Care Coordination Organization ("DISCO"). A letter of intent to become a DISCO has been submitted to OPWDD. At this time it is undetermined if OPWDD will approve the letter of intent. Final request for applications ("RFA") to become a DISCO have not yet been released by OPWDD and the changes as proposed by the "People First Waiver" Plan are still under review for approval.

B-V-39

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 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) (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.

B-V-40

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
December 17, 2012

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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	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	1,266,061
Total Assets	**$ 82,804,737**
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
Underfunded pension obligation	12,000,763
Underfunded health insurance obligation	5,838,604
Lines of credit	1,914,085
Bonds payable - DASNY	7,580,000
Bonds payable - IDA	8,020,000
Total Liabilities	71,737,206
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	**$ 82,804,737**

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

B-V-41

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	94,562,137
Management and administration	6,619,495
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
Non-operating pension-related changes	(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	6,673,985	13,368	6,869,055	286,391	1,468,421	15,311,220	883,856	16,195,076
Total personnel costs	24,232,146	57,832	26,282,900	1,128,102	5,434,991	57,135,971	3,539,518	60,675,489
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	40,222,397	934,814	36,897,699	1,715,752	10,436,802	90,207,464	6,563,680	96,771,144
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	**$ 41,737,043**	**$ 1,058,944**	**$ 39,518,130**	**$ 1,738,184**	**$ 10,509,836**	**$ 94,562,137**	**$ 6,619,495**	**$ 101,181,632**

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

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B-V-43

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 and cash equivalents provided by operating activities:	
Depreciation and amortization	1,842,443
Amortization of bond issue costs	118,015
Unrealized gain on investments	(22,040)
Bad debt expense	(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	12,198,609
Cash flows from investing activities:	
Purchases of investments	(1,655,605)
Proceeds from sales of investments	1,116,312
Purchases of property and equipment	(3,060,724)
Disposal of property and equipment	399,131
Net cash used in investing activities	(3,200,886)
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

1.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.

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 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 as set forth below.

Residential Reserve for Replacement – There is an amount of $539,518 designated as residential reserve for replacement. The residential reserve for replacement 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 an amount of $5,342,327 of the 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 the unrestricted net assets 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 $8,673,000 to finance its program operations.

Principles of Consolidation

The consolidated financial statements include the financial activity of Lifespire, Inc. 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, Inc. 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 year ended June 30, 2012.

Tax Status

The Agency 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.

B-V-44

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 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 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 jurisdiction. 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 December 17, 2012, 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.

Investment Valuations

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 8 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, 2012. In addition, there exists a reserve for doubtful accounts of $7,127 as of June 30, 2012 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.

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.

Accrued Income Receivable and Program Service Fees

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. Substantially all of the accrued income receivable of $15,282,545 are due from these governmental agencies.

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 capitalize individual items 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, 2012.

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.

Revenue Recognition

Revenue is recognized on a fee for service basis for service arrangements with various consumers and/or customers. Revenue is recognized 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.

In-Kind Contributions

In-kind contributions received in the past 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. There were no in-kind contributions made to the Agency during the year ended June 30, 2012.

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 $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 fiscal year ended June 30, 2012, 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, 2012 was $108,031. These costs are included in interest, fees and bond expense of $2,168,914 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.

B-V-46

3. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are held in interest-bearing checking and savings accounts at financial institutions. As of June 30, 2012, cash and cash equivalents, not related to recoupments payable or debt service escrow, of $24,876,092 included 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

4. CASH AND CASH EQUIVALENTS RELATED TO RECOUPMENTS PAYABLE:

The cash and cash equivalents balance of $11,943,257 represents various amounts received from funding sources that will be used to pay amounts included within recoupments payable. Refer to note 12 for additional information.

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:

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

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 – Bond 2002 amount of $867,144 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 agreement. Refer to Note 18 for additional information.

The Debt Service Escrow– IDA – Bond 2004 amount of $1,339,599 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 agreement. Refer to Note 18 for additional information.

The Debt Service Escrow – IDA – Bond 2008 amount of $721,167 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 agreement. Refer to Note 18 for additional information.

The Debt Service Escrow – DASNY – Bond 2010 amount of $881,114 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 agreement. Refer to Note 17 for additional information.

The Debt Service Escrow – DASNY – Bond 2011 amount of $264,016 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 agreement. Refer to Note 17 for additional information.

B-V-47

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 in the mortgage agreements for the properties listed in Note 15.

7. INVESTMENTS:

The monies are designated to be applied to scheduled debt service payments in the future by OPWDD. 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 at fair market value comprised of bank certificates of deposit valued 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

June 30,2012	
Investments - beginning of year	$ 2,606,798
Activity:	
Purchases	1,628,218
Sales (at cost)	(1,109,992)
Investment returns (reinvested)	27,387
Withdrawals for operations	(6,320)
	539,293
Net appreciation in fair value of investments: Unrealized gain	22,040
Investments- end of year	$ 3,168,131

8. 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:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Agency 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, 2012.

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 Agency invests in various investments 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 values of investment securities will occur in the near term and such changes could materially affect the Agency's investments and the amounts reported in the accompanying consolidated statement of financial position.

B-V-48

The credit and liquidity crisis in the United States of America and throughout the global financial systems has resulted in substantial volatility in financial markets and the banking system. These and other economic events may have caused significant volatility to the Agency's investment portfolio subsequent to year-end.

The following table presents, by level within the fair value hierarchy, the Agency's investment assets at fair value, as of June 30, 2012.

	Total	(Level 1)	(Level 2)	(Level 3)
Certificates of deposit	$3,168,131	-	$ 3,168,131	-
	$3,168,131	-	$ 3,168,131	-

Certificates of deposit are stated at cost, which approximates fair value.

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, 2012, there were no transfers in or out of Levels 1, 2, or 3.

9. 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"). This note bears interest at a rate of 3.0% per annum. This note 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 the IAC.

10. DUE FROM RELATED PARTIES:

The due from related parties amount of $969,665 represent 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") affiliate. This amount includes a note receivable of $140,203 due from this related party dating back a number of years. The Agency isn't permitted to charge interest to this related party pursuant to HUD rules. There is also an amount of $6,249 representing a non-interest bearing loan which was used for operational purposes. The Agency expects to be repaid for these amounts when the related party 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 not-for-profit HUD organization.

An amount of $823,213 is due from Lifespire Services, Inc., who is the sole member of the Agency (the Parent). The Parent has three notes outstanding with the Agency as of June 30, 2012 as follows:

The first is from a note receivable which was executed on April 30, 2010 in the amount of $689,901. This amount represented the aggregate principal and interest as of April 30, 2010, which was previously loaned to the Parent by the Agency. There is no further interest to be charged after April 30, 2010. 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 due to the Agency as of June 30, 2012 amounted to $607,113.

There is also a note receivable in the amount of $55,500 due from the Parent which is still outstanding at June 30, 2012. This note accrues interest at a rate of 6% per annum.

Additionally, on June 16, 2011, a $300,000 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 due to the Agency as of June 30, 2012 amounted to $125,000.

Total unpaid accrued interest receivable due from the Parent amounted to $35,600 as of June 30, 2012 for two of the notes.

The Agency is a related party in that the Board members of the Parent are also Board members of the Agency.

Transactions with another not-for-profit related party

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 fiscal 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 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. For the year ended June 30, 2012, no allowance was necessary because the related party receivables were determined to be fully collectible.

11.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.

12.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.

13.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.

14.DUE TO FUNDING SOURCES:

The due to funding sources balance 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.

15.MORTGAGES PAYABLE – DASNY:

Mortgages payable – DASNY balance of $2,775,608 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 borrowed from 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 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 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 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.

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. 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.

Under the terms of the mortgages payable – DASNY, the Agency is required to fulfill certain financial covenants.

B-V-50

16.LINES OF CREDIT:

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.

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.

17.BONDS PAYABLE-DASNY:

Bonds payable – DASNY balance of $7,580,000 represents bonds payable at June 30, 2012 as follows:

Series	Due Date		Principal Due
2010 A-1 and A-2	July 2028	$	5,655,000
2011 A-1 and A-2	June 2026		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 "Bonds"). During the year ended June 30, 2012, $470,000 was paid and the outstanding balance at June 30, 2012 was $5,655,000.

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 $51,048 was amortized as of 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. Refer to Note 5 for additional information. The principal payments of the consolidated 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 Series 2010A 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.

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 2011 A, subseries 2011A-1, and subseries 2011 A-2 (the "Bonds"). Series 2011A allocable portion for subseries 2011 A-1 was $1,840,000 and subseries 2011 A-2 was $85,000.

The Agency used the proceeds from the Bonds to refinance $1,182,262 of indebtedness on two properties. The interest rate is not to exceed 4.125% on the

Series 2011A 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 $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. Refer to Note 5 for additional information. The principal payments of the consolidated 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 Series 2011A 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.

B-V-51

18. BONDS PAYABLE – IDA: Bonds payable – IDA balance of $8,020,000 represents bonds payable at June 30, 2012 as follows:

Series	Due Date	Principal Due
2002 C-1	July 1, 2017	$ 1,930,000
2004 A-1 and B-1	July 1, 2023	2,885,000
2004 C-1	July 1, 2014	365,000
2008 A-1 and A-2	July 1, 2033	2,840,000
Total Bonds Payable- IDA		$ 8,020,000

Bonds payable-IDA-2002
Bonds payable – IDA – 2002 balance of $1,930,000 as of June 30, 2012 represent 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 Series 2002 C-1 bond of $1,930,000. 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 $209,409 was amortized as of June 30, 2012. The costs of issuance are being amortized over the term of the bond obligations.

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. Refer to Note 5 for additional information.

The principal payments of the consolidated 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 as of 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.

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 8.89% on the Series 2004 A-1 and B-1 Bonds ($2,885,000 outstanding as of June 30, 2012). 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 $250,925 was amortized as of June 30, 2012. The costs of issuance are being amortized over the term of the bond obligations.

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. Refer to Note 5 for additional information.

The principal payments of the consolidated 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

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 ($365,000 outstanding as of June 30, 2012). 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 $26,575 was amortized as of June 30, 2012. The costs of issuance and discounts are being amortized over the term of the bond obligations.

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. Refer to Note 5 for additional information.

The principal payments of the consolidated 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

B-V-52

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. 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.

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. Refer to Note 5 for additional information.

The principal payments of the consolidated 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

The Agency expects 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.

Under the terms for the bonds payable – IDA, the Agency is required to maintain certain financial covenants.

B-V-53

19. 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
Bonds payable – DASNY		7,580,000
Bonds payable – IDA		8,020,000
Lines of credit		1,914,085
	$	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

20. 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.

21. 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.

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

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.

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 $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 as of June 30, 2012 was $36,073,121.

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.

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 anyone 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 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:

B-V-55

	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

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. 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

22. 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.

B-V-56

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:

(1) Service cost	$	230,999
(2) Interest cost		263,901
(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, 2011 – June 30, 2012	$	558,814

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2012:

(1) Accumulated postretirement benefit obligation at June 30, 2012	$	(5,838,604)
(2) Net liability recognized at June 30, 2012	$	(5,838,604)

Net Amount Recognized in Consolidated Statement of Financial Position

(1) Beginning of year	$	(4,423,192)
(2) Service cost		(230,996)
(3) Interest cost		(263,901)
(4) Expected return on plan assets		-
(5) Employer contributions		42,263
(6) Net gain/(loss)		(962,778)
(7) Prior service credit/(cost)		-
(8) End of year	$	(5,838,604)

B-V-57

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

23. 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. .

24. 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 (see Note 11) 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.

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.

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

B-V-58

For the year ended June 30, 2012, rent expense was $6,452,728, 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.

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 ("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. The majority 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.

APPENDIX B-VI

QSAC, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2014, JUNE 30, 2013 AND JUNE 30, 2012)

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B-VI-1

QSAC, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014

(WITH SUMMARIZED COMPARATIVE TOTALS FOR JUNE 30, 2013)

QSAC, INC.

CONTENTS

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B-VI-2

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
QSAC, Inc.
New York, New York

We have audited the accompanying statement of financial position of QSAC, Inc. ("QSAC") at June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of QSAC, Inc. at June 30, 2014, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited QSAC, Inc.'s 2013 financial statements, and our report dated December 18, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein at and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grassi & Co, CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
November 26, 2014

QSAC, INC.
STATEMENT OF FINANCIAL POSTION
JUNE 30, 2014
(WITH SUMMARIZED COMPARATIVE TOTALS AT JUNE 30, 2013)

ASSETS

	2014	2013
Cash and cash equivalents	$ 3,918,501	$ 4,449,526
Certificates of deposit, at cost	1,691,390	1,644,690
Program services receivable, net	5,295,539	5,529,843
Prepaid expenses and other assets	4,405,945	3,238,809
Debt service reserve funds	123,000	718,370
Deferred debt issuance costs, net	202,888	315,703
Property and equipment, net	9,396,671	9,268,332
TOTAL ASSETS	$ 25,033,934	$ 25,165,273

LIABILITIES AND NET ASSETS

	2014	2013
Liabilities:		
Accounts payable and accrued expenses	$ 1,880,910	$ 1,231,843
Accrued salaries and related benefits	7,107,895	7,081,144
Due to governmental agencies	1,564,905	2,251,000
Deferred rent payable	1,466,041	1,306,967
Loans payable	7,772,211	8,652,810
Capital lease obligations	616,281	1,716,198
TOTAL LIABILITIES	20,408,243	22,239,962
COMMITMENTS AND CONTINGENCIES		
Net assets		
Unrestricted	4,390,094	2,725,922
Temporarily restricted	235,597	199,389
TOTAL NET ASSETS	4,625,691	2,925,311
TOTAL LIABILITIES AND NET ASSETS	$ 25,033,934	$ 25,165,273

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

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QSAC, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

		2014			2013
		Unrestricted	Temporarily Restricted	Total	Total
REVENUES, GAINS, LOSSES AND OTHER SUPPORT:					
Program service fees		$ 45,938,739	$ -	$ 45,938,739	$ 39,791,566
Government grants and contracts		2,291,487	-	2,291,487	2,366,740
Contributions		963,908	71,539	1,035,447	889,651
Loss on write-off of closing costs		(89,436)	-	(89,436)	-
Other revenue		253,691	-	253,691	911,318
Special events	$ 377,061				
Less: Costs of direct benefits of special events	88,733	288,328	-	288,328	291,634
Net assets released from donor restrictions		35,331	(35,331)	-	-
Total Revenues, Gains, Losses and Other Support		49,682,048	36,208	49,718,256	44,250,909
EXPENSES:					
Program services					
Educational services		6,696,384	-	6,696,384	6,749,916
Service coordination and other services		2,698,238	-	2,698,238	2,540,319
Residential services		13,717,787	-	13,717,787	12,862,065
Habilitation services		18,960,096	-	18,960,096	16,710,230
Supporting services					
Management and general		5,620,596	-	5,620,596	5,041,096
Fundraising		324,775	-	324,775	138,629
Total Expenses		48,017,876	-	48,017,876	44,042,255
CHANGE IN NET ASSETS		1,664,172	36,208	1,700,380	208,654
NET ASSETS, BEGINNING OF YEAR		2,725,922	199,389	2,925,311	2,716,657
NET ASSETS, END OF YEAR		$ 4,390,094	$ 235,597	$ 4,625,691	$ 2,925,311

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

QSAC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	Program Services					Supporting Services					
	Educational Services	Service Coordination and Other Services	Residential Services	Habilitation Services	Total	Management and General	Fundraising	Cost of Direct Benefits of Special Events	Total	2014 Total	2013 Total
Salaries	$ 4,715,193	$ 1,735,000	$ 7,658,523	$ 11,675,882	$ 25,784,598	$ 2,778,694	$ 160,912	$ -	$ 2,939,606	$ 28,724,204	$ 25,966,078
Fringe benefits	1,272,817	413,760	2,313,076	3,319,524	7,319,177	1,065,515	27,921	-	1,093,436	8,412,613	8,408,233
Grants and other assistance to individuals	-	216,238	258,796	-	475,034	-	58,912	-	58,912	533,946	428,122
Consultant fees	74,320	15,511	6,067	37,396	133,294	64,352	39,089	-	103,441	236,735	338,543
Audit and accounting fees	-	-	-	-	-	107,737	-	-	107,737	107,737	89,533
Legal fees	-	-	11,469	390	11,859	63,073	-	-	63,073	74,932	34,561
Fingerprinting	2,774	488	2,257	10,165	15,684	787	-	-	787	16,471	9,717
Medical supplies	3,847	753	47,261	5,793	57,654	537	-	-	537	58,191	44,379
Occupancy	359,904	76,439	936,942	1,474,816	2,848,101	630,294	-	-	630,294	3,478,395	3,052,984
Office expenses	97,619	65,330	505,162	345,272	1,013,383	365,200	18,462	-	383,662	1,397,045	1,279,530
Travel	2,209	72,322	316,045	440,929	831,505	64,447	3,156	-	67,603	899,108	836,695
Conferences, conventions and meetings	14,624	3,048	1,224	1,481	20,377	10,744	460	-	11,204	31,581	39,990
Catering, rental and food	-	-	-	-	-	-	-	88,733	88,733	88,733	66,638
Insurance	36,155	59,854	332,958	536,279	965,246	101,663	1,011	-	102,674	1,067,920	702,555
Information technology	42,111	18,101	105,484	142,610	308,306	78,744	-	-	78,744	387,050	458,973
Lobbying services	-	-	-	-	-	64,057	-	-	64,057	64,057	38,955
Advertising, dues and subscriptions	8,111	2,980	14,147	19,115	44,353	90,240	14,074	-	104,314	148,667	96,514
Consumer-related expenses	30,244	12,550	529,235	807,630	1,379,659	9,246	-	-	9,246	1,388,905	1,346,698
Interest	-	-	296,149	15,673	311,822	30,612	-	-	30,612	342,434	272,321
Bad debt expense	-	-	-	-	-	40,890	-	-	40,890	40,890	103,468
Miscellaneous expenses	26,133	3,235	42,554	18,405	90,327	33,300	65	-	33,365	123,692	59,979
	6,686,061	2,697,609	13,375,349	18,851,360	41,610,379	5,600,132	324,062	88,733	6,012,927	47,623,306	43,674,664
Depreciation and amortization	10,323	629	342,438	108,736	462,126	20,464	713	-	21,177	483,303	434,229
Total expenses	6,696,384	2,698,238	13,717,787	18,960,096	42,072,505	5,620,596	324,775	88,733	6,034,104	48,106,609	44,108,893
Cost of direct benefits of special events	-	-	-	-	-	-	-	(88,733)	(88,733)	(88,733)	(66,638)
Total expenses reported by function on the statement of activities	$ 6,696,384	$ 2,698,238	$ 13,717,787	$ 18,960,096	$ 42,072,505	$ 5,620,596	$ 324,775	$ -	$ 5,945,371	$ 48,017,876	$ 44,042,255

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

QSAC, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from program services	$ 44,975,742	$ 38,469,267
Cash received from government grants and contracts	2,291,487	2,601,283
Cash received from contributions	1,035,447	889,651
Cash received from other revenue	164,255	911,318
Cash received from special events	377,061	358,272
Cash Provided By Operating Activities	48,843,992	43,229,791
Cash paid for personnel costs	(37,110,066)	(32,721,435)
Cash paid for other than personnel costs	(9,730,484)	(9,113,330)
Cash paid for special events	(88,733)	(66,638)
Cash paid for interest	(342,434)	(272,321)
Cash Disbursed For Operating Activities	(47,271,717)	(42,173,724)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,572,275	1,056,067
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase/sale of certificates of deposit, net	(46,700)	690,155
Purchase of property and equipment	(671,454)	(250,314)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(718,154)	439,841
CASH FLOWS FROM FINANCING ACTIVITIES:		
Withdrawn from debt service reserve funds	595,370	21,186
Proceeds from loans payable	-	2,113,561
Cash Provided By Financing Activities	595,370	2,134,747
Payments of capital lease obligation	(1,099,917)	(325,000)
Payments of loans payable	(860,599)	(422,883)
Cash Disbursed For Financing Activities	(1,960,516)	(747,883)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,365,146)	1,386,864
NET CHANGE IN CASH AND CASH EQUIVALENTS	(531,025)	2,882,772
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,449,526	1,566,754
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,918,501	$ 4,449,526

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

QSAC, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,700,380	$ 208,654
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	40,890	103,468
Depreciation and amortization	483,303	434,229
Loss on write-off of closing costs	89,436	-
Loss on disposal of fixed assets	83,191	-
Deferred rent	159,074	131,254
Changes in assets (increase) decrease:		
Program services receivable	193,414	(210,841)
Prepaid expenses and other assets	(1,167,136)	(287,085)
Changes in liabilities increase (decrease):		
Accounts payable and accrued expenses	649,067	151,039
Accrued salaries and related benefits	26,751	1,652,876
Due to governmental agencies	(686,095)	(1,127,527)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,572,275	$ 1,056,067

SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:

	2014	2013
Property acquired through long-term financing	$ -	$ 5,091,776

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

Note 1 - Nature of Organization

QSAC, Inc. ("QSAC") is an award-winning nonprofit organization dedicated to providing services to persons with autism spectrum throughout New York City and Long Island. QSAC is incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). QSAC's primary source of revenue is program services and education fees.

Note 2 - Summary of Significant Accounting Policies

Summarized Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with QSAC's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Basis of Accounting

The financial statements are prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America.

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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

B-VI-6

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments (cont'd.)

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting QSAC's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2014, the cost basis of QSAC's financial instruments including cash and cash equivalents, certificates of deposit, program services receivable, debt service reserve funds, accounts payable and accrued expenses, accrued salaries and related benefits, and due to government agencies, approximated fair value due to the short maturity of these instruments.

Refer to Note 4 - Fair Value Measurements for assets measured at fair value.

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with initial maturities when acquired of three months or less.

Certificates of Deposit

Certificates of deposit include investments with initial maturities greater than three months. Certificates of deposit are considered investments for purposes of cash flow reporting.

Investments

Investments are stated at the readily determinable fair market value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Revenues, Program Services Receivable, Allowance for Doubtful Accounts and Due to Governmental Agencies

Revenues and accounts receivable from the New York State Office for Persons with Developmental Disabilities ("OPWDD") and New York State Education Department ("SED") programs services are recognized when earned. 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 amounts spent, QSAC records due to governmental agencies. At the beginning of each school year, QSAC is granted a provisional rate for its students funded by SED. This provisional rate is adjusted by SED based upon a final expenditure report submitted to them by QSAC subsequent to year-end. 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. At June 30, 2014, QSAC had established an allowance for doubtful receivables of approximately $98,000.

Prepaid Expenses

Prepaid expenses result from expenditures for goods and services before the goods are used or services are received. Prepaid expenses are deferred and charged to operations as the goods are used or services received.

Debt Service Reserve Funds

These amounts represent cash which is set aside under the terms of the bond agreement.

Deferred Debt Issuance Costs

Costs of obtaining financing or refinancing are offset against the debt reflected in the accompanying statements of financial position and amortized over the life of the debt. At June 30, 2014, accumulated amortization is $83,495. Amortization expense for the year ended June 30, 2014 is $24,996.

Property and Equipment

Property and equipment is recorded at cost, except for donated assets which are recorded at fair market value at the date of donation. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. QSAC capitalizes all purchases of property and equipment equal to or in excess of $5,000. Repairs and maintenance are charged to expense in tha period incurred.

B-VI-7

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Property and Equipment (cont'd.)

Depreciation and amortization of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	45 years
Leasehold improvements	5 to 15 years
Building improvements	10 to 15 years
Furniture and equipment	5 years
Vehicles	5 years

Long-Lived Assets

QSAC reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. There was no such impairment loss during the year ended June 30, 2014.

Net Assets

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those net assets that are restricted by the donors for specific purposes.

Contributions

Contributions received and unconditional promises to give are recorded as public support at fair value in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. QSAC records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., buildings and improvements, furniture, fixtures and equipment) are reported as temporarily restricted. Once the long-lived assets have been acquired or constructed, it is QSAC's policy to reflect the contribution or donation of the long-lived asset in its unrestricted net assets through a reclassification of net assats.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Contributions (cont'd.)

Contributions of donated services are reported as revenue and expenses at fair value if such services create or enhance nonfinancial assets, or require special skills and are provided by individuals possessing such special skills and would typically need to be purchased by QSAC if they had not been donated.

Operating Leases

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent has been recorded for the difference between the fixed payment and rent expense.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Accounting for Uncertainty in Income Taxes

QSAC adopted the provisions pertaining to uncertain tax provisions of FASB ASC Topic 740, *Income Taxes*, and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. QSAC is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. QSAC believes it is no longer subject to income tax examinations prior to 2011.

Note 3 - Concentration of Credit Risk

QSAC maintains cash and certificate of deposit balances in several financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per institution. From time to time, QSAC's balances may exceed these limits.

Note 4 - Fair Value Measurements

QSAC measures its marketable securities at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

Note 4 - Fair Value Measurements (cont'd.)

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect QSAC's own assumptions of market participant valuation (unobservable inputs).

QSAC's investments in corporate bonds, unit investment trusts, and mutual funds were valued using Level 1 inputs consisting of quoted market prices of identical securities.

Items Measured at Fair Value on a Recurring Basis

The following table presents QSAC's assets that are measured at fair value on a recurring basis at June 30, 2014:

	Total	Level 1	Level 2	Level 3
Marketable securities:				
Corporate bonds	$ 402,641	$ 402,641	$ -	$ -
Mutual funds - small cap	270,956	270,956	-	-
Mutual funds - mid cap	352,785	352,785	-	-
Mutual funds - large cap	840,664	840,664	-	-
Mutual funds - international	658,920	658,920	-	-
Mutual funds - equity	261,343	261,343	-	-
Unit investment trust	71,856	71,856	-	-
Total assets measured at fair value	$ 2,859,165	$ 2,859,165	$ -	$ -

These amounts are included in prepaid expenses and other assets and relate to the 403(b)/457(b)/457(f) Plans, further detailed in Note 11.

Note 5 - Debt Service Reserve Funds

QSAC has debt service reserve funds in connection with the New York City Industrial Development Agency ("NYCIDA") and with Nassau County Industrial Development Agency ("NCIDA") bond issuances (see Note 9). These balances are limited to use under terms of debt indentures. Interest earned on these reserve funds will be used to reduce QSAC's payment obligation under the mortgages. The balance at June 30, 2014 is $123,000.

Note 6 - Property and Equipment

Property and equipment, net, at cost, consists of the following at June 30, 2014:

Land	$ 996,420
Buildings	6,586,524
Leasehold improvements	2,323,922
Building improvements	3,716,561
Furniture and equipment	1,290,392
Vehicles	874,611
	15,788,430
Less: Accumulated depreciation and amortization	6,391,759
	$ 9,396,671

Depreciation and amortization expense relating to property and equipment amounted to $458,307 for the year ended June 30, 2014.

Note 7 - Line of Credit

QSAC has executed a line of credit for $3,500,000 from a financial institution at June 30, 2014. The line of credit expires December 31, 2014 and is subject to annual renewal and review. The agreement requires interest to be charged at a rate equal to the prime rate plus 0.5%, which at June 30, 2014 was 3.75%. This debt is collateralized with a general lien on QSAC's assets. No amount was outstanding at June 30, 2014.

B-VI-9

QSAC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 8 - Loans Payable

Loans payable consist of the following at June 30, 2014:

Vehicle loans payable to a financing agency, maturing through November 2014, payable in monthly installments ranging from $393 to $541 including interest at rates ranging from 2.90% to 8.25% per annum. The loans are secured by the related vehicles with a net book value of approximately $44,000.	$ 1,965
Mortgage loans payable to a financial institution, maturing from August 2, 2014 through January 3, 2029, payable in monthly installments ranging from $1,500 to $21,498, including interest at rates ranging from 2.53% to 4.00% per annum. Two of these loans, having a maturity date of August 2, 2024, include a balloon payment at the end of the loan term of $492,651 and $468,463, respectively. The loans are secured by a mortgage and security agreement on the related premises with a net book value of approximately $6,534,000.	7,770,246
	$ 7,772,211

The aggregate amounts of principal payments on the loans payable during each of the five years following June 30, 2014 and thereafter are as follows:

Years Ending June 30:	
2015	$ 795,227
2016	732,468
2017	744,475
2018	520,323
2019	506,910
Thereafter	4,472,808
	$ 7,772,211

Note 9 - Capital Lease Obligations

Capital lease obligations consist of the following at June 30, 2014:

Capital lease obligation to New York City Industrial Development Agency, maturing on July 1, 2019, payable in monthly installments of principal ranging from $2,667 to $5,833, plus interest at a rate ranging from 5.25% to 6.80% per annum. The obligation is secured by the related property and equipment.	$	166,281
Capital lease obligation to Nassau County Industrial Development Agency, maturing on July 1, 2020, payable in monthly installments of principal ranging from $3,750 to $5,000, plus interest at a rate ranging from 4.40% to 4.90% per annum. The obligation is secured by the related property and equipment.		450,000
	$	616,281

These capital leases are secured by the related property and equipment with a gross amount of approximately $592,000 and net book value of approximately $294,000. Amortization of assets held under capital leases is included in depreciation and amortization expense.

The aggregate amounts of principal payments on the bonds payable during each of the five years following June 30, 2014 and thereafter are as follows:

Years Ending June 30:		
2015	$	118,370
2016		113,880
2017		109,330
2018		104,690
2019		141,171
Thereafter		157,350
		744,791
Less: Amount representing interest		128,510
	$	616,281

Pursuant to the various bond indentures noted above, QSAC has money on deposit in a debt service reserve fund held by a trustee. Deposits in the debt service fund are to be used to pay any deficiency with respect to principal and interest payments pertaining to the related bonds payable if, and to the extent, QSAC defaults on such payments at the time such payments are due and payable. Assuming QSAC fully complies with all requirements of the bond indenture, the debt service reserve fund will either be returned to QSAC or credited by the trustee against the final payments due. At June 30, 2014, the balance of the debt service reserve fund was $123,000.

B-VI-10

Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30, 2014:

Scholarships	$	2,256
Educational/residential and other programs		233,341
	$	235,597

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows at June 30, 2014:

Scholarships	$	1,000
Educational/residential and other programs		34,331
	$	35,331

Note 11 - 403(b)/457(b)/457(f) Plans

QSAC had a federally qualified defined contribution plan covering substantially all employees who meet certain eligibility requirements. The amount contributed to the plan is a fixed percentage of participants' compensation. The plan expense amounted to $355,153 for the year ended June 30, 2014. On July 1, 2006, QSAC established an Internal Revenue Service ("IRS") Section 457(f) plan. The plan provides deferred compensation benefits for management and directors, in excess of other QSAC plans and has no contribution limits. The expense for this plan amounted to $249,212 for the year ended June 30, 2014. At June 30, 2014, QSAC has set aside $2,234,079 of cash and cash equivalents and investments, for this plan. A liability of the same amount is recorded in accrued salaries and related benefits. In 2007, QSAC established an IRS Section 457(b) plan. The plan provides deferred compensation benefits for management. The maximum level of the deferrals and employer contributions which may be credited on behalf of any participant in any taxable year under the plan shall not exceed the lesser of 100% of the participant's includible compensation for the taxable year or the IRC limit of $17,500 for the taxable year 2014. The expense for this plan amounted to $70,000 for the year ended June 30, 2014. At June 30, 2014, QSAC has set aside $760,215 of cash and cash equivalents and investments, for this plan. A liability of the same amount is recorded in accrued salaries and related benefits.

Note 12 - Commitments and Contingencies

QSAC's program costs are subject to audit by various government agencies. In the opinion of QSAC management, any liabilities that might be incurred would not have a material effect on QSAC's financial position or results of operations.

QSAC has leased twelve properties for program and administrative space under various noncancellable operating agreements expiring at various dates through 2039, and requires various minimum annual rental payments. Future minimum lease payments for the five years following June 30, 2014 and thereafter are as follows:

Years Ending June 30:	
2015	$ 1,726,286
2016	1,748,871
2017	1,798,618
2018	1,802,377
2019	1,732,410
Thereafter	11,263,532
	$20,072,094

Rent expense was $2,417,910 for the year ended June 30, 2014. During the year ended June 30, 2014, actual cash paid for rent was $2,258,836.

Note 13 - Donated Services, Facilities and Materials

QSAC received donated transportation services for consumers in its programs, with an estimated fair market value of $558,624 for the year ended June 30, 2014 from the New York City Department of Education. In addition, QSAC received various donated services and materials from other sources with an estimated fair market value of $134,109 for the year ended June 30, 2014. Donated services, facilities and materials have been recognized as revenue and expense in the statement of activities. As indicated in the statement of functional expenses, the related expenses have been allocated in accordance with the function benefited.

Note 14 - Bequests

QSAC has been named beneficiary in a number of bequests. These gifts have not been recorded in the accompanying financial statements because the donors' wills have not yet been declared valid by the probate court, and the value of the amounts to be received is not yet determinable.

Note 15 - Related Party Transactions

One member of QSAC's board of directors is a board member and partial owner of a financial institution where QSAC maintains a money market account and certificate of deposit account totaling approximately $2,713,000 at June 30, 2014. In addition, another QSAC board member is a senior executive at the same financial institution. QSAC earned approximately $55,000 of investment income relating to these accounts.

Note 16 - Subsequent Events

QSAC has evaluated all events or transactions that occurred after June 30, 2014 through the date of these financial statements, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.

QSAC, INC.

FINANCIAL STATEMENTS

JUNE 30, 2013

(WITH SUMMARIZED COMPARATIVE TOTALS FOR JUNE 30, 2012)

QSAC, INC.

CONTENTS

GRASSI & CO.
Accountants and Success Consultants®
Accounting, Auditing, Tax, Litigation Support, Valuation, Management & Technology Consulting

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
QSAC, Inc.
New York, New York

We have audited the accompanying statement of financial position of QSAC, Inc. ("QSAC") at June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of QSAC, Inc. at June 30, 2013, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited QSAC, Inc.'s 2012 financial statements, and our report dated January 9, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein at and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grassi & Co, CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
December 18, 2013

QSAC, INC.
STATEMENT OF FINANCIAL POSTION
JUNE 30, 2013
(WITH SUMMARIZED COMPARATIVE TOTALS AT JUNE 30, 2012)

ASSETS

	2013	2012
Cash and cash equivalents	$ 4,449,526	$ 1,566,754
Certificates of deposit, at cost	1,644,690	2,334,845
Program services receivable, net	5,529,843	5,422,470
Prepaid expenses and other assets	3,238,809	2,951,724
Debt service reserve funds	718,370	739,556
Deferred debt issuance costs, net	315,703	173,144
Property and equipment, net	9,268,332	4,322,839
TOTAL ASSETS	$ 25,165,273	$ 17,511,332

LIABILITIES AND NET ASSETS

	2013	2012
Liabilities:		
Accounts payable and accrued expenses	$ 1,231,843	$ 1,080,804
Accrued salaries and related benefits	7,081,144	5,428,268
Due to governmental agencies	2,251,000	3,378,527
Deferred rent payable	1,306,967	1,175,713
Loans payable	8,652,810	1,690,165
Capital lease obligations	1,716,198	2,041,198
TOTAL LIABILITIES	22,239,962	14,794,675
COMMITMENTS AND CONTINGENCIES		
Net assets		
Unrestricted	2,725,922	2,545,840
Temporarily restricted	199,389	170,817
TOTAL NET ASSETS	2,925,311	2,716,657
TOTAL LIABILITIES AND NET ASSETS	$ 25,165,273	$ 17,511,332

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

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QSAC, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

		2013			2012
		Unrestricted	Temporarily Restricted	Total	Total
REVENUES:					
Program service fees		$ 39,791,566	$ -	$ 39,791,566	$ 34,971,583
Government grants and contracts		2,366,740	-	2,366,740	1,680,131
Contributions		806,689	82,962	889,651	752,638
Other revenue		911,318	-	911,318	343,389
Special events	$ 358,272				
Less: Costs of direct benefits of special events	66,638	291,634	-	291,634	330,261
Net assets released from donor restrictions		54,390	(54,390)	-	-
Total Revenues		44,222,337	28,572	44,250,909	38,078,002
EXPENSES:					
Program services					
Educational services		6,749,916	-	6,749,916	6,544,754
Service coordination and other services		2,540,319	-	2,540,319	2,216,393
Residential services		12,862,065	-	12,862,065	9,256,274
Habilitation services		16,710,230	-	16,710,230	14,728,577
Supporting services					
Management and general		5,041,096	-	5,041,096	4,742,776
Fundraising		138,629	-	138,629	258,854
Total Expenses		44,042,255	-	44,042,255	37,747,628
CHANGE IN NET ASSETS		180,082	28,572	208,654	330,374
NET ASSETS, BEGINNING OF YEAR		2,545,840	170,817	2,716,657	2,386,283
NET ASSETS, END OF YEAR		$ 2,725,922	$ 199,389	$ 2,925,311	$ 2,716,657

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

QSAC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	Program Services					Supporting Services					
	Educational Services	Service Coordination and Other Services	Residential Services	Habilitation Services	Total	Management and General	Fundraising	Cost of Direct Benefits of Special Events	Total	2013 Total	2012 Total
Salaries	$ 4,490,429	$ 1,589,576	$ 7,368,331	$ 9,849,435	$ 23,297,771	$ 2,586,214	$ 82,093	$ -	$ 2,668,307	$ 25,966,078	$ 23,005,208
Fringe benefits	1,420,078	432,248	2,294,559	3,153,255	7,300,140	1,083,304	24,789	-	1,108,093	8,408,233	6,708,368
Grants and other assistance to individuals	-	201,147	226,975	-	428,122	-	-	-	-	428,122	351,009
Consultant fees	171,225	41,207	59,539	13,033	285,004	48,824	4,715	-	53,539	338,543	302,183
Audit and accounting fees	-	-	-	-	-	89,533	-	-	89,533	89,533	81,856
Legal fees	-	-	450	1,905	2,355	32,206	-	-	32,206	34,561	33,078
Fingerprinting	4,013	339	448	4,238	9,034	683	-	-	683	9,717	6,246
Medical supplies	4,988	753	36,721	1,827	44,287	92	-	-	92	44,379	30,332
Occupancy	350,955	71,913	781,728	1,354,102	2,558,698	494,286	-	-	494,286	3,052,984	2,662,225
Office expenses	100,375	65,065	458,902	342,337	966,679	299,525	13,326	-	312,851	1,279,530	1,045,176
Travel	2,728	39,290	260,865	466,995	769,878	66,971	46	-	67,017	836,895	898,354
Conferences, conventions and meetings	10,363	1,868	13,523	3,558	29,312	10,558	120	-	10,678	39,990	29,076
Catering, rental and food	-	-	-	-	-	-	-	66,638	66,638	66,638	66,989
Insurance	44,623	43,735	207,560	327,802	623,720	78,835	-	-	78,835	702,555	545,428
Information technology	52,005	20,481	144,865	158,608	375,959	83,014	-	-	83,014	458,973	344,709
Lobbying services	-	-	-	-	-	38,955	-	-	38,955	38,955	17,290
Advertising, dues and subscriptions	10,087	2,512	18,541	16,775	47,915	39,232	9,367	-	48,599	96,514	115,868
Consumer-related expenses	29,469	10,031	492,521	804,695	1,336,736	9,575	385	-	9,960	1,346,696	1,129,171
Interest	-	2,878	206,490	23,942	233,310	39,011	-	-	39,011	272,321	150,095
Bad debt expense	-	14,984	-	75,114	90,098	13,370	-	-	13,370	103,468	-
Miscellaneous expenses	49,537	1,948	1,365	2,257	55,107	4,872	-	-	4,872	59,979	110,504
	6,740,893	2,539,975	12,573,381	16,599,876	38,454,125	5,019,060	134,841	66,638	5,220,539	43,674,664	37,433,165
Depreciation and amortization	9,023	344	288,684	110,354	408,405	22,036	3,788	-	25,824	434,229	381,452
Total expenses	6,749,916	2,540,319	12,862,065	16,710,230	38,862,530	5,041,096	138,629	66,638	5,246,363	44,108,893	37,814,617
Cost of direct benefits of special events	-	-	-	-	-	-	-	(66,638)	(66,638)	(66,638)	(66,989)
Total expenses reported by function on the statement of activities	$ 6,749,916	$ 2,540,319	$ 12,862,065	$ 16,710,230	$ 38,862,530	$ 5,041,096	$ 138,629	$ -	$ 5,179,725	$ 44,042,255	$ 37,747,628

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

QSAC, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from program services	$ 38,469,267	$ 35,304,984
Cash received from government grants and contracts	2,601,283	1,680,131
Cash received from contributions	889,651	752,638
Cash received from other revenue	911,318	541,464
Cash received from special events	358,272	397,250
Cash Provided By Operating Activities	43,229,791	38,676,467
Cash paid for personnel costs	(32,721,435)	(29,131,127)
Cash paid for other than personnel costs	(9,113,330)	(8,084,954)
Cash paid for special events	(66,638)	(66,989)
Cash paid for interest	(272,321)	(150,095)
Cash Disbursed For Operating Activities	(42,173,724)	(37,433,165)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,056,067	1,243,302
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase/sale of certificates of deposit, net	690,155	(772,747)
Purchase of property and equipment	(250,314)	(131,875)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	439,841	(904,622)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Withdrawn from debt service reserve funds	21,186	16,186
Proceeds from loans payable	2,113,561	-
Cash Provided By Financing Activities	2,134,747	16,186
Payments of capital lease obligation	(325,000)	(315,000)
Payments of loans payable	(422,883)	(177,670)
Cash Disbursed For Financing Activities	(747,883)	(492,670)
NET CASH PROVIDED BY (USED) IN FINANCING ACTIVITIES	1,386,864	(476,484)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,882,772	(137,804)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,566,754	1,704,558
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,449,526	$ 1,566,754

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

QSAC, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 208,654	$ 330,374
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	103,468	-
Depreciation and amortization	434,229	381,452
Deferred rent	131,254	149,617
Changes in assets (increase) decrease:		
Program services receivable	(210,841)	327,225
Prepaid expenses and other assets	(287,085)	(121,055)
Changes in liabilities increase (decrease):		
Accounts payable and accrued expenses	151,039	508,048
Accrued salaries and related benefits	1,652,876	582,449
Due to governmental agencies	(1,127,527)	(914,808)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,056,067	$ 1,243,302

SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:

	2013	2012
Property acquired through long-term financing	$ 5,091,776	$ -

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

Note 1 - Nature of Organization

QSAC, Inc. ("QSAC") is an award-winning nonprofit organization dedicated to providing services to persons with autism spectrum throughout New York City and Long Island. QSAC is incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). QSAC's primary source of revenue is program services and education fees.

Note 2 - Summary of Significant Accounting Policies

Summarized Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with QSAC's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Basis of Accounting

The financial statements are prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America.

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. Estimates also affect the reported amounts of revenue and expenses during the reporting period Actual results could differ from those estimates.

Fair Value of Financial Instruments

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. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments (cont'd.)

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting QSAC's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2013, the cost basis of QSAC's financial instruments including cash and cash equivalents, certificates of deposit, program services receivable, debt service reserve funds, accounts payable and accrued expenses, accrued salaries and related benefits, and due to government agencies, approximated fair value due to the short maturity of these instruments.

Refer to Note 4 - Fair Value Measurements for assets measured at fair value.

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with initial maturities when acquired of three months or less.

Certificates of Deposit

Certificates of deposit include investments with initial maturities greater than three months. Certificates of deposit are considered investments for purposes of cash flow reporting.

Investments

Investments are stated at the readily determinable fair market value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Revenues, Program Services Receivable, Allowance for Doubtful Accounts and Due to Governmental Agencies

Revenues and accounts receivable from the New York State Office for Persons with Developmental Disabilities ("OPWDD") and New York State Education Department ("SED") programs services are recognized when earned. 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 amounts spent, QSAC records due to governmental agencies. At the beginning of each school year, QSAC is granted a provisional rate for its students funded by SED. This provisional rate is adjusted by SED based upon a final expenditure report submitted to them by QSAC subsequent to year-end. At June 30, 2013, QSAC has determined that approximately $358,000 is due to SED and is included in due to governmental agencies. 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. At June 30, 2013, QSAC had established an allowance for doubtful receivables of approximately $98,000.

Prepaid Expenses

Prepaid expenses result from expenditures for goods and services before the goods are used or services are received. Prepaid expenses are deferred and charged to operations as the goods are used or services received.

Debt Service Reserve Funds

These amounts represent cash which is set aside under the terms of the bond agreement.

Deferred Debt Issuance Costs

Costs of obtaining financing or refinancing are offset against the debt reflected in the accompanying statements of financial position and amortized over the life of the debt. At June 30, 2013, accumulated amortization is $356,649. Amortization expense for the year ended June 30, 2013 is $37,632.

Property and Equipment

Property and equipment is recorded at cost, except for donated assets which are recorded at fair market value at the date of donation. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. QSAC capitalizes all purchases of property and equipment equal to or in excess of $5,000. Repairs and maintenance are charged to expense in the period incurred.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Property and Equipment (cont'd.)

Depreciation and amortization of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	45 years
Leasehold improvements	5 to 15 years
Building improvements	10 to 15 years
Furniture and equipment	5 years
Vehicles	5 years

Long-Lived Assets

QSAC reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. There was no such impairment loss during the year ended June 30, 2013.

Net Assets

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those net assets that are restricted by the donors for specific purposes.

Contributions

Contributions received and unconditional promises to give are recorded as public support at fair value in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. QSAC records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., buildings and improvements, furniture, fixtures and equipment) are reported as temporarily restricted. Once the long-lived assets have been acquired or constructed, it is QSAC's policy to reflect the contribution or donation of the long-lived asset in its unrestricted net assets through a reclassification of net assets.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Contributions (cont'd.)

Contributions of donated services are reported as revenue and expenses at fair value if such services create or enhance nonfinancial assets, or required special skills and are provided by individuals possessing such special skills and would typically need to be purchased by QSAC if they had not been donated.

Operating Leases

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent has been recorded for the difference between the fixed payment and rent expense.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Accounting for Uncertainty in Income Taxes

QSAC has adopted the provisions pertaining to uncertain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements

Note 3 - Concentration of Credit Risk

QSAC maintains cash and certificate of deposit balances in several financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per institution. From time to time, QSAC's balances may exceed these limits.

Note 4 - Fair Value Measurements

QSAC measures its marketable securities at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

Note 4 - Fair Value Measurements (cont'd.)

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect QSAC's own assumptions of market participant valuation (unobservable inputs).

QSAC's investments in common stock, corporate bonds, unit investment trusts, and mutual funds were valued using Level 1 inputs consisting of quoted market prices of identical securities. Level 2 inputs relate to investments in fixed rate annuities which are valued at estimated fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

Items Measured at Fair Value on a Recurring Basis

The following table presents QSAC's assets that are measured at fair value on a recurring basis at June 30, 2013:

	Total	Level 1	Level 2	Level 3
Marketable securities:				
Common stock	$ 120,536	$ 120,536	$ -	$ -
Corporate bonds	20,623	20,623	-	-
Mutual funds - small cap	234,067	234,067	-	-
Mutual funds - mid cap	313,681	313,681	-	-
Mutual funds - large cap	923,655	923,655	-	-
Mutual funds - international	398,245	398,245	-	-
Unit investment trust	162,573	162,573	-	-
Fixed rate annuities	427,523	-	427,523	-
Total assets measured at fair value	$ 2,600,903	$ 2,173,380	$ 427,523	$ -

These amounts are included in prepaid expenses and other assets and relate to the 403(b)/457(b)/457(f) Plans, further detailed in Note 11.

Note 5 - Debt Service Reserve Funds

QSAC has debt service reserve funds in connection with the New York City Industrial Development Agency ("NYCIDA") and with Nassau County Industrial Development Agency ("NCIDA") bond issuances (see Note 9). These balances are limited to use under terms of debt indentures. Interest earned on these reserve funds will be used to reduce QSAC's payment obligation under the mortgages. The balance at June 30, 2013 is $718,370.

Note 6 - Property and Equipment

Property and equipment, net, at cost, consists of the following at June 30, 2013:

Land	$ 996,420
Buildings	6,586,524
Leasehold improvements	2,316,522
Building improvements	3,129,368
Furniture and equipment	1,341,973
Vehicles	866,796
	15,237,603
Less: Accumulated depreciation and amortization	5,969,271
	$ 9,268,332

Depreciation and amortization expense relating to property and equipment amounted to $396,597 for the year ended June 30, 2013.

Note 7 - Line of Credit

QSAC has executed a line of credit for $2,750,000 from a financial institution at June 30, 2013. The line of credit expired October 31, 2013 and is subject to annual renewal and review. The agreement requires interest to be charged at a rate equal to the prime rate (3.25% at June 30, 2013) plus 1.0%. This debt is collateralized with a general lien on QSAC's assets. The principal repayment of the line of credit is due over a period of 36 months. No amounts were outstanding at June 30, 2013. Subsequent to the year ended June 30, 2013, QSAC renewed its line of credit for $2,750,000 with an expiration date of January 31, 2014.

B-VI-20

Note 8 - Loans Payable

Loans payable consist of the following at June 30, 2013:

Vehicle loans payable to a financing agency, maturing through November 2014, payable in monthly installments ranging from $393 to $541 including interest at rates ranging from 2.90% to 8.25% per annum. The loans are secured by the related vehicles with a net book value of approximately $67,000.	$ 14,943
Mortgage loans payable to a financial institution, maturing from August 2, 2014 through January 3, 2029, payable in monthly installments ranging from $1,500 to $21,498, including interest at rates ranging from 2.53% to 4.00% per annum. Two of these loans, having maturity dates of August 2, 2024, include a balloon payment at the end of the loan term of $492,651 and $488,463, respectively. The loans are secured by a mortgage and security agreement on the related premises with a net book value of approximately $6,130,000.	8,637,867
	$ 8,652,810

The aggregate amounts of principal payments on the loans payable during each of the five years following June 30, 2013 and thereafter are as follows:

Years Ending June 30:	
2014	$ 877,195
2015	795,227
2016	732,468
2017	744,475
2018	520,323
Thereafter	4,983,122
	$ 8,652,810

Note 9 - Capital Lease Obligations

Capital lease obligations consist of the following at June 30, 2013:

Capital lease obligation to New York City Industrial Development Agency, maturing on July 1, 2015, payable in monthly installments of principal ranging from $6,667 to $22,917, plus interest at the rate of 8.125% per annum. The obligation is secured by the related property and equipment.	$	374,917
Capital lease obligation to New York City Industrial Development Agency, maturing on July 1, 2017, payable in monthly installments of principal ranging from $6,667 to $53,333, plus interest at a rate ranging from 6.10% to 6.50% per annum. The obligation is secured by the related property and equipment.		470,000
Capital lease obligation to Nassau County Industrial Development Agency, maturing on July 1, 2017, payable in monthly installments of principal ranging from $2,083 to $6,667, plus interest at a rate ranging from 6.10% to 6.50% per annum. The obligation is secured by the related property and equipment.		170,000
Capital lease obligation to New York City Industrial Development Agency, maturing on July 1, 2019, payable in monthly installments of principal ranging from $2,667 to $5,833, plus interest at a rate ranging from 5.25% to 6.80% per annum. The obligation is secured by the related property and equipment.		191,281
Capital lease obligation to Nassau County Industrial Development Agency, maturing on July 1, 2020, payable in monthly installments of principal ranging from $3,750 to $5,000, plus interest at a rate ranging from 4.40% to 4.90% per annum. The obligation is secured by the related property and equipment.		510,000
	$	1,716,198

These capital leases are secured by the related property and equipment with a gross amount of approximately $2,758,000 and net book value of approximately $1,361,000. Amortization of assets held under capital leases is included in depreciation and amortization expense.

B-VI-21

Note 9 - Capital Lease Obligations (cont'd.)

The aggregate amounts of principal payments on the bonds payable during each of the five years following June 30, 2013 and thereafter are as follows:

Years Ending June 30:		
2014	$	449,481
2015		612,156
2016		289,680
2017		285,055
2018		104,690
Thereafter		298,521
		2,039,583
Less: Amount representing interest		323,385
	$	1,716,198

Pursuant to the various bond indentures noted above, QSAC has money on deposit in a debt service reserve fund held by a trustee. Deposits in the debt service fund are to be used to pay any deficiency with respect to principal and interest payments pertaining to the related bonds payable if, and to the extent, QSAC defaults on such payments at the time such payments are due and payable. Assuming QSAC fully complies with all requirements of the bond indenture, the debt service reserve fund will either be returned to QSAC or credited by the trustee against the final payments due. At June 30, 2013, the balance of the debt service reserve fund was $718,370.

Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30, 2013:

Scholarships	$	3,169
Educational/residential and other programs		196,220
	$	199,389

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows at June 30, 2013:

Scholarships	$	2,000
Educational/residential and other programs		52,390
	$	54,390

Note 11 - 403(b)/457(b)/457(f) Plans

QSAC had a federally qualified defined contribution plan covering substantially all employees who meet certain eligibility requirements. The amount contributed to the plan is a fixed percentage of participants' compensation. The plan expense amounted to $288,817 for the year ended June 30, 2013. On July 1, 2006, QSAC established an Internal Revenue Service ("IRS") Section 457(f) plan. The plan provides deferred compensation benefits for management and directors, in excess of other QSAC plans and has no contribution limits. The expense for this plan amounted to $226,333 for the year ended June 30, 2013. At June 30, 2013, QSAC has set aside $2,021,615 of cash and cash equivalents and investments, for this plan. A liability of the same amount is recorded in accrued salaries and related benefits. In 2007, QSAC established an IRS Section 457(b) plan. The plan provides deferred compensation benefits for management. The maximum level of the deferrals and employer contributions which may be credited on behalf of any participant in any taxable year under the plan shall not exceed the lesser of 100% of the participant's includible compensation for the taxable year or the IRC limit of $17,500 for the taxable year 2013. The expense for this plan amounted to $70,000 for the year ended June 30, 2013. At June 30, 2013, QSAC has set aside $599,689 of cash and cash equivalents and investments, for this plan. A liability of the same amount is recorded in accrued salaries and related benefits.

Note 12 - Commitments and Contingencies

QSAC's program costs are subject to audit by various government agencies. In the opinion of QSAC management, any liabilities that might be incurred would not have a material effect on QSAC's financial position or results of operations.

QSAC has leased twelve properties for program and administrative space under various noncancellable operating agreements expiring at various dates through 2039, and requires various minimum annual rental payments. Future minimum lease payments for the five years following June 30, 2013 and thereafter are as follows:

Years Ending June 30:	
2014	$ 1,838,820
2015	1,726,286
2016	1,748,871
2017	1,406,198
2018	1,446,768
Thereafter	11,011,737
	$19,178,680

Rent expense was $2,153,637 for the year ended June 30, 2013. During the year ended June 30, 2013, actual cash paid for rent was $2,022,383.

B-VI-22

Note 13 - Donated Services, Facilities and Materials

QSAC received donated transportation services for consumers in its programs, with an estimated fair market value of $586,672 for the year ended June 30, 2013 from the New York City Department of Education. In addition, QSAC received various donated services and materials from other sources with an estimated fair market value of $118,252 for the year ended June 30, 2013. Donated services, facilities and materials have been recognized as revenue and expense in the statement of activities. As indicated in the statement of functional expenses, the related expenses have been allocated in accordance with the function benefited.

Note 14 - Bequests

QSAC has been named beneficiary in a number of bequests. These gifts have not been recorded in the accompanying financial statements because the donors' wills have not yet been declared valid by the probate court, and the value of the amounts to be received is not yet determinable.

Note 15 - Subsequent Events

QSAC has evaluated all events or transactions that occurred after June 30, 2013 through the date of these financial statements, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure, except as disclosed in Note 7.

QSAC, INC.

FINANCIAL STATEMENTS

JUNE 30, 2012

(WITH SUMMARIZED COMPARATIVE TOTALS FOR JUNE 30, 2011)

QSAC, INC.

CONTENTS

B-VI-24

GRASSI & CO.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
QSAC, Inc.
New York, New York

We have audited the accompanying statement of financial position of QSAC, Inc. ("QSAC") at June 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of QSAC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from QSAC's 2011 financial statements and, in our report dated December 28, 2011, we expressed an unqualified opinion on those financial 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 financial statements referred to above present fairly, in all material respects, the financial position of QSAC, Inc. at June 30, 2012, and the 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.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
January 9, 2013

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QSAC, INC.
STATEMENT OF FINANCIAL POSTION
JUNE 30, 2012
(WITH SUMMARIZED COMPARATIVE TOTALS AT JUNE 30, 2011)

ASSETS

	2012	2011
Cash and cash equivalents	$ 1,566,754	$ 1,704,558
Certificate of deposit, at cost	2,334,845	1,562,098
Program services receivable, net	5,422,470	5,749,695
Prepaid expenses and other assets	2,951,724	2,830,669
Debt service reserve funds	739,556	755,742
Deferred debt issuance costs, net	173,144	205,954
Property and equipment, net	4,322,839	4,539,606
TOTAL ASSETS	$ 17,511,332	$ 17,348,322

LIABILITIES AND NET ASSETS

	2012	2011
Liabilities:		
Accounts payable and accrued expenses	$ 1,692,719	$ 1,184,671
Accrued salaries and related benefits	5,428,268	4,845,819
Due to governmental agencies	2,766,612	3,681,420
Deferred rent payable	1,175,713	1,026,096
Loans payable	1,690,165	1,867,835
Capital lease obligations	2,041,198	2,356,198
TOTAL LIABILITIES	14,794,675	14,962,039
COMMITMENTS AND CONTINGENCIES		
Net assets		
Unrestricted	2,545,840	2,278,272
Temporarily restricted	170,817	108,011
TOTAL NET ASSETS	2,716,657	2,386,283
TOTAL LIABILITIES AND NET ASSETS	$ 17,511,332	$ 17,348,322

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

QSAC, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

		2012 Unrestricted	2012 Temporarily Restricted	2012 Total	2011 Total
REVENUES					
Program service fees		$ 34,971,583	$ -	$ 34,971,583	$ 34,553,294
Government grants and contracts		1,680,131	-	1,680,131	1,736,287
Contributions		646,238	106,400	752,638	785,766
Other revenue		343,389	-	343,389	276,205
Special events	$ 397,250				
Less: Costs of direct benefits of special events	66,989	330,261	-	330,261	197,351
Net assets released from donor restrictions		43,594	(43,594)	-	-
Total Revenues		38,015,196	62,806	38,078,002	37,548,903
EXPENSES:					
Program services					
Educational services		6,544,754	-	6,544,754	6,512,715
Service coordination and other services		2,216,393	-	2,216,393	2,155,943
Residential services		9,256,274	-	9,256,274	8,843,722
Habilitation services		14,728,577	-	14,728,577	14,177,069
Supporting services					
Management and general		4,742,776	-	4,742,776	4,749,249
Fundraising		258,854	-	258,854	263,728
Total Expenses		37,747,628	-	37,747,628	36,702,426
CHANGE IN NET ASSETS		267,568	62,806	330,374	846,477
NET ASSETS, BEGINNING OF YEAR		2,278,272	108,011	2,386,283	1,539,806
NET ASSETS, END OF YEAR		$ 2,545,840	$ 170,817	$ 2,716,657	$ 2,386,283

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

QSAC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	Program Services					Supporting Services					
	Educational Services	Service Coordination and Other Services	Residential Services	Habilitation Services	Total	Management and General	Fundraising	Cost of Direct Benefits of Special Events	Total	2012 Total	2011 Total
Salaries	$ 4,499,928	$ 1,432,084	$ 5,556,616	$ 8,981,170	$ 20,469,776	$ 2,380,130	$ 155,302	$ -	$ 2,535,432	$ 23,005,208	$ 22,225,328
Fringe benefits	1,234,921	352,586	1,584,147	2,443,174	5,614,830	1,051,291	42,247	-	1,093,538	6,708,368	6,559,320
Grants and other assistance to individuals	-	193,176	157,833	-	351,009	-	-	-	-	351,009	335,277
Consultant fees	160,711	18,751	31,774	34,340	245,576	33,636	22,871	-	56,607	302,183	357,030
Audit and accounting fees	-	-	-	-	-	81,856	-	-	81,856	81,856	71,120
Legal fees	-	56	3,881	72	4,021	29,057	-	-	29,057	33,078	27,714
Fingerprinting	1,915	11	609	3,054	5,589	657	-	-	657	6,246	2,617
Medical supplies	2,559	611	25,694	1,257	30,121	211	-	-	211	30,332	27,344
Occupancy	356,516	50,971	560,506	1,258,967	2,226,960	435,863	-	-	435,863	2,662,823	2,688,908
Office expenses	86,240	55,998	292,309	264,661	699,208	328,254	17,714	-	345,968	1,045,176	875,528
Travel	3,061	35,571	102,726	481,504	622,862	75,351	141	-	75,492	698,354	529,212
Conferences, conventions and meetings	50	12,600	6,040	5,280	23,970	5,051	55	-	5,106	29,076	15,136
Catering, rental and food	-	-	-	-	-	-	-	66,989	66,989	66,989	42,546
Insurance	42,989	24,779	91,152	304,378	463,308	80,725	1,397	-	82,122	545,426	498,267
Information technology	52,864	17,220	93,062	104,042	266,868	76,913	210	-	77,123	344,111	332,421
Lobbying services	-	-	-	-	-	17,290	-	-	17,290	17,290	34,244
Advertising, dues and subscriptions	8,227	6,363	13,629	15,584	44,203	56,476	15,189	-	71,665	115,868	63,194
Consumer-related expenses	25,089	12,455	388,118	698,823	1,124,485	4,479	197	-	4,676	1,129,171	1,109,797
Interest	-	2,878	98,223	27,323	128,424	23,671	-	-	23,671	150,095	169,679
Bad debt expense	-	-	-	-	-	-	-	-	-	-	129,241
Miscellaneous expenses	50,877	39	5,962	3,784	60,662	49,842	-	-	49,842	110,504	58,088
	6,525,785	2,216,333	9,010,491	14,627,411	32,380,000	4,730,753	255,423	66,989	5,053,165	37,433,165	38,249,418
Depreciation and amortization	18,969	60	245,783	101,166	365,968	12,023	3,431	-	15,454	381,452	495,554
Total expenses	6,544,754	2,216,393	9,256,274	14,728,577	32,745,968	4,742,776	258,854	66,989	5,068,619	37,814,617	38,744,972
Cost of direct benefits of special events	-	-	-	-	-	-	-	(66,989)	(66,989)	(66,989)	(42,546)
Total expenses reported by function on the statement of activities	$ 6,544,754	$ 2,216,393	$ 9,256,274	$ 14,728,577	$ 32,745,968	$ 4,742,776	$ 258,854	$ -	$ 5,001,630	$ 37,747,628	$ 36,702,426

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

QSAC, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from program services	$ 35,304,984	$ 35,808,505
Cash received from government grants and contracts	1,680,131	1,736,287
Cash received from contributions	752,638	785,766
Cash received from other revenue	541,464	380,736
Cash received from special events	397,250	239,897
Cash Provided By Operating Activities	38,676,467	38,951,191
Cash paid for personnel costs	(29,131,127)	(27,990,216)
Cash paid for other than personnel costs	(8,084,954)	(7,960,282)
Cash paid for special events	(66,989)	(42,546)
Cash paid for interest	(150,095)	(169,679)
Cash Disbursed For Operating Activities	(37,433,165)	(36,162,723)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,243,302	2,788,468
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawn from debt service reserve funds	16,186	6,187
Purchase of certificates of deposit - net	(772,747)	(1,261,748)
Purchases of property and equipment	(131,875)	-
Cash Disbursed For Investing Activities	(904,622)	(1,261,748)
NET CASH USED IN INVESTING ACTIVITIES	(888,436)	(1,255,561)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of capital lease obligation	(315,000)	(290,000)
Payments of loans payable	(177,670)	(244,266)
NET CASH USED IN FINANCING ACTIVITIES	(492,670)	(534,266)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(137,804)	998,641
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,704,558	705,917
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,566,754	$ 1,704,558

B-VI-26

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

QSAC, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 330,374	$ 846,477
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	-	129,241
Depreciation and amortization	381,452	495,554
Deferred rent	149,617	180,958
Changes in assets (increase) decrease:		
Program services receivable	327,225	(975,804)
Prepaid expenses and other assets	(121,055)	109,014
Changes in liabilities increase (decrease):		
Accounts payable and accrued expenses	508,048	(51,232)
Accrued salaries and related benefits	582,449	903,450
Due to governmental agencies	(914,808)	1,150,810
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,243,302	$ 2,788,468

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

Note 1- Nature of Organization

QSAC, Inc. ("QSAC") is an award-winning nonprofit organization dedicated to providing services to persons with autism spectrum throughout New York City and Long Island. QSAC is incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). QSAC's primary source of revenue is program services and education fees.

Note 2 - Summary of Significant Accounting Policies

Summarized Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with QSAC's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Basis of Accounting

The financial statements are prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America.

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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

QSAC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments (cont'd.)

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting QSAC's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2012, the cost basis of QSAC's financial instruments including cash and cash equivalents, certificates of deposit, program services receivable, debt service reserve funds, accounts payable and accrued expenses, accrued salaries and related benefits, and due to government agencies approximated fair value due to the short maturity of these instruments.

Refer to Note 4 - Fair Value Measurements for assets measured at fair value.

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with initial maturities when acquired of three months or less.

Certificates of Deposit

Certificates of deposit include investments with initial maturities greater than three months. Certificates of deposit are considered investments for purposes of cash flow reporting.

Investments

Investments are stated at the readily determinable fair market value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Revenues, Program Services Receivable, Allowance for Doubtful Accounts and Due to Governmental Agencies

Revenues and accounts receivable from the New York State Office for Persons with Developmental Disabilities ("OPWDD") and New York State Education Department ("SED") programs services are recognized when earned. 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 amounts spent, QSAC records due to governmental agencies. At the beginning of each school year, QSAC is granted a provisional rate for its students funded by SED. This provisional rate is adjusted by SED based upon a final expenditure report submitted to them by QSAC subsequent to year end. At June 30, 2012, QSAC has determined that approximately $722,000 is due and is included in due to governmental agencies. 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. At June 30, 2012, QSAC had established an allowance for doubtful receivables of approximately $38,000.

Prepaid Expenses

Prepaid expenses result from expenditures for goods and services before the goods are used or services are received. Prepaid expenses are deferred and charged to operations as the goods are used or services received.

Debt Service Reserve Funds

These amounts represent cash which is set aside under the terms of the bond agreement.

Deferred Debt Issuance Costs

Costs of obtaining financing or refinancing are offset against the debt reflected in the accompanying statements of financial position and amortized over the life of the debt. At June 30, 2012, accumulated amortization is $319,017. Amortization expense for the year ended June 30, 2012 is $32,810.

Property and Equipment

Property and equipment is recorded at cost, except for donated assets which are recorded at fair market value at the date of donation. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. QSAC capitalizes all purchases of property and equipment equal to or in excess of $5,000. Repairs and maintenance are charged to expense in the period incurred.

B-VI-28

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Property and Equipment (cont'd.)

Depreciation of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	45 years
Leasehold improvements	5 to 15 years
Building improvements	10 to 15 years
Furniture and equipment	5 years
Vehicles	5 years

Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. There was no such impairment loss during the year ended June 30, 2012.

Net Assets

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those net assets that are restricted by the donors for specific purposes.

Contributions

Contributions received and unconditional promises to give are recorded as pubic support at fair value in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. QSAC records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., buildings and improvements, furniture, fixtures and equipment) are reported as temporarily restricted. Once the long-lived assets have been acquired or constructed, it is QSAC's policy to reflect the contribution or donation of the long-lived asset in its unrestricted net assets through a reclassification of net assets.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Contributions (cont'd.)

Contributions of donated services are reported as revenue and expenses at fair value if such services create or enhance nonfinancial assets, or required special skills and are provided by individuals possessing such special skills and would typically need to be purchased by QSAC if they had not been donated.

Operating Leases

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent has been recorded for the difference between the fixed payment and rent expense.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Accounting for Uncertainty in Income Taxes

QSAC has adopted the provisions pertaining to uncertain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Note 3 - Concentration of Credit Risk

QSAC maintains cash and certificate of deposit balances in several financial institutions. Interest-bearing balances are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per institution. In addition, all funds in noninterest-bearing accounts and the certificate of deposit are insured by the FDIC through December 31, 2012. From time to time, QSAC's balances may exceed these limits.

Note 4 - Fair Value Measurements

QSAC measures its marketable securities at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect QSAC's own assumptions of market participant valuation (unobservable inputs).

QSAC's investments in common stock, corporate bonds, unit investment trusts, and mutual funds were valued using Level 1 inputs consisting of quoted market prices of identical securities. Level 2 inputs relate to investments in fixed rate annuities which are valued at estimated fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

Items Measured at Fair Value on a Recurring Basis

The following table presents QSAC's assets that are measured at fair value on a recurring basis at June 30, 2012:

	Total	Level 1	Level 2	Level 3
Marketable securities:				
Common stock	$ 706,694	$ 706,694	$ -0-	$ -0-
Corporate bond	68,776	68,776	-0-	-0-
Mutual funds - small cap	162,500	162,500	-0-	-0-
Mutual funds - mid cap	173,657	173,657	-0-	-0-
Mutual funds - large cap	505,298	505,298	-0-	-0-
Mutual funds - international	209,764	209,764	-0-	-0-
Unit investment trust	185,166	185,166	-0-	-0-
Fixed rate annuities	410,534	-0-	410,534	-0-
Total assets measured at fair value	$ 2,422,389	$ 2,011,855	$ 410,534	$ -0-

These amounts are included in prepaid expenses and other assets and relate to the 403(b)/457(b)/457(f) Plans, further detailed in Note 11.

Note 5 - Debt Service Reserve Funds

QSAC has debt service reserve funds in connection with the New York City Industrial Development Agency ("NYCIDA") and with Nassau County Industrial Development Agency ("NCIDA") bond issuances (see Note 9). These balances are limited to use under terms of debt indentures. Interest earned on these reserve funds will be used to reduce QSAC's payment obligation under the mortgages. The balance at June 30, 2012 is $739,556.

Note 6 - Property and Equipment

Property and equipment, net, at cost, consists of the following at June 30, 2012:

Land	$ 526,235
Buildings	2,354,856
Leasehold improvements	2,308,542
Building improvements	2,677,390
Furniture and equipment	1,197,935
Vehicles	1,014,020
	10,078,978
Less: Accumulated depreciation and amortization	5,756,139
	$ 4,322,839

Depreciation and amortization expense relating to property and equipment is $348,642 for the year ended June 30, 2012.

Note 7 - Line of Credit

QSAC has executed a line of credit for $2,750,000 from a financial institution at June 30, 2012. The line of credit expires January 31, 2013 and is subject to annual renewal and review. The agreement requires interest to be charged at a rate equal to the prime rate (3.25% at June 30, 2012) plus 1.0%. This debt is collateralized with a general lien on QSAC's assets. The principal repayment of the line of credit is due over a period of 36 months. No amounts were outstanding at June 30, 2012.

B-VI-30

Note 8 - Loans Payable

Loans payable consist of the following at June 30, 2012:

Vehicle loans payable to a financing agency, maturing through November 2014, payable in monthly installments ranging from $393 to $541 including interest at rates ranging from 2.90% to 8.25% per annum. The loans are secured by the related vehicles with a net book value of approximately $81,000.	$ 66,545
Unsecured loan payable to a financial institution, maturing on March 10, 2013, payable in monthly installments of $2,252 including interest at the rate of 7.00% per annum.	16,785
Mortgage loan payable to a financial institution, maturing through March 25, 2024, payable in monthly installments of $13,371 through March 24, 2019 including interest at the rate of 7% per annum. For the period March 25, 2019 through maturity date, the loan is payable in monthly installment amounts including both principal and interest, with interest set at the greater of 6% or 315 basis points in excess of the 5-year daily treasury yield curve rate. The loan is secured by a mortgage and security agreement on the related premises with a net book value of approximately $1,107,000.	1,276,171
Unsecured loan payable to a financial institution, maturing on August 24, 2019, payable in monthly installments of $4,922 including interest at the rate of 7.00% per annum.	330,664
	$ 1,690,165

The aggregate amounts of principal payments on the loans payable during each of the five years following June 30, 2012 and thereafter are:

Years Ending June 30:	
2013	$ 177,710
2014	130,202
2015	127,664
2016	134,786
2017	144,530
Thereafter	975,273
	$ 1,690,165

Note 9 - Capital Lease Obligations

Capital lease obligations consist of the following at June 30, 2012:

Capital lease obligation to New York City Industrial Development Agency, maturing on July 1, 2015, payable in monthly installments of principal ranging from $6,667 to $22,917, plus interest at the rate of 8.125% per annum. The obligation is secured by the related property and equipment.	$	469,917
Capital lease obligation to New York City Industrial Development Agency, maturing on July 1, 2017, payable in monthly installments of principal ranging from $6,667 to $53,333, plus interest at a rate ranging from 6.10% to 6.50% per annum. The obligation is secured by the related property and equipment.		580,000
Capital lease obligation to Nassau County Industrial Development Agency, maturing on July 1, 2017, payable in monthly installments of principal ranging from $2,083 to $6,667, plus interest at a rate ranging from 6.10% to 6.50% per annum. The obligation is secured by the related property and equipment.		205,000
Capital lease obligation to New York City Industrial Development Agency, maturing on July 1, 2019, payable in monthly installments of principal ranging from $2,667 to $5,833, plus interest at a rate ranging from 5.25% to 6.80% per annum. The obligation is secured by the related property and equipment.		216,281
Capital lease obligation to Nassau County Industrial Development Agency, maturing on July 1, 2020, payable in monthly installments of principal ranging from $3,750 to $5,000, plus interest at a rate ranging from 4.40% to 4.90% per annum. The obligation is secured by the related property and equipment.		570,000
	$	2,041,198

These capital leases are secured by the related property and equipment with a gross amount of approximately $2,712,000 and net book value of approximately $2,102,000.

B-VI-31

Note 9 - Capital Lease Obligations (cont'd.)

The aggregate amounts of principal payments on the bonds payable during each of the five years following June 30, 2012 and thereafter are:

Years Ending June 30:		
2013	$	455,608
2014		449,481
2015		612,156
2016		309,680
2017		265,055
Thereafter		403,371
		2,495,351
Less: Amount representing interest		454,153
	$	2,041,198

Pursuant to the various bond indentures noted above, QSAC has money on deposit in a debt service reserve fund held by a trustee. Deposits in the debt service fund are to be used to pay any deficiency with respect to principal and interest payments pertaining to the related bonds payable if, and to the extent, QSAC defaults on such payments at the time such payments are due and payable. Assuming QSAC fully complies with all requirements of the bond indenture, the debt service reserve fund will either be returned to QSAC or credited by the trustee against the final payments due. At June 30, 2012, the balance of the debt service reserve fund was $739,556.

Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30, 2012:

Scholarships	$	5,099
Educational/residential and other programs		165,718
	$	170,817

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows at June 30, 2012:

Scholarships	$	4,000
Educational/residential and other programs		39,594
	$	43,594

Note 11 - 403(b)/457(b)/457(f) Plans

QSAC had a federally qualified defined contribution plan covering substantially all employees who meet certain eligibility requirements. The amount contributed to the plan is a fixed percentage of participants' compensation. The plan expense amounted to $145,728 for the year ended June 30, 2012. On July 1, 2006, QSAC established an Internal Revenue Service ("IRS") Section 457(f) plan. The plan provides deferred compensation benefits for management and directors, in excess of other QSAC plans and has no contribution limits. The expense for this plan amounted to $302,315 for the year ended June 30, 2012. At June 30, 2012, QSAC has set aside $1,971,359 of cash and cash equivalents and investments, for this plan. A liability of the same amount is recorded in accrued salaries and related benefits. In 2007, QSAC established an IRS Section 457(b) plan. The plan provides deferred compensation benefits for management. The maximum level of the deferrals and employer contributions which may be credited on behalf of any participant in any taxable year under the plan shall not exceed the lesser of 100% of the participant's includible compensation for the taxable year or the IRC limit of $16,500 for the taxable year 2012. The expense for this plan amounted to $67,000 for the year ended June 30, 2012. At June 30, 2012, QSAC has set aside $517,338 of cash and cash equivalents and investments, for this plan. A liability of the same amount is recorded in accrued salaries and related benefits.

Note 12 - Commitments and Contingencies

B-VI-32

QSAC's program costs are subject to audit by various government agencies. In the opinion of QSAC management, any liabilities that might be incurred would not have a material effect on QSAC's financial position or results of operations.

QSAC has leased twelve properties for program and administrative space under various noncancellable operating agreements expiring at various dates through 2039, and requires various minimum annual rental payments. Future minimum lease payments for the five years following June 30, 2012 and thereafter are as follows:

Years Ending June 30:	
2013	$ 1,422,581
2014	1,466,943
2015	1,358,266
2016	1,205,305
2017	1,229,448
Thereafter	12,088,940
	$ 18,771,483

Rent expense was $1,846,343 for the year ended June 30, 2012. During the year ended June 30, 2012, actual cash paid for rent was $1,696,726.

Note 13 - Donated Services, Facilities and Materials

QSAC received donated transportation services for consumers in its programs, with an estimated fair market value of $490,526 for the year ended June 30, 2012 from the New York City Department of Education. In addition, QSAC received various donated services and materials from other sources with an estimated fair market value of $154,418 for the year ended June 30, 2012. Donated services, facilities and materials have been recognized as revenue and expense in the statement of activities. As indicated in the statement of functional expenses, the related expenses have been allocated in accordance with the function benefited.

Note 14 - Bequests

QSAC has also been named beneficiary in a number of bequests. These gifts have not been recorded in the accompanying financial statements because the donors' wills have not yet been declared valid by the probate court, and the value of the amounts to be received is not yet determinable.

Note 15 - Subsequent Events

QSAC has evaluated all events or transactions that occurred after June 30, 2012 through the date of these financial statements, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.

APPENDIX B-VII

SERVICES FOR THE UNDERSERVED, INC.

AND RELATED ORGANIZATIONS

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2014, JUNE 30, 2013 AND JUNE 30, 2012)

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Services for the UnderServed and Affiliated Organizations

Combined Financial Statements and Supplementary Information
Year Ended June 30, 2014

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.

Services for the UnderServed and Affiliated Organizations

Combined Financial Statements and Supplementary Information
Year Ended June 30, 2014

Services for the UnderServed and Affiliated Organizations

Contents

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Independent Auditor's Report

To the Board of Directors
Services for the UnderServed
and Affiliated Organizations
New York, New York

We have audited the accompanying combined financial statements of Services for the UnderServed and Affiliated Organizations ("SUS"), which comprise the combined statement of financial position as of June 30, 2014, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Services for the UnderServed and Affiliated Organizations as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit of the combined financial statements was conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented on pages 23 and 24 of this report is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Services for the UnderServed and Affiliated Organizations' 2013 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated December 16, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

BDO USA, LLP

December 17, 2014

Services for the UnderServed and Affiliated Organizations

Combined Statement of Financial Position
(with comparative totals for 2013)

June 30,	2014	2013
Assets		
Cash and cash equivalents (Note 2)	$ 7,916,434	$10,730,608
Accounts receivable, net of allowance for doubtful accounts of $2,359,159 and $3,775,302 for 2014 and 2013, respectively (Notes 2 and 7)	15,108,112	12,612,457
Prepaid expenses and other assets (Note 3)	2,193,672	1,941,195
Bond escrow fund (Note 4)	160,750	179,576
Due from affiliates (Notes 11 and 12)	2,084,415	1,695,522
Debt service reserve (Note 4)	1,993,726	1,993,726
Deferred bond financing costs (Note 10)	955,514	1,067,499
Fixed assets, net (Notes 2, 5, 7, 8 and 10)	36,198,047	35,546,212
	$66,610,670	$65,766,795
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 6,213,590	$ 5,353,763
Accrued compensation and related taxes	3,766,877	3,892,156
Due to affiliates (Note 11)	1,532,565	1,194,459
Due to clients	173,086	262,284
Other liabilities	790,743	544,106
Deferred revenue (Note 14)	6,994,167	10,320,327
Due to governmental agencies (Note 6)	2,090,162	2,051,019
Workers' compensation assessment payable settlement (Note 18)	678,837	678,837
Lines of credit (Note 7)	3,573,675	3,136,187
Mortgages payable (Note 8)	6,870,839	7,754,243
Loan payable (Note 9)	1,100,000	-
Bonds payable (Note 10)	11,573,043	13,062,850
Total Liabilities	45,357,584	48,250,231
Commitments and Contingencies (Notes 5, 7, 12, 13, 14, 15, 16, 18, 19 and 20)		
Net Assets:		
Unrestricted	18,707,080	15,008,483
Temporarily restricted (Note 15)	2,546,006	2,508,081
Total Net Assets	21,253,086	17,516,564
	$66,610,670	$65,766,795

See accompanying notes to combined financial statements.

Services for the UnderServed and Affiliated Organizations

Combined Statement of Activities
(with comparative totals for 2013)

Year ended June 30,	Unrestricted	Temporarily Restricted	Totals 2014	Totals 2013
Public Support and Revenue:				
Medicaid income	$43,516,316	$ -	$43,516,316	$38,639,001
Contract revenue	39,512,563	-	39,512,563	33,474,649
Participant fees	7,227,546	-	7,227,546	7,008,266
Contributions	790,940	855,000	1,645,940	470,665
Special events:				
Gross receipts	258,556	-	258,556	552,481
Less: Cost of special events	(265,432)	-	(265,432)	(428,253)
Management fees (Note 11)	137,113	-	137,113	289,677
Other	902,863	-	902,863	305,771
Net assets released from restrictions (Note 15)	817,075	(817,075)	-	-
Total Public Support and Revenue	92,897,540	37,925	92,935,465	80,312,257
Expenses:				
Program services:				
SUS - Mental Health Programs, Inc.	33,389,832	-	33,389,832	29,288,884
SUS - Developmental Disabilities Services, Inc.	36,913,836	-	36,913,836	33,132,132
SUS AIDS Services, Inc.	5,367,184	-	5,367,184	6,104,842
SUS - Urgent Housing Programs, Inc.	5,672,717	-	5,672,717	3,360,074
Total Program Services	81,343,569	-	81,343,569	71,885,932
Supporting services:				
Fundraising	417,490	-	417,490	254,418
Management and general	7,437,884	-	7,437,884	5,612,411
Total Supporting Services	7,855,374	-	7,855,374	5,866,829
Total Expenses	89,198,943	-	89,198,943	77,752,761
Excess of Public Support and Revenue Over Expenses From Continuing Operations Before Gain (Loss) From Discontinuing Operations	3,698,597	37,925	3,736,522	2,559,496
Gain (Loss) From Discontinuing Operations:				
Expenses - Home Attendant Program	(125,664)	-	(125,664)	(135,663)
Transfer to funding sources (Note 17)	125,664	-	125,664	135,663
	-	-	-	-
Change in Net Assets After Gain (Loss) From Discontinuing Operations	3,698,597	37,925	3,736,522	2,559,496
Other Changes:				
Assessment from default on workers' compensation trust (Note 18)	-	-	-	(196,028)
Asset impairment (Notes 5 and 19)	-	-	-	(3,012,000)
Change in Net Assets	3,698,597	37,925	3,736,522	(648,532)
Net Assets, Beginning of Year	15,008,483	2,508,081	17,516,564	18,165,096
Net Assets, End of Year	$18,707,080	$2,546,006	$21,253,086	$17,516,564

See accompanying notes to combined financial statements.

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Services for the UnderServed and Affiliated Organizations

Combined Statement of Functional Expenses
(with comparative totals for 2013)

Year ended June 30,

	Program Services					Supporting Services			Total	
	SUS - Mental Health Programs, Inc.	SUS - Developmental Disabilities Services, Inc.	SUS - AIDS Services, Inc.	SUS - Urgent Housing Programs, Inc.	Total Program Services	Fundraising	Management and General	Total Supporting Services	2014	2013
Salaries and Related Expenses:										
Salaries	$12,795,464	$18,379,444	$1,993,622	$1,658,582	$34,827,112	$221,594	$3,228,630	$3,450,224	$38,277,336	$33,261,323
Fringe benefits	2,771,478	5,999,760	452,864	253,131	9,477,233	48,116	775,819	823,935	10,301,168	8,622,798
Total Salaries and Related Expenses	15,566,942	24,379,204	2,446,486	1,911,713	44,304,345	269,710	4,004,449	4,274,159	48,578,504	41,884,121
Other Expenses:										
Food	313,988	791,790	16,430	147,407	1,269,615	2,890	7,885	10,775	1,280,390	1,367,352
Rent	7,375,247	563,069	1,961,286	1,516,331	11,417,933	-	300,256	300,256	11,718,189	10,744,876
Facility tax	-	393,749	-	-	393,749	-	1,083	1,083	394,832	435,370
Telephone and utilities	1,829,388	1,045,182	272,047	70,993	3,217,610	4,410	268,299	272,709	3,490,319	2,925,653
Transportation	220,236	1,418,425	31,036	139,971	1,809,668	4,790	70,549	75,339	1,885,007	1,747,369
Office supplies and postage	65,695	88,376	6,719	22,815	203,605	26,348	108,686	135,034	338,639	336,823
Lease equipment	221,291	310,333	23,158	18,724	573,506	18,747	67,469	86,216	659,722	558,472
Repairs and maintenance	987,930	598,905	151,542	58,586	1,796,963	24	209,999	210,023	2,006,986	1,787,936
Professional and consultant fees	744,195	488,478	63,276	191,674	1,487,623	58,002	705,140	763,142	2,250,765	1,565,376
Household supplies	222,108	583,040	34,126	206,322	1,045,596	-	4,370	4,370	1,049,966	972,354
Furniture and equipment expense	819,803	674,400	121,836	186,470	1,802,509	5,145	241,002	246,147	2,048,656	1,901,074
Insurance	442,880	287,141	54,320	226,490	1,010,831	-	81,710	81,710	1,092,541	904,320
Community outreach and recruitment	145,853	36,845	2,570	-	185,268	-	155,205	155,205	340,473	315,236
Client incidentals	321,662	178,514	10,276	716	511,168	-	3,528	3,528	514,696	520,775
Staff training	103,917	264,080	5,579	7,663	381,239	7,080	124,722	131,802	513,041	332,819
Interest expense	406,427	465,015	-	-	871,442	-	178,495	178,495	1,049,937	1,159,899
Temporary labor	1,470,252	2,778,461	172,894	899,692	5,321,299	-	280,541	280,541	5,601,840	4,809,251
Real estate taxes	9,929	13,721	-	-	23,650	-	-	-	23,650	28,202
Miscellaneous	618,290	183,073	(4,355)	7,257	804,265	20,344	329,727	350,071	1,154,336	518,419
Start up cost	50,165	23,070	-	-	73,235	-	-	-	73,235	74,201
Sheltered workshop	-	-	-	-	-	-	-	-	-	8,477
Broker and bond administrative fees	154,691	17,405	(1,515)	283	170,864	-	16,821	16,821	187,685	159,727
Bad debt expense	166,165	13,919	(67,644)	-	112,240	-	-	-	112,240	-
Total Expenses Before Depreciation and Amortization	32,277,054	35,596,195	5,299,867	5,615,107	78,788,223	417,490	7,159,936	7,577,426	86,365,649	75,058,102
Depreciation and Amortization	1,112,778	1,317,641	67,317	57,610	2,555,346	-	277,948	277,948	2,833,294	2,694,659
Total Expenses	$33,389,832	$36,913,836	$5,367,184	$5,672,717	$81,343,569	$417,490	$7,437,884	$7,855,374	$89,198,943	$77,752,761

See accompanying notes to combined financial statements.

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Combined Statement of Cash Flows
(with comparative totals for 2013)

Year ended June 30,	2014	2013
Cash Flows From Operating Activities:		
Change in net assets	$ 3,736,522	$ (648,532)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,833,296	2,694,659
Asset impairment	-	3,012,000
Provisions for bad debt	112,240	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(2,607,895)	(4,516,336)
Prepaid expenses and other assets	(252,477)	24,625
Due from affiliates	(388,893)	396,670
Increase (decrease) in:		
Accounts payable and accrued expenses	859,827	1,052,078
Accrued compensation and related taxes	(125,279)	176,100
Due to affiliates	338,106	(766,550)
Due to clients	(89,198)	(117,262)
Other liabilities	246,637	514,756
Deferred revenue	(3,326,160)	3,535,187
Due to governmental agencies	39,143	(926,166)
Workers' compensation assessment payable settlement	-	173,239
Net Cash Provided By Operating Activities	1,375,869	4,604,468
Cash Flows From Investing Activities:		
Purchase of fixed assets	(3,373,146)	(3,672,526)
Cash Flows From Financing Activities:		
Bond escrow fund	18,826	(10,618)
Payments of bond principal	(1,489,807)	(1,500,806)
Payments of line of credit	-	(220,000)
Proceeds from line of credit	437,488	2,736,187
Payments of mortgages payable	(883,404)	(829,895)
Proceeds from loan payable	1,100,000	-
Net Cash (Used In) Provided By Financing Activities	(816,897)	174,868
Net (Decrease) Increase in Cash and Cash Equivalents	(2,814,174)	1,106,810
Cash and Cash Equivalents, Beginning of Year	10,730,608	9,623,798
Cash and Cash Equivalents, End of Year	$ 7,916,434	$10,730,608
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 1,049,937	$ 1,159,899

See accompanying notes to combined financial statements.

B-VII-6

Notes to Combined Financial Statements

1. Nature of Organization

Services for the UnderServed and Affiliated Organizations ("SUS") was established in 1978 and currently serves approximately 8,500 people with special needs in New York City, primarily in Brooklyn, the Bronx, and Queens. SUS, through its affiliate corporations, provides a wide range of programs and services, tailoring them to meet the needs, goals and preferences of the persons they serve. These services include residential, day programs, peer advocacy, employment services, home care, and harm reduction education. Services are provided to:

- Elderly and/or disabled individuals
- Persons with a mental illness
- Individuals with HIV/AIDS
- Adults with a developmental disability
- Homeless and marginalized individuals

2. Summary of Significant Accounting Policies

(a) Principles of Combination

The combined financial statements include the accounts of SUS and affiliated organizations which are affiliated through common Board membership, common management and/or common ownership. All material intercompany transactions and balances have been eliminated. The following entities are included in the combined financial statements:

Services for the UnderServed, Inc. (corporate).

SUS - Mental Health Programs, Inc.

SUS - Developmental Disabilities Services, Inc.

SUS - AIDS Services, Inc.

SUS - Home Attendant Program, Inc.

SUS Home Care Services, Inc.

SUS - Urgent Housing Programs, Inc.

SUS is the sole member of SUS Mental Health Programs, Inc. which, in turn, is related to other affiliates, New Life Homes Housing Development Fund Corporation, Macombs Road Housing Development Fund Corporation, Mother Gaston Housing Development Fund Company, Inc. and 21 Truxton Street Housing Development Fund Corporation; however, it is not presented in these combined financial statements since it does not meet the criteria for consolidation.

(b) Basis of Presentation

The combined financial statements have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations. 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.

(c) 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 SUS and affiliated organizations is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of SUS and affiliated organizations.

(ii) **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by SUS and affiliated organizations is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of SUS and affiliated organizations 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.

(d) Cash and Cash Equivalents

SUS considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

(e) Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives of the assets are as follows:

Buildings and building improvements	25 years
Leasehold improvements	25 years
Furniture and equipment	5-7 years
Vehicles	5-7 years

(f) Revenue Recognition

Revenue from governmental grants is recognized as the expenditures for each contract are incurred. All grant monies received in excess of revenue earned are recorded as deferred revenue. Revenue from fees for service programs is recognized as they are earned (services are provided daily and/or monthly).

Reimbursements are subject to audit and retroactive adjustment by the respective third party fiscal intermediary. Revenue from retroactive adjustments is recognized in the year the adjustments are made.

SUS receives Supplemental Security Income ("SSI") and Social Security Income ("SSA") payments for the participants. A portion of the SSI/SSA payments represents the participants' contributions

B-VII-7

toward the cost of goods and services and is recognized as revenue when received. The remaining portion of SSI/SSA represents the participants' personal allowance and is recognized as a liability due to clients.

Participant fees represent the participant's personal contribution towards the cost of goods and services SUS is allowed to charge as regulated by Federal and state law.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

(g) 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.

Contributions of property and equipment are recorded at the fair market value of the property and equipment at the time of contribution.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

(h) 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. Actual results could differ from those estimates.

(i) Comparative Financial Information

The financial statements include certain prior year summarized comparative information. The statement of activities is presented in total rather than by net assets class. With respect to the 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 SUS's financial statements for the year ended June 30, 2013 from which the summarized information was derived.

(j) Concentration of Credit Risk

The financial instruments that potentially subject SUS to concentration of credit risk consist primarily of cash and cash equivalent accounts in financial institutions which, from time to time, exceed the Federal Depository Insurance Coverage ("FDIC") limit.

(k) Due to Governmental Agencies

Due to governmental agencies consists of operational advances, retroactive rate adjustments and advances received from New York State Office for People With Developmental Disabilities ("OPWDD"), the New York State Office of Mental Health ("OMH"), the New York State Department of Health ("DOH") and other advances due to the New York City Human Resources Administration ("HRA"). OPWDD recoups the liability through withholdings from Medicaid remittances over a specified period of time.

(l) Fair Value Measurements

Accounting Standards Codification ("ASC") 820, "Fair Value Measurement", 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. SUS classifies 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.

B-VII-8

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.

(m) Income Taxes

SUS 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 combined financial statements. In addition, SUS 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, 2014.

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 be sustained upon examination by a taxing authority. SUS does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. SUS has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, SUS 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 June 30, 2014, there was no interest or penalties recorded or included in the combined statement of activities. SUS is subject to routine audits by a taxing authority. As of June 30, 2014, SUS 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 2011.

(n) Long-Lived and Depreciable Assets

Contracts with funding agencies generally provide that purchases of fixed assets are expensed at the time of acquisition for cost reporting and reimbursement purposes although certain contracts contain reversion of title or similar provisions with respect to fixed assets purchased under the contract, principally in the event of early termination of the agreements or cancellation of the programs. For financial reporting purposes, such acquisitions are capitalized and depreciated over their estimated useful lives. Since the ongoing operation of SUS's programs is assumed, the resulting net assets are presented in the combined financial statements as unrestricted.

Contributions 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.

(o) Impairment of Long-Lived Assets

SUS reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. There were no impairment losses recognized for long-lived assets as of June 30, 2014.

(p) Deferred Revenue

Deferred revenue relates to preoperative costs through June 30, 2014 incurred by SUS to run programs and construction of new facilities. The funding source advances SUS for said costs based on a budget submitted. The final payment is based upon actual expenditures.

(q) Cost Allocation

Management and general expenses include expenditures for the overall direction of SUS, general recordkeeping, business management, budgeting and related purposes. Such expenses are allocated to individual programs for cost reporting and reimbursement purposes in proportion to the direct program expenses incurred. Certain other shared program expenses are allocated to individual programs using specific allocation methods.

3. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consists of the following:

June 30, 2014	
Security deposits	$1,188,040
Prepaid expenses	449,242
Dormitory Authority of the State of New York surplus funds	326,379
Other assets	230,011
	$2,193,672

4. Debt Service Reserve and Bond Escrow Fund

Debt service reserve represents funds held by OPWDD, U.S. Bank and Bank of New York Mellon, (collectively, the "Trustee"). These funds will be applied to the last payment required on the mortgages with the Facilities Development Corporation ("FDC") and bonds due to the Dormitory Authority of the State of New York Office of Mental Health ("DASNY") and NYC Industrial Development Agency ("IDA"). This reserve will earn interest which will be used to offset SUS's obligations. As of June 30, 2014, the Trustee has $1,993,726 in debt service reserve.

Bond escrow fund represents funds held by U.S. Bank and Bank of New York Mellon. These funds will be applied to expenses associated with DASNY and IDA bonds. As of June 30, 2014, the Trustee has $160,750 in bond escrow funds.

SUS's financial instruments are carried at fair value and have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2(l) for a discussion of SUS's policies regarding this hierarchy.

SUS's publicly-traded U.S. Treasury money market funds, U.S. Treasury bills and U.S. Treasury notes are carried at their aggregate market value that is determined by quoted market prices. Each of these investments can be liquidated daily. The valuation of these investments is based on Level 1 inputs within the hierarchy used in measuring fair value.

SUS's holdings in publicly-traded fixed income securities consist of U.S. government-sponsored agency securities. SUS's Trustee prices these investments using nationally recognized pricing services. Since fixed income securities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements for those securities using their proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of similar securities, sector groupings and matrix pricing. The valuation of these investments is based on Level 2 inputs within the hierarchy used in measuring fair value.

There were no changes in valuation methodologies as of June 30, 2014.

The following table presents the level within the fair value hierarchy at which SUS's financial assets and financial liabilities are measured on a recurring basis at June 30, 2014:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance as of June 30, 2014
Assets			
Money market funds	$1,301,734	$ -	$1,301,734
U.S. government obligations	395,459	457,283	852,742
Total assets	$1,697,193	$457,283	$2,154,476

B-VII-9

5. Fixed Assets, Net

Major classes of fixed assets, net consist of the following:

June 30, 2014	
Land	$ 2,044,297
Building and building improvements	62,043,763
Leasehold improvements	1,662,340
Furniture and equipment	6,685,611
Vehicles	524,837
Total fixed assets	72,960,848
Less: Accumulated depreciation and amortization	(36,762,801)
Fixed assets, net	$ 36,198,047

For the year ended June 30, 2014, depreciation and amortization expense was $2,833,294.

6. Due to Governmental Agencies

Due to governmental agencies consists of the following:

June 30, 2014	
Other advances due to OMH and New York City to be recouped	$1,866,210
Other advances due to OPWDD	223,952
	$2,090,162

7. Lines of Credit

SUS and its affiliated organizations have a $6,000,000 working capital line of credit with Bank of America against which $700,000 is outstanding for SUS at June 30, 2014. The line of credit matures on February 2, 2015 and the interest rate is equal to the prime rate (3.25%) plus 0.25%. There is also a quarterly fee on the unused available line of credit amount of 0.25%. The loan is guaranteed by SUS and all of its affiliates, collectively and individually, and is collateralized by a first-priority perfected securities interest in SUS's and its affiliated organizations' present and future accounts receivable and personal property and fixtures.

SUS also has a $4,000,000 acquisition line of credit with Bank of America. The line of credit matures on February 2, 2015 and the interest rate is 0.25% in excess of the prime rate. The loan is guaranteed by a negative pledge on the related residence and related leased location by SUS affiliated organizations. The total amount outstanding as of June 30, 2014 is $2,873,675.

8. Mortgages Payable

Mortgages payable consist of the following:

June 30, 2014	
Mortgage payable to Dormitory Authority of the State of New York ("DASNY") - OMH, due December 1, 2015, payable in semiannual payments of $40,897, including interest at 7.72% per annum, secured by real estate located on Patchen Avenue, Brooklyn, New York	$ 110,970
Mortgage payable to DASNY - OMH, due June 1, 2019, payable in semiannual payments of $56,065, including interest at 6.21% per annum, secured by real estate located on St. Marks Avenue, Brooklyn, New York	475,610
Mortgage payable to DASNY - OMH, due June 1, 2019, payable in semiannual payments of $47,400, including interest at 6.20% per annum, secured by real estate located on Patchen Avenue, Brooklyn, New York	402,039
Mortgage payable to DASNY - OMH, due December 1, 2020, payable in semiannual payments of $144,024, including interest at 5.58% per annum, secured by real estate located on Knickerbocker Avenue, Brooklyn, New York	1,552,406
Mortgage payable to DASNY - OMH, due June 1, 2023, payable in semiannual payments of $33,222, including interest at 5.40% per annum, secured by real estate located on Classon Avenue, Brooklyn, New York	468,419
Mortgage payable to DASNY - OMH, due June 1, 2022, payable in semiannual payments of $272,229, including interest at 5.27% per annum, secured by real estate located on Beach 85th Street, Queens, New York	3,514,895
Mortgage payable to FDC, due August 15, 2018, payable in semiannual debt service and administrative fee payments of approximately $30,000, including interest at 6.16% per annum, secured by real estate located on Cornelia Street, Brooklyn, New York.	136,500
Mortgage payable to FDC, due August 15, 2018, payable in semiannual debt service and administrative fee payment of approximately $33,000, including interest at 6.16% per annum, secured by real estate located on 45th Avenue, Flushing, New York.	210,000
	$6,870,839

Mortgages payable mature as follows:

Year ended June 30,	
2015	$ 929,480
2016	943,875
2017	959,468
2018	951,199
2019	1,343,935
Thereafter	1,742,882
	$6,870,839

9. Loan Payable

One of the SUS-Mental Health Programs, Inc. locations sustained damage during Hurricane Sandy in October 2012. While waiting on the funding from the Federal Emergency Management Agency ("FEMA") to repair the damage, SUS received a $1,100,000 NYC Nonprofit Recovery Loan from Fund for the City of New York to fund the building repairs. The amount was a onetime payment and the entire principal amount is due no later than December 30, 2015.

10. Bonds Payable

(a) DASNY

On June 25, 2003, the Services for the Underserved - Developmental Disabilities Services, Inc. ("DD") and Services for the Underserved, Inc. entered into an agreement with DASNY.

Under the terms of the agreement, DASNY has issued Insured Revenue Series 2003A and Series 2003B bonds in the aggregate principal amount of $9,545,000, which mature July 1, 2023. Bond payments, including interest and principal, are required to be made monthly to U.S. Bank, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The Series 2003A bonds bear interest ranging from 3.0% to 5.125%, net interest cost of 4.675% per annum. The Series 2003B bonds bear interest at 5.38% per annum. The principal amount outstanding at June 30, 2014 was $3,305,000.

In March 2010, DD entered into a loan agreement with DASNY. Under the terms of the agreement, DASNY issued Insured Revenue Series 2010A-1 bonds in the principal amount of $3,735,000, which mature on July 1, 2025. DASNY also issued Series 2010A-2 bonds in the principal amount of $80,000, which matured on July 1, 2012. Bond payments, including interest and principal, are required to be made monthly to The Bank of New York Mellon, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The bonds bear interest ranging from 1.5% to 5% per annum. The principal amount outstanding at June 30, 2014 was $2,300,000.

In April 2012, under the terms of the agreement, DASNY issued Insured Revenue Series 2012A-1 bonds in the principal amount of $1,685,000 at a premium of $72,091. DASNY also issued 2012A-2 bonds in the principal amount of $65,000. Series 2012A-1 and 2012A-2 bonds mature on July 1, 2027 and July 1, 2014, respectively. Bond payments, including interest and principal, are required to be made monthly to The Bank of New York Mellon, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The Series 2012A-1 bond bears interest ranging from 3% to 5% per annum. The Series 2012A-2 bond bears interest at 1.75% per annum. The principal amounts outstanding on the Series 2012A-1 and Series 2012A-2 bonds at June 30, 2014 were $1,510,000 and $-0-, respectively. The unamortized premium on the Series 2012A-1 bonds at June 30, 2014 was $62,478.

(b) IDA

On March 2, 2005, DD entered into a capital lease financing agreement with NYC Industrial Development Agency ("IDA"). Under the terms of the agreement, IDA issued $2,690,000 of Series 2005A term bonds, net of bond discount of $47,755. Interest rates range from 2% to 3% and mature in 2020. Bond payments, including interest and principal, are required to be made monthly to Bank of New York Mellon, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The principal amount outstanding at June 30, 2014 was $1,115,000.

On June 9, 2006, Services for the Underserved, Inc. entered into a capital lease financing agreement with NYC Industrial Development Agency ("IDA"). Under the terms of the agreement, IDA issued an aggregate of $1,679,077 of Series 2006 C-1 and C-2 term bonds, at interest rates ranging from 4.15% to 6.05% and mature in 2031. Bond payments, including interest and principal, are required to be made semiannually to the Bank of New York Mellon, which maintains a debt service reserve fund account and makes semiannual installments January 1 and July 1 of each year. The principal amount outstanding at June 30, 2014 was $1,293,065.

In October 2007, DD entered into a capital lease financing agreement with IDA. Under the terms of the agreement, IDA issued $3,695,000 of Series 2007B term bonds at a discount of $73,900. Interest rates range from 4.87% to 5.29% and mature in 2022. Bond payments, including interest and principal, are required to be made monthly to the Bank of New York Mellon, which maintains a debt service reserve fund account and makes semi-annual installment payments on January 1 and July 1 of each year. The principal amount outstanding at June 30, 2014 was $1,987,500.

In addition to the construction cost of the projects, bond proceeds were used to pay bond issuance costs of $823,773 for DASNY and $867,173 for IDA, respectively, which are being amortized over the lives of the bonds. At June 30, 2014, $111,985 of amortized bond costs is included in depreciation and amortization.

Future minimum debt service payments are as follows:

Year ending June 30,	
2015	$ 1,465,000
2016	1,080,000
2017	1,015,000
2018	1,025,000
2019	1,060,000
Thereafter	5,865,565
	11,510,565
Plus: Unamortized premium	62,478
	$11,573,043

11. Transactions With Related Parties

(a) Based on a written agreement in February 2002, SUS receives partnership management fees from the DeWitt Avenue Supportive Housing Project owned by New Life Homes, Limited Partnership ("NLHLP"). The Partnership has one general partner, New Life Homes, Inc., which has a 0.01% interest. The sole shareholder of New Life Homes, Inc. is New Life Homes Housing Development Fund Corporation ("HDFC"). SUS is the sole member of SUS - Mental Health Programs, Inc. which, in turn, is the sole member of the HDFC. The limited partner of NLHLP is the National Equity Fund 1999 Limited Partnership, which has a 99.99% interest.

During fiscal year end 2014, NLHLP provided $169,861 in development fee to SUS-Mental Health Programs, Inc. to be used to fund a social reserve. As of June 30, 2014, the total amount SUS-Mental Health Programs, Inc. received from NLHLP was $569,861.

SUS is entitled to an annual partnership management fee of 6.7% of gross potential income. SUS received management fees of $34,583 from New Life Homes, LP for the year ended June 30, 2014. At June 30, 2014, SUS had a payable and a receivable of $108,549 and $51,248, respectively, to NLHLP.

(b) SUS is the sole member of SUS - Mental Health Programs, Inc. which, in turn, is the sole member of Macombs Road Housing Development Fund Corporation ("Macombs HDFC") and Macombs HDFC owns all the outstanding shares of Macombs Road Housing G.P., Inc. ("Macombs HGP") which is the general partner of Macombs Road Housing L.P. ("Macombs HLP"). Macombs HGP has a 0.01% interest in Macombs HLP. The limited partner of Macombs HLP is Enterprise BB Fund I, LP which has a 99.99% interest.

B-VII-11

Macombs HLP was formed to own and operate a supportive housing program. SUS shares common staff with Macombs HLP and is entitled to be reimbursed for costs incurred related to the operation of the Macombs Supportive Housing Program. SUS is entitled to an annual partnership management fee of 8% of gross potential income. SUS had a payable and a receivable of $1,093,181 and $1,193,633, respectively, to Macombs HLP as of June 30, 2014.

(c) SUS is the sole member of SUS - Mental Health Programs, Inc. which, in turn, is the sole member of Mother Gaston Housing Development Fund Company, Inc. ("Mother Gaston HDFC") and Mother Gaston HDFC owns all the outstanding shares of Mother Gaston Housing G.P. Inc. ("Mother Gaston HGP") which is the general partner of Mother Gaston Housing L.P. ("Mother Gaston HLP"). Mother Gaston HGP has a 0.01% interest in Mother Gaston HLP. The limited partner of Mother Gaston HLP is Richman Asset Management, Inc. which has a 99.99% interest.

Mother Gaston HLP was formed to own and operate a supportive housing program. SUS shares common staff with Mother Gaston HLP and is entitled to be reimbursed for costs incurred related to the operation of the Mother Gaston Supportive Housing Program. SUS is entitled to an annual partnership management fee of 8% of gross potential income. SUS received management fees of $39,000 from Mother Gaston L.P. for the year ended June 30, 2014. SUS had a payable and a receivable from Mother Gaston HLP of $4,160 and $5,478, respectively, as of June 30, 2014.

(d) SUS is the sole member of SUS-Mental Health Programs Inc. which, in turn, is the sole member of 21 Truxton Street Housing Development Fund Corporation ("Truxton HDFC"). Truxton HDFC owns all of the outstanding shares of 21 Truxton Street G.P, Inc. ("Truxton, G.P.") which is the general partner of 21 Truxton Street, L.P. ("Truxton L.P."). The interest of Truxton G.P. in Truxton L.P. is 0.01%. The limited partner of Truxton L.P. is The Bank of America Housing Fund IX Limited Partnership, LLP which has a 99.9% interest.

Truxton L.P. was formed to own and operate supportive housing programs. SUS and SUS-Mental Health Programs, Inc. share common staff with Truxton L.P. and SUS is entitled to be reimbursed for costs incurred related to the operation of Truxton L.P. For the year ended June 30, 2014, SUS did not receive any income from Truxton L.P. SUS had a receivable from Truxton L.P. for $429,087 as of June 30, 2014.

The financial statements of NLHLP, Macombs HLP, Mother Gaston HLP and Truxton L.P. have not been combined with SUS, as the limited partners have substantive participating rights which effectively give them the ability to participate in significant decision making activities during the ordinary course of business.

12. Transfer of Membership

Family Residences & Essential Enterprises, Inc. ("FREE") entered into an agreement in August 2010 that substitutes FREE for SUS as sole member of the CDCH Preschool and CDCH Charter School. The agreement also provides that FREE replace SUS in its relationship with CDCH Foundation. The agreement with respect to CDCH Preschool closed on September 1, 2010, and the remaining parts of the agreement for CDCH Charter School closed on October 27, 2010. As consideration for the agreement, FREE paid SUS the balances due to SUS by CDCH Preschool and CDCH Charter School at closing, subject to a ten-year promissory note of $500,000 issued at prime plus 1.5%. The note receivable from FREE was $173,511, net of allowance for bad debt of $326,489 at June 30, 2014.

13. Pension Plan

Upon termination of the Services for the Underserved, Inc. 401(k) and Profit Sharing Plan on December 31, 2008, SUS established a 403(b) defined contribution plan on January 1, 2009 covering all eligible employees of SUS. The plan is administered by SUS. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Employer contributions to the 403(b) plan are discretionary and may vary from year to year. There were no employer contributions to the 403(b) plan for the year ended June 30, 2014.

SUS adopted a deferred compensation retirement plan (the "457 Plan") under Section 457(f) of the Internal Revenue Code. The 457 Plan is intended to provide deferred compensation for a group of SUS management employees. SUS contributed $93,660 to the 457 Plan for the year ended June 30, 2014.

14. Deferred Revenue

Deferred revenue consists of the following:

June 30, 2014	
Construction and acquisition costs for the Montrose, Marcy Avenue and Briarwood facilities which were financed by grants from the State of New York, Office of Mental Health ("OMH"), which stipulated that SUS will take title to the land and building after 20 years of meeting operational requirements	$4,111,834
Various Mental Health Program contract advances for fiscal year 2015	782,560
Additional OMH funding received for capital improvements for various Mental Health Program facilities	367,136
Various AIDS services contract advances for fiscal year 2015	549,631
Surplus income generated from Home Attendant Program	1,032,355
Other deferred revenue	150,651
	$6,994,167

B-VII-12

15. Temporarily Restricted Net Assets

SUS has temporarily restricted net assets that are available for the following purposes:

June 30, 2014	
Hotel Majestic and capital expenditures for Services for the UnderServed - Mental Health Programs, Inc.	$2,117,457
Veteran's employment and housing services	428,549
	$2,546,006

Services for the UnderServed and Affiliated Organizations

Notes to Combined Financial Statements

SUS's net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

June 30, 2014	
Hotel Majestic and capital expenditures for Services for the UnderServed - Mental Health Programs, Inc.	$230,624
Veteran's employment and housing services	286,451
Recovery of Far Rockaway facility following Hurricane Sandy	300,000
	$817,075

16. Commitments and Contingencies

(a) Leases

SUS is obligated under various lease agreements for the use of several residential apartments, office space, equipment and vehicles. SUS has the option to renew certain leases upon expiration. Rental expense was $11,718,189 for the year ended June 30, 2014. The minimum future annual rental payments are as follows:

Year ending June 30,	
2015	$ 8,663,508
2016	5,525,546
2017	3,638,998
2018	2,069,181
2019	1,871,834
Thereafter	4,287,068
Total	$26,056,135

(b) SUS is a defendant in various legal actions arising out of the normal course of its operations, the final outcome of which cannot presently be determined. SUS management is of the opinion that the ultimate liability, if any, with respect to all of these matters will not have a material adverse effect on SUS's financial position.

17. Transfer to Funding Source

On March 31, 2011, HRA did not renew its contract for the provision of home attendant services with SUS - Home Attendant Program, Inc. ("SUS-HA"). All clients were transferred to other providers in April 2011. Pursuant to the agreement between HRA and SUS-HA, the costs incurred to discontinue the program's operations are funded by HRA by the reduction of the payable balance between SUS-HA and HRA. HRA will continue to fund these costs until the program is fully liquidated. For the year ended June 30, 2014, the costs incurred for discontinuing operations were $125,664.

18. Workers' Compensation Assessment Payable Settlement

Between 1999 and 2003, SUS participated in a group self-insurance trust (the "Trust") along with multiple other agencies in the human services, not-for-profit sector. On December 31, 2010, the Trust was terminated with a deficiency of assets. The Trust billed all former members of the Trust with an assessed portion of the total deficit. SUS's assessment was $537,502 and it was recorded by SUS in the year ended June 30, 2011.

In July 2011, the State of New York Workers' Compensation Board (the "Board") assumed the administration and final distribution of the assets and liabilities of the Trust. Following a forensic audit, the Board issued newly calculated assessments and they were higher than those formerly issued by the Trust. The new assessment for SUS was $733,530. The increase in the assessment of $196,028 was recorded in the year ended June 30, 2013. Payments made in 2014 toward the assessment amounted to $-0-. The amount outstanding at June 30, 2014 was $678,837.

The liability of former members for Trust deficits is "joint and several". While SUS has recorded the full amount of the assessments calculated by the Board, default by other members of the Trust could create future assessments for non-defaulting members. In light of the expansive authority of the Board to recover assessments from all former members, SUS believes the likelihood of an additional assessment is remote.

B-VII-13

19. Losses and Recoveries Related to Hurricane Sandy

In October 2012, an SUS facility located in Far Rockaway, Queens was impacted by Hurricane Sandy. The costs incurred by SUS as a result of Hurricane Sandy included clean-up, relocation of residents to temporary quarters, capital reconstruction and mitigation measures. The building was vacated prior to the storm and reoccupied in December 2013 after the reconstruction. During 2014, operating expenses incurred as a result of Hurricane Sandy amounted to $630,855 and capital reconstruction costs amounted to $2,351,667. During 2013, the expenses incurred were $906,501 and $678,370, respectively. These costs will be recovered through disaster relief awarded by FEMA, by certain block grants from New York State, by funding from the New York State Office of Mental Health and by grants from private sources. As of June 2014, the accounts receivable related to Sandy amounted to approximately $2.4 million.

20. Subsequent Events

On June 10, 2014, SUS and Palladia Inc. ("Palladia") executed a non-binding letter of intent related to SUS becoming sole corporate member of Palladia. After execution of the letter of intent, SUS and Palladia entered a period of exclusive due diligence. The Board of Directors of both SUS and Palladia approved the membership transaction and it closed on December 4, 2014.

Palladia is a community-based, multi-site human services agency serving individuals and families (men, women and children) whose problems stem from various sources including substance abuse, homelessness, HIV/AIDS disease, mental illness, criminality, and/or domestic violence. Palladia offers a wide range of services along a continuum of care from outreach, prevention and treatment through transitional and permanent housing. These services are designed to promote independence and responsible living. Palladia revenues in 2014 were approximately $44 million.

SUS has evaluated subsequent events through December 17, 2014, which is the date these combined financial statements were available to be issued. No events arose during the period which required additional disclosures.

Supplementary Information

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Services for the UnderServed and Affiliated Organizations

Combining Statement of Financial Position
(with comparative totals for 2013)

	Services for the Underserved, Inc.	SUS - Mental Health Programs, Inc.	SUS - Developmental Disabilities Services, Inc.	SUS - AIDS Services, Inc.	SUS - Home Attendant Program, Inc.	SUS - Home Care Services, Inc.	SUS - Urgent Housing Programs, Inc.	Eliminations	Total 2014	Total 2013
Assets										
Cash and cash equivalents	$ 5,383,270	$ 1,301,979	$ 39,830	$ 6,646	$1,184,309	$ -	$ 400	$ -	$ 7,916,434	$10,730,608
Accounts receivable, net	179,826	6,819,658	5,901,536	1,036,445	-	3,037	1,227,610	-	15,108,112	12,612,457
Prepaid expenses and other assets	568,565	1,326,255	133,740	164,414	-	-	698	-	2,193,672	1,941,195
Bond escrow fund	-	-	160,750	-	-	-	-	-	160,750	179,576
Due from affiliates, net	6,440,913	2,654,977	-	-	-	-	-	(7,011,475)	2,084,415	1,695,522
Debt service reserve	483,460	-	1,510,266	-	-	-	-	-	1,993,726	1,993,726
Deferred bond financing costs	263,462	-	692,052	-	-	-	-	-	955,514	1,067,499
Fixed assets, net	2,614,493	16,536,460	16,415,032	265,853	-	-	366,209	-	36,198,047	35,546,212
	$15,873,989	$28,639,329	$24,853,206	$1,473,358	$1,184,309	$ 3,037	$1,594,917	$(7,011,475)	$66,610,670	$65,766,795
Liabilities and Net Assets (Deficit)										
Liabilities:										
Accounts payable and accrued expenses	$ 1,831,138	$ 966,215	$ 2,776,778	$ 187,596	$ 14,413	$ 3,037	$ 434,413	$ -	$ 6,213,590	$ 5,353,763
Accrued compensation and related taxes	728,530	1,215,638	1,502,403	162,620	18,294	-	119,392		3,766,877	3,892,156
Due to affiliates	326,575	1,205,990	6,078,880	33,576	119,247	90,359	689,413	(7,011,475)	1,532,565	1,194,459
Due to clients	-	122,931	50,155	-	-	-	-	-	173,086	262,284
Other liabilities	31,636	759,107	-	-	-	-	-	-	790,743	544,106
Deferred revenue	148,445	5,261,530	2,206	549,631	1,032,355	-	-	-	6,994,167	10,320,327
Due to government agencies	-	1,866,210	223,566	-	-	-	386	-	2,090,162	2,051,019
Workers' compensation assessment payable settlement	678,837	-	-	-	-	-	-	-	678,837	678,837
Lines of credit	3,573,675	-	-	-	-	-	-	-	3,573,675	3,136,187
Mortgages payable	-	6,524,339	346,500	-	-	-	-	-	6,870,839	7,754,243
Loan payable	-	1,100,000	-	-	-	-	-	-	1,100,000	-
Bonds payable	3,328,065	-	8,244,978	-	-	-	-	-	11,573,043	13,062,850
Total Liabilities	10,646,901	19,021,960	19,225,466	953,423	1,184,309	93,396	1,243,604	(7,011,475)	45,357,584	48,250,231
Commitments and Contingencies										
Net Assets (Deficit):										
Unrestricted	5,141,420	7,157,031	5,627,740	519,935	-	(90,359)	351,313	-	18,707,080	15,008,483
Temporarily restricted	85,668	2,460,338	-	-	-	-	-	-	2,546,006	2,508,081
Total Net Assets (Deficit)	5,227,088	9,617,369	5,627,740	519,935	-	(90,359)	351,313	-	21,253,086	17,516,564
	$15,873,989	$28,639,329	$24,853,206	$1,473,358	$1,184,309	$ 3,037	$1,594,917	$(7,011,475)	$66,610,670	$65,766,795

Services for the UnderServed and Affiliated Organizations

Combining Statement of Activities
(with comparative totals for 2013)

Year ended June 30,	Services for the Underserved, Inc.	SUS - Mental Health Programs, Inc.	SUS - Developmental Disabilities Services, Inc.	SUS - AIDS Services, Inc.	SUS - Home Attendant Programs, Inc.	SUS - Home Care Services, Inc.	SUS Urgent Housing Program, Inc.	Eliminations	Total 2014	Total 2013
Public Support and Revenue:										
Medicaid income	$ -	$ 4,859,109	$38,657,207	$ -	$ -	$ -	$ -	$ -	$43,516,316	$38,639,001
Contract revenue	-	28,454,263	-	5,370,297	-	-	5,688,003	-	39,512,563	33,474,649
Rental income	629,801	-	-	-	-	-	-	(829,801)	-	-
Participant fees	-	4,513,960	2,366,743	344,843	-	-	-	-	7,227,546	7,008,266
Contributions	970,940	675,000	-	-	-	-	-	-	1,645,940	470,665
Special events:	-	-	-	-	-	-		-	-	
Gross receipts	258,556	-	-	-	-	-	-	-	258,556	552,481
Less: Cost of special events	(265,432)	-	-	-	-	-	-	-	(265,432)	(426,253)
Management fees	6,435,042	-	-	-	-	-	-	(6,297,929)	137,113	289,677
Other	752,425	(6,817)	157,255	-	-	-	-	-	902,863	305,771
Total Public Support and Revenue	8,981,332	38,495,515	41,183,205	5,715,140	-	-	5,688,003	(7,127,730)	92,935,465	80,312,257
Expenses:										
Program services:										
Mental Health Programs, Inc.	-	33,862,018	-	-	-	-	-	(472,186)	33,389,832	29,288,884
Developmental Disabilities Services, Inc.	-	-	37,228,627	-	-	-	-	(314,791)	36,913,836	33,132,132
AIDS Services, Inc.	-	-	-	5,410,008	-	-	-	(42,824)	5,367,184	6,104,642
Urgent Housing Programs, Inc.	-	-	-	-	-	-	5,672,717	-	5,672,717	3,360,074
Total Program Services	-	33,862,018	37,228,627	5,410,008	-	-	5,672,717	(829,801)	81,343,569	71,885,932
Supporting services:										
Fundraising	417,490	-	-	-	-	-	-	-	417,490	254,418
Management and general	7,437,884	2,491,534	3,380,033	342,269	-	-	84,093	(6,297,929)	7,437,884	5,612,411
Total Supporting Services	7,855,374	2,491,534	3,380,033	342,269	-	-	84,093	(6,297,929)	7,855,374	5,866,829
Total Expenses	7,855,374	36,353,552	40,608,660	5,752,277	-	-	5,756,810	(7,127,730)	89,198,943	77,752,761
Excess (Deficit) of Public Support and Revenue Over Expenses From Continuing Operations Before Gain (Loss) From Discontinuing Operations	1,125,958	2,141,963	574,545	(37,137)	-	-	(68,807)	-	3,736,522	2,555,496
Gain (Loss) From Discontinuing Operations:										
Expenses - Home Attendant Program	-	-	-	-	(125,664)	-	-	-	(125,664)	(135,663)
Transfer to funding sources	-	-	-	-	125,664	-	-	-	125,664	135,663
	-	-	-	-	-	-	-	-	-	-
Change in Net Assets After Gain (Loss) From Discontinuing Operations	1,125,958	2,141,963	574,545	(37,137)	-	-	(68,807)	-	3,736,522	2,559,496
Other Changes:										
Assessment from default on workers' compensation trust	-	-	-	-	-	-	-	-	-	(196,026)
Asset impairment	-	-	-	-	-	-	-	-	-	(3,012,000)
Change in Net Assets	1,125,958	2,141,963	574,545	(37,137)	-	-	(68,807)	-	3,736,522	(648,532)
Net Assets (Deficit), Beginning of Year	4,101,130	7,475,406	5,053,195	557,072	-	(90,359)	420,120	-	17,516,564	18,165,094
Net Assets (Deficit), End of Year	$5,227,088	$9,617,369	$5,627,740	$ 519,935	$ -	$(90,359)	$ 351,313	$ -	$21,253,086	$17,516,564

Services for the UnderServed and Affiliated Organizations

Combined Financial Statements and Supplementary Information
Year Ended June 30, 2013

Services for the UnderServed and Affiliated Organizations

Combined Financial Statements and Supplementary Information
Year Ended June 30, 2013

Services for the UnderServed and Affiliated Organizations

Contents

B-VII-17

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Independent Auditor's Report

To the Board of Directors
Services for the UnderServed
and Affiliated Organizations
New York, New York

We have audited the accompanying combined financial statements of Services for the UnderServed and Affiliated Organizations ("SUS"), which comprise the combined statement of financial position as of June 30, 2013, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

B-VII-18

BDO

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Services for the UnderServed and Affiliated Organizations as of June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Services for the UnderServed and Affiliated Organizations' 2012 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated January 7, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

BDO USA, LLP

December 16, 2013

Services for the UnderServed and Affiliated Organizations

Combined Statement of Financial Position
(with comparative totals for 2012)

June 30,	2013	2012
Assets		
Cash and cash equivalents (Note 2)	$10,730,608	$ 9,623,798
Accounts receivable, net of allowance for doubtful accounts of $3,290,101 and $3,742,647 for 2013 and 2012, respectively (Notes 2 and 7)	12,612,457	8,096,121
Prepaid expenses and other assets (Note 3)	1,941,195	1,965,820
Bond escrow fund (Note 4)	179,576	168,958
Due from affiliates (Note 10)	1,695,522	2,092,192
Debt service reserve (Note 4)	1,993,726	1,993,726
Deferred bond financing costs (Note 9)	1,067,499	1,194,287
Fixed assets, net (Notes 2, 5, 7, 8 and 9)	35,546,212	37,453,557
	$65,766,795	$62,588,459
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 5,353,763	$ 4,301,684
Accrued compensation and related taxes	3,892,156	3,716,056
Due to affiliates (Note 10)	1,194,459	1,961,009
Due to clients	262,284	379,546
Other liabilities	544,106	29,350
Deferred revenue (Note 12)	10,320,327	6,785,141
Due to governmental agencies (Note 6)	2,051,019	2,977,185
Workers' compensation assessment payable settlement (Note 17)	678,837	505,598
Lines of credit (Note 7)	3,136,187	620,000
Mortgages and loans payable (Note 8)	7,754,243	8,584,138
Bonds payable (Note 9)	13,062,850	14,563,656
Total Liabilities	48,250,231	44,423,363
Commitments and Contingencies (Notes 5, 7, 11, 12, 13, 15, 16 and 17)		
Net Assets:		
Unrestricted (Note 16)	15,008,483	15,604,492
Temporarily restricted (Note 14)	2,508,081	2,560,604
Total Net Assets	17,516,564	18,165,096
	$65,766,795	$62,588,459

See accompanying notes to combined financial statements.

Services for the UnderServed and Affiliated Organizations

Combined Statement of Activities
(with comparative totals for 2012)

Year ended June 30,

	Unrestricted	Temporarily Restricted	Totals 2013	Totals 2012
Public Support and Revenue:				
Medicaid income	$38,639,001	$ -	**$38,639,001**	$36,442,479
Contract revenue	33,474,649	-	**33,474,649**	26,180,389
Participant fees	7,008,266	-	**7,008,266**	6,929,695
Contributions	220,665	250,000	**470,665**	386,606
Special events:				
Gross receipts	552,481	-	**552,481**	374,000
Less: Cost of special events	(428,253)	-	**(428,253)**	(418,243)
Management fees (Note 10)	289,677	-	**289,677**	127,065
Other	305,771	-	**305,771**	310,640
Net assets released from restrictions (Note 14)	302,523	(302,523)	**-**	-
Total Public Support and Revenue	80,364,780	(52,523)	**80,312,257**	70,332,631
Expenses:				
Program services:				
SUS - Mental Health Programs, Inc.	29,288,884	-	**29,288,884**	25,895,223
SUS - Developmental Disabilities Services, Inc.	33,132,132	-	**33,132,132**	31,417,011
SUS - AIDS Services, Inc.	6,104,842	-	**6,104,842**	5,836,901
SUS - Urgent Housing Programs, Inc.	3,360,074	-	**3,360,074**	-
Total Program Services	71,885,932	-	**71,885,932**	63,149,135
Supporting services:				
Fundraising	254,418	-	**254,418**	220,000
Management and general	5,612,411	-	**5,612,411**	6,185,573
Total Supporting Services	5,866,829	-	**5,866,829**	6,405,573
Total Expenses	77,752,761	-	**77,752,761**	69,554,708
Excess (Deficit) of Public Support and Revenue Over Expenses From Continuing Operations Before Gain (Loss) From Discontinuing Operations	2,612,019	(52,523)	**2,559,496**	777,923
Gain (Loss) From Discontinuing Operations:				
Expenses - Home Attendant Program (Note 16)	(135,663)	-	**(135,663)**	(515,418)
Transfer from funding sources (Note 16)	135,663	-	**135,663**	515,418
	-	-	**-**	-
Change in Net Assets After Gain (Loss) From Discontinuing Operations	2,612,019	(52,523)	**2,559,496**	777,923
Other Changes:				
Assessment from default on workers' compensation trust (Note 17)	(196,028)	-	**(196,028)**	-
Asset impairment (Notes 5 and 18)	(3,012,000)	-	**(3,012,000)**	-
Change in Net Assets	(596,009)	(52,523)	**(648,532)**	777,923
Net Assets, Beginning of Year	15,604,492	2,560,604	**18,165,096**	17,387,173
Net Assets, End of Year	**$15,008,483**	**$2,508,081**	**$17,516,564**	$18,165,096

See accompanying notes to combined financial statements.

B-VII-19

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Services for the UnderServed and Affiliated Organizations

Combined Statement of Functional Expenses
(with comparative totals for 2012)

Year ended June 30,

	Program Services					Supporting Services			Total	
	SUS - Mental Health Programs, Inc.	SUS - Developmental Disabilities Services, Inc.	SUS - AIDS Services, Inc.	SUS - Urgent Housing Programs, Inc.	Total Program Services	Fundraising	Management and General	Total Supporting Services	2013	2012
Salaries and Related Expenses:										
Salaries	$10,719,995	$16,550,471	$2,421,128	$ 875,447	$30,567,041	$185,269	$2,509,013	$2,694,282	$33,261,323	$30,022,560
Fringe benefits	2,309,307	5,248,391	599,597	70,942	8,228,237	37,526	357,035	394,561	8,622,798	8,310,108
Total Salaries and Related Expenses	13,029,302	21,798,862	3,020,725	946,389	38,795,278	222,795	2,866,048	3,088,843	41,884,121	38,332,668
Other Expenses:										
Food	426,217	768,930	22,639	131,180	1,348,966	474	17,912	18,386	1,367,352	1,354,525
Rent	7,034,892	514,077	2,040,660	929,760	10,519,389	2,791	222,696	225,487	10,744,876	8,467,523
Facility tax	-	431,196	-	-	431,196	-	4,174	4,174	435,370	294,893
Telephone and utilities	1,434,739	954,560	287,140	29,496	2,705,935	2,423	217,295	219,718	2,925,653	2,238,236
Transportation	175,423	1,310,687	38,485	95,800	1,620,395	3,479	123,495	126,974	1,747,369	1,446,291
Office supplies and postage	79,257	85,100	16,234	24,432	205,023	2,334	129,466	131,800	336,823	433,628
Lease equipment	199,969	257,842	23,661	17,696	499,168	3,500	55,804	59,304	558,472	786,628
Repairs and maintenance	859,511	587,016	102,389	61,286	1,610,202	28	177,706	177,734	1,787,936	1,996,390
Professional and consultant fees	314,786	539,940	70,911	146,353	1,071,990	707	492,679	493,386	1,565,376	974,239
Household supplies	245,658	537,353	61,080	116,591	960,682	-	11,672	11,672	972,354	952,433
Furniture and equipment expense	825,975	597,091	103,767	120,701	1,647,534	1,567	251,973	253,540	1,901,074	1,573,552
Insurance	387,324	273,931	47,206	164,127	872,588	-	31,732	31,732	904,320	653,334
Community outreach and recruitment	131,435	38,986	1,000	26,126	197,547	-	117,689	117,689	315,236	449,468
Client incidentals	296,894	198,939	15,779	327	511,939	10	8,826	8,836	520,775	460,605
Staff training	46,468	168,295	4,782	4,700	224,245	240	108,334	108,574	332,819	279,472
Interest expense	463,138	502,032	-	-	965,170	-	194,729	194,729	1,159,899	1,222,492
Temporary labor	1,690,020	2,308,262	168,375	543,847	4,710,504	-	98,747	98,747	4,809,251	3,996,529
Real estate taxes	11,283	15,449	1,470	-	28,202	-	-	-	28,202	29,237
Miscellaneous	260,383	60,424	5,927	1,165	327,899	14,070	176,450	190,520	518,419	518,285
Start up cost	72,656	1,545	-	-	74,201	-	-	-	74,201	53,451
Sheltered workshop	-	8,477	-	-	8,477	-	-	-	8,477	33,908
Broker and bond administrative fees	98,594	16,775	1,049	98	116,516	-	43,211	43,211	159,727	87,625
Bad debt expense	-	-	-	-	-	-	-	-	-	86,233
Total Expenses Before Depreciation and Amortization	28,083,924	31,975,769	6,033,279	3,360,074	69,453,046	254,418	5,350,638	5,605,056	75,058,102	66,721,645
Depreciation and Amortization	1,204,960	1,156,363	71,563	-	2,432,886	-	261,773	261,773	2,694,659	2,833,063
Total Expenses	$29,288,884	$33,132,132	$6,104,842	$3,360,074	$71,885,932	$254,418	$5,612,411	$5,866,829	$77,752,761	$69,554,708

See accompanying notes to combined financial statements.

7

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B-VII-21

Services for the UnderServed and Affiliated Organizations

Combined Statement of Cash Flows
(with comparative totals for 2012)

Year ended June 30,	2013	2012
Cash Flows From Operating Activities:		
Change in net assets	$ (648,532)	$ 777,923
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,694,659	2,833,063
Asset impairment	3,012,000	-
Provisions for bad debt	-	86,233
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(4,516,336)	34,520
Prepaid expenses and other assets	24,625	(379,963)
Due from affiliates	396,670	(518,391)
Deferred bond financing costs	-	(112,598)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,052,078	31,798
Accrued compensation and related taxes	176,100	460,282
Due to affiliates	(766,550)	354,848
Due to clients	(117,262)	(38,965)
Other liabilities	514,756	27,483
Deferred revenue	3,535,187	(1,263,409)
Due to governmental agencies	(926,166)	(892,951)
Workers' compensation assessment payable settlement	173,239	(31,904)
Net Cash Provided By Operating Activities	4,604,468	1,367,969
Cash Flows From Investing Activities:		
Purchase of fixed assets	(3,672,526)	(2,987,079)
Cash Flows From Financing Activities:		
Bond escrow fund	(10,618)	(4,184)
Debt service reserve fund	-	(135,945)
Payments of bond principal	(1,500,806)	(1,482,037)
Payments of line of credit	(220,000)	(1,471,191)
Payments of mortgages and loans payable	(829,895)	(827,771)
Proceeds from bonds payable	-	1,822,091
Proceeds from line of credit	2,736,187	620,000
Net Cash Provided By (Used In) Financing Activities	174,868	(1,479,037)
Net Increase (Decrease) in Cash and Cash Equivalents	1,106,810	(3,098,147)
Cash and Cash Equivalents, Beginning of Year	9,623,798	12,721,945
Cash and Cash Equivalents, End of Year	$10,730,608	$ 9,623,798
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 1,159,899	$ 1,222,492

See accompanying notes to combined financial statements.

Services for the UnderServed and Affiliated Organizations

Notes to Combined Financial Statements

1. Nature of Organization

Services for the UnderServed and Affiliated Organizations ("SUS") was established in 1978 and currently serves approximately 7,500 people with special needs in New York City, primarily in Brooklyn, the Bronx, and Queens. SUS, through its affiliate corporations, provides a wide range of programs and services, tailoring them to meet the needs, goals and preferences of the persons they serve. These services include residential, day programs, peer advocacy, employment services, home care, and harm reduction education. Services are provided to:

- Elderly and/or disabled individuals
- Persons with a mental illness
- Individuals with HIV/AIDS
- Adults with a developmental disability
- Homeless and marginalized individuals

2. Summary of Significant Accounting Policies

(a) Principles of Combination

The combined financial statements include the accounts of SUS and affiliated organizations which are affiliated through common Board membership, common management and/or common ownership. All material intercompany transactions and balances have been eliminated. The following entities are included in the combined financial statements:

Services for the UnderServed, Inc. (corporate).

SUS - Mental Health Programs, Inc.

SUS - Developmental Disabilities Services, Inc.

SUS - AIDS Services, Inc.

SUS - Home Attendant Program, Inc.

SUS - Home Care Services, Inc. (There were no expenses or revenues for the year ended June 30, 2013).

SUS - Urgent Housing Programs, Inc.

SUS is the sole member of SUS - Mental Health Programs, Inc. which, in turn, is related to other affiliates, New Life Homes Housing Development Fund Corporation, Macombs Road Housing Development Fund Corporation, Mother Gaston Housing Development Fund Company, Inc. and 21 Truxton Street Housing Development Fund Corporation; however, it is not presented in these combined financial statements since it does not meet the criteria for consolidation.

(b) Basis of Presentation

The combined financial statements have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations. 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.

(c) 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 SUS and affiliated organizations is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of SUS and affiliated organizations.

(ii) Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by SUS and affiliated organizations is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of SUS and affiliated organizations 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.

(d) Cash and Cash Equivalents

SUS considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

(e) Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives of the assets are as follows:

Buildings and building improvements	25 years
Leasehold improvements	25 years
Furniture and equipment	5-7 years
Vehicles	5-7 years

(f) Revenue Recognition

Revenue from governmental grants is recognized as the expenditures for each contract are incurred. All grant monies received in excess of revenue earned are recorded as deferred revenue. Revenue from fees for service programs is recognized as they are earned (services are provided daily and/or monthly).

Reimbursements are subject to audit and retroactive adjustment by the respective third party fiscal intermediary. Revenue from retroactive adjustments is recognized in the year the adjustments are made.

SUS receives Supplemental Security Income ("SSI") and Social Security Income ("SSA") payments for the participants. A portion of the SSI/SSA payments represents the participants' contributions

toward the cost of goods and services and is recognized as revenue when received. The remaining portion of SSI/SSA represents the participants' personal allowance and is recognized as a liability due to clients.

Participant fees represent the participant's personal contribution towards the cost of goods and services SUS is allowed to charge as regulated by Federal and state law.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

(g) 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.

Contributions of property and equipment are recorded at the fair market value of the property and equipment at the time of contribution.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

(h) 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. Actual results could differ from those estimates.

(i) Comparative Financial Information

The financial statements include certain prior year summarized comparative information. The statement of activities is presented in total rather than by net assets class. With respect to the 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 SUS's financial statements for the year ended June 30, 2012 from which the summarized information was derived.

(j) Concentration of Credit Risk

The financial instruments that potentially subject SUS to concentration of credit risk consist primarily of cash and cash equivalent accounts in financial institutions which, from time to time, exceed the Federal Depository Insurance Coverage ("FDIC") limit.

(k) Due to Governmental Agencies

Due to governmental agencies consists of operational advances, retroactive rate adjustments and advances received from New York State Office for People With Developmental Disabilities ("OPWDD"), the New York State Office of Mental Health ("OMH"), the New York State Department of Health ("DOH") and other advances due to the New York City Human Resources Administration ("HRA"). OPWDD recoups the liability through withholdings from Medicaid remittances over a specified period of time.

B-VII-23

(l) Fair Value Measurements

Accounting Standards Codification ("ASC") 820, "Fair Value Measurement", 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. SUS classifies 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.

(m) Income Taxes

SUS 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 combined financial statements. In addition, SUS 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, 2013.

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 be sustained upon examination by a taxing authority. SUS does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. SUS has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, SUS 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 June 30, 2013, there was no interest or penalties recorded or included in the combined statement of activities. SUS is subject to routine audits by a taxing authority. As of June 30, 2013, SUS 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 2009.

(n) Long-Lived and Depreciable Assets

Contracts with funding agencies generally provide that purchases of fixed assets are expensed at the time of acquisition for cost reporting and reimbursement purposes although certain contracts contain reversion of title or similar provisions with respect to fixed assets purchased under the contract, principally in the event of early termination of the agreements or cancellation of the programs. For financial reporting purposes, such acquisitions are capitalized and depreciated over their estimated useful lives. Since the ongoing operation of SUS's programs is assumed, the resulting net assets are presented in the combined financial statements as unrestricted.

Contributions 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.

(o) Impairment of Long-Lived Assets

SUS reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. For the facility damages as a result of Superstorm Sandy, SUS recorded an impairment loss of $3,012,000 for the year ended June 30, 2013.

(p) Deferred Revenue

Deferred revenue relates to preoperative costs through June 30, 2013 incurred by SUS to run programs and construction of new facilities. The funding source advances SUS for said costs based on a budget submitted. The final payment is based upon actual expenditures.

(q) Cost Allocation

Management and general expenses include expenditures for the overall direction of SUS, general recordkeeping, business management, budgeting and related purposes. Such expenses are allocated to individual programs for cost reporting and reimbursement purposes in proportion to the direct program expenses incurred. Certain other shared program expenses are allocated to individual programs using specific allocation methods.

3. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consists of the following:

June 30, 2013	
Security deposits	$1,114,498
Prepaid expenses	496,725
Dormitory Authority of the State of New York surplus funds	329,972
	$1,941,195

4. Debt Service Reserve and Bond Escrow Fund

Debt service reserve represents funds held by OPWDD, Deutsche Bank Trust Company Americas and Bank of New York Mellon, (collectively, the "Trustee"). These funds will be applied to the last payment required on the mortgages with the Facilities Development Corporation ("FDC") and bonds due to the Dormitory Authority of the State of New York Office of Mental Health ("DASNY") and NYC Industrial Development Agency ("IDA"). This reserve will earn interest which will be used to offset SUS's obligations. As of June 30, 2013, the Trustee has $1,993,726 in debt service reserve.

Bond escrow fund represents funds held by Deutsche Bank Trust Company Americas and Bank of New York Mellon. These funds will be applied to expenses associated with DASNY and IDA bonds. As of June 30, 2013, the Trustee has $179,576 in bond escrow funds.

SUS's financial instruments are carried at fair value and have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2(l) for a discussion of SUS's policies regarding this hierarchy.

SUS's publicly-traded U.S. Treasury money market funds, U.S. Treasury bills and U.S. Treasury notes are carried at their aggregate market value that is determined by quoted market prices. Each of these investments can be liquidated daily. The valuation of these investments is based on Level 1 inputs within the hierarchy used in measuring fair value.

B-VII-24

SUS's holdings in publicly-traded fixed income securities consist of U.S. government-sponsored agency securities. SUS's Trustee prices these investments using nationally recognized pricing services. Since fixed income securities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements for these securities using their proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of similar securities, sector groupings and matrix pricing. The valuation of these investments is based on Level 2 inputs within the hierarchy used in measuring fair value.

The following table presents the level within the fair value hierarchy at which SUS's financial assets and financial liabilities are measured on a recurring basis at June 30, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance as of June 30, 2013
Assets			
Money market funds	$1,311,734	$ -	$1,311,734
U.S. government obligations	404,285	457,283	861,568
Total assets	$1,716,019	$457,283	$2,173,302

5. Fixed Assets, Net

Major classes of fixed assets, net consist of the following:

June 30, 2013	
Land	$ 2,044,297
Building and building improvements	59,113,135
Leasehold improvements	1,532,270
Furniture and equipment	6,373,165
Vehicles	524,837
Total fixed assets	69,587,704
Less: Accumulated depreciation and amortization	(34,041,492)
Fixed assets, net	$ 35,546,212

For the year ended June 30, 2013, depreciation and amortization expense was $2,694,659.

One of the SUS locations was destroyed during Hurricane Sandy in October 2012. SUS entered into approximately $3,000,000 of capital commitments in relation to its property reconstruction. The remaining net book value of $3,012,000 at December 31, 2012 was written off to asset impairment as of June 30, 2013. Related depreciation expense of $156,235 for the period of January to June 2013 was abolished as well. Reconstruction related costs for the total amount of $678,370 were capitalized at June 30, 2013.

Three SUS projects went from the Development to the Operational phase during the second half of fiscal year 2013. Construction-in-progress for the total of $2,873,664 was reclassed to building and building improvement at June 30, 2013.

6. Due to Governmental Agencies

Due to governmental agencies consists of the following:

June 30, 2013	
Other advances due to OMH and New York City to be recouped	$1,902,134
Other advances due to DOH	148,885
	$2,051,019

7. Lines of Credit

SUS and its affiliated organizations have a $6,000,000 working capital line of credit with Bank of America against which $400,000 is outstanding for SUS at June 30, 2013. The line of credit matures on June 30, 2014 and the interest rate is equal to the prime rate (3.25%) plus 0.25%. There is also a quarterly fee on the unused available line of credit amount of 0.25%. The loan is guaranteed by SUS and all of its affiliates, collectively and individually, and is collateralized by a first-priority perfected securities interest in SUS's and its affiliated organizations' present and future accounts receivable and personal property and fixtures.

SUS also has a $4,000,000 acquisition line of credit with Bank of America. The line of credit matures on June 30, 2014 and the interest rate is 0.25% in excess of the prime rate. The loan is guaranteed by a negative pledge on the related residence and related leased location. The total amount outstanding as of June 30, 2013 is $2,736,187.

8. Mortgages and Loans Payable

Mortgages and loans payable consist of the following:

June 30, 2013	
Mortgage payable to Dormitory Authority of the State of New York ("DASNY") - OMH, due December 1, 2015, payable in semiannual payments of $40,897, including interest at 7.72% per annum, secured by real estate located on Patchen Avenue, Brooklyn, New York	$ 180,428
Mortgage payable to DASNY - OMH, due June 1, 2019, payable in semiannual payments of $56,065, including interest at 6.21% per annum, secured by real estate located on St. Marks Avenue, Brooklyn, New York	554,526
Mortgage payable to DASNY - OMH, due June 1, 2019, payable in semiannual payments of $47,400, including interest at 6.20% per annum, secured by real estate located on Patchen Avenue, Brooklyn, New York	468,774
Mortgage payable to DASNY - OMH, due December 1, 2020, payable in semiannual payments of $144,024, including interest at 5.58% per annum, secured by real estate located on Knickerbocker Avenue, Brooklyn, New York	1,745,735
Mortgage payable to DASNY - OMH, due June 1, 2023, payable in semiannual payments of $33,222, including interest at 5.40% per annum, secured by real estate located on Classon Avenue, Brooklyn, New York	507,940
Mortgage payable to DASNY - OMH, due June 1, 2022, payable in semiannual payments of $272,229, including interest at 5.27% per annum, secured by real estate located on Beach 85th Street, Queens, New York	3,860,340
Mortgage payable to FDC, due August 15, 2018, payable in semiannual debt service and administrative fee payments of approximately $30,000, including interest at 6.16% per annum, secured by real estate located on Cornelia Street, Brooklyn, New York.	176,500
Mortgage payable to FDC, due August 15, 2018, payable in semiannual debt service and administrative fee payment of approximately $33,000, including interest at 6.16% per annum, secured by real estate located on 45th Avenue, Flushing, New York.	260,000
	$7,754,243

Mortgages and loans payable mature as follows:

Year ended June 30,	
2014	$ 883,406
2015	929,480
2016	943,875
2017	959,468
2018	951,199
Thereafter	3,086,815
	$7,754,243

B-VII-25

Services for the UnderServed and Affiliated Organizations

Notes to Combined Financial Statements

9. Bonds Payable

(a) DASNY

On June 25, 2003, the Services for the Underserved - Developmental Disabilities Services, Inc. ("DD") and Services for the Underserved, Inc. entered into an agreement with DASNY.

Under the terms of the agreement, DASNY has issued Insured Revenue Series 2003A and Series 2003B bonds in the aggregate principal amount of $9,545,000, which mature July 1, 2023. Bond payments, including interest and principal, are required to be made monthly to Deutsche Bank Trust Company Americas, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The Series 2003A bonds bear interest ranging from 3.0% to 5.125%, net interest cost of 4.675% per annum. The Series 2003B bonds bear interest at 5.38% per annum. The principal amount outstanding at June 30, 2013 was $3,885,000.

In March 2010, DD entered into a loan agreement with DASNY. Under the terms of the agreement, DASNY issued Insured Revenue Series 2010A-1 bonds in the principal amount of $3,735,000, which mature on July 1, 2025. DASNY also issued Series 2010A-2 bonds in the principal amount of $80,000, which matured on July 1, 2012. Bond payments, including interest and principal, are required to be made monthly to Deutsche Bank Trust Company Americas, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The bonds bear interest ranging from 1.5% to 5% per annum. The principal amount outstanding at June 30, 2013 was $2,680,000.

In April 2012, under the terms of the agreement, DASNY issued Insured Revenue Series 2012A-1 bonds in the principal amount of $1,685,000 at a premium of $72,091. DASNY also issued 2012A-2 bonds in the principal amount of $65,000. Series 2012A-1 and 2012A-2 bonds mature on July 1, 2027 and July 1, 2013, respectively. Bond payments, including interest and principal, are required to be made monthly to Deutsche Bank Trust Company Americas, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The Series 2012A-1 bond bears interest ranging from 3% to 5% per annum. The Series 2012A-2 bond bears interest at 1.75% per annum. The principal amounts outstanding on the Series 2012A-1 and Series 2012A-2 bonds at June 30, 2013 were $1,630,000 and $-0-, respectively. The unamortized premium on the Series 2012A-1 bonds at June 30, 2013 was $67,285.

(b) IDA

On March 2, 2005, DD entered into a capital lease financing agreement with NYC Industrial Development Agency ("IDA"). Under the terms of the agreement, IDA issued $2,690,000 of Series 2005A term bonds, net of bond discount of $47,755. Interest rates range from 2% to 3% and mature in 2020. Bond payments, including interest and principal, are required to be made monthly to Bank of New York Mellon, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The principal amount outstanding at June 30, 2013 was $1,250,000.

On June 9, 2006, Services for the Underserved, Inc. entered into a capital lease financing agreement with NYC Industrial Development Agency ("IDA"). Under the terms of the agreement, IDA issued an aggregate of $1,679,077 of Series 2006 C-1 and C-2 term bonds, at interest rates ranging from 4.15% to 6.05% and mature in 2031. Bond payments, including interest and principal, are required to be made semiannually to the Bank of New York Mellon, which maintains a debt service reserve fund account and makes semiannual installments January 1 and July 1 of each year. The principal amount outstanding at June 30, 2013 was $1,348,065.

In October 2007, DD entered into a capital lease financing agreement with IDA. Under the terms of the agreement, IDA issued $3,695,000 of Series 2007B term bonds at a discount of $73,900. Interest rates range from 4.87% to 5.29% and mature in 2022. Bond payments, including interest and principal, are required to be made monthly to the Bank of New York Mellon, which maintains a debt service reserve fund account and makes semi-annual installment payments on January 1 and July 1 of each year. The principal amount outstanding at June 30, 2013 was $2,202,500.

In addition to the construction cost of the projects, bond proceeds were used to pay bond issuance costs of $823,773 for DASNY and $867,173 for IDA, respectively, which are being amortized over the lives of the bonds. At June 30, 2013, $126,788 of amortized bond costs is included in depreciation and amortization.

Future minimum debt service payments are as follows:

Year ending June 30,	
2014	$ 1,485,000
2015	1,465,000
2016	1,080,000
2017	1,015,000
2018	1,025,000
Thereafter	6,925,565
	12,995,565
Plus: Unamortized premium	67,285
	$13,062,850

B-VII-26

10. Transactions With Related Parties

(a) Based on a written agreement in February 2002, SUS receives partnership management fees from the DeWitt Avenue Supportive Housing Project owned by New Life Homes, Limited Partnership ("NLHLP"). The Partnership has one general partner, New Life Homes, Inc., which has a .01% interest. The sole shareholder of New Life Homes, Inc. is New Life Homes Housing Development Fund Corporation ("HDFC"). SUS is the sole member of SUS - Mental Health Programs, Inc. which, in turn, is the sole member of the HDFC. The limited partner of NLHLP is the National Equity Fund - 1999 Limited Partnership, which has a 99.99% interest.

During fiscal year end 2013, $400,000 of the development fee was provided to SUS to be used to fund a social reserve.

SUS is entitled to an annual partnership management fee of 6.7% of gross potential income. SUS received management fees of $34,583 from New Life Homes, LP for the year ended June 30, 2013. At June 30, 2013, SUS had a payable and a receivable of $55,858 and $3,988, respectively, to NLHLP.

(b) Family Residences & Essential Enterprises, Inc. ("FREE") entered into an agreement in August 2010 that substitutes FREE for SUS as sole member of the CDCH Preschool and CDCH Charter School. The agreement also provides that FREE replace SUS in its relationship with CDCH Foundation. The agreement with respect to CDCH Preschool closed on September 1, 2010, and the remaining parts of the agreement for CDCH Charter School closed on October 27, 2010. As consideration for the agreement, FREE paid SUS the balances due to SUS by CDCH Preschool and CDCH Charter School at closing, subject to a ten-year promissory note of $500,000 issued at prime

plus 1.5%. The note receivable from FREE was $173,511, net of allowance for bad debt of $326,489 at June 30, 2013.

(c) SUS is the sole member of SUS - Mental Health Programs, Inc. which, in turn, is the sole member of Macombs Road Housing Development Fund Corporation ("Macombs HDFC") and Macombs HDFC owns all the outstanding shares of Macombs Road Housing G.P., Inc. ("Macombs HGP") which is the general partner of Macombs Road Housing L.P. ("Macombs HLP"). Macombs HGP has a 0.01% interest in Macombs HLP. The limited partner of Macombs HLP is Enterprise BB Fund I, LP which has a 99.99% interest.

Macombs HLP was formed to own and operate a supportive housing program. SUS shares common staff with Macombs HLP and is entitled to be reimbursed for costs incurred related to the operation of the Macombs Supportive Housing Program. SUS is entitled to an annual partnership management fee of 8% of gross potential income. SUS had a payable and a receivable of $784,047 and $858,093, respectively, to Macombs HLP as of June 30, 2013.

(d) SUS is the sole member of SUS - Mental Health Programs, Inc. which, in turn, is the sole member of Mother Gaston Housing Development Fund Company, Inc. ("Mother Gaston HDFC") and Mother Gaston HDFC owns all the outstanding shares of Mother Gaston Housing G.P. Inc. ("Mother Gaston HGP") which is the general partner of Mother Gaston Housing L.P. ("Mother Gaston HLP"). Mother Gaston HGP has a 0.01% interest in Mother Gaston HLP. The limited partner of Mother Gaston HLP is Richman Asset Management, Inc. which has a 99.99% interest.

Mother Gaston HLP was formed to own and operate a supportive housing program. SUS shares common staff with Mother Gaston HLP and is entitled to be reimbursed for costs incurred related to the operation of the Mother Gaston Supportive Housing Program. SUS is entitled to an annual partnership management fee of 8% of gross potential income. SUS received management fees of $43,293 from Mother Gaston L.P. for the year ended June 30, 2013. SUS had a payable and a receivable from Mother Gaston HLP of $28,986 and $4,548, respectively, as of June 30, 2013.

(e) SUS is the sole member of SUS-Mental Health Programs Inc. which, in turn, is the sole member of 21 Truxton Street Housing Development Fund Corporation ("Truxton HDFC"). Truxton HDFC owns all of the outstanding shares of 21 Truxton Street G.P, Inc. ("Truxton, G.P.") which is the general partner of 21 Truxton Street, L.P. ("Truxton L.P."). The interest of Truxton G.P. in Truxton L.P. is 0.01%. The limited partner of Truxton L.P. is The Bank of America Housing Fund IX Limited Partnership, LLP which has a 99.9% interest.

Truxton L.P. was formed to own and operate supportive housing programs. SUS and SUS-Mental Health Programs, Inc. share common staff with Truxton L.P. and SUS is entitled to be reimbursed for costs incurred related to the operation of Truxton L.P. For the year ended June 30, 2013, SUS did not receive any income from Truxton L.P. SUS had a receivable from Truxton L.P. for $337,202 as of June 30, 2013.

The financial statements of NLHLP, Macombs HLP, Mother Gaston HLP and Truxton L.P. have not been combined with SUS, as the limited partners have substantive participating rights which effectively give them the ability to participate in significant decision making activities during the ordinary course of business.

B-VII-27

11. Pension Plan

Upon termination of the Services for the Underserved, Inc. 401(k) and Profit Sharing Plan on December 31, 2008, SUS established the plan on January 1, 2009 as a defined contribution plan covering all eligible employees of SUS. The plan is administered by SUS. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Employer contributions to the 403(b) plan are discretionary and may vary from year to year. There were no employer contributions to the 403(b) plan for the year ended June 30, 2013.

SUS adopted a deferred compensation retirement plan (the "457 Plan") under Section 457(f) of the Internal Revenue Code. The 457 Plan is intended to provide deferred compensation for a group of SUS management employees. SUS contributed $91,260 to the 457 Plan for the year ended June 30, 2013.

12. Deferred Revenue

Deferred revenue consists of the following:

June 30, 2013	
Construction and acquisition costs for the Montrose, Marcy Avenue and Briarwood facilities which were financed by grants from the State of New York, Office of Mental Health ("OMH"), which stipulated that SUS will take title to the land and building after 20 years of meeting operational requirements	$ 4,468,517
Various Mental Health Program contract advances for fiscal year 2014	3,746,985
Additional OMH funding received for capital improvements for various Mental Health Program facilities	367,136
Various AIDS services contract advances for fiscal year 2014	433,147
Surplus income generated from Home Attendant Program	1,156,097
Other deferred revenue	148,445
	$10,320,327

13. Commitments

Leases

SUS is obligated under various lease agreements for the use of several residential apartments, office space, equipment and vehicles. SUS has the option to renew certain leases upon expiration. Rental expense was $10,744,876 for the year ended June 30, 2013. The minimum future annual rental payments are as follows:

Year ending June 30,	
2014	$ 8,118,028
2015	4,789,223
2016	2,322,177
2017	2,036,850
2018	2,012,799
Thereafter	6,410,595
Total	$25,689,672

Services for the UnderServed and Affiliated Organizations

Notes to Combined Financial Statements

14. Temporarily Restricted Net Assets

SUS has temporarily restricted net assets that are available for the following purposes:

June 30, 2013	
Hotel Majestic and capital expenditures for Services for the UnderServed - Mental Health Programs, Inc.	$2,348,081
Veteran's employment and housing services	160,000
	$2,508,081

SUS's net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

June 30, 2013	
Hotel Majestic and capital expenditures for Services for the UnderServed - Mental Health Programs, Inc.	$212,523
Veteran's employment and housing services	90,000
	$302,523

15. Contingencies

SUS is a defendant in various legal actions arising out of the normal course of its operations, the final outcome of which cannot presently be determined. SUS management is of the opinion that the ultimate liability, if any, with respect to all of these matters will not have a material adverse effect on SUS's financial position.

16. Transfer to Funding Source

On March 31, 2011, HRA did not renew its contract for the provision of home attendant services with SUS - Home Attendant Program, Inc. ("SUS-HA"). All clients were transferred to other providers in April 2011. Pursuant to the agreement between HRA and SUS-HA, the costs incurred to discontinue the program's operations are funded by HRA by the reduction of the payable balance between SUS-HA and HRA. HRA will continue to fund these costs until the program is fully liquidated. For the year ended June 30, 2013, the costs incurred for discontinuing operations were $135,663.

17. Workers' Compensation Assessment Payable Settlement

Between 1999 and 2003, SUS participated in a group self-insurance trust (the "Trust") along with multiple other agencies in the human services, not-for-profit sector. On December 31, 2010, the Trust was terminated with a deficiency of assets. The Trust billed all former members of the Trust with an assessed portion of the total deficit. SUS's assessment was $537,502 and it was recorded by SUS in the year ended June 30, 2011.

In July 2011, the State of New York Workers' Compensation Board (the "Board") assumed the administration and final distribution of the assets and liabilities of the Trust. Following a forensic audit, the Board issued newly calculated assessments and they were higher than those formerly issued by the Trust. The new assessment for SUS was $733,530. The increase in the assessment of $196,028 was recorded in the year ended June 30, 2013. Payments made in 2012 and 2013 toward the assessment amounted to $54,693. The amount outstanding at June 30, 2013 was $678,837.

The liability of former members for Trust deficits is "joint and several". While SUS has recorded the full amount of the assessments calculated by the Board, default by other members of the Trust could create future assessments for non-defaulting members. In light of the expansive authority of the Board to recover assessments from all former members, SUS believes the likelihood of an additional assessment is remote.

18. Losses and Recoveries Related to Superstorm Sandy

During 2013, a major SUS facility located in Far Rockaway, Queens, New York was impacted by Superstorm Sandy. The costs incurred by SUS as a result of the Superstorm include cleanup, relocation of residents to alternative housing, capital reconstruction and mitigation measures. These costs will be recovered through disaster relief awarded by the Federal Emergency Management Agency ("FEMA") and a Social Services Block Grant awarded by New York State in August 2013 and October 2013, respectively. During 2013, SUS incurred cleanup and transition costs of $906,501 and capital reconstruction costs of $678,370 and recorded recoveries in the same amounts. The total cost related to restoring the facility to its pre-Sandy condition is $3,012,000. Reconstruction of the facility will be substantially completed by December 2013.

19. Subsequent Events

SUS has evaluated subsequent events through December 16, 2013, which is the date these combined financial statements were available to be issued. No events arose during the period which required additional disclosures.

Independent Auditor's Report on Supplementary Information

Our audit of the combined financial statements included in the preceding section of this report was conducted for the purpose of forming an opinion on those statements taken as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

BDO USA, LLP

New York, New York

December 16, 2013

Services for the UnderServed and Affiliated Organizations

Combining Statement of Financial Position
(with comparative totals for 2012)

June 30,

	Services for the Underserved, Inc.	SUS - Mental Health Programs, Inc.	SUS - Developmental Disabilities Services, Inc.	SUS - AIDS Services, Inc.	SUS - Home Attendant Program, Inc.	SUS - Home Care Services, Inc.	SUS - Urgent Housing Programs, Inc.	Eliminations	Total 2013	Total 2012
Assets										
Cash and cash equivalents	$ 6,907,162	$ 2,393,682	$ 38,442	$ 6,445	$1,247,256	$137,221	$ 400	$ -	$10,730,608	$ 9,623,798
Accounts receivable, net	251,125	4,794,264	5,011,481	1,146,525	-	3,296	1,405,766	-	12,612,457	8,096,121
Prepaid expenses and other assets	242,274	1,340,522	175,858	178,806	143	3,592	-	-	1,941,195	1,965,820
Bond escrow fund	-	-	179,576	-	-	-	-	-	179,576	168,958
Due from affiliates, net	3,584,780	5,175,201	-	-	-	-	-	(7,064,459)	1,695,522	2,092,192
Debt service reserve	483,460	-	1,510,266	-	-	-	-	-	1,993,726	1,993,726
Deferred bond financing costs	292,834	-	774,665	-	-	-	-	-	1,067,499	1,194,287
Fixed assets, net	2,563,820	15,109,875	17,123,576	325,122	-	-	423,819	-	35,546,212	37,453,557
	$14,325,455	$28,813,544	$24,813,864	$1,656,898	$1,247,399	$144,109	$1,829,985	$(7,064,459)	$65,766,795	$62,588,459
Liabilities and Net Assets (Deficit)										
Liabilities:										
Accounts payable and accrued expenses	$ 1,812,351	$ 782,859	$ 2,388,108	$ 119,394	$ 32,006	$ 26,461	$ 192,584	$ -	$ 5,353,763	$ 4,301,684
Accrued compensation and related taxes	541,068	1,160,349	1,874,850	211,362	18,398	-	86,129	-	3,892,156	3,716,056
Due to affiliates	326,563	868,891	5,357,900	335,923	40,898	208,007	1,120,736	(7,064,459)	1,194,459	1,961,009
Due to clients	-	207,643	54,641	-	-	-	-	-	262,284	379,546
Other liabilities	17,809	515,881	-	-	-	-	10,416	-	544,106	29,350
Deferred revenue	148,445	8,582,638	-	433,147	1,156,097	-	-	-	10,320,327	6,785,141
Due to government agencies	-	1,902,134	148,885	-	-	-	-	-	2,051,019	2,977,185
Workers' compensation assessment payable settlement	678,837	-	-	-	-	-	-	-	678,837	505,598
Lines of credit	3,136,187	-	-	-	-	-	-	-	3,136,187	620,000
Mortgages and loans payable	-	7,317,743	436,500	-	-	-	-	-	7,754,243	8,584,138
Bonds payable	3,563,065	-	9,499,785	-	-	-	-	-	13,062,850	14,563,656
Total Liabilities	10,224,325	21,338,138	19,760,669	1,099,826	1,247,399	234,468	1,409,865	(7,064,459)	48,250,231	44,423,363
Commitments and Contingencies										
Net Assets (Deficit):										
Unrestricted	4,101,130	4,967,325	5,053,195	557,072	-	(90,359)	420,120	-	15,008,483	15,604,492
Temporarily restricted	-	2,508,081	-	-	-	-	-	-	2,508,081	2,560,604
Total Net Assets (Deficit)	4,101,130	7,475,406	5,053,195	557,072	-	(90,359)	420,120	-	17,516,564	18,165,096
	$14,325,455	$28,813,544	$24,813,864	$1,656,898	$1,247,399	$144,109	$1,829,985	$(7,064,459)	$65,766,795	$62,588,459

Services for the UnderServed and Affiliated Organizations

Combining Statement of Activities
(with comparative totals for 2012)

Year ended June 30,

	Services for the Underserved, Inc.	SUS - Mental Health Programs, Inc.	SUS - Developmental Disabilities Services, Inc.	SUS - AIDS Services, Inc.	SUS - Urgent Housing Programs, Inc.	SUS - Home Care Services, Inc.	Eliminations	Total 2013	Total 2012
Public Support and Revenue:									
Medicaid income	$ -	$ 4,260,186	$34,378,815	$ -	$ -	$ -	$ -	$38,639,001	$36,442,479
Contract revenue	-	23,714,526	-	5,738,287	4,021,836	-	-	33,474,649	26,180,389
Rental income	806,128	-	-	-	-	-	(806,128)	-	-
Participant fees	-	4,421,831	2,145,944	440,491	-	-	-	7,008,266	6,929,695
Contributions	220,665	250,000	-	-	-	-	-	470,665	386,606
Special events:									
Gross receipts	552,481	-	-	-	-	-	-	552,481	374,000
Less: Cost of special events	(428,253)	-	-	-	-	-	-	(428,253)	(418,243)
Management fees	4,851,468	-	-	-	-	-	(4,561,791)	289,677	127,065
Other	225,431	18,964	61,376	-	-	-	-	305,771	310,640
Total Public Support and Revenue	6,227,920	32,665,507	36,586,135	6,178,778	4,021,836	-	(5,367,919)	80,312,257	70,332,631
Expenses:									
Program services:									
Mental Health Programs, Inc.	-	29,686,685	-	-	-	-	(397,801)	29,288,884	25,895,223
Developmental Disabilities Services, Inc.	-	-	33,540,459	-	-	-	(408,327)	33,132,132	31,417,011
AIDS Services, Inc.	-	-	-	6,104,842	-	-	-	6,104,842	5,836,901
Urgent Housing Programs, Inc.	-	-	-	-	3,360,074	-	-	3,360,074	-
Total Program Services	-	29,686,685	33,540,459	6,104,842	3,360,074	-	(806,128)	71,885,932	63,149,135
Supporting services:									
Fundraising	254,418	-	-	-	-	-	-	254,418	220,000
Management and general	5,586,334	1,648,660	2,550,198	147,368	241,642	-	(4,561,791)	5,612,411	6,185,573
Total Supporting Services	5,840,752	1,648,660	2,550,198	147,368	241,642	-	(4,561,791)	5,866,829	6,405,573
Total Expenses	5,840,752	31,335,345	36,090,657	6,252,210	3,601,716	-	(5,367,919)	77,752,761	69,554,708
Excess (Deficit) of Public Support and Revenue Over Expenses From Continuing Operations Before Gain (Loss) From Discontinuing Operations	387,168	1,330,162	495,478	(73,432)	420,120	-	-	2,559,496	777,923
Gain (Loss) From Discontinuing Operations:									
Expenses - Home Attendant Program	-	-	-	-	-	-	-	(135,663)	(515,418)
Transfer from funding sources (Note 16)	-	-	-	-	-	-	-	135,663	515,418
	-	-	-	-	-	-	-	-	-
Change in Net Assets After Gain (Loss) From Discontinuing Operations	387,168	1,330,162	495,478	(73,432)	420,120	-	-	2,559,496	777,923
Other Changes:									
Assessment from default on workers' compensation trust	-	(103,984)	(86,142)	(5,902)	-	-	-	(196,028)	-
Asset impairment	-	(3,012,000)	-	-	-	-	-	(3,012,000)	-
Change in Net Assets	387,168	(1,785,822)	409,336	(79,334)	420,120	-	-	(648,532)	777,923
Net Assets (Deficit), Beginning of Year	3,713,962	9,261,228	4,643,859	636,406	-	(90,359)	-	18,165,096	17,387,173
Net Assets (Deficit), End of Year	$4,101,130	$ 7,475,406	$ 5,053,195	$ 557,072	$ 420,120	$(90,359)	$ -	$17,516,564	$18,165,096

Services for the UnderServed and Affiliated Organizations

Combined Financial Statements and Supplemental Material
Year Ended June 30, 2012

Services for the UnderServed and Affiliated Organizations

Combined Financial Statements and Supplemental Material
Year Ended June 30, 2012

B-VII-31

Services for the UnderServed and Affiliated Organizations

Contents

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Independent Auditors' Report

To the Board of Directors
Services for the UnderServed
and Affiliated Organizations

We have audited the accompanying combined statement of financial position of Services for the UnderServed and Affiliated Organizations ("SUS") as of June 30, 2012, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These combined financial statements are the responsibility of the management of SUS. Our responsibility is to express an opinion on these combined 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 financial statements of SUS for the year, on which we expressed an 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 the SUS'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 combined financial statements referred to above present fairly, in all material respects, the financial position of Services for the UnderServed and Affiliated Organizations 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

January 7, 2013

Services for the UnderServed and Affiliated Organizations

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

June 30,	2012	2011
Assets		
Cash and cash equivalents (Note 2)	$ 9,623,798	$12,721,945
Accounts receivable, net of allowance for doubtful accounts of $3,742,647 and $3,624,523 for 2012 and 2011, respectively (Note 2)	8,096,121	8,216,874
Prepaid expenses and other assets (Note 3)	1,965,820	1,585,857
Bond escrow fund (Note 4)	168,958	164,774
Due from affiliates (Note 10)	2,092,192	1,573,801
Debt service reserve (Note 4)	1,993,726	1,857,781
Deferred bond financing costs (Note 9)	1,194,287	1,185,143
Fixed assets, net (Notes 2 and 5)	37,453,557	37,196,087
	$62,588,459	$64,502,262
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 4,301,684	$ 4,269,886
Accrued compensation and related taxes	3,716,056	3,255,774
Due to affiliates (Note 10)	1,961,009	1,606,161
Due to clients	379,546	418,511
Other liabilities	29,350	1,867
Deferred revenue (Note 12)	6,785,141	8,048,550
Due to governmental agencies (Note 6)	2,977,185	3,870,136
Workers' compensation assessment payable settlement (Note 17)	505,598	537,502
Line of credit (Note 7)	620,000	1,471,191
Mortgages and loans payable (Note 8)	8,584,138	9,411,909
Bonds payable (Note 9)	14,563,656	14,223,602
Total Liabilities	44,423,363	47,115,089
Commitments and Contingencies (Notes 5, 7, 11, 13, 15 and 16)		
Net Assets:		
Unrestricted (Note 16)	15,604,492	14,614,046
Temporarily restricted (Note 14)	2,560,604	2,773,127
Total Net Assets	18,165,096	17,387,173
	$62,588,459	$64,502,262

See accompanying notes to combined financial statements.

B-VII-32

Services for the UnderServed and Affiliated Organizations

Combined Statement of Activities
(with comparative totals for 2011)

Year ended June 30,	Unrestricted	Temporarily Restricted	Totals 2012	Totals 2011
Public Support and Revenue:				
Medicaid income	$36,442,479	$ -	$36,442,479	$36,982,130
Contract revenue	26,180,389	-	26,180,389	27,753,402
Participant fees	6,929,695	-	6,929,695	6,711,790
Contributions	386,606	-	386,606	210,402
Special events:				
Gross receipts	374,000	-	374,000	423,000
Less: Cost of special events	(418,243)	-	(418,243)	(390,844)
Management fees	127,065	-	127,065	91,045
Other	310,640	-	310,640	249,458
Net assets released from restrictions (Note 14)	212,523	(212,523)	-	-
Total Public Support and Revenue	70,545,154	(212,523)	70,332,631	72,030,383
Expenses:				
Program services:				
SUS - Mental Health Programs, Inc.	25,895,223	-	25,895,223	24,424,926
SUS - Developmental Disabilities Services, Inc.	31,417,011	-	31,417,011	32,524,782
SUS - AIDS Services, Inc.	5,836,901	-	5,836,901	7,412,497
SUS - Home Care Services	-	-	-	3,740
Total Program Services	63,149,135	-	63,149,135	64,365,945
Supporting services:				
Fundraising	220,000	-	220,000	95,000
Management and general	6,185,573	-	6,185,573	6,060,994
Total Supporting Services	6,405,573	-	6,405,573	6,155,994
Total Expenses	69,554,708	-	69,554,708	70,521,939
Excess (Deficit) of Public Support and Revenue Over Expenses From Continuing Operations Before Assessment From Default on Workers' Compensation Trust (Note 17)	990,446	(212,523)	777,923	1,508,444
Assessment From Default on Workers' Compensation Trust (Note 17)	-	-	-	(537,502)
Change in Net Assets From Continuing Operations	990,446	(212,523)	777,923	970,942
Gain (Loss) From Discontinuing Operations:				
Revenues - Home Attendant Program	-	-	-	14,225,392
Expenses - Home Attendant Program (Note 16)	(515,418)	-	(515,418)	(15,087,559)
Transfer from (to) funding sources (Note 16)	515,418	-	515,418	(1,213,352)
	-	-	-	(2,075,519)
Change in Net Assets	990,446	(212,523)	777,923	(1,104,577)
Net Assets, Beginning of Year	14,614,046	2,773,127	17,387,173	18,491,750
Net Assets, End of Year	$15,604,492	$2,560,604	$18,165,096	$ 17,387,173

See accompanying notes to combined financial statements.

Services for the UnderServed and Affiliated Organizations

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

Year ended June 30,

	Program Services					Supporting Services		Total	
	SUS - Mental Health Programs, Inc.	SUS - Developmental Disabilities Services, Inc.	SUS - AIDS Services, Inc.	SUS - Home Care Services	Total Program Services	Fundraising	Management and General	2012	2011
Salaries and Related Expenses:									
Salaries	$ 8,924,769	$ 15,671,270	$ 2,256,255	$ -	$26,852,294	$145,000	$3,025,266	$30,022,560	$28,330,519
Fringe benefits	2,165,852	5,211,778	634,901	-	8,012,531	33,000	264,577	8,310,108	8,182,428
Total Salaries and Related Expenses	11,090,621	20,883,048	2,891,156	-	34,864,825	178,000	3,289,843	38,332,668	36,512,947
Other Expenses:									
Food	571,701	756,273	19,067	-	1,347,041	657	6,827	1,354,525	1,346,647
Rent	5,941,591	464,253	1,837,627	-	8,243,471	1,599	222,453	8,467,523	9,001,590
Facility tax	-	293,924	-	-	293,924	-	969	294,893	395,067
Telephone and utilities	1,220,673	610,152	233,134	-	2,063,959	982	173,295	2,238,236	2,707,800
Transportation	170,980	1,159,417	29,384	-	1,359,781	4,299	82,211	1,446,291	1,718,821
Office supplies and postage	90,819	163,478	23,847	-	278,144	1,563	153,921	433,628	394,605
Lease equipment	230,093	365,170	38,667	-	633,930	-	152,698	786,628	818,958
Repairs and maintenance	961,986	684,485	143,090	-	1,789,561	20	206,809	1,996,390	2,143,949
Professional and consultant fees	294,009	345,832	85,366	-	725,207	584	248,448	974,239	1,452,743
Household supplies	284,234	613,725	49,045	-	947,004	-	5,429	952,433	1,013,180
Furniture and equipment expense	676,799	515,917	145,512	-	1,338,228	150	235,174	1,573,552	1,293,230
Insurance	333,521	221,494	42,684	-	597,699	-	55,635	653,334	621,011
Community outreach and recruitment	48,193	38,967	2,062	-	89,222	8,344	351,902	449,468	306,372
Client incidentals	245,941	197,459	13,225	-	456,625	-	3,980	460,605	538,581
Staff training	50,682	152,664	7,812	-	211,158	-	68,314	279,472	128,005
Interest expense	480,562	533,722	-	-	1,014,284	-	208,208	1,222,492	1,227,480
Temporary labor	1,639,835	2,016,994	195,243	-	3,852,072	-	144,457	3,996,529	4,131,285
Real estate taxes	6,790	21,677	770	-	29,237	-	-	29,237	54,043
Miscellaneous	150,417	84,145	3,170	-	237,732	20,150	260,403	518,285	433,942
Start-up cost	50,194	1,157	2,100	-	53,451	-	-	53,451	35,975
Sheltered workshop	-	33,908	-	-	33,908	-	-	33,908	1,291,275
Broker and bond administrative fees	3,087	9,883	877	-	13,847	3,652	70,126	87,625	96,787
Capital reserve	-	-	-	-		-	-	-	13,477
Bad debt expense	7,361	78,872	-	-	86,233	-	-	86,233	112,944
Total Expenses Before Depreciation and Amortization	24,550,089	30,246,616	5,763,838	-	60,560,543	220,000	5,941,102	66,721,645	67,790,714
Depreciation and Amortization	1,345,134	1,170,395	73,063	-	2,588,592	-	244,471	2,833,063	2,731,225
Total Expenses	$25,895,223	$31,417,011	$5,836,901	$ -	$63,149,135	$220,000	$6,185,573	$69,554,708	$70,521,939

See accompanying notes to combined financial statements.

6

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B-VII-34

Services for the UnderServed and Affiliated Organizations

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

Year ended June 30,	2012	2011
Cash Flows From Operating Activities:		
Change in net assets	$ 777,923	$ (1,104,577)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,833,063	2,731,225
Provisions for bad debt	86,233	819,104
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	34,520	5,750,328
Prepaid expenses and other assets	(379,963)	(75,687)
Due from affiliates	(518,391)	109,937
Deferred bond financing costs	(112,598)	(16,809)
Increase (decrease) in:		
Accounts payable and accrued expenses	31,798	999,260
Accrued compensation and related taxes	460,282	(1,526,592)
Due to affiliates	354,848	920,172
Due to clients	(38,965)	6,240
Other liabilities	27,483	-
Deferred revenue	(1,263,409)	491,130
Due to governmental agencies	(892,951)	1,221,126
Workers' compensation assessment payable settlement	(31,904)	537,502
Net Cash Provided By Operating Activities	1,367,969	10,862,359
Cash Flows From Investing Activities:		
Purchase of fixed assets	(2,987,079)	(4,807,217)
Cash Flows From Financing Activities:		
Bond escrow fund	(4,184)	-
Debt service reserve fund	(135,945)	(188,769)
Payments of bond principal	(1,482,037)	(1,425,000)
Payments of line of credit	(1,471,191)	(1,039,528)
Payments of mortgages and loans payable	(827,771)	(779,977)
Proceeds from bonds payable	1,822,091	3,815,000
Proceeds from line of credit	620,000	-
Net Cash Provided By (Used In) Financing Activities	(1,479,037)	381,726
Net Increase (Decrease) in Cash and Cash Equivalents	(3,098,147)	6,436,868
Cash and Cash Equivalents, Beginning of Year	12,721,945	6,285,077
Cash and Cash Equivalents, End of Year	$ 9,623,798	$12,721,945
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 1,222,492	$ 1,227,480

See accompanying notes to combined financial statements.

1. Nature of Organization

Services for the UnderServed and Affiliated Organizations ("SUS") was established in 1978 and currently serves approximately 4,500 people with special needs in New York City, primarily in Brooklyn, the Bronx, and Queens. SUS, through its affiliate corporations, provides a wide range of programs and services, tailoring them to meet the needs, goals and preferences of the persons they serve. These services include residential, day programs, peer advocacy, employment services, home care, and harm reduction education. Services are provided to:

- Elderly and/or disabled individuals
- Persons with a mental illness
- Individuals with HIV/AIDS
- Adults with a developmental disability
- Homeless and marginalized individuals

2. Summary of Significant Accounting Policies

(a) Principles of Combination

The combined financial statements include the accounts of SUS and affiliated organizations which are affiliated through common Board membership, common management and/or common ownership. All material intercompany transactions and balances have been eliminated. The following entities are included in the combined financial statements:

Services for the UnderServed, Inc. (corporate).

SUS - Mental Health Programs, Inc.

SUS - Developmental Disabilities Services, Inc.

SUS - AIDS Services, Inc.

SUS - Home Attendant Program, Inc.

SUS - Home Care Services, Inc.

SUS - Urgent Housing, Inc. (no activity for the year ended June 30, 2012)

SUS is the sole member of SUS - Mental Health Programs, Inc. which, in turn, is related to other affiliates, New Life Homes Housing Development Fund Corporation, Macombs Road Housing Development Fund Corporation, Mother Gaston Housing Development Fund Company, Inc. and 21 Truxton Street Housing Development Fund Corporation; however, it is not presented in these combined financial statements since it does not meet the criteria for consolidation.

(b) Basis of Presentation

The combined financial statements have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations. 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.

(c) 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 SUS and affiliated organizations is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of SUS and affiliated organizations.

(ii) **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by SUS and affiliated organizations is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of SUS and affiliated organizations 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-VII-35

(d) Cash and Cash Equivalents

SUS considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

(e) Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives of the assets are as follows:

Buildings and building improvements	25 years
Leasehold improvements	25 years
Furniture and equipment	5-7 years
Vehicles	5-7 years

(f) Revenue Recognition

Revenue from governmental grants is recognized as the expenditures for each contract are incurred. All grant monies received in excess of revenue earned are recorded as deferred revenue. Revenue from fees for service programs is recognized as they are earned (services are provided daily and/or monthly).

Reimbursements are subject to audit and retroactive adjustment by the respective third party fiscal intermediary. Revenue from retroactive adjustments is recognized in the year the adjustments are made.

SUS receives Supplemental Security Income ("SSI") and Social Security Income ("SSA") payments for the participants. A portion of the SSI/SSA payments represents the participants' contributions toward the cost of goods and services and is recognized as revenue when received. The remaining portion of SSI/SSA represents the participants' personal allowance and is recognized as a liability due to clients.

Participant fees represent the participant's personal contribution towards the cost of goods and services SUS is allowed to charge as regulated by Federal and state law.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

(g) 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.

Contributions of property and equipment are recorded at the fair market value of the property and equipment at the time of contribution.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

(h) Income Taxes

SUS and affiliated organizations 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 Internal Revenue Code (the "Code"), and therefore have made no provision for income taxes in the accompanying financial statements. SUS 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 2012.

SUS has not taken an unsubstantiated tax position that would require provision of a liability under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, "Income Taxes". SUS has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, SUS 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, 2012, there was no interest or penalties recorded or included in the statement of activities. See Note 2(o).

(i) 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. Actual results could differ from those estimates.

(j) Comparative Financial Information

The financial statements include certain prior year summarized comparative information. The statement of activities is presented in total rather than by net assets class. With respect to the 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 SUS's financial statements for the year ended June 30, 2011 from which the summarized information was derived.

(k) Concentration of Credit Risk

The financial instruments that potentially subject SUS to concentration of credit risk consist primarily of cash and cash equivalent accounts in financial institutions which, from time to time, exceed the Federal Depository Insurance Coverage ("FDIC") limit.

(l) Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation. These reclassifications did not have an impact on change in net assets.

(m) Due to Governmental Agencies

Due to governmental agencies consists of operational advances, retroactive rate adjustments and advances received from New York State Office for People With Developmental Disabilities ("OPWDD"), the New York State Office of Mental Health ("OMH"), the New York State Department of Health ("DOH") and other advances due to the New York City Human Resources Administration ("HRA"). OPWDD recoups the liability through withholdings from Medicaid remittances over a specified period of time.

B-VII-36

(n) Fair Value Measurements

ASC 820, "Fair Value Measurements and Disclosures", 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. SUS classifies 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.

(o) Accounting for Uncertainty in Income Taxes

Under ASC 740 (relevant portions of which were previously addressed in FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"), and ASU 2009-06, "Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities", an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained upon examination by a taxing authority. SUS does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. SUS has filed for and received income tax exemptions in the jurisdictions where it is required to do so. For the year ended June 30, 2012, there was no interest or penalties recorded or included in the combined statement of activities. As of June 30, 2012, the years still subject to examination by a taxing authority are 2009 through 2011.

(p) Effect of New Accounting Pronouncements

(i) Fair Value Disclosures

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, adding new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. SUS adopted ASU 2010-06 on July 1, 2010, except for the requirement to provide Level 3 activity of purchases, sales, issuances and settlements on a gross basis which was adopted on July 1, 2011. The adoption of this ASU did not have a material impact on SUS's combined financial statements.

(ii) Fair Value Measurements

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 combined financial statements.

B-VII-37

(iii) Donated Financial Assets

In October 2012, the FASB issued ASU 2012-05, "Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows". The amendments in this update require a not-for-profit ("NFP") to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash flows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. The amendments in this update are effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. Management is currently evaluating the effect that the provisions of ASU 2012-05 will have on the combined financial statements.

3. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consists of the following:

June 30, 2012	
Security deposits	$ 937,448
Prepaid expenses	698,400
Dormitory Authority of the State of New York surplus funds	329,972
	$1,965,820

4. Debt Service Reserve and Bond Escrow Fund

Debt service reserve represents funds held by OPWDD, Deutsche Bank Trust Company Americas and Bank of New York Mellon, (collectively, the "Trustee"). These funds will be applied to the last payment required on the mortgages with the Facilities Development Corporation ("FDC") and bonds due to the Dormitory Authority of the State of New York Office of Mental Health ("DASNY") and NYC Industrial Development Agency ("IDA"). This reserve will earn interest which will be used to offset SUS's obligations. As of June 30, 2012, the Trustee has $1,993,726 in debt service reserve.

Bond escrow fund represents funds held by Deutsche Bank Trust Company Americas and Bank of New York Mellon. These funds will be applied to expenses associated with DASNY and IDA bonds. As of June 30, 2012, the Trustee has $168,958 in bond escrow funds.

SUS's financial instruments are carried at fair value and have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2(n) for a discussion of SUS's policies regarding this hierarchy.

SUS's publicly-traded U.S. Treasury money market funds, U.S. Treasury bills and U.S. Treasury notes are carried at their aggregate market value that is determined by quoted market prices. Each of these investments can be liquidated daily. The valuation of these investments is based on Level 1 inputs within the hierarchy used in measuring fair value.

SUS's holdings in publicly-traded fixed income securities consist of U.S. government-sponsored agency securities. SUS's Trustee prices these investments using nationally recognized pricing services. Since fixed income securities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements for these securities using their proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of similar securities, sector groupings and matrix pricing. The valuation of these investments is based on Level 2 inputs within the hierarchy used in measuring fair value.

The following table presents the level within the fair value hierarchy at which SUS's financial assets and financial liabilities are measured on a recurring basis at June 30, 2012:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance as of June 30, 2012
Assets			
Money market funds	$ 670,536	$ -	$ 670,536
U.S. government obligations	1,004,245	487,903	1,492,148
Total assets	$1,674,781	$487,903	$2,162,684

5. Fixed Assets, Net

Major classes of fixed assets, net consist of the following:

June 30, 2012	
Land	$ 2,044,297
Building and building improvements	57,727,547
Leasehold improvements	1,502,270
Furniture and equipment	5,892,888
Vehicles	495,215
Construction-in-progress	1,250,166
Total fixed assets	68,912,383
Less: Accumulated depreciation and amortization	(31,458,826)
Fixed assets, net	$ 37,453,557

For the year ended June 30, 2012, depreciation and amortization expense was $2,833,063.

As of June 30, 2012, SUS entered into approximately $2,000,000 of capital commitments in relation to its property construction.

6. Due to Governmental Agencies

Due to governmental agencies consists of the following:

June 30, 2012	
Other advances due to OMH and New York City to be recouped	$1,559,525
Other advances due to DOH	1,414,603
Other advances due to Medicaid to be recouped	3,057
	$2,977,185

7. Line of Credit

SUS and its affiliated organizations have a $6,000,000 working capital line of credit with Bank of America against which $-0- was outstanding for SUS at June 30, 2012. The line of credit matured on June 30, 2012 and the interest rate was equal to the prime rate plus 0.25%. On June 30, 2012, the line of credit was amended and restated from Bank of America with the same amount and conditions. This line of credit matures on June 30, 2013. There was also a quarterly fee on the unused available line of credit amount of 0.25%. The loan was guaranteed by SUS and all of its affiliates, collectively and individually, and was collateralized by a first-priority perfected securities interest in SUS's and its affiliated organizations' present and future accounts receivable and personal property and fixtures.

SUS has a $4,000,000 acquisition line of credit with Bank of America. The line of credit matured on June 30, 2012, and the interest rate was ¼% in excess of the prime rate. The loan was guaranteed by a negative pledge on the related residence and related leased location. The total amount outstanding as of June 30, 2012 was $620,000. On June 30, 2012, this acquisition line of credit was amended and restated from Bank of America with the same amount and conditions. This acquisition line of credit matures on June 30, 2013.

8. Mortgages and Loans Payable

Mortgages and loans payable consist of the following:

June 30, 2012	
Mortgage payable to Dormitory Authority of the State of New York ("DASNY") - OMH, due December 1, 2015, payable in semiannual payments of $40,897, including interest at 7.72% per annum, secured by real estate located on Patchen Avenue, Brooklyn, New York	$ 244,925
Mortgage payable to DASNY - OMH, due June 1, 2019, payable in semiannual payments of $58,917, including interest at 6.21% per annum, secured by real estate located on St. Marks Avenue, Brooklyn, New York	628,763
Mortgage payable to DASNY - OMH, due June 1, 2019, payable in semiannual payments of $47,400, including interest at 6.20% per annum, secured by real estate located on Patchen Avenue, Brooklyn, New York	531,553
Mortgage payable to DASNY - OMH, due December 1, 2020, payable in semiannual payments of $144,024, including interest at 5.58% per annum, secured by real estate located on Knickerbocker Avenue, Brooklyn, New York	1,928,716
Mortgage payable to DASNY - OMH, due June 1, 2023, payable in semiannual payments of $33,222, including interest at 5.40% per annum, secured by real estate located on Classon Avenue, Brooklyn, New York	545,409
Mortgage payable to DASNY - OMH, due June 1, 2022, payable in semiannual payments of $272,229, including interest at 5.27% per annum, secured by real estate located on Beach 85th Street, Queens, New York	4,188,272
Mortgage payable to FDC, due August 15, 2018, payable in semiannual debt service and administrative fee payments of approximately $30,000, including interest at 6.16% per annum, secured by real estate located on Cornelia Street, Brooklyn, New York.	216,500
Mortgage payable to FDC, due August 15, 2018, payable in semiannual debt service and administrative fee payment of approximately $33,000, including interest at 6.16% per annum, secured by real estate located on 45th Avenue, Flushing, New York.	300,000
	$8,584,138

Mortgages and loans payable mature as follows:

Year ended June 30,	
2013	$ 829,593
2014	883,406
2015	929,450
2016	944,214
2017	959,668
Thereafter	4,037,807
	$8,584,138

9. Bonds Payable

(a) DASNY

On June 25, 2003, the Services for the Underserved - Developmental Disabilities Services, Inc. ("DD") and Services for the Underserved, Inc. entered into an agreement with DASNY.

Under the terms of the agreement, DASNY has issued Insured Revenue Series 2003A and Series 2003B bonds in the aggregate principal amount of $9,545,000, which mature July 1, 2023. Bond payments, including interest and principal, are required to be made monthly to Deutsche Bank Trust Company Americas, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The Series 2003A bonds bear interest ranging from 3.0% to 5.125%, net interest cost of 4.675% per annum. The Series 2003B bonds bear interest at 5.38% per annum. The principal amount outstanding at June 30, 2012 was $4,495,000.

In March 2010, DD entered into a loan agreement with DASNY. Under the terms of the agreement, DASNY issued Insured Revenue Series 2010A-1 and Series 2010A-2 bonds in the principal amount of $3,735,000 and $80,000, which mature on July 1, 2025 and July 1, 2012, respectively. Bond payments, including interest and principal, are required to be made monthly to Deutsche Bank Trust Company Americas, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The Series 2010A-1 bond bears interest ranging from 1.5% to 5% per annum. The Series 2010A-2 bond bears interest at 3.5% per annum. The principal amounts outstanding on the Series 2010A-1 and Series 2010A-2 bonds at June 30, 2012 were $3,060,000 and $-0-, respectively.

In April 2012, under the terms of the agreement, DASNY issued Insured Revenue Series 2012A-1 bonds in the principal amount of $1,685,000 at a premium of $72,091. DASNY also issued 2012A-2 bonds in the principal amount of $65,000. Series 2012A-1 and 2012A-2 bonds mature on July 1, 2027 and July 1, 2013, respectively. Bond payments, including interest and principal, are required to be made monthly to Deutsche Bank Trust Company Americas, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The Series 2012A-1 bond bears interest ranging from 3% to 5% per annum. The Series 2012A-2 bond bears interest at 1.75% per annum. The principal amounts outstanding on the Series 2012A-1 and Series 2012A-2 bonds at June 30, 2012 were $1,677,775 and $55,725, respectively.

(b) IDA

On March 2, 2005, DD entered into a capital lease financing agreement with NYC Industrial Development Agency ("IDA"). Under the terms of the agreement, IDA issued $2,690,000 of Series 2005A term bonds, net of bond discount of $47,755. Interest rates range from 2% to 3% and mature in 2020. Bond payments, including interest and principal, are required to be made monthly to Bank of New York Mellon, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The principal amount outstanding at June 30, 2012 was $1,385,000.

On June 9, 2006, Services for the Underserved, Inc. entered into a capital lease financing agreement with NYC Industrial Development Agency ("IDA"). Under the terms of the agreement, IDA issued an aggregate of $1,679,077 of Series 2006 C-1 and C-2 term bonds, at interest rates ranging from 4.15% to 6.05% and mature in 2031. Bond payments, including interest and principal, are required to be made semiannually to the Bank of New York Mellon, which maintains a debt service reserve fund account and makes semiannual installments January 1 and July 1 of each year. The principal amount outstanding at June 30, 2012 was $1,403,065.

In October 2007, DD entered into a capital lease financing agreement with IDA. Under the terms of the agreement, IDA issued $3,695,000 of Series 2007B term bonds at a discount of $73,900. Interest rates range from 4.87% to 5.29% and mature in 2022. Bond payments, including interest and principal, are required to be made monthly to the Bank of New York Mellon, which maintains a debt service reserve fund account and makes semi-annual installment payments on January 1 and July 1 of each year. The principal amount outstanding at June 30, 2012 was $2,415,000.

In addition to the construction cost of the projects, bond proceeds were used to pay bond issuance costs of $823,773 for DASNY and $867,173 for IDA, respectively, which are being amortized over the lives of the bonds. At June 30, 2012, $74,082 of amortized bond costs is included in depreciation and amortization.

Future minimum debt service payments are as follows:

Year ending June 30,	
2013	$ 1,488,500
2014	1,485,000
2015	1,465,000
2016	1,080,000
2017	1,015,000
Thereafter	7,958,065
	14,491,565
Plus: Unamortized premium	72,091
	$14,563,656

10. Transactions With Related Parties

Based on a written agreement in February 2002, SUS receives partnership management fees from the DeWitt Avenue Supportive Housing Project owned by New Life Homes, Limited Partnership ("NLHLP"). The Partnership has one general partner, New Life Homes, Inc., which has a .01% interest. The sole shareholder of New Life Homes, Inc. is New Life Homes Housing Development Fund Corporation ("HDFC"). SUS is the sole member of SUS - Mental Health Programs, Inc. which, in turn, is the sole member of the HDFC. The limited partner of NLHLP is the National Equity Fund - 1999 Limited Partnership, which has a 99.99% interest.

SUS is entitled to an annual partnership management fee of 6.7% of gross potential income. SUS received management fees of $34,583 from New Life Homes, Inc. for the year ended June 30, 2012. At June 30, 2012, SUS had a payable and a receivable of $1,217,722 and $273,857, respectively, to NLHLP.

Family Residences & Essential Enterprises, Inc. ("FREE") entered into an agreement that substitutes FREE for SUS as sole member of the CDCH Preschool and CDCH Charter School. The agreement also provides that FREE replace SUS in its relationship with CDCH Foundation. The agreement with respect to CDCH Preschool closed on September 1, 2010, and the remaining parts of the agreement for CDCH Charter School closed on October 27, 2010. As consideration for the agreement, FREE paid SUS the balances due to SUS by CDCH Preschool and CDCH Charter School at closing, subject to a ten-year promissory note of $500,000 issued at prime plus 1.5%. The note receivable from FREE was $173,511, net of allowance for bad debt of $326,489 at June 30, 2012.

SUS is the sole member of SUS - Mental Health Programs, Inc. which, in turn, is the sole member of Macombs Road Housing Development Fund Corporation ("Macombs HDFC") and Macombs HDFC owns all the outstanding shares of Macombs Road Housing G.P., Inc. ("Macombs HGP") which is the general partner of Macombs Road Housing L.P. ("Macombs HLP"). Macombs HGP has a 0.01% interest in Macombs HLP. The limited partner of Macombs HLP is Wincopin Circle LLP which has a 99.99% interest.

Macombs HLP was formed to own and operate a supportive housing program. SUS shares common staff with Macombs HLP and is entitled to be reimbursed for costs incurred related to the operation of the Macombs Supportive Housing Program. SUS had a payable and a receivable of $452,475 and $456,066, respectively, to Macombs HLP as of June 30, 2012.

SUS is the sole member of SUS - Mental Health Programs, Inc. which, in turn, is the sole member of Mother Gaston Housing Development Fund Company, Inc. ("Mother Gaston HDFC") and Mother Gaston HDFC owns all the outstanding shares of Mother Gaston Housing G.P. Inc. ("Mother Gaston HGP") which is the general partner of Mother Gaston Housing L.P. ("Mother Gaston HLP"). Mother Gaston HGP has a 0.01% interest in Mother Gaston HLP. The limited partner of Mother Gaston HLP is Richman Housing Resources LLC which has a 99.99% interest.

Mother Gaston HLP was formed to own and operate a supportive housing program. SUS shares common staff with Mother Gaston HLP and is entitled to be reimbursed for costs incurred related to the operation of the Mother Gaston Supportive Housing Program. SUS had a receivable from Mother Gaston HLP for $164,918 as of June 30, 2012.

SUS is the sole member of SUS-Mental Health Programs Inc. which, in turn, is the sole member of 21 Truxton Street Housing Development Fund Corporation ("Truxton HDFC"). Truxton HDFC owns all of the outstanding shares of 21 Truxton Street G.P, Inc. ("Truxton, G.P.") which is the general partner of 21 Truxton Street, L.P. ("Truxton L.P."). The interest of Truxton G.P. in Truxton L.P. is 0.01%. The limited partner of Truxton L.P. is The Bank of America Housing Fund IX Limited Partnership, LLP which has a 99.9% interest.

B-VII-40

Truxton L.P. was formed to own and operate supportive housing programs. SUS and SUS-Mental Health Programs, Inc. share common staff with Truxton L.P. and SUS is entitled to be reimbursed for costs incurred related to the operation of Truxton L.P. For the year ended June 30, 2012, SUS did not receive any income from Truxton L.P. SUS had a receivable from Truxton L.P. for $620,000 as of June 30, 2012.

The financial statements of WLHLP, Macombs HLP, Mother Gaston HLP and Truxton L.P. have not been combined with SUS, as the limited partners have substantive participating rights which effectively give them the ability to participate in significant decision making activities during the ordinary course of business.

11. Pension Plan

Upon termination of the Services for the Underserved, Inc. 401(k) and Profit Sharing Plan on December 31, 2008, SUS established the plan on January 1, 2009 as a defined contribution plan covering all eligible employees of SUS. The plan is administered by SUS. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Employer contributions to the 403(b) plan are discretionary and may vary from year to year. There were no employer contributions to the 403(b) plan for the year ended June 30, 2012.

SUS also sponsors a Simplified Employee Pension Plan ("SEPP") covering all non-union employees of the Services for the Underserved Home Attendant Program, Inc. Employees are eligible to contribute to the plan once they have completed a two-year service requirement and are at least eighteen years of age. Employees who meet the requirements become a participant on the first day of the subsequent plan year. Employees are eligible to receive employer contributions after two years of service. SUS contributions to the SEPP are discretionary and may vary from year to year. Due to the termination of operation for the program on April 15, 2011, the plan was terminated accordingly. There was no employer contribution to the SEPP for the year ended June 30, 2012.

SUS adopted a deferred compensation retirement plan (the "457 Plan") under Section 457(f) of the Internal Revenue Code. The 457 Plan is intended to provide deferred compensation for a group of SUS management employees. Contribution to the 457 Plan for the year ended June 30, 2012 was $90,060.

12. Deferred Revenue

Deferred revenue consists of the following:

June 30, 2012	
Construction and acquisition costs for the Montrose, Marcy Avenue and Briarwood facilities which were financed by grants from the State of New York, Office of Mental Health ("OMH"), which stipulated that SUS will take title to the land and building after 20 years of meeting operational requirements	$4,785,285
Various Mental Health Program contract advances for fiscal year 2012	305,897
Additional OMH funding received for capital improvements for various Mental Health Program facilities	207,221
Various AIDS services contract advances for fiscal year 2013	371,520
Surplus income generated from Home Attendant Program	1,044,988
Other deferred revenue	70,230
	$6,785,141

13. Commitments

Leases

SUS is obligated under various lease agreements for the use of several residential apartments, office space, equipment and vehicles. SUS has the option to renew certain leases upon expiration. Rental expense was $8,516,782 for the year ended June 30, 2012. The minimum future annual rental payments are as follows:

Year ending June 30,	
2013	$ 5,359,330
2014	2,256,851
2015	851,321
2016	787,534
2017	1,441,859
Thereafter	5,527,721
Total	$16,224,616

14. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 were $2,560,604 which represents funds received for construction and acquisition cost of the Hotel Majestic location and capital expenditures for Services for the Underserved - Mental Health Programs, Inc. Net assets released from restriction represent annual depreciation of $212,523 for the Hotel Majestic property as of June 30, 2012.

15. Contingencies

SUS is a defendant in various legal actions arising out of the normal course of its operations, the final outcome of which cannot presently be determined. SUS management is of the opinion that the ultimate liability, if any, with respect to all of these matters will not have a material adverse effect on SUS's financial position.

16. Transfer to Funding Source

On March 31, 2011, HRA did not renew its contract for the provision of home attendant services with SUS - Home Attendant Program, Inc. ("SUS-HA"). All clients were transferred to other providers in April 2011. Pursuant to the agreement between HRA and SUS-HA, the costs incurred to discontinue the program's operations are funded by HRA by the reduction of the payable balance between SUS-HA and HRA. HRA will continue to fund these costs until the program is fully liquidated. For the year ended June 30, 2012, the costs incurred for discontinuing operations were $515,418.

17. Workers' Compensation Assessment Payable Settlement

Between 1999 and 2003, SUS participated in a group self-insurance trust (the "Trust") along with multiple other agencies in the human services, not-for-profit sector. On December 31, 2010, the Trust was terminated in the face of a deficiency in assets. The Trust billed all former members of the Trust with an assessed portion of the deficit. The assessment of $537,502 was related to deficits for years in which SUS was a member of the Trust. In July 2011, the State of New York Workers' Compensation Board notified the Trust that it will transfer the Trust to a state contracted administrator. The amount outstanding at June 30, 2012 was $505,598.

18. Subsequent Events

A residential facility that is owned by SUS - Mental Health Programs, Inc. was significantly damaged during Hurricane Sandy which impacted the New York area in late October 2012. SUS is working with New York State, New York City and federal agencies to fund and repair the facility which is located in the Rockaways section of Queens, New York.

SUS has evaluated subsequent events through January 7, 2013, which is the date these combined financial statements were available to be issued. No events arose during the period which required additional disclosures.

Independent Auditors' Report on Supplemental Material

Our audit of the basic combined financial statements included in the preceding section of this report was performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic combined 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 basic combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

BDO USA, LLP

Certified Public Accountants

New York, New York

January 7, 2013

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Services for the UnderServed and Affiliated Organizations

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

June 30,

	Services for the Underserved, Inc.	SUS - Mental Health Programs, Inc.	SUS - Developmental Disabilities Services, Inc.	SUS - AIDS Services, Inc.	SUS - Home Attendant Program, Inc.	SUS - Home Care Services, Inc.	Eliminations	Total 2012	Total 2011
Assets									
Cash and cash equivalents	$ 7,190,840	$ 892,683	$ 60,836	$ 6,443	$ 1,335,775	$ 137,221	$ -	$ 9,623,798	$12,721,945
Accounts receivable, net	352,689	1,667,626	4,657,740	1,414,569	201	3,296	-	8,096,121	8,216,874
Prepaid expenses and other assets	593,438	1,007,110	197,362	142,175	22,143	3,592	-	1,965,820	1,585,857
Bond escrow fund	-	-	168,958	-	-	-	-	168,958	164,774
Due from affiliates, net	1,696,888	6,028,282	-	-	-	-	(5,632,978)	2,092,192	1,573,801
Debt service reserve	483,460	-	1,510,266	-	-	-	-	1,993,726	1,857,781
Deferred bond financing costs	322,206	-	872,081	-	-	-	-	1,194,287	1,185,143
Fixed assets, net	2,776,221	18,230,444	16,050,208	396,684	-	-	-	37,453,557	37,196,087
	$13,415,742	$27,826,145	$23,517,451	$1,959,871	$1,358,119	$144,109	$(5,632,978)	$62,588,459	$64,502,262
Liabilities and Net Assets (Deficit)									
Liabilities:									
Accounts payable and accrued expenses	$ 1,183,608	$ 824,359	$ 2,063,714	$ 153,817	$ 49,725	$ 26,461	$ -	$ 4,301,684	$ 4,269,886
Accrued compensation and related taxes	566,828	1,052,885	1,832,223	233,850	30,270	-	-	3,716,056	3,255,774
Due to affiliates	2,972,681	1,508,821	2,107,064	564,278	233,136	208,007	(5,632,978)	1,961,009	1,606,161
Due to clients	-	220,880	158,666	-	-	-	-	379,546	418,511
Other liabilities	-	29,350	-	-	-	-	-	29,350	1,867
Deferred revenue	50,000	5,298,402	20,231	371,520	1,044,988	-	-	6,785,141	8,048,550
Due to government agencies	-	1,562,582	1,414,603	-	-	-	-	2,977,185	3,870,136
Workers' compensation assessment payable settlement	505,598	-	-	-	-	-	-	505,598	537,502
Line of credit	620,000	-	-	-	-	-	-	620,000	1,471,191
Mortgages and loans payable	-	8,067,638	516,500	-	-	-	-	8,584,138	9,411,909
Bonds payable	3,803,065	-	10,760,591	-	-	-	-	14,563,656	14,223,602
Total Liabilities	9,701,780	18,564,917	18,873,592	1,323,465	1,358,119	234,468	(5,632,978)	44,423,363	47,115,089
Commitments and Contingencies									
Net Assets (Deficit):									
Unrestricted	3,713,962	6,700,624	4,643,859	636,406	-	(90,359)	-	15,604,492	14,614,046
Temporarily restricted	-	2,560,604	-	-	-	-	-	2,560,604	2,773,127
Total Net Assets (Deficit)	3,713,962	9,261,228	4,643,859	636,406	-	(90,359)	-	18,165,096	17,387,173
	$13,415,742	$27,826,145	$23,517,451	$1,959,871	$1,358,119	$144,109	$(5,632,978)	$62,588,459	$64,502,262

Services for the UnderServed and Affiliated Organizations

Combining Statement of Activities
(with comparative totals for 2011)

Year ended June 30,

	Services for the Underserved, Inc.	SUS - Mental Health Programs, Inc.	SUS - Developmental Disabilities Services, Inc.	SUS - AIDS Services, Inc.	SUS - Home Care Services, Inc.	Eliminations	Total 2012	Total 2011
Public Support and Revenue:								
Medicaid income	$ -	$ 3,251,437	$33,191,042	$ -	$ -	$ -	$36,442,479	$36,982,130
Contract revenue	-	20,614,946	-	5,565,443	-	-	26,180,389	27,753,402
Rental income	776,310	-	-	-	-	(776,310)	-	-
Participant fees	-	4,527,401	2,039,051	363,243	-	-	6,929,695	6,711,790
Contributions	386,606	-	-	-	-	-	386,606	210,402
Special events:		-	-	-	-	-	-	
Gross receipts	374,000	-	-	-	-	-	374,000	423,000
Less: Cost of special events	(418,243)	-	-	-	-	-	(418,243)	(390,844)
Management fees	5,104,997	-	-	-	-	(4,977,932)	127,065	91,045
Other	218,985	3,925	87,730	-	-	-	310,640	249,458
Total Public Support and Revenue	6,442,655	28,397,709	35,317,823	5,928,686	-	(5,754,242)	70,332,631	72,030,383
Expenses:								
Program services:								
Mental Health Programs, Inc.	-	26,278,309	-	-	-	(383,086)	25,895,223	24,424,926
Developmental Disabilities Services, Inc.	-	-	31,810,235	-	-	(393,224)	31,417,011	32,524,782
AIDS Services, Inc.	-	-	-	5,836,901	-	-	5,836,901	7,412,497
Home Care Services	-	-	-	-	-	-	-	3,740
Total Program Services	-	26,278,309	31,810,235	5,836,901	-	(776,310)	63,149,135	64,365,945
Supporting services:								
Fundraising	220,000	-	-	-	-	-	220,000	95,000
Management and general	5,989,195	1,965,668	2,904,712	303,930	-	(4,977,932)	6,185,573	6,060,994
Total Supporting Services	6,209,195	1,965,668	2,904,712	303,930	-	(4,977,932)	6,405,573	6,155,994
Total Expenses	6,209,195	28,243,977	34,714,947	6,140,831	-	(5,754,242)	69,554,708	70,521,939
Excess (Deficit) of Public Support and Revenue Over Expenses From Continuing Operations Before Assessment From Default on Workers' Compensation Trust	233,460	153,732	602,876	(212,145)	-	-	777,923	1,508,444
Assessment From Default on Workers' Compensation Trust	-	-	-	-	-	-	-	(537,502)
Change in Net Assets From Continuing Operations	233,460	153,732	602,876	(212,145)	-	-	777,923	970,942
Gain (Loss) From Discontinuing Operations:								
Revenues - Home Attendant Program	-	-	-	-	-	-	-	14,225,392
Expenses - Home Attendant Program	-	-	-	-	-	-	(515,418)	(15,087,559)
Transfer from (to) funding sources (Note 16)	-	-	-	-	-	-	515,418	(1,213,352)
	-	-	-	-	-	-	-	(2,075,519)
Change in Net Assets	233,460	153,732	602,876	(212,145)	-	-	777,923	(1,104,577)
Net Assets (Deficit), Beginning of Year	3,480,502	9,107,496	4,040,983	848,551	(90,359)	-	17,387,173	18,491,750
Net Assets (Deficit), End of Year	$3,713,962	$ 9,261,228	$4,643,859	$ 636,406	$(90,359)	$ -	$18,165,096	$17,387,173

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APPENDIX B-VIII

WILDWOOD PROGRAMS, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2014, JUNE 30, 2013 AND JUNE 30, 2012)

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WILDWOOD PROGRAMS, INC.
FINANCIAL REPORT
JUNE 30, 2014

WILDWOOD PROGRAMS, INC.

TABLE OF CONTENTS

MARVIN AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
A History of Shaping Futures

Independent Auditor's Report

Board of Directors
Wildwood Programs, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Wildwood Programs, Inc. (the Agency), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wildwood Programs, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of functional expenses on page 24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Marvin and Company, P.C.

Latham, NY
October 29, 2014

B-VIII-3

WILDWOOD PROGRAMS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS	2014	2013
Current Assets		
Cash and cash equivalents	$ 2,908,005	$ 2,624,525
Investments, unrestricted	298,178	378,152
Accounts receivable	4,098,530	3,797,570
Due from The Wildwood Foundation	105,574	31,628
Prepaid expenses	111,458	180,504
Total Current Assets	7,521,745	7,012,379
Property, Plant and Equipment		
Land and improvements	2,701,818	2,641,481
Building and improvements	20,876,393	20,640,173
Furniture, fixtures and equipment	3,996,386	3,697,155
Total	27,574,597	26,978,809
Less accumulated depreciation	15,025,966	13,817,240
Net Property, Plant and Equipment	12,548,631	13,161,569
Other Assets		
Investments, restricted	265,736	232,088
Debt service reserves and restricted deposits	828,252	874,235
Escrow	2,521	2,521
Security deposits	65,599	65,419
Deferred financing costs, net of accumulated amortization of $675,897 and $612,978 respectively	634,585	697,503
Interest in net assets of related party	6,333,628	6,148,047
Total Other Assets	8,130,321	8,019,813
TOTAL ASSETS	$ 28,200,697	$ 28,193,761
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 324,613	$ 345,039
Accrued expenses and payroll withholdings	2,588,885	2,294,884
Deferred revenue	52,604	84,090
Accrued interest expense	88,223	98,970
Line of Credit	280,000	-
Current installments of long-term debt	962,864	904,434
Total Current Liabilities	4,297,189	3,727,417
Long-Term Liabilities		
Long-term debt, net of current installments	8,486,396	9,256,622
Fair value of swap agreement	887,042	935,424
Retirement health benefit obligation	475,200	457,500
Workers' compensation liability	131,125	171,218
Total Long-Term Liabilities	9,979,763	10,820,764
Total Liabilities	14,276,952	14,548,181
Net Assets		
Unrestricted	7,324,381	7,265,445
Temporarily restricted	5,380,830	5,192,182
Permanently restricted	1,218,534	1,187,953
Total Net Assets	13,923,745	13,645,580
TOTAL LIABILITIES AND NET ASSETS	$ 28,200,697	$ 28,193,761

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program Support and Revenue				
Government agencies	$ 29,654,315	$ -	$ -	$ 29,654,315
Program fees from clients	2,136,324	-	-	2,136,324
Operating grants	459,555	-	-	459,555
Net assets released from restrictions	3,752	(3,752)	-	-
Total Program Support and Revenue	32,253,946	(3,752)	-	32,250,194
Nonprogram Support and Revenue				
Contributions	794,350	-	-	794,350
Investment income	21,340	37,400	-	58,740
Consulting fees and conferences	1,646	-	-	1,646
Other income	178,977	-	-	178,977
Total Nonprogram Support and Revenue	996,313	37,400	-	1,033,713
Total Revenue	33,250,259	33,648	-	33,283,907
Expenses and Losses				
Wildwood programs	30,820,445	-	-	30,820,445
Cloud services	12,825	-	-	12,825
Management and general	2,406,435	-	-	2,406,435
Total Expenses and Losses	33,239,705	-	-	33,239,705
Change in Net Assets Before Change in Interest of Net Assets of Related Party	10,554	33,648	-	44,202
Change in Interest in Net Assets of Related Party	-	155,000	30,581	185,581
Change in Net Assets Before Change in Fair Value of Swap Contract	10,554	188,648	30,581	229,783
Change in Fair Value of Swap Contract	48,382	-	-	48,382
Change in Net Assets	58,936	188,648	30,581	278,165
Net Assets, Beginning of Year	7,265,445	5,192,182	1,187,953	13,645,580
Net Assets, End of Year	$ 7,324,381	$ 5,380,830	$ 1,218,534	$ 13,923,745

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program Support and Revenue				
Government agencies	$ 29,629,760	$ -	$ -	$ 29,629,760
Program fees from clients	2,074,231	-	-	2,074,231
Operating grants	489,425	-	-	489,425
Net assets released from restrictions	-	-	-	-
Total Program Support and Revenue	32,193,416	-	-	32,193,416
Nonprogram Support and Revenue				
Contributions	353,304	-	-	353,304
Investment income	(9,374)	17,974	-	8,600
Consulting fees and conferences	9,521	-	-	9,521
Other income	171,330	-	-	171,330
Total Nonprogram Support and Revenue	524,781	17,974	-	542,755
Total Revenue	32,718,197	17,974	-	32,736,171
Expenses and Losses				
Wildwood Programs	30,845,526	-	-	30,845,526
Management and general	2,335,789	-	-	2,335,789
Total Expenses and Losses	33,181,315	-	-	33,181,315
Change in Net Assets Before Change in Interest of Net Assets of Related Party	(463,118)	17,974	-	(445,144)
Change in Interest in Net Assets of Related Party	-	321,511	51,370	372,881
Change in Net Assets Before Change in Fair Value of Swap Contract and Prior Year Workers' Compensation Assessment	(463,118)	339,485	51,370	(72,263)
Change in Fair Value of Swap Contract	405,260	-	-	405,260
Prior Year Workers' Compensation Assessment	(214,653)	-	-	(214,653)
Change in Net Assets	(272,511)	339,485	51,370	118,344
Net Assets, Beginning of Year	7,537,956	4,852,697	1,136,583	13,527,236
Net Assets, End of Year	$ 7,265,445	$ 5,192,182	$ 1,187,953	$ 13,645,580

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014

	2014	2013
Cash Flows From Operating Activities		
Change in Net Assets	$ 278,165	$ 118,344
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,348,084	1,386,643
Bad debts	153,017	934
Realized/unrealized (gain) loss on investments	(35,389)	11,829
Change in fair value of swap contract	(48,382)	(405,260)
Change in interest in net assets of related party	(185,581)	(372,881)
Change in retirement health benefit obligation	17,700	102,000
(Increase)/decrease in assets		
Accounts receivable	(453,977)	(21,472)
Prepaid expenses	69,046	(16,945)
Security deposits	(180)	(1,965)
Increase/(decrease) in liabilities:		
Accounts payable	(20,426)	77,724
Accrued expenses and payroll withholdings	294,001	(132,816)
Deferred revenue	(31,486)	6,634
Accrued interest expense	(10,747)	(541)
Workers' compensation liability	(40,093)	211,311
Net Cash Provided by Operating Activities	1,333,752	963,539
Cash Flows From Investing Activities		
Net proceeds (purchases) of investments	81,715	2,821
Purchases of property, plant and equipment	(672,228)	(292,183)
(Increase) decrease in debt service reserve	45,983	47,793
Net change in due from/to the Wildwood Foundation	(73,946)	(2,938)
Net Cash Used by Investing Activities	(618,476)	(244,507)
Cash Flows From Financing Activities		
Net advances (repayment) on lines of credit	280,000	-
Proceeds from long-term debt	220,519	216,982
Repayment of long-term debt	(932,315)	(1,206,665)
Net Cash Used by Financing Activities	(431,796)	(989,683)
Net Increase/(Decrease) in Cash and Cash Equivalents	283,480	(270,651)
Cash and Cash Equivalents, Beginning of Year	2,624,525	2,895,176
Cash and Cash Equivalents, End of Year	$ 2,908,005	$ 2,624,525
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 530,696	$ 563,138

See accompanying notes to financial statements.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Wildwood Programs, Inc. (the Agency) is a private nonprofit organization that provides education, training and other services for persons with learning or other developmental disabilities in New York State. Revenues are derived from Medicaid, the New York State Office for People With Developmental Disabilities (OPWDD), and contracts with school districts at rates promulgated by the New York State Education Department (SED), contract sales and participant fees. The majority of the revenues and receivables are from Medicaid and the aforementioned funding sources. The Agency extends credit to school districts and other governmental entities within New York State for services provided.

The Agency is in part supported by the Wildwood Foundation, Inc. (The Foundation), a related party. The Foundation is a non-profit organization which was organized and is operated for the exclusive purpose of supporting and assisting the Agency. The net assets of The Foundation are included in the financial statements as interest in net assets of related party. The individual accounts of The Foundation are not included in these financial statements.

Wildwood Cloud Services is a Limited Liability Corporation, whose sole member is Wildwood Programs, Inc. Wildwood Cloud Services was created in order to provide Medicaid billing services to organizations similar to Wildwood for a fee. Wildwood Cloud Services began operations in March of 2014. The financial statements include the accounts of Wildwood Cloud Services and any intercompany transactions have been eliminated.

Cash and Cash Equivalents

For purposes of the statements 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.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts, if any, is based on a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. At June 30, 2014 and 2013, no allowance for doubtful accounts was considered necessary. Bad debt expense was $153,017 and $934 for the years ended June 30, 2014 and 2013, respectively.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at acquisition cost or at estimated fair value at the date of donation less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations on a straight-line basis over the following estimated useful lives:

	Years
Land improvements	2-25
Building and improvements	5-25
Furniture, fixtures and equipment	5-10

Additions and betterments are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are charged to operations when incurred. When property, plant and equipment are sold or otherwise disposed of, the asset account and the related accumulated depreciation account are relieved and any gain or loss is included in operations.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Deferred Financing Costs

Deferred financing costs consist of bond closing costs incurred on the Agency's various bonded mortgages. These costs are being amortized on a straight-line basis over the terms of the obligations. Amortization expense was $62,918 and $62,880 for the years ended June 30, 2014 and 2013, respectively. Amortization expense is expected to be approximately $63,000 in each of the next five years.

Self-Insured Dental and Prescription Plans

Wildwood Programs, Inc. is self-insured for its employees' dental benefits and medical prescription benefits on a cost-reimbursement basis. Under the program, Wildwood Programs, Inc. is responsible for the cost of claims. All known claims and an estimate of incurred, but unreported claims computed using the history obtained by management, have been recorded as employee benefits in the financial statements for the years ended June 30, 2014 and 2013. The difference between the amounts paid to the claims administrator and the amount recorded as expense is recorded as accrued expenses on the statements of financial position. The dental benefits payable at June 30, 2014 and 2013 was $16,889 and $30,554, respectively. The medical prescription benefits payable at June 30, 2014 and 2013 was $105,511 and $57,317, respectively.

Deferred Revenue

Deferred revenue represents funds received for which the Agency has not fulfilled their obligation to recognize them as revenue. Services will be provided in future periods and/or remaining amounts will be recouped by funding sources.

Net Assets

The net assets of the Agency are reported in three classes of net assets as follows:

Unrestricted Net Assets - Include amounts that have no external restrictions on their use or purpose. The Board of Directors can authorize use of those funds as it desires to carry on the purpose of the Agency according to its by-laws.

Temporarily Restricted Net Assets - Include the portion of the interest in the net assets of its related party that is other than permanently restricted on the related party's financial statements and represents resources that are either temporarily restricted by the donor or are not available for immediate use by the Agency until they are transferred by the related party.

Permanently Restricted Net Assets - Include the portion of the interest in the net assets of its related party that are permanently restricted on the related party's financial statements and also represent amounts contributed with donor stipulations to maintain donated amounts in perpetuity.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue from Medicaid, OPWDD and SED is recognized when services are rendered at approved rates. These rates are primarily cost based as 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 known. Client fees represent the participants' personal contribution towards the cost of goods and services provided by the Agency. These charges are regulated by federal and state law.

Contributions

Contributions are recognized when the donor makes a promise to give to the Agency that is, in substance, unconditional. Contributions without donor-imposed restrictions are reported as unrestricted support. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. 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. Restricted contributions whose restrictions are met in the same reporting period are classified as unrestricted contributions.

Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services using specific allocation methods. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Risks and Uncertainties

The Agency 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 values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Estimates

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

Interest and Dividend Income

The Agency recognizes interest income and dividends on the date they are posted to the various accounts by the financial institutions.

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the current year presentation.

2. INVESTMENTS

Investments consist of marketable equity and debt securities carried at fair value and consist of the following at June 30, 2014 and 2013:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Debt securities/mutual funds	$ 293,908	$ 343,312	$ 368,860	$ 381,773
Money markets	9,414	9,414	41,817	41,817
Equity securities/mutual funds	183,550	211,188	179,130	186,650
Total Investments	$ 486,872	$ 563,914	$ 589,807	$ 610,240

The following schedule summarizes the investment income in the statement of activities for the years ended June 30, 2014 and 2013:

	2014	2013
Interest and dividend income	$ 23,351	$ 20,429
Net realized and unrealized gain (loss) on investments	35,389	(11,829)
Total Investment Income	$ 58,740	$ 8,600

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, consists of the following as of June 30, 2014 and 2013:

	2014	2013
Land	$ 990,600	$ 960,600
Land improvements	1,711,218	1,680,881
Building	11,056,695	10,852,815
Building improvements	9,819,698	9,787,358
Furniture, fixtures and equipment	3,996,386	3,697,155
Total	27,574,597	26,978,809
Less: Accumulated depreciation	15,025,966	13,817,240
Net, Property, Plant and Equipment	$ 12,548,631	$ 13,161,569

Depreciation expense was $1,285,166 and $1,323,763 for the years ended June 30, 2014 and 2013, respectively.

4. DEBT SERVICE RESERVES AND RESTRICTED DEPOSITS

The debt service reserves represent deposits held by the Trustees of the Dormitory Authority (DA) and Albany County Industrial Development Agency (AIDA). These deposits will be used to satisfy the last payments required on mortgages held by the DA and the AIDA or can be used prior to that time to pay amounts that are in default. The reserve fund earns interest, which is used to reduce the payment obligations under the mortgages. Total debt service reserves were $827,593 and $830,216 at June 30, 2014 and 2013, respectively.

4. DEBT SERVICE RESERVES AND RESTRICTED DEPOSITS

Restricted deposits represent amounts held in trust by a third-party administrator related to the Agency's pension plan. These amounts are to be used to pay for employer contributions or expenses of the plan. The restricted deposits were $659 and $44,019 at June 30, 2014 and 2013, respectively.

5. LINES OF CREDIT

The Agency has the following lines of credit as of June 30, 2014 and 2013:

	2014	2013
$500,000 unsecured line of credit with KeyBank to be drawn upon as needed for real estate, the interest rate is established at Prime plus 1% (4.25% at June 30, 2014), renews annually on December 31. The line is guaranteed by Wildwood Foundation, Inc.	$ -	$ -
$500,000 unsecured line of credit with Citizens Bank, N.A. to be drawn upon as needed for real estate, the interest rate is established at LIBOR Advantage plus 2.5% (2.84% at June 30, 2014), renews annually on January 20. The line is guaranteed by Wildwood Foundation, Inc.	-	-
$500,000 unsecured line of credit with KeyBank to be drawn upon as needed, the interest rate is established at Prime plus 1% (4.25% at June 30, 2014), renews annually on December 31. The line is guaranteed by Wildwood Foundation, Inc.	-	-
$750,000 unsecured line of credit with Citizens Bank, N.A. to be drawn upon as needed, the interest rate is established at LIBOR Advantage plus 2.5% (2.84% at June 30, 2014), renews annually on January 20. The line is guaranteed by Wildwood Foundation, Inc.	280,000	-
Total Lines of Credit	$ 280,000	$ -

6. LEASES

The Agency's minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2014 for each of the next five years and in the aggregate are as follows:

B-VIII-7

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

6. LEASES

Year Ended June 30,	Amount
2015	$ 594,078
2016	604,520
2017	620,608
2018	620,665
2019	551,868
Thereafter	1,578,191
Total	$ 4,569,930

Rental expense included in the statements of activities was $938,046 and $933,341 for the years ended June 30, 2014 and 2013, respectively.

7. LONG-TERM DEBT

The Agency's long-term debt consists of the following as of June 30:

	2014	2013
2003 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York, under its New York State Rehabilitation Associated Pooled Loan Program No. 2, consisting of two issues, Series 2003A (non-taxable) and 2003B (federally taxable). Several not-for-profit corporations received varying portions of the bond issue proceeds. Each corporation's liability is limited to its allocable portion of the unpaid principal amount of the outstanding bonds. The bonds are secured by the pledge of revenues, subject to prior pledges and the reserve funds established under the bond. The bond is also secured by two financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2019. Interest rates vary from 3.00% to 5.25%, depending on the maturity date of the particular bond. Payments by the participating corporations are due monthly. The loan agreements also contain various covenants, including a debt service coverage ratio.	$ 294,219	$ 379,219

7. LONG-TERM DEBT

	2014	2013
2006 Insured Revenue Bonds, with the Albany County Industrial Development Agency, issued through the Bank of New York, under Special Needs Facility Pooled Program, consisting of two issues, Series 2006K-1 (non-taxable) and Series 2006K-2 (federally taxable). The bonds are secured by the mortgaged property located in Colonie, New York; and a secured interest in certain fixtures, furnishings and equipment. The bond is also secured by financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2026. Interest rates range from 4.35%-5%. Payments are due semi-annually on January 1 and July 1.	$ 2,815,000	$ 2,960,000
Vehicle and equipment loans payable to various financial institutions at various rates ranging from 0.9% to 7.375%, secured by vehicles and equipment. Monthly payments range from $319 to $702 and are applied first to interest and then to principal. The loans have maturity dates through June 2018.	417,810	378,184
2007 Insured Revenue Bonds, with the Guilderland Industrial Development Agency, issued through Bank of New York, under Multi-Mode Variable Rate Civic Facility Program, consist of four issues. The bonds are secured by the land and building located in Guilderland, New York; and a security interest in certain fixtures, furnishings and equipment. The bond is secured by a KeyBank letter of credit. Bonds are payable in various increments through July 1, 2032. Payments are due annually on July 1. These rates are fixed with an interest rate swap contact with KeyBank (see Note 8).	4,625,000	5,040,000

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

7. LONG-TERM DEBT

	2014	2013
2010 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York, under its Inter Agency Council Pooled Loan Program No. 1, consisting of two issues, Series 2010A-1 (non-taxable) and 2010A-2 (federally taxable). Several not-for-profit corporations received varying portions of the bond issue proceeds. Each corporation's liability is limited to its allocable portion of the unpaid principal amount of the outstanding bonds. The bonds are secured by the pledge of revenues, subject to prior pledges and the reserve funds established under the bond. The bond is also secured by two financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2029. Interest rates vary from 2.1% to 5.0%, depending on the maturity date of the particular bond. Payments by the participating corporations are due monthly. The loan agreements also contain various covenants, including a debt service coverage ratio.	$ 305,000	$ 330,000
2011 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York, under its Inter Agency Council Pooled Loan Program No. 1, consisting of two issues, Series 2011A-1 (non-taxable) and 2011A-2 (federally taxable). Several not-for-profit corporations received varying portions of the bond issue proceeds. Each corporation's liability is limited to its allocable portion of the unpaid principal amount of the outstanding bonds. The bonds are secured by the pledge of revenues, subject to prior pledges and the reserve funds established under the bond. The bond is also secured by two financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2026. Interest rates vary from 1.20% to 4.125%, depending on the maturity date of the particular bond. Payments by the participating corporations are due monthly. The loan agreements also contain various covenants, including a debt service coverage ratio.	495,000	525,000
Community Preservation Corporation Mortgage, fixed interest rate of 6.12%, monthly payments of $5,841 through October 2019, secured by buildings.	497,231	548,653
Total	9,449,260	10,161,056
Less current installments of long-term debt	962,864	904,434
Long-term Debt, Net of Current Installments	$ 8,486,396	$ 9,256,622

7. LONG-TERM DEBT

Long-term debt is payable in each of the next five years and thereafter as follows:

Year Ended June 30,	Amount
2015	$ 962,864
2016	921,117
2017	586,761
2018	516,631
2019	503,567
Thereafter	5,958,320

Interest expense was $519,949 and $562,597 for the years ended June 30, 2014 and 2013, respectively.

The Agency has agreed to a number of covenants including a debt service coverage ratio of greater than 1:1. At June 30, 2014 and 2013, the Agency met these covenant requirements.

8. INTEREST RATE SWAP AGREEMENT

The Agency entered into an interest rate swap agreement (the swap) in order to reduce the impact of changes in interest rates on its Variable Rate Demand Civic Facility Revenue Bonds, issued by the Guilderland Industrial Development Agency. The Agency has assumed no ineffectiveness in the swap as, among other things, the initial amount of the swap was $6,950,000 which was comprised of two separate swap agreements, one for $4,895,000 at a fixed interest rate of 4.135% that matures on July 1, 2032 and the other for $2,055,000 at a fixed interest rate of 3.965% that matures on July 1, 2015. The current amount of bonds under the swap agreement is $4,205,000 maturing on July 1, 2032 and $840,000 maturing on July 1, 2015. The total remaining principal not covered by the swap is $0. Changes in the fair value of the swap are accounted for as the change in fair value of swap contract in the accompanying statements of activities.

9. FAIR VALUE MEASUREMENTS

Accounting Standards Codification (ASC) 820, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of quoted prices in active markets for identical assets and liabilities and have the highest priority, Level 2 consists of other observable inputs other than Level 1 prices, and Level 3 inputs consist of unobservable inputs and have the lowest priority. The Agency uses appropriate valuation techniques based on the available inputs to measure the fair value of its financial instruments. When available, the Agency measures fair value using Level 1 and Level 2 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. There were no transfers between levels during the year ended June 30, 2014 or 2013. The fair value of financial instruments measured on a recurring basis at June 30, 2014 and 2013 are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
June 30, 2014				
ASSETS				
Investments:				
Money Markets	$ 9,414	$ 9,414	$ -	$ -
Equities				
Consumer Discretionary	24,502	24,502	-	-
Consumer Staples	19,268	19,268	-	-
Financials	39,975	39,975	-	-
Health Care	20,416	20,416	-	-
Industrials	18,872	18,872	-	-
Information Technology	23,753	23,753	-	-
Telecommunications	2,202	2,202	-	-
Mutual Funds				
Index Funds	7,286	7,286	-	-
Domestic Equity	31,958	31,958	-	-
Foreign Equity	8,163	8,163	-	-
Domestic Bond	14,863	14,863	-	-
Government Bond	27,661	27,661	-	-
Other	14,793	14,793	-	-
Corporate Debt Securities	134,135	-	134,135	-
Government Debt Securities	166,653	-	166,683	-
Total Investments	$ 563,914	$ 263,126	$ 300,818	$ -
LIABILITIES				
Beginning Balance	$ 935,424	$ -	$ -	$ 935,424
Current year (gain)/loss	(48,382)	-	-	(48,382)
Fair value of interest rate swap agreement (see Note 8)	$ 887,042	$ -	$ -	$ 887,042

B-VIII-10

9. FAIR VALUE MEASUREMENTS

	Fair Value	(Level 1)	(Level 2)	(Level 3)
June 30, 2013				
ASSETS				
Investments:				
Money Markets	$ 41,817	$ 41,817	$ -	$ -
Equities				
Consumer Discretionary	13,536	13,536	-	-
Consumer Staples	19,907	19,907	-	-
Financials	50,866	50,866	-	-
Health Care	12,721	12,721	-	-
Industrials	14,944	14,944	-	-
Information Technology	17,856	17,856	-	-
Telecommunications	2,265	2,265	-	-
Mutual Funds				
Index Funds	5,870	5,870	-	-
Domestic Equity	27,025	27,025	-	-
Foreign Equity	6,956	6,956	-	-
Other	14,704	14,704	-	-
Corporate Debt Securities	164,118	-	164,118	-
Government Debt Securities	217,655	-	217,655	-
Total Investments	$ 610,240	$ 228,467	$ 381,773	$ -
LIABILITIES				
Beginning Balance	$ 1,340,684	$ -	$ -	$ 1,340,684
Current year (gain)/loss	(405,260)	-	-	(405,260)
Fair value of interest rate swap agreement (see Note 8)	$ 935,424	$ -	$ -	$ 935,424

Level 1 Fair Value Measurements
The fair values of investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Level 2 Fair Value Measures

The fair values of investments in debt securities are based on prices obtained from a pricing service using primarily matrix pricing, which considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, credit information, and the bonds terms and conditions, among other inputs.

Level 3 Fair Value Measurements
The fair value of the interest rate swap is derived from proprietary models developed by the bank that is party to the interest rate swap agreement, which they contest is based upon well recognized financial principles and provides a reasonable approximation of the fair market value of the interest rate swap agreement at June 30, 2014. If an early termination were to occur, the amount payable under the interest rate swap agreement may differ from the fair value calculation provided.

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

10. PENSION PLAN

The Agency maintains a noncontributory, defined contribution retirement plan which covers all full or part-time employees who meet certain minimum hours of service requirements. In addition, employees must complete one year of service by January 1 to quality for employer contributions during that year.

The Agency's contributions to the plan range from 3% to 12%, based on the employee's years of service, and are based on wages earned during the calendar year for qualifying employees. The contributions are deposited into a tax-deferred annuity, which is administered in compliance with the Employee Retirement Income Security Act of 1974 (ERISA). The Agency's pension expense was $1,073,378 and $1,111,595 for the years ended June 30, 2014 and 2013, respectively.

11. RELATED PARTIES

The Foundation is a not-for-profit corporation whose charitable purpose is supporting and assisting the Agency. The Foundation carries on fund-raising activities and special events that are for the benefit of the Agency. The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

During the years ended June 30, 2014 and 2013, the following transactions occurred between the Agency and the Foundation:

- The Foundation donated $719,255 and $343,304 to the Agency for the years ended June 30, 2014 and 2013, respectively. These amounts are included in contributions on the statements of activities.

- The Agency has a contract with the Foundation to reimburse certain costs incurred by the Agency. This contract includes the salaries and benefits of those staff that perform work on behalf of the Foundation. The Agency charged administrative fees of $34,205 and $29,117 to the Foundation for the reimbursement of an allocation of business office operations and maintenance services for the years ended June 30, 2014 and 2013, respectively. The fees are included in other income.

The Foundation owed $105,574 and $31,628 to Wildwood Programs, Inc. as of June 30, 2014 and 2013, respectively.

12. RETIREMENT HEALTH REIMBURSEMENT ARRANGEMENT

Wildwood Programs, Inc. sponsors a defined contribution retirement health plan. The Agency contributes $300 annually to a Retirement Health Reimbursement Arrangement (RHRA) for employees who have over 10 years of service and 200 hours of accumulated sick time. In addition, the Agency makes an additional contribution for employees who have 10 years of service and over 500 hours of accrued sick time. The Agency also contributes $600 annually for those employees who were eligible under a previous retirement health plan. If an employee leaves Wildwood before they retire, all amounts are forfeited to the Agency. The accumulated health benefit contribution liability as of June 30, 2014 and 2013 was $475,200 and $457,500 respectively.

B-VIII-11

13. ENDOWMENTS

The Agency has applied the principles of ASC 958-205. ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a non-profit organization and also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

Donations to the permanently restricted endowment funds of the Agency are governed by the New York Prudent Management of Institutional Funds Act (NYPMIFA) which dictates that annual distributions from these types of funds are to be formulated in a manner consistent with the standards of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Agency considers the following factors in making a determination to appropriate of accumulate donor-restricted endowment funds: (1) the duration and preservation of various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Agency, and (7) the Agency's investment policies. While this law allows for limited invasion of principal where warranted, it is the Agency's Board of Directors policy to maintain and grow these funds over time. As a result of their policy, the Agency classifies as permanently restricted net assets the original value of permanently restricted contributions, absent explicit donor stipulations to the contrary. The remaining portion of restricted contributions is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a matter consistent with the standards of prudence.

The Agency has adopted investment and spending policies for permanently restricted net assets that attempt to provide a predictable stream of funding to the Agency while maintaining purchasing power. Accordingly, the investment process seeks to achieve an after-cost total rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. All earnings from these funds that are held by the Agency are reflected as temporarily restricted net assets until appropriated for program expenditures.

Endowment funds consist of the following at June 30:

	2014	2013
Hearst Endowment Fund	$ 265,736	$ 232,088

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

13. ENDOWMENTS

Changes in endowment funds for the years ended June 30, 2014 and 2013 are as follows:

2014	Temporarily Restricted	Permanently Restricted	Total Net Endowment Funds
Endowment funds, beginning of year	$ 32,088	$ 200,000	$ 232,088
Contributions	-	-	-
Investment income	-	-	-
Net appreciation (depreciation)	37,400	-	37,400
Amounts appropriated for expenditure	(3,752)	-	(3,752)
Endowment funds, end of year	$ 65,736	$ 200,000	$ 265,736

2013	Temporarily Restricted	Permanently Restricted	Total Net Endowment Funds
Endowment funds, beginning of year	$ 14,114	$ 200,000	$ 214,114
Contributions	-	-	-
Investment income	-	-	-
Net appreciation (depreciation)	17,974	-	17,974
Amounts appropriated for expenditure	-	-	-
Endowment funds, end of year	$ 32,088	$ 200,000	$ 232,088

14. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of endowment funds (see note 13) and the interest in the net assets of its related party that are not permanently restricted. Permanently restricted net assets consist of endowment funds (see note 13) and the interest in the net assets of its related party that are permanently restricted. A summary of restricted net assets at June 30 follows:

	2014		2013	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Hearst Endowment	$ 65,736	$ 200,000	$ 32,088	$ 200,000
Net Assets of Related Party	5,315,094	1,018,534	5,160,094	987,953
Total	$ 5,380,830	$ 1,218,534	$ 5,192,182	$ 1,187,953

15. CONCENTRATIONS

The Agency maintains cash balances at various financial institutions. Accounts at each institution were insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 during the years ended June 30, 2014 and 2013. At times the Agency had bank deposits in excess of amounts insured by the FDIC.

Approximately 79% of the Agency's financing is with the County of Albany Industrial Development Agency and the Guilderland Industrial Development Agency for each of the years ended June 30, 2014 and 2013.

16. WORKERS' COMPENSTATION

The Agency had obtained workers' compensation insurance coverage through membership in a self-insured trust (CRISP) from July 1999 through June 2002. The Trust had been established to provide lower cost workers' compensation insurance to the preferred employer membership. The membership consisted of a group of agencies operating similar residential programs. All Trust members are jointly and severally liable for the expenses and obligations of the Trust and for the workers' compensation liability of all participating employers while a member of the Trust. In the event that a Trust member is unable to fund their portion of the obligation, the remaining membership would be responsible for making the Trust whole which would result in an increased cost to each of the remaining members. Premiums were calculated and paid based on payroll expenses and employee job classifications. The Trust attempted to reduce the risk to individual members by requiring employers to meet certain standards and be approved by the Board of Trustees prior to joining the Trust. Additionally, the Trust maintained specified reserves for futures claims and purchased reinsurance to limit losses on claims that exceed specified limits.

16. WORKERS' COMPENSTATION

In late October 2010, the Trustees, anticipating the continuation of competitive difficulties due to increased regulatory burden imposed on group self-insurance trusts, voted to close the CRISP Trust as of December 31, 2010. The Trust was moved to run-off status overseen by the Workers' Compensation Board of the State of New York and the CRISP Trustees. In run-off, claims will be managed by PMA Management Corp. with oversight by the CRISP Trustees. Ultimate claim values will continue to be measured with the objective of maintaining sufficient assets managed by the Trustees to pay all claim obligations going forward, through collection of receivables and joint and several liability assessments to members as required by the By-Laws and the Workers' Compensation Board of the State of New York. The Workers' Compensation Board is required to levy an assessment pursuant to Section 50 (3-a)(7)(b) on all employers, who were members of a defaulted group self-insurer, for such an amount as the Chair determines to be necessary to discharge all liabilities of the group self-insurer.

During 2013 the Agency was levied and assessed $214,653, which is reflected as prior year Workers' Compensation Assessment on the accompanying statement of activities. The remaining amount outstanding at June 30, 2014 is $171,218, of which $40,093 is reflected as a current liability included with accrued expenses and payroll withholdings.

The Workers' Compensation Board of the State of New York will oversee the runoff operations of the Trust and make adjustments to final obligations of participants as necessary. Any future reductions or additional assessments will be recognized in the financial statements as they become known. Management does not believe they will be responsible for any additional costs, but it is at least reasonably possible that this estimate could change in the near-term.

The Agency's future annual minimum payments for this Workers' Compensation Liability are:

2015	$ 40,093
2016	40,093
2017	40,093
2018	40,093
2019	10,846

17. CONTINGENCIES

Personal Allowance Accounts

The Agency is the custodian of clients' personal allowance funds. OPWDD regulations provide for the use of these funds for authorized and allowable purchases for consumer personal items. Those regulations prohibit the Agency from using or commingling these funds with any of their accounts. As the Agency has no legal right to these funds they have not been reflected in the financial statements.

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

18. TAX STATUS

The Agency is exempt from federal income taxes as a not-for-profit corporation under tax Section 501(c)(3) as determined by the Internal Revenue Code. Under ASC Section 740, the tax status of tax-exempt entities is an uncertain tax position, since events could potentially occur that jeopardize tax-exempt status. Agency management is not aware of any events that could jeopardize tax-exempt status. Therefore, no liability or provision for income tax has been reflected in the financial statements. Management believes the Agency is no longer subject to review by the Internal Revenue Service for tax years prior to 2011. In addition, the Agency qualifies for charitable contribution deductions and has been classified as an organization other than a private foundation.

Wildwood Cloud Services is a limited liability corporation that is treated as a disregarded entity for tax purposes.

19. EVALUATION OF SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through October 29, 2014, which is the date these financial statements were available to be issued, and have determined that there are no subsequent events that require recording or disclosure.

Wildwood Programs, Inc.
Schedule of Functional Expenses
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)

	Wildwood Programs	Cloud Services, LLC	Management and General	2014 Total	2013 Total
Functional Expenses					
Salaries and wages	$ 16,692,468	$ -	$ 1,532,089	$ 18,224,557	$ 18,224,257
Employee benefits	6,429,759	-	500,419	6,930,178	7,092,294
Total Salaries and Employee Benefits	23,122,227	-	2,032,508	25,154,735	25,316,551
Supplies	1,635,412	-	77,664	1,713,076	1,652,927
Transportation	1,522,440	-	3,579	1,526,019	1,594,176
Occupancy	938,046	-	-	938,046	933,341
Rental of Equipment	9,088	-	-	9,088	9,088
Professional fees and contract service payments	275,261	12,825	110,152	398,238	348,653
Interest	486,365	-	33,584	519,949	562,597
Utilities	421,216	-	14,625	435,841	398,300
Repairs and maintenance	390,715	-	4,437	395,152	399,400
Conferences, convention and meetings	250,381	-	67,407	317,788	239,310
Insurance	183,283	-	1,352	184,635	166,270
Telephone	113,906	-	4,768	118,674	136,503
Postage and shipping	14,793	-	9,168	23,961	28,927
Bad debts	153,017	-	-	153,017	934
Printing and publications	3,194	-	208	3,402	7,695
Depreciation and amortization	1,301,101	-	46,983	1,348,084	1,386,643
	7,698,218	12,825	373,927	8,084,970	7,864,764
Total Functional Expenses	$ 30,820,445	$ 12,825	$ 2,406,435	$ 33,239,705	$ 33,181,315

WILDWOOD PROGRAMS, INC.
FINANCIAL REPORT
JUNE 30, 2013

TABLE OF CONTENTS

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Independent Auditors' Report

Board of Directors
Wildwood Programs, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Wildwood Programs, Inc. (the Agency), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wildwood Programs, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule functional expenses on page 24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Marvin and Company, P.C.

Latham, NY
October 18, 2013

WILDWOOD PROGRAMS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
Current Assets		
Cash and cash equivalents	$ 2,624,525	$ 2,895,176
Investments, unrestricted	378,152	410,776
Accounts receivable	3,797,570	3,777,032
Due from The Wildwood Foundation	31,628	28,690
Prepaid expense	180,504	163,559
Total Current Assets	7,012,379	7,275,233
Property, Plant and Equipment		
Land and improvements	2,641,481	2,667,494
Building and improvements	20,640,173	20,765,419
Furniture, fixtures and equipment	3,697,155	3,812,176
Total	26,978,809	27,245,089
Less accumulated depreciation	13,817,240	13,051,938
Net Property, Plant and Equipment	13,161,569	14,193,151
Other Assets		
Investments, restricted	232,088	214,114
Debt service reserves and restricted deposits	874,235	922,028
Escrow	2,521	2,521
Security deposits	65,419	63,454
Deferred financing costs, net of accumulated amortization of $612,978 and $550,098 respectively	697,503	760,384
Interest in net assets of related party	6,148,047	5,775,166
Total Other Assets	8,019,813	7,737,667
TOTAL ASSETS	$ 28,193,761	$ 29,206,051

LIABILITIES AND NET ASSETS

	2013	2012
Current Liabilities		
Accounts payable	$ 345,039	$ 267,315
Accrued expenses and payroll withholdings	2,294,884	2,387,610
Deferred revenue	84,090	77,456
Accrued interest payments	98,970	99,511
Current installments of long-term debt	904,434	1,253,492
Total Current Liabilities	3,727,417	4,085,384
Long-Term Liabilities		
Long-term debt, net of current installments	9,256,622	9,897,247
Fair value of swap agreement	935,424	1,340,684
Retirement health benefit obligation	457,500	355,500
Workers' compensation liability	171,218	-
Total Long-Term Liabilities	10,820,764	11,593,431
Total Liabilities	14,548,181	15,678,815
Net Assets		
Unrestricted	7,265,445	7,537,956
Temporarily restricted	5,192,182	4,852,697
Permanently restricted	1,187,953	1,136,583
Total Net Assets	13,645,580	13,527,236

WILDWOOD PROGRAMS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	
Program Support and Revenue			
Government agencies	$ 29,629,760	$ -	$
Program fees from clients	2,074,231		
Restricted operating grants	489,425	-	
Net assets released from restrictions	-	-	
Total Program Support and Revenue	32,193,416	-	
Nonprogram Support and Revenue			
Contributions	353,304	-	
Investment income	(9,374)	17,974	
Consulting fees and conferences	9,521		
Other income	171,330	-	
Total Nonprogram Support and Revenue	524,781	17,974	
Total Revenue	32,718,197	17,974	
Expenses and Losses			
Wildwood programs	30,845,526	-	
Management and general	2,335,789	-	
Total Expenses and Losses	33,181,315	-	
Change in Net Assets Before Change in Interest of Net Assets of Related Party	(463,118)	17,974	
Change in Interest in Net Assets of Related Party	-	321,511	
Change in Net Assets Before Change in Fair Value of Swap Contract and Workers' Compensation Assessments	(463,118)	339,485	
Change in Fair Value of Swap Contract	405,260	-	
Prior Year Workers' Compensation Assessment	(214,653)	-	
Change in Net Assets	(272,511)	339,485	
Net Assets, Beginning of Year	7,537,956	4,852,697	
Net Assets, End of Year	$ 7,265,445	$ 5,192,182	$

WILDWOOD PROGRAMS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	
Program Support and Revenue			
Government agencies	$ 29,276,017	$ -	$
Program fees from clients	1,969,900	-	
Restricted operating grants	439,728	-	
Net assets released from restrictions	49,910	(49,910)	
Total Program Support and Revenue	31,737,555	(49,910)	
Nonprogram Support and Revenue			
Contributions	818,092	-	
Investment income	38,200	(582)	
Consulting fees and conferences	8,190	-	
Other income	169,690	-	
Total Nonprogram Support and Revenue	1,034,172	(582)	
Total Revenue	32,771,727	(50,492)	
Expenses and Losses			
Wildwood Programs	30,004,301	-	
Management and general	2,325,077	-	
Total Expenses and Losses	32,329,378	-	
Change in Net Assets Before Change in Interest of Net Assets of Related Party	442,349	(50,492)	
Change in Interest in Net Assets of Related Party	-	833,687	
Change in Net Assets Before Change in Fair Value of Swap Contract	442,349	783,195	
Change in Fair Value of Swap Contract	(439,111)	-	
Change in Net Assets	3,238	783,195	
Net Assets, Beginning of Year	7,534,718	4,069,502	
Net Assets, End of Year	$ 7,537,956	$ 4,852,697	$

WILDWOOD PROGRAMS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013

	2013	2012
Cash Flows From Operating Activities		
Change in Net Assets	$ 118,344	$ 838,077
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,386,643	1,382,770
Bad debts	934	43,660
Realized/unrealized (gain) loss on investments	11,829	(33,660)
Change in fair value of swap contract	(405,260)	439,111
Change in interest in net assets of related party	(372,881)	(885,331)
Change in retirement health benefit obligation	102,000	27,300
(Increase)/decrease in assets		
Accounts receivable	(21,472)	(461,043)
Prepaid expense	(16,945)	(37,280)
Cash, Restricted	-	49,910
Security deposits	(1,965)	(4,015)
Increase/(decrease) in liabilities:		
Accounts payable	77,724	(61,556)
Accrued expenses and payroll withholdings	(132,816)	(760,159)
Deferred revenue	6,634	12,248
Accrued DASNY payments	(541)	93,330
Workers' compensation liability	211,311	-
Net Cash Provided by Operating Activities	963,539	643,362
Cash Flows From Investing Activities		
Net proceeds (purchases) of investments	2,821	(123,825)
Purchases of property, plant and equipment	(292,183)	(765,689)
(Increase) decrease in debt service reserve	47,793	(78,229)
Net change in due from/to the Wildwood Foundation	(2,938)	(3,916)
Net Cash Used by Investing Activities	(244,507)	(971,659)
Cash Flows From Financing Activities		
Net change in deferred financing costs	-	(54,054)
Net advances (repayment) on lines of credit	-	(460,858)
Proceeds from long-term debt	-	550,000
Repayment of long-term debt	(989,683)	(967,983)
Net Cash Used by Financing Activities	(989,683)	(932,895)
Net Increase/(Decrease) in Cash and Cash Equivalents	(270,651)	(1,261,192)
Cash and Cash Equivalents, Beginning of Year	2,895,176	4,156,368
Cash and Cash Equivalents, End of Year	$ 2,624,525	$ 2,895,176
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 562,597	$ 564,961
Noncash Investing Transactions		
Net realized/unrealized gain (loss) on investments	$ (11,829)	$ 33,660

See accompanying notes to financial statements.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Wildwood Programs, Inc. (the Agency) is a private nonprofit organization that provides education, training and other services for persons with learning or other developmental disabilities in New York State. Revenues are derived from Medicaid, the New York State Office for People With Developmental Disabilities (OPWDD), and contracts with school districts at rates promulgated by the New York State Education Department (SED), contract sales and participant fees. The majority of the revenues and receivables are from Medicaid and the aforementioned funding sources. The Agency extends credit to school districts and other governmental entities within New York State for services provided.

The Agency is in part supported by the Wildwood Foundation, a related party. Wildwood Foundation is a non-profit organization which was organized and is operated for the exclusive purpose of supporting and assisting the Agency. The net assets of Wildwood Foundation are included in the financial statements as interest in net assets of related party. The individual accounts of Wildwood Foundation are not included in these financial statements.

Cash and Cash Equivalents

For purposes of the statements 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.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts, if any, is based on a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. At June 30, 2013 and 2012, no allowance for doubtful accounts was considered necessary. Bad debt expense was $934 and $43,660 for the years ended June 30, 2013 and 2012, respectively.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at acquisition cost or at estimated fair value at the date of donation less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations on a straight-line basis over the following estimated useful lives:

	Years
Land improvements	2-25
Building and improvements	5-25
Furniture, fixtures and equipment	5-10

Additions and betterments are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are charged to operations when incurred. When property, plant and equipment are sold or otherwise disposed of, the asset account and the related accumulated depreciation account are relieved and any gain or loss is included in operations.

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Deferred Financing Costs

Deferred financing costs consist of bond closing costs incurred on the Agency's various bonded mortgages. These costs are being amortized on a straight-line basis over the terms of the obligations. Amortization expense was $62,880 and $61,815 for the years ended June 30, 2013 and 2012, respectively. Amortization expense is expected to be approximately $64,000 in each of the next five years.

Self-Insured Dental and Prescription Plans

Wildwood Programs, Inc. is self-insured for its employees' dental benefits and medical prescription benefits on a cost-reimbursement basis. Under the program, Wildwood Programs, Inc. is responsible for the cost of claims. All known claims and an estimate of incurred, but unreported claims computed using the history obtained by management, have been recorded as employee benefits in the financial statements for the years ended June 30, 2013 and 2012. The difference between the amounts paid to the claims administrator and the amount recorded as expense is recorded as accrued expenses on the statements of financial position. The dental benefits payable at June 30, 2013 and 2012 was $30,554 and $2,319, respectively. The medical prescription benefits payable at June 30, 2013 and 2012 was $57,317 and $33,165, respectively.

Deferred Revenue

Deferred revenue represents funds received for which the Agency has not fulfilled their obligation to recognize them as revenue. Services will be provided in future periods and/or remaining amounts will be recouped by funding sources.

Fair Value of Debt Instruments

The carrying amount of debt instruments on the financial statements approximates fair value based on current rates at which the Agency could borrow funds with similar remaining maturities. See footnote 8 and 9 for further details.

Net Assets

The net assets of the Agency are reported in three classes of net assets as follows:

Unrestricted Net Assets - Include amounts that have no external restrictions on their use or purpose. The Board of Directors can authorize use of those funds as it desires to carry on the purpose of the Agency according to its by-laws.

Temporarily Restricted Net Assets - Include the portion of the interest in the net assets of its related party that is other than permanently restricted on the related party's financial statements and represents resources that are either temporarily restricted by the donor or are not available for immediate use by the Agency until they are transferred by the related party.

Permanently Restricted Net Assets - Include the portion of the interest in the net assets of its related party that are permanently restricted on the related party's financial statements and also represent amounts contributed with donor stipulations to maintain donated amounts in perpetuity.

1. **NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Revenue Recognition

Revenue from Medicaid, OPWDD and SED is recognized when services are rendered at approved rates. These rates are primarily cost based as 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 known. Client fees represent the participants' personal contribution towards the cost of goods and services provided by the Agency. These charges are regulated by federal and state law.

Contributions

Contributions are recognized when the donor makes a promise to give to the Agency that is, in substance, unconditional. Contributions without donor-imposed restrictions are reported as unrestricted support. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. 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. Restricted contributions whose restrictions are met in the same reporting period are classified as unrestricted contributions.

Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services using specific allocation methods. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Risks and Uncertainties

The Agency 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 values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Estimates

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

Interest and Dividend Income

The Agency recognizes interest income and dividends on the date they are posted to the various accounts by the financial institutions.

2. **INVESTMENTS**

Investments consist of marketable equity and debt securities carried at fair value based on readily determinable quoted market prices and consist of the following at June 30, 2012 and 2012:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Debt securities	$ 368,860	$ 381,773	$ 240,562	$ 264,482
Money markets	41,817	41,817	219,017	219,017
Equities	179,130	186,650	155,969	141,391
Total Investments	$ 589,807	$ 610,240	$ 615,548	$ 624,890

The following schedule summarizes the investment income in the statement of activities for the years ended June 30, 2013 and 2012:

	2013	2012
Interest and dividend income	$ 20,429	$ 3,958
Net realized and unrealized gain (loss) on investments	(11,829)	33,660
Total Investment Income	$ 8,600	$ 37,618

3. **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, consists of the following as of June 30, 2012 and 2012:

	2013	2012
Land	$ 960,600	$ 960,600
Land improvements	1,680,881	1,706,894
Building	10,852,815	10,856,417
Building improvements	9,787,358	9,909,002
Furniture, fixtures and equipment	3,697,155	3,812,176
Total	26,978,809	27,245,089
Less: Accumulated depreciation	13,817,240	13,051,938
Net, Property, Plant and Equipment	$ 13,161,569	$ 14,193,151

Depreciation expense was $1,323,763 and $1,320,955 for the years ended June 30, 2013 and 2012, respectively.

4. **DEBT SERVICE RESERVES AND RESTRICTED DEPOSITS**

The debt service reserves represent deposits held by the Trustees of the Dormitory Authority (DA) and Albany County Industrial Development Agency (AIDA). These deposits will be used to satisfy the last payments required on mortgages held by the DA and the AIDA or can be used prior to that time to pay amounts that are in default. The reserve fund earns interest, which is used to reduce the payment obligations under the mortgages. Total debt service reserves were $830,216 and $877,976 at June 30, 2013 and 2012, respectively.

4. DEBT SERVICE RESERVES AND RESTRICTED DEPOSITS

Restricted deposits represent amounts held in trust by a third-party administrator related to the Agency's pension plan. These amounts are to be used to pay for employer contributions or expenses of the plan. The restricted deposits were $44,019 and $44,052 at June 30, 2013 and 2012, respectively.

5. LINES OF CREDIT

The Agency has the following lines of credit as of June 30, 2013 and 2012:

	2013	2012
$500,000 unsecured line of credit with KeyBank to be drawn upon as needed for real estate, the interest rate is established at Prime plus 1% (4.25% at June 30, 2013), expiring December 31, 2013. The line is guaranteed by The Wildwood Foundation.	$ -	$ -
$500,000 unsecured line of credit with Citizens Bank, N.A. to be drawn upon as needed for real estate, the interest rate is established at LIBOR Advantage plus 2.5% (2.69% at June 30, 2013), expiring January 30, 2014. The line is guaranteed by The Wildwood Foundation.	-	-
$500,000 unsecured line of credit with KeyBank to be drawn upon as needed, the interest rate is established at Prime plus 1% (4.25% at June 30, 2013), expiring December 31, 2013. The line is guaranteed by The Wildwood Foundation.	-	-
$750,000 unsecured line of credit with Citizens Bank, N.A. to be drawn upon as needed, the interest rate is established at LIBOR Advantage plus 2.5% (2.69% at June 30, 2013), expiring January 30, 2014. The line is guaranteed by The Wildwood Foundation.	-	
Total Lines of Credit	$ -	$ -

6. LEASES

The Agency's minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2013 for each of the next five years and in the aggregate are as follows:

6. LEASES

Year Ended June 30,	Amount
2014	$ 587,593
2015	594,078
2016	604,520
2017	620,608
2018	620,665
Thereafter	2,130,058
Total	$ 5,157,522

Rental expense included in the statements of activities was $933,341 and $853,113 for the years ended June 30, 2013 and 2012, respectively.

7. LONG-TERM DEBT

The Agency's long-term debt consists of the following as of June 30:

	2013	2012
2003 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York, under its New York State Rehabilitation Associated Pooled Loan Program No. 2, consisting of two issues, Series 2003A (non-taxable) and 2003B (federally taxable). Several not-for-profit corporations received varying portions of the bond issue proceeds. Each corporation's liability is limited to its allocable portion of the unpaid principal amount of the outstanding bonds. The bonds are secured by the pledge of revenues, subject to prior pledges and the reserve funds established under the bond. The bond is also secured by two financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2019. Interest rates vary from 3.00% to 5.25%, depending on the maturity date of the particular bond. Payments by the participating corporations are due monthly. The loan agreements also contain various covenants, including a debt service coverage ratio.	$ 379,219	$ 469,219

7. **LONG-TERM DEBT**

	2013	2012
2006 Insured Revenue Bonds, with the Albany County Industrial Development Agency, issued through the Bank of New York, under Special Needs Facility Pooled Program, consisting of two issues, Series 2006K-1 (non-taxable) and Series 2006K-2 (federally taxable). The bonds are secured by the mortgaged property located in Colonie, New York; and a secured interest in certain fixtures, furnishings and equipment. The bond is also secured by financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2026. Interest rates range from 4.35%-5%. Payments are due semi-annually on January 1 and July 1.	$ 2,960,000	$ 3,100,000
Vehicle and equipment loans payable to various financial institutions at various rates ranging from 0.9% to 7.375%, secured by vehicles and equipment. Monthly payments range from $319 to $702 and are applied first to interest and then to principal. The loans have maturity dates through June 2014.	378,184	364,490
2007 Insured Revenue Bonds, with the Guilderland Industrial Development Agency, issued through Bank of New York, under Multi-Mode Variable Rate Civic Facility Program, consist of four issues. The bonds are secured by the land and building located in Guilderland, New York; and a security interest in certain fixtures, furnishings and equipment. The bond is secured by a KeyBank letter of credit. Bonds are payable in various increments through July 1, 2032. Interest rates in effect during the year ended June 30, 2013 ranged between .23% - .40%. Payments are due annually on July 1. These rates are fixed with an interest rate swap contact with KeyBank (see Note 8).	5,040,000	5,715,000

B-VIII-21

7. **LONG-TERM DEBT**

	2013	2012
2010 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York, under its Inter Agency Council Pooled Loan Program No. 1, consisting of two issues, Series 2010A-1 (non taxable) and 2010A-2 (federally taxable). Several not-for-profit corporations received varying portions of the bond issue proceeds. Each corporation's liability is limited to its allocable portion of the unpaid principal amount of the outstanding bonds. The bonds are secured by the pledge of revenues, subject to prior pledges and the reserve funds established under the bond. The bond is also secured by two financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2029. Interest rates vary from 2.1% to 5.0%, depending on the maturity date of the particular bond. Payments by the participating corporations are due monthly. The loan agreements also contain various covenants, including a debt service coverage ratio.	$ 330,000	$ 355,000
2011 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York, under its Inter Agency Council Pooled Loan Program No. 1, consisting of two issues, Series 2011A-1 (non-taxable) and 2011A-2 (federally taxable). Several not-for-profit corporations received varying portions of the bond issue proceeds. Each corporation's liability is limited to its allocable portion of the unpaid principal amount of the outstanding bonds. The bonds are secured by the pledge of revenues, subject to prior pledges and the reserve funds established under the bond. The bond is also secured by two financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2026. Interest rates vary from 1.20% to 4.125%, depending on the maturity date of the particular bond. Payments by the participating corporations are due monthly. The loan agreements also contain various covenants, including a debt service coverage ratio.	525,000	550,000
Community Preservation Corporation Mortgage, fixed interest rate of 6.12%, monthly payments of $5,841 through October 2019, secured by buildings.	548,653	597,030
Total	10,161,056	11,150,739
Less current installments of long-term debt	904,434	1,253,492
Long-term Debt, Net of Current Installments	$ 9,256,622	$ 9,897,247

7. LONG-TERM DEBT

Long-term debt is payable in each of the next five years and thereafter as follows:

Year Ended June 30,		Amount
2014	$	904,434
2015		910,425
2016		867,827
2017		533,054
2018		481,786
Thereafter		6,178,530

Interest expense was $562,597 and $564,961 for the years ended June 30, 2013 and 2012, respectively.

The Agency has agreed to a number of covenants including a debt service coverage ratio of greater than 1:1. At June 30, 2013 and 2012, the Agency met these debt covenant requirements.

8. INTEREST RATE SWAP AGREEMENT

The Agency entered into an Interest rate swap agreement (the swap) in order to reduce the impact of changes in interest rates on its Variable Rate Demand Civic Facility Revenue Bonds, issued by the Guilderland Industrial Development Agency. The swap qualifies as a hedge under generally accepted accounting principles. The Agency has assumed no ineffectiveness in the swap as, among other things, the initial amount of the swap was $6,950,000 which was comprised of two separate swap agreements, one for $4,895,000 at a fixed interest rate of 4.135% that matures on July 1, 2032 and the other for $2,055,000 at a fixed interest rate of 3.965% that matures on July 1, 2015. The current amount of bonds under the swap agreement is $4,205,000 maturing on July 1, 2032 and $840,000 maturing on July 1, 2015. The total remaining principal not covered by the swap is $0. Changes in the fair value of the swap are accounted for as the change in fair value of swap contract in the accompanying statements of activities.

9. FAIR VALUE MEASUREMENTS

The fair value of financial instruments measured on a recurring basis at June 30, 2013 and 2012 are as follows:

	Fair Value Measurements at Reporting Date Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Unobservable Inputs (Level 3)
June 30, 2013			
ASSETS			
Investments:			
Cash Equivalents	$ 41,817	$ 41,817	$ -
Equities			
Consumer Discretionary	13,536	13,536	-
Consumer Staples	19,907	19,907	-
Financials	50,866	50,866	-
Health Care	12,721	12,721	-
Industrials	14,944	14,944	-
Information Technology	17,856	17,856	-
Telecommunications	2,265	2,265	-
Mutual Funds			
Index Funds	5,870	5,870	-
Domestic Equity	27,025	27,025	-
Foreign Equity	6,956	6,956	-
Other	14,704	14,704	-
Corporate Debt Securities	164,118	164,118	-
Government Debt Securities	217,655	217,655	-
Total Investments	610,240	610,240	-
LIABILITIES			
Beginning Balance	$ 1,340,684	$ -	$ 1,340,684
Current year (gain)/loss	(405,260)	-	(405,260)
Fair value of interest rate swap agreement (see Note 8)	$ 935,424	$ -	$ 935,424

9. FAIR VALUE MEASUREMENTS

Fair Value Measurements at Reporting Date Using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Unobservable Inputs (Level 3)
June 30, 2012			
ASSETS			
Investments:			
Cash Equivalents	$ 219,017	$ 219,017	$ -
Equities			
Consumer Discretionary	16,329	16,329	-
Consumer Staples	24,701	24,701	-
Financials	28,948	28,948	-
Health Care	16,380	16,380	-
Industrials	10,206	10,206	-
Information Technology	20,802	20,802	-
Telecommunications	2,000	2,000	-
Mutual Funds			
Index Funds	5,862	5,862	-
Domestic Equity	7,040	7,040	-
Foreign Equity	2,396	2,396	-
Government Bond	6,727	6,727	-
Government Debt Services	264,482	264,482	-
Total Investments	624,890	624,890	-
LIABILITIES			
Beginning Balance	$ 901,573	$ -	$ 901,753
Current year (gain)/loss	439,111	-	439,111
Fair value of interest rate swap agreement (see Note 8)	$ 1,340,684	$ -	$ 1,340,684

FASB ASC 820, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of quoted prices in active markets for identical assets and liabilities and have the highest priority, Level 2 consists of other observable inputs other than Level 1 prices, and Level 3 inputs consist of unobservable inputs and have the lowest priority. The Agency uses appropriate valuation techniques based on the available inputs to measure the fair value of its financial instruments. When available, the Agency measures fair value using Level 1 and Level 2 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. There were no transfers between levels during the year ended June 30, 2013.

9. FAIR VALUE MEASUREMENTS

Level 1 Fair Value Measurements
The fair values of investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Level 3 Fair Value Measurements
The interest rate swap agreement is not actively traded. The fair value of the interest rate swap agreement is based on proprietary models used by the party to the agreement.

10. PENSION PLAN

The Agency maintains a noncontributory, defined contribution retirement plan which covers all full or part-time employees who meet certain minimum hours of service requirements. In addition, employees must complete one year of service by January 1 to quality for employer contributions during that year.

The Agency's contributions to the plan range from 3% to 12%, based on the employee's years of service, and are based on wages earned during the calendar year for qualifying employees. The contributions are deposited into a tax-deferred annuity, which is administered in compliance with the Employee Retirement Income Security Act of 1974 (ERISA). The Agency's pension expense was $1,111,595 and $1,080,941 for the years ended June 30, 2013 and 2012, respectively.

11. RELATED PARTIES

The Wildwood Foundation (the Foundation) is a not-for-profit corporation whose charitable purpose is supporting and assisting the Agency. The Foundation carries on fund-raising activities and special events that are for the benefit of the Agency. The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

During the years ended June 30, 2013 and 2012, the following transactions occurred between the Agency and the Foundation:

- The Foundation donated $343,304 and $798,092 to the Agency for the years ended June 30, 2013 and 2012, respectively. These amounts are included in contributions on the statements of activities.

- The Agency has a contract with the Foundation to reimburse certain costs incurred by the Agency. This contract includes the salaries and benefits of those staff that perform work on behalf of the Foundation. The Agency charged administrative fees of $29,117 and $21,503 to the Foundation for the reimbursement of an allocation of business office operations and maintenance services for the years ended June 30, 2013 and 2012, respectively. The fees are included in other income.

The Foundation owed $31,628 and $28,690 to Wildwood Programs, Inc. as of June 30, 2013 and 2012, respectively.

12. RETIREMENT HEALTH REIMBURSEMENT ARRANGEMENT

Wildwood Programs, Inc. sponsors a defined contribution retirement health plan. The Agency contributes $300 annually to a Retirement Health Reimbursement Arrangement (RHRA) for employees who have over 10 years of service and 200 hours of sick time. In addition, the Agency makes an additional contribution for employees who have 10 years of service and over 500 hours of sick time. The Agency also contributes $600 annually for those employees who were eligible under a previous retirement health plan. If an employee leaves Wildwood before they retire, all amounts are forfeited to the Agency. The accumulated health benefit contribution liability as of June 30, 2013 and 2012 was $457,500 and $355,500 respectively.

13. ENDOWMENTS

The Agency has applied the principles of The Financial Accounting Standards Board (FASB)'s Staff Position (FSP) No. FAS 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, and Enhanced Disclosures of All Endowment Funds*, which is now known as FASB ASC 958-205. FASB ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a non-profit organization and also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

B-VIII-24

Donations to the permanently restricted endowment funds of the Agency are governed by the New York Prudent Management of Institutional Funds Act (NYPMIFA) which dictates that annual distributions from these types of funds are to be formulated in a manner consistent with the standards of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Agency considers the following factors in making a determination to appropriate of accumulate donor-restricted endowment funds: (1) the duration and preservation of various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Agency, and (7) the Agency's investment policies. While this law allows for limited invasion of principal where warranted, it is the Agency's Board of Directors' policy to maintain and grow these funds over time. As a result of their policy, the Agency classifies as permanently restricted net assets the original value of permanently restricted contributions, absent explicit donor stipulations to the contrary. The remaining portion of restricted contributions is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a matter consistent with the standards of prudence.

13. ENDOWMENTS

The Agency has adopted investment and spending policies for permanently restricted net assets that attempt to provide a predictable stream of funding to programs while maintaining purchasing power. Accordingly, the investment process seeks to achieve an after-cost total rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. All earnings from these funds that are held by the Agency are reflected as temporarily restricted net assets until appropriated for program expenditures.

Endowment funds consist of the following at June 30:

	2013	2012
Hearst Endowment Fund	$ 232,088	$ 214,114

Changes in endowment funds for the years ended June 30, 2013 and 2012 are as follows:

2013	Temporarily Restricted	Permanently Restricted	Total Net Endowment Funds
Endowment funds, beginning of year	$ 14,114	$ 200,000	$ 214,114
Contributions	-	-	-
Investment income	-	-	-
Net appreciation (depreciation)	17,974	-	17,974
Amounts appropriated for expenditure	-	-	-
Endowment funds, end of year	$ 32,088	$ 200,000	$ 232,088

2012	Temporarily Restricted	Permanently Restricted	Total Net Endowment Funds
Endowment funds, beginning of year	$ 14,696	$ 200,000	$ 214,696
Contributions	-		-
Investment income	-	-	-
Net appreciation (depreciation)	(582)	-	(582)
Amounts appropriated for Expenditure	-	-	-
Endowment funds, end of year	$ 14,114	$ 200,000	$ 214,114

14. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of endowment funds (see note 13) and the interest in the net assets of its related party that are not permanently restricted. Permanently restricted net assets consist of endowment funds (see note 13) and the interest in the net assets of its related party that are permanently restricted. A summary of restricted net assets at June 30 follows:

	2013		2012	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Hearst Endowment	$ 32,088	$ 200,000	$ 14,114	$ 200,000
Net Assets of Related Party	5,160,094	987,953	4,838,583	936,883
Total	$ 5,192,182	$ 1,187,953	$ 4,852,697	$ 1,136,883

15. CONCENTRATIONS

The Agency maintains cash balances at various financial institutions. Accounts at each institution were insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 during the years ended June 30, 2013 and 2012. At times the Agency had bank deposits in excess of amounts insured by the FDIC.

Approximately 79% and 83% of the Agency's financing is with the County of Albany Industrial Development Agency and the Guilderland Industrial Development Agency, respectively, for the years ended June 30, 2013 and 2012.

16. WORKERS' COMPENSTATION

The Agency had obtained workers' compensation insurance coverage through membership in a self-insured trust (CRISP) from July 1999 through June 2002. The Trust had been established to provide lower cost workers' compensation insurance to the preferred employer membership. The membership consisted of a group of agencies operating similar residential programs. All Trust members are jointly and severally liable for the expenses and obligations of the Trust and for the workers' compensation liability of all participating employers while a member of the Trust. In the event that a Trust member is unable to fund their portion of the obligation, the remaining membership would be responsible for making the Trust whole which would result in an increased cost to each of the remaining members. Premiums were calculated and paid based on payroll expenses and employee job classifications. The Trust attempted to reduce the risk to individual members by requiring employers to meet certain standards and be approved by the Board of Trustees prior to joining the Trust. Additionally, the Trust maintained specified reserves for futures claims and purchased reinsurance to limit losses on claims that exceed specified limits.

16. WORKERS' COMPENSTATION

In late October 2010, the Trustees, anticipating the continuation of competitive difficulties due to increased regulatory burden imposed on group self-insurance trusts, voted to close the CRISP Trust as of December 31, 2010. The Trust was moved to run-off status overseen by the Workers' Compensation Board of the State of New York and the CRISP Trustees. In run-off, claims will be managed by PMA Management Corp. with oversight by the CRISP Trustees. Ultimate claim values will continue to be measured with the objective of maintaining sufficient assets managed by the Trustees to pay all claim obligations going forward, through collection of receivables and joint and several liability assessments to members as required by the By-Laws and the Workers' Compensation Board of the State of New York. The Workers' Compensation Board is required to levy an assessment pursuant to Section 50 (3-a)(7)(b) on all employers, who were members of a defaulted group self-insurer, for such an amount as the Chair determines to be necessary to discharge all liabilities of the group self-insurer.

During 2013 the Agency was levied and assessed $214,653, which is reflected as prior year Workers' Compensation Assessment on the accompanying statement of activities. The remaining amount outstanding at June 30, 2013 is $211,311, of which $40,093 is reflected as a current liability included with accrued expenses and payroll withholdings.

The Workers' Compensation Board of the State of New York will oversee the runoff operations of the Trust and make adjustments to final obligations of participants as necessary. Any future reductions or additional assessments will be recognized in the financial statements as they become known. Management does not believe they will be responsible for any additional costs, but it is at least reasonably possible that this estimate could change in the near-term.

The Agency's future annual minimum payments for this Workers' Compensation Liability are:

2014	$ 40,093
2015	40,093
2016	40,093
2017	40,093
2018	40,093
Thereafter	10,846

17. CONTINGENCIES

Personal Allowance Accounts

The Agency is the custodian of clients' personal allowance funds. OPWDD regulations provide for the use of these funds for authorized and allowable purchases for consumer personal items. Those regulations prohibit the Agency from using or commingling these funds with any of their accounts. As the Agency has no legal right to these funds they have not been reflected in the financial statements.

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

18. TAX STATUS

The Agency is exempt from federal income taxes as a not-for-profit corporation under tax Section 501(c)(3) as determined by the Internal Revenue Code. 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 tax-exempt status. Agency management is not aware of any events that could jeopardize tax-exempt status. Therefore, no liability or provision for income tax has been reflected in the financial statements. Management believes the Agency is no longer subject to review by the Internal Revenue Service for tax years prior to 2010. In addition, the Agency qualifies for charitable contribution deductions and has been classified as an organization other than a private foundation.

19. EVALUATION OF SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through October 18, 2013, which is the date these financial statements were available to be issued, and have determined that there are no subsequent events that require recording or disclosure.

B-VIII-26

Wildwood Programs, Inc.
Schedule of Functional Expenses
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)

	Wildwood Programs	Management and General	2013 Total
Functional Expenses			
Salaries and wages	$ 16,707,541	$ 1,516,716	$ 18,224,257
Employee benefits	6,618,900	473,394	7,092,294
Total Salaries and Employee Benefits	23,326,441	1,990,110	25,316,551
Supplies	1,580,068	72,859	1,652,927
Transportation	1,587,999	6,177	1,594,176
Occupancy	933,041	300	933,341
Rental of Equipment	9,088	-	9,088
Professional fees and contract service payments	272,885	75,768	348,653
Interest	525,877	36,720	562,597
Utilities	386,660	11,640	398,300
Repairs and maintenance	392,764	6,636	399,400
Conferences, convention and meetings	183,662	55,648	239,310
Insurance	165,242	1,028	166,270
Telephone	126,492	10,011	136,503
Postage and shipping	16,522	12,405	28,927
Bad debts	934	-	934
Printing and publications	3,290	4,405	7,695
Depreciation and amortization	1,334,561	52,082	1,386,643
	7,519,085	345,679	7,864,764
Total Functional Expenses	$ 30,845,526	$ 2,335,789	$ 33,181,315

B-VIII-27

WILDWOOD PROGRAMS, INC.
FINANCIAL REPORT
JUNE 30, 2012

WILDWOOD PROGRAMS, INC.

TABLE OF CONTENTS

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An Independent Member of BDO SEIDMAN ALLIANCE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Wildwood Programs, Inc.

We have audited the accompanying statement of financial position of Wildwood Programs, Inc. (the Agency) as of June 30, 2012, and the related statements of activities and 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. The financial statements of Wildwood Programs, Inc. as of June 30, 2011, were audited by other auditors whose report dated November 17, 2011 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 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 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 Wildwood Programs, 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 U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of functional expenses on page 20 is presented for purposes of additional analysis and is not a required part of the June 30, 2012 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 2012 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2012 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 financial statements or to the 2012 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 2012 financial statements as a whole.

Marvin and Company, P.C.

October 11, 2012

WILDWOOD PROGRAMS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,895,176	$ 4,156,368
Cash, restricted	-	49,910
Investments, unrestricted	410,776	252,709
Accounts receivable	3,777,032	3,359,649
Due from The Wildwood Foundation	28,690	24,774
Prepaid expense	163,559	126,279
Total Current Assets	7,275,233	7,969,689
Property, Plant and Equipment		
Land and improvements	2,667,494	2,661,719
Building and improvements	20,765,419	20,427,009
Furniture, fixtures and equipment	3,812,176	3,507,516
Total	27,245,089	26,596,244
Less accumulated depreciation	13,051,938	11,847,827
Net Property, Plant and Equipment	14,193,151	14,748,417
Other Assets		
Investments, restricted	214,114	214,696
Debt service reserves and restricted deposits	922,028	843,799
Escrow	2,521	2,521
Security deposits	63,454	59,439
Deferred financing costs, net of accumulated amortization of $550,098 and $488,283 respectively	760,384	768,145
Interest in net assets of related party	5,775,166	4,889,835
Total Other Assets	7,737,667	6,778,435
TOTAL ASSETS	$ 29,206,051	$ 29,496,541
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 267,315	$ 328,871
Lines of credit	-	460,858
Accrued expenses and payroll withholdings	2,332,685	3,092,844
Deferred revenue	77,456	65,208
Due to funding sources	434,436	341,106
Current installments of long-term debt	1,253,492	1,171,491
Total Current Liabilities	4,365,384	5,460,378
Long-Term Liabilities		
Long-term debt, net of current installments	9,617,247	10,117,231
Fair value of swap agreement	1,340,684	901,573
Retirement health benefit obligation	355,500	328,200
Total Long-Term Liabilities	11,313,431	11,347,004
Total Liabilities	15,678,815	16,807,382
Net Assets		
Unrestricted	7,537,956	7,534,718
Temporarily restricted	4,852,697	4,069,502
Permanently restricted	1,136,583	1,084,939
Total Net Assets	13,527,236	12,689,159
TOTAL LIABILITIES AND NET ASSETS	$ 29,206,051	$ 29,496,541

See accompanying notes to financial statements.

B-VIII-29

WILDWOOD PROGRAMS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program Support and Revenue				
Government agencies	$ 29,278,017	$ -	$ -	$ 29,278,017
Program fees from clients	1,969,900	-	-	1,969,900
Restricted operating grants	439,728	-	-	439,728
Net assets released from restrictions	49,910	(49,910)	-	-
Total Program Support and Revenue	31,737,555	(49,910)	-	31,687,645
Nonprogram Support and Revenue				
Contributions	818,092	-	-	818,092
Investment income	38,200	(582)	-	37,618
Consulting fees and conferences	8,190	-	-	8,190
Other income	169,690	-	-	169,690
Total Nonprogram Support and Revenue	1,034,172	(582)	-	1,033,590
Total Revenue	32,771,727	(50,492)	-	32,721,235
Expenses and Losses				
Wildwood Programs	30,004,301	-	-	30,004,301
Management and general	2,325,077	-	-	2,325,077
Total Expenses and Losses	32,329,378	-	-	32,329,378
Change in Net Assets Before Change in Interest of Net Assets of Related Party	442,349	(50,492)	-	391,857
Change in Interest in Net Assets of Related Party	-	833,687	51,644	885,331
Change in Net Assets Before Change in Fair Value of Swap Contract	442,349	783,195	51,644	1,277,188
Change in Fair Value of Swap Contract	(439,111)	-	-	(439,111)
Change in Net Assets	3,238	783,195	51,644	838,077
Net Assets, Beginning of Year	7,534,718	4,069,502	1,084,939	12,689,159
Net Assets, End of Year	$ 7,537,956	$ 4,852,697	$ 1,136,583	$ 13,527,236

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program Support and Revenue				
Government agencies	$ 28,986,975	$ -	$ -	$ 28,986,975
Program fees from clients	1,917,566	-	-	1,917,566
Restricted operating grants	428,806	-	-	428,806
Total Program Support and Revenue	31,333,347	-	-	31,333,347
Nonprogram Support and Revenue				
Contributions	540,520	49,910	-	590,430
Investment income	32,231	32,938	-	65,169
Consulting fees and conferences	23,345	-	-	23,345
Other income	123,263	-	-	123,263
Total Nonprogram Support and Revenue	719,359	82,848	-	802,207
Total Revenue	32,052,706	82,848	-	32,135,554
Expenses and Losses				
Wildwood Programs	28,998,480	-	-	28,998,480
Management and general	2,169,879	-	-	2,169,879
Total Expenses and Losses	31,168,359	-	-	31,168,359
Change in Net Assets Before Change in Interest of Net Assets of Related Party	884,347	82,848	-	967,195
Change in Interest in Net Assets of Related Party	-	234,811	64,661	299,472
Change in Net Assets Before Change in Fair Value of Swap Contract	884,347	317,659	64,661	1,266,667
Change in Fair Value of Swap Contract	189,854	-	-	189,854
Change in Net Assets	1,074,201	317,659	64,661	1,456,521
Net Assets, Beginning of Year	6,460,517	3,751,843	1,020,278	11,232,638
Net Assets, End of Year	$ 7,534,718	$ 4,069,502	$ 1,084,939	$ 12,689,159

See accompanying notes to financial statements.

B-VIII-30

WILDWOOD PROGRAMS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012

	2012	2011
Cash Flows From Operating Activities		
Change in Net Assets	$ 838,077	$ 1,456,521
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,382,770	1,255,893
Bad debts	43,660	32,607
Realized/unrealized (gain) loss on investments	(33,660)	(45,667)
Change in fair value of swap contract	439,111	(189,854)
Change in interest in net assets of related party	(885,331)	(299,472)
Change in retirement health benefit obligation	27,300	25,800
(Increase)/decrease in assets		
Accounts receivable	(461,043)	959,531
Prepaid expense	(37,280)	32,356
Cash, Restricted	49,910	(49,910)
Security deposits	(4,015)	(480)
Increase/(decrease) in liabilities:		
Accounts payable	(61,556)	127,342
Accrued expenses and payroll withholdings	(760,159)	69,075
Deferred revenue	12,248	(208,821)
Due to funding sources	93,330	(157,544)
Net Cash Provided by Operating Activities	643,362	3,007,377
Cash Flows From Investing Activities		
Net proceeds (purchases) of investments	(123,825)	43,174
Purchases of property, plant and equipment	(765,689)	(802,077)
(Increase) decrease in debt service reserve	(78,229)	(70,869)
Net change in due from/to The Wildwood Foundation	(3,916)	13,695
Net Cash Used by Investing Activities	(971,659)	(816,077)
Cash Flows From Financing Activities		
Net change in deferred financing costs	(54,054)	(7,562)
Net advances (repayment) on lines of credit	(460,858)	108,886
Proceeds from long-term debt	550,000	-
Repayment of long-term debt	(967,983)	(1,035,574)
Net Cash Used by Financing Activities	(932,895)	(934,250)
Net Increase/(Decrease) in Cash and Cash Equivalents	(1,261,192)	1,257,050
Cash and Cash Equivalents, Beginning of Year	4,156,368	2,899,318
Cash and Cash Equivalents, End of Year	$ 2,895,176	$ 4,156,368
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 564,961	$ 594,759
Noncash Investing Transactions		
Net realized/unrealized gain (loss) on investments	$ 33,660	$ 45,667

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Wildwood Programs, Inc. (the Agency) is a private nonprofit organization that provides education, training and other services for persons with learning or other developmental disabilities in New York State. Revenues are derived from Medicaid, the New York State Office for People With Developmental Disabilities (OPWDD), contracts with school districts at rates promulgated by the New York State Education Department (SED), contract sales and participant fees. The majority of the revenues and receivables are from Medicaid and the aforementioned funding sources. The Agency extends credit to school districts and other governmental entities within New York State for services provided.

Cash and Cash Equivalents

For purposes of the statements 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.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts, if any, is based on a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. At June 30, 2012 and 2011, no allowance for doubtful accounts was considered necessary. Bad debt expense was $43,660 and $32,607 for the years ended June 30, 2012 and 2011, respectively.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at acquisition cost or at estimated fair value at the date of donation less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations on a straight-line basis over the following estimated useful lives:

	Years
Land improvements	2-25
Building and improvements	5-25
Furniture, fixtures and equipment	5-10

Additions and betterments are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are charged to operations when incurred. When property, plant and equipment are sold or otherwise disposed of, the asset account and the related accumulated depreciation account are relieved and any gain or loss is included in operations.

Deferred Financing Costs

Deferred financing costs consist of bond closing costs incurred on the Agency's various bonded mortgages. These costs are being amortized on a straight-line basis over the terms of the obligations. Amortization expense was $61,815 and $58,800 for the years ended June 30, 2012 and 2011, respectively. Amortization expense is expected to be approximately $64,000 in each of the next five years.

B-VIII-31

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Self Insured Dental and Prescription Plans

Wildwood Programs, Inc. is self-insured for its employees' dental and medical prescription benefits on a cost-reimbursement basis. Under the program, Wildwood Programs, Inc. is responsible for the cost of claims. All known claims and an estimate of incurred, but unreported claims computed using the history obtained by management, have been recorded as employee benefits in the financial statements for the years ended June 30, 2012 and 2011. The difference between the amounts paid to the claims administrator and the amount recorded as expense is recorded as accrued expenses on the statements of financial position. The dental payable for the years ended June 30, 2012 and 2011 was $2,319 and $20,255, respectively. The medical prescription benefits payable for the years ended June 30, 2012 and 2011 was $33,165 and $72,259, respectively.

Deferred Revenue and Due to Funding Sources

Deferred revenue and due to funding sources represent funds received for which the Agency has not fulfilled their obligation to recognize them as revenue. Services will be provided in future periods and/or remaining amounts will be recouped by funding sources.

Fair Value of Debt Instruments

The carrying amount of debt instruments on the financial statements approximates fair value based on current rates at which the Agency could borrow funds with similar remaining maturities. See footnote 8 and 9 for further details.

Net Assets

The net assets of the Agency are reported in three classes of net assets as follows:

Unrestricted Net Assets – Include amounts that have no external restrictions on their use or purpose. The Board of Directors can authorize use of those funds as it desires to carry on the purpose of the Agency according to its by-laws.

Temporarily Restricted Net Assets – Include the portion of the interest in the net assets of its related party that is other than permanently restricted on the related party's financial statements and represents resources that are either temporarily restricted by the donor or are not available for immediate use by the Agency until they are transferred by the related party. Temporarily restricted net assets also consist of funds donated by parents of program participants whose use has been limited by the donors' specific purpose restrictions. These funds have been classified as cash, restricted on the statements of financial position.

Permanently Restricted Net Assets – Include the portion of the interest in the net assets of its related party that are permanently restricted on the related party's financial statements and also represent amounts contributed with donor stipulations to maintain donated amounts in perpetuity.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue from Medicaid, OPWDD and SED is recognized when services are rendered at approved rates. These rates are primarily cost based as 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 known. Client fees represent the participants' personal contribution towards the cost of goods and services provided by the Agency. These charges are regulated by federal and state law. Sales are recognized as goods are shipped or as services are performed.

Contributions

Contributions are recognized when the donor makes a promise to give to the Agency that is, in substance, unconditional. Contributions without donor-imposed restrictions are reported as unrestricted support. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. 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. Restricted contributions whose restrictions are met in the same reporting period are classified as unrestricted contributions.

Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services using specific allocation methods. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Risks and Uncertainties

The Agency 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 values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Estimates

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

Interest and Dividend Income

Programs recognize interest income and dividends on the date they are posted to the various accounts by the financial institutions.

2. INVESTMENTS

Investments consist of marketable equity and debt securities carried at fair value based on readily determinable quoted market prices and consist of the following at June 30, 2012 and 2011:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Government Securities	$ 240,562	$ 264,482	$ 269,000	$ 301,871
Mutual Funds	-	-	5,896	5,896
Money markets	219,017	219,017	2,380	2,380
Equities	155,969	141,391	165,678	157,258
Total Investments	$ 615,548	$ 624,890	$ 442,954	$ 467,405

The following schedule summarizes the investment income in the statement of activities for the years ended June 30, 2012 and 2011:

	2012	2011
Interest and dividend income	$ 3,958	$ 19,502
Net realized and unrealized gain on investments	33,660	45,667
Total Investment Income	$ 37,618	$ 65,169

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, consists of the following as of June 30, 2012 and 2011:

	2012	2011
Land	$ 960,600	$ 960,600
Land improvements	1,706,894	1,701,119
Building	10,856,417	10,713,061
Building improvements	9,909,002	9,713,948
Furniture, fixtures and equipment	3,812,176	3,507,516
Total	27,245,089	26,596,244
Less: Accumulated depreciation	13,051,938	11,847,827
Net, Property, Plant and Equipment	$ 14,193,151	$ 14,748,417

Depreciation expense was $1,320,955 and $1,197,093 for the years ended June 30, 2012 and 2011, respectively.

4. DEBT SERVICE RESERVES AND RESTRICTED DEPOSITS

The debt service reserves represent deposits held by the Trustees of the Dormitory Authority (DA) and Albany County Industrial Development Agency (AIDA). These deposits will be used to satisfy the last payments required on mortgages held by the DA and the AIDA or can be used prior to that time to pay amounts that are in default. The reserve fund earns interest which is used to reduce the payment obligations under the mortgages. Total debt service reserves were $877,976 and $789,723 at June 30, 2012 and 2011, respectively.

4. DEBT SERVICE RESERVES AND RESTRICTED DEPOSITS

Restricted deposits represent amounts held in trust by a third-party administrator related to the Agency's pension plan. These amounts are to be used to pay for employer contributions or expenses of the plan. The restricted deposits were $44,052 and $54,076 at June 30, 2012 and 2011, respectively.

5. LINES OF CREDIT

The Agency has the following lines of credit as of June 30, 2012 and 2011:

	2012	2011
$500,000 unsecured line of credit with Key Bank to be drawn upon as needed for real estate, the interest rate is established at Prime plus 1% (4.25% at June 30, 2012), expiring December 31, 2013. The line is guaranteed by The Wildwood Foundation.	$ -	$ -
$500,000 unsecured line of credit with Citizens Bank, N.A. to be drawn upon as needed for real estate, the interest rate is established at LIBOR Advantage plus 2.5% (2.69% at June 30, 2012), expiring January 30, 2013. The line is guaranteed by The Wildwood Foundation.	-	460,858
$500,000 unsecured line of credit with Key Bank to be drawn upon as needed, the interest rate is established at Prime plus 1% (4.25% at June 30, 2012), expiring December 31, 2013. The line is guaranteed by The Wildwood Foundation.	-	-
$750,000 unsecured line of credit with Citizens Bank, N.A. to be drawn upon as needed, the interest rate is established at LIBOR Advantage plus 2.5% (2.69% at June 30, 2012), expiring January 30, 2013. The line is guaranteed by The Wildwood Foundation.	-	-
Total Lines of Credit	$ -	$ 460,858

6. LEASES

The Agency's minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2012 for each of the next five years and in the aggregate are as follows:

B-VIII-33

6. LEASES

Year Ended June 30,		Amount
2013	$	567,247
2014		558,193
2015		564,678
2016		575,120
2017		591,208
Thereafter		1,657,358
Total	$	4,513,804

Rental expense included in the statements of activities was $853,113 and $837,165 for the years ended June 30, 2012 and 2011, respectively.

7. LONG-TERM DEBT

The Agency's long-term debt consists of the following as of June 30:

		2012		2011
2003 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York, under its New York State Rehabilitation Associated Pooled Loan Program No. 2, consisting of two issues, Series 2003A (non-taxable) and 2003B (federally taxable). Several not-for-profit corporations received varying portions of the bond issue proceeds. Each corporation's liability is limited to its allocable portion of the unpaid principal amount of the outstanding bonds. The bonds are secured by the pledge of revenues, subject to prior pledges and the reserve funds established under the bond. The bond is also secured by two financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2019. Interest rates vary from 3.00% to 5.25%, depending on the maturity date of the particular bond. Payments by the participating corporations are due monthly. The loan agreements also contain various covenants, including a debt service coverage ratio.	$	379,219	$	469,219

7. LONG-TERM DEBT

		2012		2011
2006 Insured Revenue Bonds with the Albany County Industrial Development Agency, issued through the Bank of New York, under Special Needs Facility Pooled Program, consisting of two issues, Series 2006K-1 (non-taxable) and Series 2006K-2 (federally taxable). The bonds are secured by the mortgaged property located in Colonie, New York; and a security interest in certain fixtures, furnishings and equipment. The bond is also secured by financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2026. Interest rates range from 4.35%-5%. Payments are due semi-annually on January 1 and July 1.	$	2,960,000	$	3,100,000
Vehicle and equipment loans payable to various financial institutions at interest rates ranging from 0.9% to 7.375%, secured by vehicles and equipment. Monthly payments range from $319 to $702 and are applied first to interest and then to principal. The loans have maturity dates through June 2014.		364,490		291,964
2007 Insured Revenue Bonds with the Guilderland Industrial Development Agency, issued through Bank of New York, under the Multi-Mode Variable Rate Civic Facility Program, consist of four issues. The bonds are secured by the land and building located in Guilderland, New York; and a security interest in certain fixtures, furnishings and equipment. The bond is secured by a Key Bank letter of credit. Bonds are payable in various increments through July 1, 2032. Interest rates in effect during the year ended June 30, 2012 ranged between .23% - .40%. Payments are due annually on July 1. These rates are fixed with an interest rate swap contract with Key Bank (See Note 8).		5,715,000		6,430,000

B-VIII-34

7. LONG-TERM DEBT

	2012	2011
2010 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York, under its Inter Agency Council Pooled Loan Program No. 1, consisting of two issues, Series 2010A-1 (non-taxable) and 2010A-2 (federally taxable). Several not-for-profit corporations received varying portions of the bond issue proceeds. Each corporation's liability is limited to its allocable portion of the unpaid principal amount of the outstanding bonds. The bonds are secured by the pledge of revenues, subject to prior pledges and the reserve funds established under the bond. The bond is also secured by two financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2029. Interest rates vary from 2.1% to 5.0%, depending on the maturity date of the particular bond. Payments by the participating corporations are due monthly. The loan agreements also contain various covenants, including a debt service coverage ratio.	$ 330,000	$ 355,000
2011 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York, under its Inter Agency Council Pooled Loan Program No. 1, consisting of two issues, Series 2011A-1 (non-taxable) and 2011A-2 (federally taxable). Several not-for-profit corporations received varying portions of the bond issue proceeds. Each corporation's liability is limited to its allocable portion of the unpaid principal amount of the outstanding bonds. The bonds are secured by the pledge of revenues, subject to prior pledges and the reserve funds established under the bond. The bond is also secured by two financial guaranty insurance policies. Bonds are payable in various increments through July 1, 2026. Interest rates vary from 1.20% to 4.125%, depending on the maturity date of the particular bond. Payments by the participating corporations are due monthly. The loan agreements also contain various covenants, including a debt service coverage ratio.	525,000	-
Community Preservation Corporation Mortgage, fixed interest rate of 6.12%, monthly payments of $5,841 through October 2019, secured by buildings.	597,030	642,539
Total	10,870,739	11,288,722
Less current installments of long-term debt	1,253.492	1,171,491
Long-term Debt, Net of Current Installments	$ 9,617,247	$ 10,117,231

7. LONG-TERM DEBT

Long-term debt is payable in each of the next five years and thereafter as follows:

Year Ended June 30,	Amount
2013	$ 1,253,492
2014	1,190,801
2015	1,131,488
2016	785,116
2017	811,756
Thereafter	5,698,086

Interest expense was $564,961 and $594,759 for the years ended June 30, 2012 and 2011, respectively.

The Agency has agreed to a number of covenants including a debt service coverage ratio of greater than 1:1. At June 30, 2012 and 2011, the Agency met these debt covenant requirements.

8. INTEREST RATE SWAP AGREEMENT

The Agency entered into an interest rate swap agreement (the swap) in order to reduce the impact of changes in interest rates on its Variable Rate Demand Civic Facility Revenue Bonds, issued by the Guilderland Industrial Development Agency. The swap qualifies as a hedge under generally accepted accounting principles. The Agency has assumed no ineffectiveness in the swap as, among other things, the initial amount of the swap was $6,950,000 which was comprised of two separate swap agreements, one for $4,895,000 at a fixed interest rate of 4.135% that matures on July 1, 2032 and the other for $2,055,000 at a fixed interest rate of 3.965% that matures on July 1, 2015. The current amount of bonds under the swap agreement is $4,345,000 maturing on July 1, 2032 and $1,100,000 maturing on July 1, 2015. The total remaining principal not covered by the swap is $270,000. Changes in the fair value of the swap are accounted for as the change in fair value of swap contract in the accompanying statements of activities.

9. FAIR VALUE MEASUREMENTS

The fair value of financial instruments measured on a recurring basis at June 30, 2012 and 2011 are as follows:

Fair Value Measurements at Reporting Date Using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Unobservable Inputs (Level 3)
June 30, 2012			
ASSETS			
Investments (see Note 2)			
Government Securities	$ 264,482	$ 264,482	
Money Markets	219,017	219,017	
Equities	141,391	141,391	-
Total Investments	$ 624,890	$ 624,890	$ -
LIABILITIES			
Beginning Balance	$ 901,573	-	$ 901,753
Current year (gain)/loss	439,111	-	439,111
Fair value of interest rate swap agreement (see Note 8)	$ 1,340,684	$ -	$ 1,340,684
June 30, 2011			
ASSETS			
Investments (see Note 2)			
Government Securities	$ 301,871	$ 301,871	-
Mutual Funds	5,896	5,896	-
Money Markets	2,380	2,380	-
Equities	157,258	157,258	-
Total Investments	$ 467,405	$ 467,405	$ -
LIABILITIES			
Beginning Balance	$ 1,091,427		$ 1,091,427
Current year (gain)/loss	(189,854)	-	(189,854)
Fair value of interest rate swap agreement (see Note 8)	$ 901,573	$ -	$ 901,573

FASB ASC 820, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of quoted prices in active markets for identical assets and liabilities and have the highest priority, Level 2 consists of other observable inputs other than Level 1 prices, and Level 3 inputs consist of unobservable inputs and have the lowest priority. The Agency uses appropriate valuation techniques based on the available inputs to measure the fair value of its financial instruments. When available, the Agency measures fair value using Level 1 and Level 2 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. There were no transfers between levels during the year ended 2012.

9. FAIR VALUE MEASUREMENTS

Level 1 Fair Value Measurements
The fair values of investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Level 3 Fair Value Measurements
The interest rate swap agreement is not actively traded. The fair value of the interest rate swap agreement is based on the amount the Agency would have to pay to terminate the swap agreement at June 30, 2012 and 2011, which is based on proprietary models used by the party to the agreement.

10. PENSION PLAN

The Agency maintains a noncontributory, defined contribution retirement plan which covers all full or part-time employees who meet certain minimum hours of service requirements. In addition, employees must complete one year of service by January 1 to quality for employer contributions during that year.

The Agency's contributions to the plan range from 3% to 12%, based on the employee's years of service, and are based on wages earned during the calendar year for qualifying employees. The contributions are deposited into a tax-deferred annuity, which is administered in compliance with the Employee Retirement Income Security Act of 1974 (ERISA). The Agency's pension expense was $1,080,941 and $1,065,779 for the years ended June 30, 2012 and 2011, respectively.

11. AFFILIATED CORPORATIONS

The Wildwood Foundation (the Foundation) is a not-for-profit corporation whose charitable purpose is supporting and assisting the Agency. The Foundation carries on fund-raising activities and special events that are for the benefit of the Agency. The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

During the years ended June 30, 2012 and 2011, the following transactions occurred between the Agency and the Foundation:

- The Foundation donated $798,092 and $590,429 to the Agency for the years ended June 30, 2012 and 2011, respectively. These amounts are included in contributions on the statements of activities.

- The Agency has a contract with the Foundation to reimburse certain costs incurred by the Agency. This contract includes the salaries and benefits of those staff that perform work on behalf of the Foundation. The Agency charged administrative fees of $21,503 and $20,405 to the Foundation for the reimbursement of an allocation of business office operations for the years ended June 30, 2012 and 2011, respectively. The fees are included in other income.

The Foundation owed $28,690 and $24,774 to Wildwood Programs, Inc. as of June 30, 2012 and 2011, respectively.

12. RETIREMENT HEALTH REIMBURSEMENT ARRANGEMENT

Wildwood Programs, Inc. sponsors a defined contribution retirement health plan. The Agency contributes $300 annually to a Retirement Health Reimbursement Arrangement (RHRA) for employees who have over 10 years of service and 200 hours of sick time. In addition, the Agency has an additional contribution for employees who have 10 years of service and over 500 hours of sick time. The Agency also contributes $600 annually for those employees who were eligible under a previous retirement health plan. If an employee leaves Wildwood before they retire, all amounts are forfeited to the Agency. The accumulated health benefit contribution liability as of June 30, 2012 and 2011 was $355,500 and $328,200 respectively.

13. RESTRICTED NET ASSETS

The Agency has applied the principles of The Financial Accounting Standards Board (FASB)'s Staff Position (FSP) No. FAS 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, and Enhanced Disclosures of All Endowment Funds*, which is now known as FASB ASC 958-205. FASB ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a non-profit organization and also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

B-VIII-36

Donations to the permanently restricted endowment funds of the Agency are governed by the New York Prudent Management of Institutional Funds Act (NYPMIFA) which dictates that annual distributions from these type of funds are to be formulated in a manner consistent with the standards of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Agency considers the following factors in making a determination to appropriate of accumulate donor-restricted endowment funds: (1) the duration and preservation of various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Agency, and (7) the Agency's investment policies. While this law allows for limited invasion of principal where warranted, it is the Agency's Board of Directors' policy to maintain and grow these funds over time. As a result of their policy, the Agency classifies as permanently restricted net assets the original value of permanently restricted contributions, absent explicit donor stipulations to the contrary.

The remaining portion of restricted contributions is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a matter consistent with the standards of prudence. Temporarily restricted net assets consisted of donations in the amount of $-0- and $49,910 for the years ended June 30, 2012 and 2011, respectively. In addition, temporarily restricted net assets is comprised of the portion of the Agency's interest in the net assets of its related party that is other than permanently restricted.

13. RESTRICTED NET ASSETS

The Agency has adopted investment and spending policies for permanently restricted net assets that attempt to provide a predictable stream of funding to programs while maintaining purchasing power. Accordingly, the investment process seeks to achieve an after-cost total rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. All earnings from these funds that are held by the Agency are reflected as temporarily restricted net assets until appropriated for program expenditures.

Permanently restricted net assets represent the portion of the interest in the net assets of its related party that is permanently restricted as well as Agency funds that are subject to donor-imposed restrictions requiring the corpus to be held in perpetuity. As of June 30, 2012 and 2011, permanently restricted net assets of the Agency consisted of the following:

	2012	2011
Hearst Endowment Fund	$ 214,114	$ 214,696

Changes in endowment funds for the years ended June 30, 2012 and 2011 are as follows:

2012	Temporarily Restricted	Permanently Restricted	Total Net Endowment Funds
Endowment funds, beginning of year	$ 14,696	$ 200,000	$ 214,696
Contributions	-	-	-
Investment income	-	-	-
Net appreciation (depreciation)	(582)	-	(582)
Amounts appropriated for expenditure	-	-	-
Endowment funds, end of year	$ 14,114	$ 200,000	$ 214,114

2011	Temporarily Restricted	Permanently Restricted	Total Net Endowment Funds
Endowment funds, beginning of year	$ (18,242)	$ 200,000	$ 181,758
Contributions	-	-	-
Investment income	-	-	-
Net appreciation (depreciation)	32,938	-	32,938
Amounts appropriated for Expenditure	-	-	-
Endowment funds, end of year	$ 14,696	$ 200,000	$ 214,696

B-VIII-37

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

14. CONCENTRATIONS

The Agency maintains cash balances at various financial institutions. Accounts at each institution were insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 during the years ended June 30, 2012 and 2011. At times, during the years, the Agency had bank deposits in excess of amounts insured by the FDIC.

Approximately 83% of the Agency's financing is with the County of Albany Industrial Development Agency and the Guilderland Industrial Development Agency, respectively, for the years ended June 30, 2012 and 2011.

15. CONTINGENCIES

Personal Allowance Accounts

The Agency is the custodian of clients' personal allowance funds. OPWDD regulations provide for the use of these funds for authorized and allowable purchases for consumer personal items. Those regulations prohibit the Agency from using or commingling these funds with any of their accounts. As the Agency has no legal right to these funds they have not been reflected in the financial statements.16.

16. TAX STATUS

Programs is exempt from federal income taxes as a not-for-profit corporation under tax Section 501(c)(3) as determined by the Internal Revenue Code. 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 tax-exempt status. Agency management is not aware of any events that could jeopardize tax-exempt status. Therefore, no liability or provision for income tax has been reflected in the financial statements. Management believes the Agency is no longer subject to review by the Internal Revenue Service for tax years prior to 2008. In addition, the Agency qualifies for charitable contribution deductions and has been classified as an organization other than a private foundation.

17. EVALUATION OF SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through October 11, 2012, which is the date these financial statements were available to be issued, and have determined that there are no subsequent events that requires disclosure under U.S. generally accepted accounting principles.

Wildwood Programs, Inc.
Schedule of Functional Expenses
For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

	Wildwood Programs	Management and General	2012 Total	2011 Total
Functional Expenses				
Salaries and wages	$ 16,349,103	$ 1,517,496	$ 17,866,599	$ 17,293,646
Employee benefits	6,192,585	465,077	6,657,662	6,400,334
Total Salaries and Employee Benefits	22,541,688	1,982,573	24,524,261	23,693,980
Supplies	1,537,935	74,208	1,612,143	1,468,649
Transportation	1,636,972	3,662	1,640,634	1,541,109
Occupancy	853,113	-	853,113	838,185
Rental of Equipment	9,381	-	9,381	9,179
Professional fees and contract service payments	233,423	51,712	285,135	301,301
Interest	530,406	34,555	564,961	594,759
Utilities	407,596	15,010	422,606	471,365
Repairs and maintenance	397,299	8,196	405,495	404,087
Conferences, convention and meetings	178,816	60,520	239,336	235,407
Insurance	161,597	1,051	162,648	163,061
Telephone	123,962	16,656	140,618	118,421
Postage and shipping	17,263	15,131	32,394	31,337
Bad debts	43,660	-	43,660	32,607
Printing and publications	3,270	6,953	10,223	9,019
Depreciation and amortization	1,327,920	54,850	1,382,770	1,255,893
	7,462,613	342,504	7,805,117	7,474,379
Total Functional Expenses	$ 30,004,301	$ 2,325,077	$ 32,329,378	$ 31,168,359

See accompanying notes to financial statements.

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APPENDIX B-IX

YOUNG ADULT INSTITUTE, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2014, JUNE 30, 2013 AND JUNE 30, 2012)

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YOUNG ADULT INSTITUTE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014

YOUNG ADULT INSTITUTE, INC.

CONTENTS

Grassi & Co.

Accountants and Success Consultants

Accounting, Auditing, Tax, Litigation Support, Valuation, Management & Technology Consulting

B-IX-2

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Young Adult Institute, Inc.
New York, New York

We have audited the accompanying statement of financial position of Young Adult Institute, Inc. at June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Young Adult Institute, Inc. at June 30, 2014, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grassi & Co, CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
October 17, 2014

B-IX-3

YOUNG ADULT INSTITUTE, INC
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

CURRENT ASSETS:	
Cash	$ 13,933,654
Certificates of deposit	442,018
Investments	10,712,416
Accounts receivable, net	
Medicaid	19,176,967
New York State	4,907,738
New York City	94,684
Client fees	250,583
Private pay	415,129
Medicare	314,695
Prepaid expenses and other receivables	4,063,610
Total Current Assets	54,311,494
Bond issuance costs, net	2,036,817
Fixed assets, net	34,839,214
Assets limited as to use	4,370,435
Deferred charges	4,638,995
Other assets and receivables, net	3,950,348
Total Assets	$ 104,147,303

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 16,312,150
Due to New York State	14,685,425
Current maturities of notes and mortgages payable	2,127,027
Current maturities of capital lease obligations	1,967,350
Other current liabilities	5,855,343
Total Current Liabilities	40,947,295
Due to New York State	229,820
Notes and mortgages payable, less current maturities	28,913,648
Capital lease obligations, less current maturities	9,326,415
Other noncurrent liabilities	2,995,035
Total Liabilities	82,412,213
COMMITMENTS AND CONTINGENCIES	
NET ASSETS	
Unrestricted	21,355,767
Temporarily restricted	379,323
Total Net Assets	21,735,090
Total Liabilities and Net Assets	$ 104,147,303

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

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES:			
Medicaid	$ 146,468,943	$ -	$ 146,468,943
New York State/New York City contractual agreements	15,357,772	-	15,357,772
Client fees	6,125,478	-	6,125,478
Grants and other revenue	8,220,155	500,000	8,720,155
Net assets released from restrictions	174,154	(174,154)	-
Total Operating Revenues	176,346,502	325,846	176,672,348
OPERATING EXPENSES:			
Residential services	85,473,064	-	85,473,064
Clinical services	65,070,670	-	65,070,670
Employment initiative services	3,002,885	-	3,002,885
Management and general	20,664,845	-	20,664,845
Total Operating Expenses	174,211,464	-	174,211,464
CHANGE IN NET ASSETS FROM OPERATIONS	2,135,038	325,846	2,460,884
NONOPERATING REVENUES AND EXPENSES:			
Contributions	807,462	-	807,462
Interest income	53,614	-	53,614
Fundraising expenses	(1,694,670)	-	(1,694,670)
Special events	1,371,980	-	1,371,980
Cost of direct benefits of special events	(584,006)	-	(584,006)
Other nonoperating revenues	361,970	-	361,970
Total Nonoperating Revenues and Expenses	316,350	-	316,350
CHANGE IN NET ASSETS	2,451,388	325,846	2,777,234
NET ASSETS, BEGINNING OF YEAR	18,904,379	53,477	18,957,856
NET ASSETS, END OF YEAR	$ 21,355,767	$ 379,323	$ 21,735,090

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

B-IX-4

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 2,777,234
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	4,127,198
Bad debt expense	3,822,532
Deferred charges	414,971
Decrease (increase) in assets:	
Accounts receivable	434,556
Prepaid expenses and other receivables	(722,067)
Other assets and receivables	(3,668,859)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(2,150,059)
Due to New York State	2,172,824
Other liabilities	1,014,821
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,223,151
CASH FLOWS FROM INVESTING ACTIVITIES:	
Fixed asset acquisitions	(355,021)
Proceeds from sale of investments	2,541,282
Decrease in assets limited as to use	19,198
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,205,459
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on notes and mortgages payable	(3,699,749)
Principal payments on capital leases	(2,654,275)
NET CASH USED IN FINANCING ACTIVITIES	(6,354,024)
NET CHANGE IN CASH	4,074,586
CASH, BEGINNING OF YEAR	9,859,068
CASH, END OF YEAR	$ 13,933,654
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 1,725,197
NONCASH INVESTING AND FINANCING ACTIVITIES:	
Fixed asset acquisitions through capital leases	$ 534,428

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

YOUNG ADULT INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 - Nature of Organization

Young Adult Institute, Inc. ("YAI") was organized and incorporated in 1957 under the Not-for-Profit Corporation Law of New York State. YAI has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

YAI serves people of all ages with developmental and learning disabilities, from infants through the elderly, in a variety of community settings and at home through state-of-the-art programs that help to build skills, expand opportunities, and support community living. YAI's 240 programs and direct services benefit 9,298 individuals and their families daily in 10 counties throughout the New York metropolitan area. YAI is funded primarily by Medicaid.

YAI is part of a network of independent agencies, collectively known as the YAI Network. The network provides programs and services including residential and other facilities for adults with developmental disabilities throughout New York City, Westchester County, and Long Island.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis.

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 contingencies at the date of the financial statements and the amount of revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments (cont'd.)

Level 3 - Valuations based on unobservable inputs reflecting YAI's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2014, the fair value of YAI's financial instruments including cash, certificates of deposit, accounts receivable, prepaid expenses and other receivables, assets limited as to use, and accounts payable and accrued expenses, approximated book value due to the short maturity of these instruments.

Refer to Note 5 - Fair Value Measurements for assets measured at fair value.

Certificates of Deposit

YAI has invested in several certificates of deposit that have various maturity dates ranging from April 2023 to October 2027, and have various interest rates ranging from 2.50% to 4.00% per annum. The balance of the certificates of deposit at June 30, 2014 is $442,018. The certificates of deposit were valued using Level 2 inputs consisting of broker dealer quotes for similar securities.

Investments

Investments are stated at the readily determinable fair market value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets.

Accounts and Other Receivables, Allowance for Doubtful Accounts and Revenue Recognition

YAI records receivables and revenue based on established third-party reimbursement rates for services 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 amounts spent, YAI establishes advances from government funders. 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 management's assessment of the creditworthiness of its funders, the age of the receivable, a review of payments subsequent to year-end as well as current economic conditions and historical information. Interest income is not accrued or recorded on outstanding receivables. YAI has established an allowance for doubtful accounts for accounts receivable of approximately $738,000. YAI has established an allowance for doubtful accounts for other receivables due from networking agencies of approximately $6,433,000.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fixed Assets

Fixed assets are recorded at cost. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. YAI capitalizes all purchases of fixed assets equal to or in excess of $5,000 and an estimated useful life of more than one year. Repairs and maintenance are charged to expense in the period incurred.

Depreciation of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets.

Useful lives are as follows:

Building	15 to 25 years
Building improvements	3 to 25 years
Leasehold improvements	3 to 20 years
Furniture and fixtures	5 years
Equipment	3 to 10 years
Computer software	5 years

Deferred Charges

The New York State Office for People with Developmental Disabilities ("OPWDD") includes interest and principal amortization on loans from the Dormitory Authority of the State of New York in the reimbursement rate paid to service providers. YAI recognizes revenue, however, based upon interest and depreciation of the facility. The difference between the revenue recognized and the reimbursement from OPWDD is reflected as a deferred charge on the balance sheet. This deferred charge represents a timing difference, which will accumulate over the early periods of the loan repayments and will reverse during the latter periods of the loan repayments.

Bond Issuance Costs

Costs of obtaining financing or refinancing are offset against the debt reflected in the accompanying statement of financial position and amortized over the life of the debt. The accumulated amortization at June 30, 2014 was $4,702,852. Amortization expense related to bond issuance costs was $458,112 for the year ended June 30, 2014.

Assets Limited as to Use

The amount represents cash, which is held by trustees under bond indenture agreements.

B-IX-6

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Capital Leases

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.

Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those net assets that are restricted by the donors to a specific time period or for specific purposes.

Contributions

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporary 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.

Operating Leases

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent has been recorded for the difference between the fixed payments and rent expense.

Functional Expenses

The costs of providing YAI's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Measure of Operations

Changes in net assets from operations include all revenues, gains and expenses for the period except for contributions, interest income, special event revenue and expenses, and fundraising expenses.

Accounting for Uncertainty in Income Taxes

YAI has adopted the provisions pertaining to uncertain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

YOUNG ADULT INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Accounting for Uncertainty in Income Taxes (cont'd.)

YAI is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. YAI believes it is no longer subject to income tax examinations for years prior to 2011.

Note 3 - Concentration of Credit Risk

YAI maintains cash balances in several financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per institution. From time to time, YAI's balances may exceed these limits.

The mix of revenue and receivables from program recipients and third-party payors is as follows:

	Revenue	Accounts Receivable
Medicaid	83%	76%
New York State contracts	9%	20%
Other third party payors	8%	4%
	100%	100%

Note 4 - Fixed Assets

Fixed assets, net, at cost, consists of the following at June 30, 2014.

	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 9,802,584	$ -	$ 9,802,584
Building	20,590,064	15,260,913	5,329,151
Building improvements	31,791,246	18,965,757	12,825,489
Leasehold improvements	17,311,502	13,304,656	4,006,846
Furniture and fixtures	4,787,539	4,233,412	554,127
Equipment	2,789,684	2,560,150	229,534
Computer software	3,299,747	2,382,258	917,489
Construction in progress	1,173,994	-	1,173,994
Total	$ 91,546,360	$ 56,707,146	$ 34,839,214

Depreciation and amortization expense related to fixed assets including fixed assets acquired through capital leases was $3,669,086 for the year ended June 30, 2014.

B-IX-7

Note 4 - Fixed Assets (cont'd.)

The cost of fixed assets purchased with capital lease proceeds was $35,337,544, with accumulated amortization thereon of $24,211,987.

YAI reviews the carrying value of the long-lived assets to determine if any facts and circumstances exist, which would suggest that the assets might be impaired. If impairment is indicated, an adjustment will be made to reduce the carrying amount of the long-lived asset to its fair value. Based on YAI's review at June 30, 2014, no impairment of long-lived assets was evident.

Note 5 - Fair Value Measurements

YAI measures its investments at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect YAI's own assumptions of market participant valuation (unobservable inputs).

Items Measured at Fair Value on a Recurring Basis

Investments are stated at fair value using Level 1 inputs based on quoted market prices of identical securities. Assets using Level 2 inputs consist of government and corporate bonds. The fair value of the bonds is estimated using recently executed transactions in securities of the issuer or comparable issuers with comparable terms, market price quotations (where observable), bond spreads and fundamental data relating to the issuer.

The fair value of corporate and government bonds is estimated using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads. The spread data used is for the same maturity as the bond. If the spread data does not reference the issuer, then data that references a comparable issuer is used. Corporate and government bonds are generally categorized in Level 2 of the fair value hierarchy.

Note 5 - Fair Value Measurements (cont'd.)

The following table presents YAI's assets that are measured at fair value on a recurring basis at June 30, 2014:

	Total	Level 1	Level 2	Level 3
Certificates of deposit	$ 442,018	$ 442,018	$ -	$ -
Marketable securities:				
Money market funds	10,056,105	10,056,105	-	-
U.S. Treasury bonds	27,996	27,996	-	-
Government bonds	136,354	-	136,354	-
Corporate bonds	491,961	-	491,961	-
Total securities measured at fair value	$ 11,154,434	$ 10,526,119	$ 628,315	$ -

Note 6 - Due to New York State

YAI has entered into contracts with OPWDD for the operation of intermediate care facilities, individual residential alternatives, community residences, supportive apartments and day habilitation programs. As part of these agreements, OPWDD provides interest-free advances to YAI for pre-operational start-up costs, equipment, renovations, lease costs, real estate taxes, minor maintenance contracts and operations. YAI 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.

Payments over the next five years are as follows:

Years Ending June 30:	
2015	$ 14,685,425
2016	61,355
2017	55,372
2018	55,372
2019	57,721
	$ 14,915,245

Note 7 - Notes and Mortgages Payable

A. *Bank of America*

YAI has available an $18 million working capital line of credit carrying an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2014 was 2.15%. The loan is collateralized by YAI's accounts receivable and matures on December 29, 2015.	$	15,045,037
YAI has available an $8 million line of credit for the acquisition and renovation of program sites. Upon receipt of New York State prior property approvals, the funds drawn down on the line of credit are subsequently converted into notes. At June 30, 2014, there were six notes executed. The notes bear an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2014 was 2.15%. The notes are collateralized by related property with a net book value of $2,405,464 and mature on December 29, 2015.		2,968,663
B. *Dormitory Authority of the State of New York*		
YAI has entered into twenty-four loan agreements with the Dormitory Authority of the State of New York (formerly the Facilities Development Corporation (FDC)), 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 for People with Developmental Disabilities. The loans carry interest rates ranging from 2.5% to 7.82% per annum, payable in semi-annual installments with maturity dates ranging from August 2014 through July 2030. The loans are collateralized by related property with a net book value of $12,169,948.		13,026,975
Total amount due at June 30, 2014	$	31,040,675

Note 7- Notes and Mortgages Payable (cont'd.)

Principal payments over the next five years and thereafter are as follows:

Years Ending June 30:		
2015	$	2,127,027
2016		19,702,434
2017		1,232,721
2018		1,141,493
2019		998,006
Thereafter		5,838,994
	$	31,040,675

Note 8 - Capital Lease Obligations

YAI has entered into capital lease agreements to fund the purchase of buildings, building improvements and equipment through thirteen bond issuances between 2001 and 2007.

The New York City Industrial Development Agency ("NYCIDA"), a corporate governmental agency constituting a body corporate and politic and a public benefit corporation of the State of New York, issued and sold revenue bonds (Special Needs Pooled Program) carrying interest rates ranging from 4.05% to 7.25% per annum payable in semiannual installments with maturities ranging from 2015 to 2030. The proceeds of the loans were used to finance the purchase and renovation of various collateralized properties in New York with a net book value of $11,125,557.

As part of the agreement with NYCIDA, YAI transferred the titles to all the facilities. NYCIDA has leased the facilities back to YAI for a term and at an amount concurrent with the bond repayment schedules. At the conclusion of the lease terms, YAI has the option to purchase each of the leased properties for $1.

Note 8 - Capital Lease Obligations (cont'd.)

Future minimum lease payments are as follows:

Years Ending June 30:		
2015	$	2,625,240
2016		2,383,708
2017		2,053,107
2018		1,260,529
2019		1,768,690
Thereafter		3,703,296
		13,794,570
Less: Amount representing interest		2,500,805
Present value of net minimum lease payments	$	11,293,765

Note 9 - Pension Plans

YAI has defined contribution plans covering substantially all its employees. Contributions and costs of these plans are based on amounts determined in accordance with Internal Revenue Service Code Section 415 on an annual basis, and totaled $2,490,367 for the year ended June 30, 2014.

Note 10 - Leased Facilities

YAI leases various facilities for its administrative office and program sites under noncancellable leases. The leases expire at various periods through February 2038. Rental expense totaled $7,505,742 for the year ended June 30, 2014.

At June 30, 2014, the future minimum lease payments under the terms of the lease agreements are as follows:

Years Ending June 30:		
2015	$	6,005,782
2016		4,290,792
2017		3,763,238
2018		3,888,113
2019		3,667,118
Thereafter		19,900,673
	$	41,515,716

B-IX-9

Note 11 - Commitments and Contingencies

YAI is responsible for reporting to and is regulated by various third parties, among which are the Centers for Medicare and Medicaid Services ("CMS") and the New York State Department of Health ("DOH"). These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit ("MFCU"), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the Office of Inspector General ("OIG") and the New York State Department of Health's Independent Office of Medicaid Inspector General ("OMIG"), and other agencies have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation and physician certifications, amongst other compliance requirements. Laws and regulations governing YAI's programs are extremely complex and 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 the Medicare and Medicaid programs.

Medicaid

(a) During August 2007, MFCU issued subpoenas to a number of operators of Home Health Care programs citing that the contracted home health aides from licensed vendor agencies had not received proper certification. The subpoena requested documentation and information from YAI's Certified Home Health Aide program ("CHHA") regarding its use of home health aides. CHHA relied on the home health aide certificates provided by the licensed vendor agency. Based on the information that was provided to MFCU, the Attorney General made a determination that some Medicaid claims were not valid because the individuals providing the service were not lawful home health aides. On December 4, 2008, CHHA received a letter from MFCU requesting repayment of $219,608. Through discussion with MFCU, on or about February 12, 2009, CHHA reached an agreement in principle with MFCU that, when and if consummated, would provide CHHA with a comprehensive release of liabilities to the Medicaid program associated with the use of uncertified home health aides. In return for this release, CHHA would be required to pay a total of $110,000 to MFCU, divided into equal monthly installments of $2,750, payable over 40 months. Based upon this agreement in principle with MFCU, management of CHHA has accrued $110,000 in these financial statements. To date, CHHA is waiting for the draft of MFCU's proposed stipulation of settlement agreement, and management and legal counsel cannot offer any opinion regarding whether this matter will ultimately be settled on the foregoing terms.

(b) DOH increased Medicaid rates to provide funding for recruitment, training and retention of home health aides, personal care workers and/or other personnel with direct patient care responsibility. These funds cover the period from June 1, 2006 through February 29, 2012. In the accompanying financial statements, these funds are reflected as a liability. The methodology employed to make this determination was predicated on the approach approved by DOH under a similar program put forth in 2002. The funding was allocated based on the ratio of service hours provided by each licensed agency to the total agency hours provided. CHHA received attestations from those licensed agencies with which it contracts certifying that these funds were paid to home health aides and other personnel with direct patient care responsibilities. This approach and the underlying support are subject to audit by DOH, OMIG and MFCU.

Note 11 - Commitments and Contingencies (cont'd.)

Medicaid (cont'd.)

(c) During February 2011, CHHA received a letter from OMIG in connection with an audit of CHHA's cost reports for each of the four years ended December 31, 2004 through 2007. In connection with this audit, CHHA is responding to OMIG's requests for documentation that supports the costs and patient visits/hours claimed by CHHA on its cost reports. On April 1, 2011, CHHA submitted the requested documentation. Until such time as OMIG issues its final audit findings, management will not be in a position to estimate what potential loss, if any, might result from this matter.

Other

(d) YAI is involved in various legal proceedings and litigation arising in the ordinary course of business. YAI is vigorously defending these matters, and it is the opinion of legal counsel that these claims are without merit. Potential damages, if successful, are undeterminable at June 30, 2014.

Note 12 - Functional Expenses

Residential services	$ 85,473,064
Clinical services	65,070,670
Employment initiative services	3,002,885
Total program expenses	153,546,619
Management and general	20,664,845
Cost of direct benefits of special events	584,006
Fundraising expenses	1,694,670
Total expenses	$ 176,490,140

Note 13 - Temporarily Restricted Net Assets

YAI received funds to place computerized health monitoring systems in residences that house individuals who have been diagnosed with developmental disabilities. These monitoring systems will provide health care professionals with more accurate health-related data, and in turn provide a better quality of life for these individuals. The balance available at June 30, 2014 is $53,477.

In 2014, YAI received funds from The Taft Foundation to be used to expand, diversify and enhance the agency's LINK (Linking Individuals to Necessary Knowledge) services. This enhancement will help support, engage and empower individuals with developmental disabilities and assist them and their families in navigating a complicated service system. For the year ended June 30, 2014, $174,154 was released from restriction. The balance available at June 30, 2014 is $325,846.

B-IX-10

Note 14 - Related Parties

YAI is the sole corporate member of Rockland County Association for the Learning Disabled (the "Association"). For the year ended June 30, 2014, YAI provided certain management services to the Association, including but not limited to accounting and financial operations, administrative and program support, human resources, education and training, information technology and general management. The Association paid $541,525 for such services. As of June 30, 2014, the Association owes $40,024 to YAI which is included in prepaid expenses and other receivables on the statement of financial position.

Note 15 - Supplemental Executive Retirement Program

Certain executives at YAI have been entitled to retirement benefits as part of a Supplemental Executive Retirement Program ("SERP"). In previous years, YAI contributed monies to the SERP that have been held in a grantor trust within the meaning of Subpart E, Part I, Subchapter J, Chapter I, Subtitle A of the Internal Revenue Code of 1986, as amended, which is intended to be a "rabbi trust" as described in Internal Revenue Service Rev. Proc. 92-64. During the year ended June 30, 2013, the SERP was terminated with respect to all participants and beneficiaries other than one former executive. Certain amounts were distributed to those participants and beneficiaries with respect to whom the SERP was terminated, and certain other amounts were authorized to be returned to YAI to allow YAI to settle certain outstanding obligations. The one former executive has not agreed with the distribution amount that was determined by YAI.

As of June 30, 2014, YAI is in legal proceedings with this former executive and his wife regarding his post-termination benefits, including the amount of his benefit under the SERP. YAI is contesting this matter vigorously and is unable to evaluate the likelihood of an outcome or estimate an amount or range of potential loss. Any future residual financial impact to YAI is unknown pending resolution of the dispute.

Note 16 - Subsequent Events

YAI has evaluated all events or transactions that occurred after June 30, 2014 through the date of these financial statements, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.

B-IX-11

YOUNG ADULT INSTITUTE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2013

YOUNG ADULT INSTITUTE, INC.

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Young Adult Institute, Inc.
New York, New York

We have audited the accompanying statement of financial position of Young Adult Institute, Inc. at June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Young Adult Institute, Inc. at June 30, 2013, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grassi & Co, CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
October 31, 2013

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS	
CURRENT ASSETS:	
Cash	$ 9,859,068
Certificates of deposit	443,756
Investments	13,251,960
Accounts receivable, net	
Medicaid	19,813,151
New York State	5,222,209
Client fees	327,046
Private pay	23,695
Medicare	208,252
Prepaid expenses and other receivables, net	7,164,075
Total Current Assets	56,313,212
Bond issuance costs, net	2,494,929
Fixed assets, net	37,618,851
Assets limited as to use	4,389,633
Deferred charges	5,053,966
Other assets	281,489
Total Assets	$ 106,152,080
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 18,462,212
Due to New York State	8,259,273
Current maturities of notes and mortgages payable	21,713,449
Current maturities of capital lease obligations	2,550,485
Other current liabilities	4,996,147
Total Current Liabilities	55,981,566
Due to New York State	4,483,148
Notes and mortgages payable, less current maturities	13,026,974
Capital lease obligations, less current maturities	10,863,126
Other noncurrent liabilities	2,839,410
Total Liabilities	87,194,224
COMMITMENTS AND CONTINGENCIES	
NET ASSETS	
Unrestricted	18,904,379
Temporarily restricted	53,477
Total Net Assets	18,957,856
Total Liabilities and Net Assets	$ 106,152,080

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

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES:			
Medicaid	$ 138,385,111	$ -	$ 138,385,111
New York State/New York City contractual agreements	19,108,705	-	19,108,705
Client fees	6,120,747	-	6,120,747
Other revenue	14,989,443	-	14,989,443
Total Operating Revenues	178,604,006	-	178,604,006
OPERATING EXPENSES:			
Residential services	79,839,950	-	79,839,950
Clinical services	67,061,161	-	67,061,161
Employment initiative services	3,469,054	-	3,469,054
Management and general	24,056,795	-	24,056,795
Total Operating Expenses	174,426,960	-	174,426,960
CHANGE IN NET ASSETS FROM OPERATIONS	4,177,046	-	4,177,046
NONOPERATING REVENUES AND EXPENSES:			
Contributions	845,505	-	845,505
Interest income	26,247	-	26,247
Fundraising expenses	(1,292,149)	-	(1,292,149)
Special events	1,396,386	-	1,396,386
Cost of direct benefits of special events	(698,705)	-	(698,705)
Net recoveries from property damage	720,243	-	720,243
Total Nonoperating Revenues and Expenses	997,527	-	997,527
CHANGE IN NET ASSETS	5,174,573	-	5,174,573
NET ASSETS, BEGINNING OF YEAR	13,729,806	53,477	13,783,283
NET ASSETS, END OF YEAR	$ 18,904,379	$ 53,477	$ 18,957,856

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

B-IX-14

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$	5,174,573
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		4,599,932
Bad debt expense		4,291,693
Decrease (increase) in assets:		
Accounts receivable		2,903,506
Prepaid expenses and other receivables		(3,363,331)
Deferred charges		157,104
Other assets		1,761
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses		3,244,348
Due to New York State		(9,690,503)
Other liabilities		(5,577,108)
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,741,975
CASH FLOWS FROM INVESTING ACTIVITIES:		
Fixed asset acquisitions		(3,952,881)
Proceeds from sale of investments		9,579,943
Decrease in assets limited as to use		19,199
NET CASH PROVIDED BY INVESTING ACTIVITIES		5,646,261
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes and mortgages payable		(6,327,253)
Principal payments on capital leases		(2,274,931)
Proceeds from notes and mortgage loans		3,749,910
NET CASH USED IN FINANCING ACTIVITIES		(4,852,274)
NET CHANGE IN CASH		2,535,962
CASH, BEGINNING OF YEAR		7,323,106
CASH, END OF YEAR	$	9,859,068
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$	1,942,631

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1 - Nature of Organization

Young Adult Institute, Inc. ("YAI") was organized and incorporated in 1957 under the Not-for-Profit Corporation Law of New York State. YAI has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

YAI serves people of all ages with developmental and learning disabilities, from infants through the elderly, in a variety of community settings and at home through state-of-the-art programs that help to build skills, expand opportunities, and support community living. YAI's 239 programs and direct services benefit 9,266 individuals and their families daily in 10 counties throughout the New York metropolitan area. YAI is funded primarily by Medicaid.

YAI is part of a network of independent agencies, collectively known as the YAI Network. The network provides programs and services including residential and other facilities for adults with developmental disabilities throughout New York City, Westchester County, and Long Island.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis.

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 contingencies at the date of the financial statements and the amount of revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments (cont'd.)

Level 3 - Valuations based on unobservable inputs reflecting YAI's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2013, the fair value of YAI's financial instruments including cash, certificates of deposit, accounts receivable, prepaid expenses and other receivables, assets limited as to use, and accounts payable and accrued expenses, approximated book value due to the short maturity of these instruments.

Refer to Note 5 - Fair Value Measurements for assets measured at fair value.

Certificates of Deposit

YAI has invested in several certificates of deposit that have various maturity dates ranging from April 2023 to October 2027, and have various interest rates ranging from 2.00% to 3.00% per annum. The balance of the certificates of deposit at June 30, 2013 is $443,756. The certificates of deposit were valued using Level 2 inputs consisting of broker dealer quotes for similar securities.

Investments

Investments are stated at the readily determinable fair market value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets.

Accounts and Other Receivables, Allowance for Doubtful Accounts and Revenue Recognition

YAI records receivables and revenue based on established third-party reimbursement rates for services 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 amounts spent, YAI establishes advances from government funders. 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 management's assessments of the creditworthiness of its funders, the age of the receivable, a review of payments subsequent to year-end as well as current economic conditions and historical information. Interest income is not accrued or recorded on outstanding receivables. YAI has established an allowance for doubtful accounts for accounts receivable of approximately $441,000. YAI has established an allowance for doubtful accounts for other receivables of approximately $3,933,000.

B-IX-15

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fixed Assets

Fixed assets are recorded at cost. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. YAI capitalizes all purchases of fixed assets equal to or in excess of $5,000 and an estimated useful life of more than one year. Repairs and maintenance are charged to expense in the period incurred.

Depreciation and amortization of fixed assets is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Building	15 to 25 years
Building improvements	3 to 25 years
Leasehold improvements	3 to 20 years
Furniture and fixtures	5 years
Equipment	3 to 10 years
Computer software	5 years

Deferred Charges

The New York State Office for People with Developmental Disabilities ("OPWDD") includes interest and principal amortization on loans from the Dormitory Authority of the State of New York in the reimbursement rate paid to service providers. YAI recognizes revenue, however, based upon interest and depreciation of the facility. The difference between the revenue recognized and the reimbursement from OPWDD is reflected as a deferred charge on the balance sheet. This deferred charge represents a timing difference, which will accumulate over the early periods of the loan repayments and will reverse during the latter periods of the loan repayments.

Bond Issuance Costs

Costs of obtaining financing or refinancing are offset against the debt reflected in the accompanying statement of financial position and amortized over the life of the debt. The accumulated amortization at June 30, 2013 was $4,244,740. Amortization expense related to bond issuance costs was $438,322 for the year ended June 30, 2013.

Assets Limited as to Use

The amount represents cash, which is held by trustees under bond indenture agreements.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Capital Leases

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.

Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those net assets that are restricted by the donors to a specific time period or for specific purposes.

Contributions

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporary 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.

Operating Leases

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent has been recorded for the difference between the fixed payments and rent expense.

Functional Expenses

The costs of providing YAI's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Measure of Operations

Changes in net assets from operations include all revenues, gains and expenses for the period except for contributions, interest income, special event revenue and expenses, fundraising expenses and net recoveries from property damage.

Accounting for Uncertainty in Income Taxes

YAI has adopted the provisions pertaining to uncertain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

YOUNG ADULT INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 3 - Concentration of Credit Risk

YAI maintains cash balances in several financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per institution. From time to time, YAI's balances may exceed these limits.

The mix of revenue and receivables from program recipients and third-party payors is as follows:

	Revenue	Accounts Receivable
Medicaid	78%	77%
New York State/New York City	11%	20%
Client Fees	3%	2%
Other	8%	1%
	100%	100%

Note 4 - Fixed Assets

Fixed assets, net, at cost, consists of the following at June 30, 2013.

	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 9,900,761	$ -	$ 9,900,761
Building	20,851,877	14,514,006	6,337,871
Building improvements	31,313,537	17,415,571	13,897,966
Leasehold improvements	17,261,114	12,642,916	4,618,198
Furniture and fixtures	4,659,202	4,053,634	605,568
Equipment	2,804,553	2,473,009	331,544
Computer software	2,734,279	1,938,924	795,355
Construction in Progress	1,131,588	-	1,131,588
Total	$ 90,656,911	$ 53,038,060	$ 37,618,851

Depreciation and amortization expense related to fixed assets was $4,161,610 for the year ended June 30, 2013.

Note 4 - Fixed Assets (cont'd.)

The cost of fixed assets purchased with capital lease proceeds was $35,337,544, with accumulated amortization thereon of $22,848,607.

YAI reviews the carry value of the long-lived assets to determine if any facts and circumstances exist, which would suggest that the assets might be impaired. If impairment is indicated, an adjustment will be made to reduce the carry amount of the long-lived asset to its fair value. Based on YAI's review at June 30, 2013, no impairment of long-lived assets was evident.

Note 5 - Fair Value Measurements

YAI measures its investments at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect YAI's own assumptions of market participant valuation (unobservable inputs).

Items Measured at Fair Value on a Recurring Basis

The following table presents YAI's assets that are measured at fair value on a recurring basis at June 30, 2013:

	Total	Level 1	Level 2	Level 3
Certificates of deposit	$ 443,756	$ -	$ 443,756	$ -
Marketable securities:				
Money market funds	12,599,371	12,599,371	-	-
U.S. Treasury bonds	28,911	28,911	-	-
Mortgage-backed securities	623,678	623,678	-	-
Total securities measured at fair value	$ 13,695,716	$ 13,251,960	$ 443,756	$ -

B-IX-17

Note 6 - Due to New York State

YAI has entered into contracts with OPWDD for the operation of intermediate care facilities, individual residential alternatives, community residences, supportive apartments and day habilitation programs. As part of these agreements, OPWDD provides interest-free advances to YAI for pre-operational start-up costs, equipment, renovations, lease costs, real estate taxes, minor maintenance contracts and operations. YAI 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.

Payments over the next five years are as follows:

Years Ending June 30:	
2014	$ 8,259,273
2015	3,066,494
2016	753,956
2017	343,158
2018	319,540
	$ 12,742,421

Note 7 - Notes and Mortgages Payable

A. Bank of America

YAI has available an $18 million working capital line of credit carrying an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2013 was 2.195%. The loan is collateralized by YAI's accounts receivable and matures on December 29, 2013.	$	16,562,828
YAI has available an $8 million line of credit for the acquisition and renovation of program sites. Upon receipt of New York State prior property approvals, the funds drawn down on the line of credit are subsequently converted into notes. At June 30, 2013, there were three notes executed. The notes bear an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2013 was 2.195%. The notes mature on December 29, 2013. The notes are collateralized by related property with a net book value of $2,502,959.		2,968,663
B. Dormitory Authority of the State of New York		
YAI has entered into twenty-four loan agreements with the Dormitory Authority of the State of New York (formerly the Facilities Development Corporation ("FDC")), 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 for People with Developmental Disabilities. The loans carry interest rates ranging from 1.5% to 7.82% per annum, payable in semi-annual installments with maturity dates ranging from August 2014 through July 2030. The loans are collateralized by related property with a net book value of $13,390,624.		15,208,932
Total amount due at June 30, 2013	$	34,740,423

B-IX-18

Note 7- Notes and Mortgages Payable (cont'd.)

Principal payments over the next five years and thereafter are as follows:

Years Ending June 30:		
2014	$	21,713,449
2015		2,127,027
2016		1,688,734
2017		1,232,771
2018		1,141,493
Thereafter		6,836,949
	$	34,740,423

Note 8 - Capital Lease Obligations

YAI has entered into capital lease agreements to fund the purchase of buildings, building improvements and equipment through thirteen bond issuances between 2001 and 2007.

The New York City Industrial Development Agency ("NYCIDA"), a corporate governmental agency constituting a body corporate and politic and a public benefit corporation of the State of New York, issued and sold revenue bonds (Special Needs Pooled Program) carrying interest rates ranging from 4.05% to 7.25% per annum payable in semiannual installments with maturities ranging from 2014 to 2030. The proceeds of the loans were used to finance the purchase and renovation of various collateralized properties in New York with a net book value of $12,488,937.

As part of the agreement with NYCIDA, YAI transferred the titles to all the facilities. NYCIDA has leased the facilities back to YAI for a term and at an amount concurrent with the bond repayment schedules. At the conclusion of the lease terms, YAI has the option to purchase each of the leased properties for $1.

Future minimum lease payments are as follows:

Years Ending June 30:		
2014	$	3,250,980
2015		2,436,701
2016		2,202,607
2017		1,964,649
2018		1,260,529
Thereafter		5,474,657
		16,590,123
Less: Amount representing interest		3,176,512
Present value of net minimum lease payments	$	13,413,611

Note 9 - Pension Plans

YAI has defined contribution plans covering substantially all its employees. Contributions and costs to these plans are based on amounts determined in accordance with Internal Revenue Service Code Section 415 on an annual basis and totaled $4,284,926 for the year ended June 30, 2013.

Note 10 - Leased Facilities

YAI leases various facilities for its administrative office and program sites under noncancellable leases. The leases expire at various periods through February 2038. Rental expense totaled $7,521,493 for the year ended June 30, 2013.

At June 30, 2013, the future minimum lease payments under the terms of the lease agreements are as follows:

Years Ending June 30:	
2014	$ 7,388,086
2015	5,789,657
2016	4,204,970
2017	3,770,247
2018	3,887,952
Thereafter	23,702,122
	$ 48,743,034

Note 11 - Commitments and Contingencies

YAI is responsible for reporting to and is regulated by various third parties, among which are the Centers for Medicare and Medicaid Services ("CMS") and the New York State Department of Health ("DOH"). These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit ("MFCU"), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the Office of Inspector General ("OIG") and the New York State Department of Health's Independent Office of Medicaid Inspector General ("OMIG"), and other agencies have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation and physician certifications, amongst other compliance requirements. Laws and regulations governing YAI's programs are extremely complex and 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 the Medicare and Medicaid programs.

B-IX-19

Note 11 - Commitments and Contingencies (cont'd.)

Medicaid

(a) During August 2007, MFCU issued subpoenas to a number of operators of Home Health Care programs citing that the contracted home health aides from licensed vendor agencies had not received proper certification. The subpoena requested documentation and information from YAI's Certified Home Health Aide program ("CHHA") regarding its use of home health aides. CHHA relied on the home health aide certificates provided by the licensed vendor agency. Based on the information that was provided to MFCU, the Attorney General made a determination that some Medicaid claims were not valid because the individuals providing the service were not lawful home health aides. On December 4, 2008, CHHA received a letter from MFCU requesting repayment of $219,608. Through discussion with MFCU, on or about February 12, 2009, CHHA reached an agreement in principle with MFCU that, when and if consummated, would provide CHHA with a comprehensive release of liabilities to the Medicaid program associated with the use of uncertified home health aides. In return for this release, CHHA would be required to pay a total of $110,000 to MFCU, divided into equal monthly installments of $2,750, payable over 40 months. Based upon this agreement in principle with MFCU, management of CHHA has accrued $110,000 in these financial statements. To date, CHHA is waiting for the draft of MFCU's proposed stipulation of settlement agreement, and management and legal counsel cannot offer any opinion regarding whether this matter will ultimately be settled on the foregoing terms.

(b) DOH increased Medicaid rates to provide funding for recruitment, training and retention of home health aides, personal care workers and/or other personnel with direct patient care responsibility. These funds cover the period from June 1, 2006 through February 29, 2012. In the accompanying financial statements, a portion of these funds is reflected as revenue earned, the balance as a liability. The methodology employed to make this determination was predicated on the approach approved by DOH under a similar program put forth in 2002. The funding was allocated based on the ratio of service hours provided by each licensed agency to the total agency hours provided. CHHA received attestations from those licensed agencies with which it contracts certifying that these funds were paid to home health aides and other personnel with direct patient care responsibilities. This approach and the underlying support are subject to audit by DOH, OMIG and MFCU.

(c) During February 2011, CHHA received a letter from OMIG in connection with an audit of CHHA's cost reports for each of the four years ended December 31, 2004 through 2007. In connection with this audit, CHHA is responding to OMIG's requests for documentation that supports the costs and patient visits/hours claimed by CHHA on its cost reports. On April 1, 2011, CHHA submitted the requested documentation. Until such time as OMIG issues its final audit findings, management will not be in a position to estimate what potential loss, if any, might result from this matter.

Note 11 - Commitments and Contingencies (cont'd.)

(d) In January 2011, YAI entered into agreements to settle the joint state and federal investigations and the qui tam complaint filed under the federal and New York State False Claims Acts after an investigation by the United States Attorney's office for the Southern District of New York and the State of New York, Office of the Attorney General with regard to alleged errors contained in the New York State Consolidated Fiscal Reports submitted for the years 1999 through 2009. The settlement for $18,000,000 ($10,800,000 with New York State and $7,200,000 with the United States of America) covered a ten-year period of time representing approximately 1% of YAI's revenue. YAI paid $5,000,000 in January 2011 with the balance to be paid in equal monthly installments, plus interest at 2.75%, ending December 2015. On October 31, 2012, YAI voluntarily prepaid the remaining balances due, inclusive of interest, under the New York State and federal settlement agreements in the amounts of $5,347,961 and $3,565,307, respectively.

Other

(e) YAI is involved in various legal proceedings and litigation arising in the ordinary course of business. YAI is vigorously defending these matters, and it is the opinion of legal counsel that these claims are without merit. Potential damages, if successful, are undeterminable at June 30, 2013.

B-IX-20

Note 12 - Functional Expenses

Residential services	$ 79,839,950
Clinical services	67,061,161
Employment initiatives services	3,469,054
Total program expenses	150,370,165
Management and general	24,056,795
Cost of direct benefits of special events	698,705
Fundraising expenses	1,292,149
Total expenses	$ 176,417,814

Note 13 - Temporarily Restricted Net Assets

YAI received funds to place computerized health monitoring systems in residences that house individuals who have been diagnosed with developmental disabilities. These monitoring systems will provide health care professionals with more accurate health-related data, and in turn provide a better quality of life for these individuals. The balance available at June 30, 2013 is $53,477.

Note 14 - Related Parties

YAI is the sole corporate member of Rockland County Association for the Learning Disabled (the "Association"). For the year ended June 30, 2013, YAI provided certain management services to the Association, including but not limited to accounting and financial operations, administrative and program support, human resources, education and training, information technology and general management. The Association paid $568,567 for such services. As of June 30, 2013, the Association owes $283,517 to YAI which is included in prepaid expenses and other receivables on the statement of financial position.

Note 15 - Supplemental Executive Retirement Program

Certain current and former executives at YAI were entitled to retirement benefits as part of a Supplemental Executive Retirement Program ("SERP"). In previous years, YAI contributed monies to the SERP, which were held in a grantor trust within the meaning of Subpart E, Subchapter, Chapter I, Subtitle A of the Internal Revenue Code of 1986, as amended, and which was intended to be a "rabbi trust" as described in Rev. Proc. 92-64. During the year ended June 30, 2013, the SERP was terminated. At termination, certain amounts were identified and distributed to the employees and other amounts were returned to YAI. At June 30, 2013, one former executive has not agreed with the distribution amount that was determined by YAI. This portion of the SERP proceeds remains within the grantor trust until YAI and the former executive can agree on the amount to be distributed. Any future residual financial impact to YAI is unknown at this time. Approximately $8,900,000 was returned to YAI during 2013 and was used to settle outstanding obligations. The amount received as a result of the termination by YAI from the SERP is included in the other revenue on the statement of activities.

Note 16 - Subsequent Events

YAI has evaluated all events or transactions that occurred after June 30, 2013 through the date of these financial statements, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.

B-IX-21

YOUNG ADULT INSTITUTE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2012

YOUNG ADULT INSTITUTE, INC.

CONTENTS

GRASSI & CO.
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B-IX-22

INDEPENDENT AUDITORS' REPORT

Board of Directors
Young Adult Institute, Inc.
New York, New York

We have audited the accompanying statement of financial position of Young Adult Institute, Inc. at June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Young Adult Institute, Inc.'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 Young Adult Institute, Inc. at 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.

Grassi & Co, CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
November 2, 2012

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YOUNG ADULT INSTITUTE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents	$	7,323,106
Certificates of deposit		141,432
Investments		23,134,227
Accounts receivable, net		
Medicaid		21,802,010
New York State		5,718,884
New York City		910,475
Client fees		126,246
Private pay		69,456
Medicare		229,158
Prepaid expenses and other receivables		7,734,067
Total Current Assets		67,189,061
Bond issuance costs, net		2,933,251
Fixed assets - net		37,827,580
Assets limited as to use		4,408,832
Deferred charges		5,211,070
Other assets		283,250
Total Assets	$	117,853,044

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$	15,217,877
Due to New York State		19,886,273
Current maturities of notes and mortgages payable		2,074,927
Current maturities of capital lease obligations		2,285,162
Other current liabilities		4,116,639
Total Current Liabilities		43,580,878
Due to New York State		2,546,636
Notes and mortgages payable, less current maturities		35,242,840
Capital lease obligations, less current maturities		13,403,380
Other noncurrent liabilities		9,296,027
Total Liabilities		104,069,761
COMMITMENTS AND CONTINGENCIES		
Net assets		
Unrestricted		13,729,806
Temporarily restricted		53,477
Total Net Assets		13,783,283
Total Liabilities and Net Assets	$	117,853,044

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

B-IX-23

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES:			
Medicaid	$ 143,644,033	$ -	$ 143,644,033
New York State contractual agreements	24,904,916	-	24,904,916
New York City contractual agreements	955,349	-	955,349
Client fees	6,026,966	-	6,026,966
Private pay	693,997	-	693,997
Medicare	61,161	-	61,161
Total Operating Revenues	176,286,422	-	176,286,422
OPERATING EXPENSES:			
Residential services	83,441,902	-	83,441,902
Clinical services	68,970,451	-	68,970,451
Employment initiative services	3,689,449	-	3,689,449
Management and general	18,349,893	-	18,349,893
Total Operating Expenses	174,451,695	-	174,451,695
CHANGE IN NET ASSETS FROM OPERATIONS	1,834,727	-	1,834,727
NONOPERATING REVENUES AND EXPENSES:			
Contributions	1,362,564	-	1,362,564
Interest income	83,038	-	83,038
Fundraising expenses	(1,356,416)	-	(1,356,416)
Special events	2,108,977	-	2,108,977
Cost of direct benefits of special events	(738,178)	-	(738,178)
Total Nonoperating Revenues and Expenses	1,459,985	-	1,459,985
CHANGE IN NET ASSETS BEFORE LOSS FROM DISCONTINUED OPERATIONS	3,294,712	-	3,294,712
Loss from discontinued operations	(1,101,008)	-	(1,101,008)
CHANGE IN NET ASSETS	2,193,704	-	2,193,704
NET ASSETS, BEGINNING OF YEAR	11,536,102	53,477	11,589,579
NET ASSETS, END OF YEAR	$ 13,729,806	$ 53,477	$ 13,783,283

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

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 2,193,704
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	4,895,118
Bad debt expense	1,105,122
Decrease (increase) in assets:	
Accounts receivable	6,903,660
Prepaid expenses and other receivables	(3,828,420)
Deferred charges	98,040
Other assets	(2,015)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(188,459)
Due to New York State	4,435,851
Other liabilities	(1,115,303)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,497,298
CASH FLOWS FROM INVESTING ACTIVITIES:	
Fixed asset acquisitions	(2,624,796)
Purchases of investments	(4,718,886)
Decrease in assets limited as to use	323,854
NET CASH USED IN INVESTING ACTIVITIES	(7,019,828)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on notes and mortgages payable	(30,940,296)
Principal payments on capital leases	(2,621,112)
Proceeds from notes and mortgage loans	30,916,324
NET CASH USED IN FINANCING ACTIVITIES	(2,645,084)
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,832,386
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,490,720
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,323,106
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 2,424,769

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

Note 1 - Nature of Organization

Young Adult Institute, Inc. ("YAI") was organized and incorporated in 1957 under the Not-for-Profit Corporation Law of New York State. YAI has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

YAI serves people of all ages with developmental and learning disabilities, from infants through the elderly, in a variety of community settings and at home through state-of-the-art programs that help to build skills, expand opportunities, and support community living. YAI's 237 programs and direct services benefit 9,258 individuals and their families daily in 10 counties throughout the New York metropolitan area. YAI is funded primarily by Medicaid.

YAI is part of a network of independent agencies, collectively known as the YAI Network. The network provides programs and services including residential and other facilities for adults with developmental disabilities throughout New York City, Westchester County, and Long Island.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis.

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 contingencies at the date of the financial statements and the amount of revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

B-IX-24

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments (cont'd.)

Level 3 - Valuations based on unobservable inputs reflecting YAI's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2012, the fair value of YAI's financial instruments including cash and cash equivalents, certificates of deposit, accounts receivable, prepaid expenses and other receivables, assets limited as to use, and accounts payable and accrued expenses, approximated book value due to the short maturity of these instruments.

Refer to Note 5 - Fair Value Measurements for assets measured at fair value.

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with initial maturities when acquired of three months or less.

Certificates of Deposit

Certificates of deposit include investments with initial maturities when acquired of three months or less.

Investments

Investments are stated at the readily determinable fair market value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets.

Accounts Receivable, Allowance for Doubtful Accounts and Revenue Recognition

YAI records receivables and revenue based on established third-party reimbursement rates for services 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 amounts spent, YAI establishes advances from government funders. 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 management's assessments of the creditworthiness of its funders, the age of the receivable, a review of payments subsequent to year end as well as current economic conditions and historical information. Interest income is not accrued or recorded on outstanding receivables. YAI has established an allowance for doubtful accounts of approximately $440,000.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Property and Equipment

Property and equipment is recorded at cost. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. YAI capitalizes all purchases of property and equipment equal to or in excess of $5,000 and an estimated useful life of more than one year. Repairs and maintenance are charged to expense in the period incurred.

Depreciation and amortization of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Building	15 to 25 years
Building improvements	3 to 25 years
Leasehold improvements	3 to 20 years
Furniture and fixtures	5 years
Equipment	3 to 10 years
Computer software	5 years

Deferred Charges

The New York State Office for People with Developmental Disabilities ("OPWDD") includes in the reimbursement rate paid to service providers interest and principal amortization on loans from the Dormitory Authority of the State of New York. YAI recognizes revenue, however, based upon interest and depreciation of the facility. The difference between the revenue recognized and the reimbursement from OPWDD is reflected as a deferred charge on the balance sheet. This deferred charge represents a timing difference, which will accumulate over the early periods of the loan repayments and will reverse during the latter periods of the loan repayments.

Bond Issuance Costs

Costs of obtaining financing or refinancing are offset against the debt reflected in the accompanying statement of financial position and amortized over the life of the debt. The accumulated amortization at June 30, 2012 was $4,446,117. Amortization expense related to bond issue costs was $498,151 for the fiscal year ended June 30, 2012.

Assets Limited as to Use

The amount represents cash, which is held by trustees under bond indenture agreements.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Capital Leases

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.

Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those net assets that are restricted by the donors to a specific time period or for specific purposes.

Contributions

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporary 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

Operating Leases

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent has been recorded for the difference between the fixed payments and rent expense.

Functional Expenses

The costs of providing YAI's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Measure of Operations

Changes in net assets from operations include all revenues, gains and expenses for the period except for contributions, interest income, special event revenue and expenses and fundraising expenses.

Accounting for Uncertainty in Income Taxes

YAI has adopted the provisions pertaining to uncertain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Reclassifications

Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation. These reclassifications have no effect on the change in net assets previously reported.

New Accounting Pronouncement

FASB issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurement (Topic 820), issued May 2011, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS.* This ASU represents the converged guidance of the FASB and the IASB (the "Boards") on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU No. 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS.

The amendments to the FASB Accounting Standards Codification in this ASU are to be applied prospectively. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Nonpublic entities may apply the amendments in ASU No. 2011-04 early, but no earlier than for interim periods beginning after December 15, 2011. YAI has not yet determined whether the adoption of this standard will have a material impact on its financial statements.

Note 3 - Concentration of Credit Risk

YAI maintains cash balances in several financial institutions. Interest-bearing balances are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per institution. In addition, all funds in noninterest-bearing accounts are insured by the FDIC through December 31, 2012. From time to time, YAI's balances may exceed these limits.

The mix of revenue and receivables from program recipients and third-party payors is as follows:

	Revenue	Accounts Receivable
Medicaid	81%	76%
New York State contracts	14%	20%
New York City contracts	1%	3%
Other third party payors	4%	1%
	100%	100%

Note 4 - Property and Equipment

Property and equipment, net, at cost, consists of the following at June 30, 2012.

	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 9,900,761	$ -	$ 9,900,761
Building	20,851,877	13,505,281	7,346,596
Building improvements	30,498,712	15,670,583	14,828,129
Leasehold improvements	14,387,082	11,888,197	2,498,885
Furniture and fixtures	4,349,987	3,798,254	551,733
Equipment	2,623,263	2,356,761	266,502
Computer software	2,210,656	1,657,373	553,283
Construction in Progress	1,881,691	-	1,881,691
Total	$ 86,704,029	$ 48,876,449	$ 37,827,580

The cost of fixed assets purchased with capital lease proceeds was $35,300,640 with accumulated amortization thereon of $21,003,061. Depreciation and amortization expense related to property and equipment was $4,396,967 for the fiscal year ended June 30, 2012.

YAI reviews the carry value of the long-lived assets to determine if any facts and circumstances exist, which would suggest that the assets might be impaired. If impairment is indicated, an adjustment will be made to reduce the carry amount of the long-lived asset to its fair value. Based on YAI's review at June 30, 2012, no impairment of long-lived assets was evident.

Note 5 - Fair Value Measurements

YAI measures its investments at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect YAI's own assumptions of market participant valuation (unobservable inputs).

B-IX-27

Note 5 - Fair Value Measurements (cont'd.)

Items Measured at Fair Value on a Recurring Basis

The following table presents YAI's assets that are measured at fair value on a recurring basis at June 30, 2012:

	Total Level 1
Marketable securities:	
Money market funds	$ 22,209,132
U.S. Treasury bonds	29,757
Mortgage-backed securities	895,338
Total securities measured at fair value	$ 23,134,227

Note 6 - Due to New York State

YAI has entered into contracts with OPWDD for the operation of intermediate care facilities, individual residential alternatives, community residences, supportive apartments and day habilitation programs. As part of these agreements, OPWDD provides interest-free advances to YAI for pre-operational start-up costs, equipment, renovations, lease costs, real estate taxes, minor maintenance contracts and operations. YAI 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.

Payments over the next five years are as follows:

Years Ending June 30:	
2013	$ 19,886,273
2014	729,234
2015	896,978
2016	460,212
2017	460,212
	$ 22,432,909

Note 7 - Notes and Mortgages Payable

A. Bank of America	
YAI has available an $18 million working capital line of credit carrying an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2012 was 2.25%. The loan is collateralized by YAI's accounts receivable and matures on December 29, 2013.	$ 17,207,584
YAI has available a $3 million working capital line of credit carrying an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2012 was 2.25%. The note is collateralized by Medicaid rate appeals and rate adjustments accounts receivable and matures on December 29, 2013.	759,194
YAI has available an $8 million line of credit for the acquisition and renovation of program sites. Upon receipt of New York State prior property approvals, the funds drawn down on the line of credit are subsequently converted into notes. At June 30, 2012, there were three notes executed. The notes, bearing an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2012 was 2.25%. The notes are collateralized by related property with a net book value of $1,120,127 and matures on December 29, 2013.	2,067,129
B. Dormitory Authority of the State of New York	
YAI has entered into twenty-four loan agreements with the Dormitory Authority of the State of New York (formerly the Facilities Development Corporation (FDC)), 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 for People with Developmental Disabilities. The loans carry interest rates ranging from 1.5% to 7.82% per annum, payable in semi-annual installments with maturity dates ranging from August 2014 through July 2030. The loans are collateralized by related property with a net book value of $14,703,911.	17,283,860
	$ 37,317,767

Note 7- Notes and Mortgages Payable (cont'd.)

Principal payments over the next five years and thereafter are as follows:

Years Ending June 30:	
2013	$ 2,074,927
2014	22,215,864
2015	2,127,027
2016	1,688,734
2017	1,232,721
Thereafter	7,978,494
	$ 37,317,767

Note 8 - Capital Lease Obligations

YAI has entered into capital lease agreements to fund the purchase of buildings, building improvements and equipment through thirteen bond issuances between 2001 and 2007.

The New York City Industrial Development Agency ("NYCIDA"), a corporate governmental agency constituting a body corporate and politic and a public benefit corporation of the State of New York, issued and sold revenue bonds (Special Needs Pooled Program) carrying interest rates ranging from 4.05% to 7.25% per annum payable in semiannual installments with maturities ranging from 2014 to 2030. The proceeds of the loans were used to finance the purchase and renovation of various collateralized properties in New York with a net book value of $14,297,579.

As part of the agreement with NYCIDA, YAI transferred the titles to all the facilities. IDA has leased the facilities back to YAI for a term and at an amount concurrent with the bond repayment schedules. At the conclusion of the lease terms, YAI has the option to purchase each of the leased properties for $1.

Future minimum lease payments are as follows:

Years Ending June 30:	
2013	$ 3,306,717
2014	3,239,473
2015	2,436,701
2016	2,202,607
2017	1,964,649
Thereafter	6,735,184
	19,885,331
Less: Amount representing interest	4,196,789
Present value of net minimum lease payments	$ 15,688,542

B-IX-28

Note 9 - Pension Plans

YAI has defined contribution plans covering substantially all its employees. Contributions and costs to these plans are based on amounts determined in accordance with Internal Revenue Service Code Section 415 on an annual basis and totaled $5,215,982 for the year ended June 30, 2012.

Note 10 - Leased Facilities

YAI leases various facilities for its administrative office and program sites under noncancellable leases. The leases expire at various periods through February 2027. Rental expense totaled $7,191,358 for the year ended June 30, 2012.

At June 30, 2012, the future minimum lease payments under the terms of the lease agreements are as follows:

Years Ending June 30:	
2013	$ 7,204,747
2014	6,657,536
2015	5,134,354
2016	3,513,778
2017	3,021,959
Thereafter	22,048,943
	$ 47,581,317

Note 11 - Commitments and Contingencies

YAI is responsible for reporting to and is regulated by various third parties, among which are the Centers for Medicare and Medicaid Services ("CMS") and the New York State Department of Health ("DOH"). These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit ("MFCU"), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the Office of Inspector General ("OIG") and the New York State Department of Health's Independent Office of Medicaid Inspector General ("OMIG"), and other agencies have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation and physician certifications, amongst other compliance requirements. Laws and regulations governing YAI's programs are extremely complex and 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 the Medicare and Medicaid programs.

Note 11 - Commitments and Contingencies (cont'd.)

Medicaid

(a) During August 2007, the MFCU issued subpoenas to a number of operators of Home Health Care programs citing that the contracted home health aides from licensed vendor agencies had not received proper certification. The subpoena requested from YAI's Certified Home Health Aide program ("CHHA") documentation and information regarding its use of home health aides. CHHA relied on the home health aide certificates provided by the licensed vendor agency. Based on the information that was provided to MFCU, the Attorney General made a determination that some Medicaid claims were not valid because the individuals providing the service were not lawful home health aides. On December 4, 2008, CHHA received a letter from MFCU requesting repayment of $219,608. Through discussion with MFCU, on or about February 12, 2009, CHHA reached an agreement in principle with the MFCU that, when and if consummated, would provide CHHA with a comprehensive release of liabilities to the Medicaid program associated with the use of uncertified home health aides. In return for this release, CHHA would be required to pay a total of $110,000 to MFCU, divided into equal monthly installments of $2,750, payable over 40 months. Based upon this agreement in principle with MFCU, management of CHHA has accrued $110,000 in these financial statements. To date, CHHA is waiting for the draft of MFCU's proposed stipulation of settlement agreement and legal counsel cannot offer any opinion regarding whether this matter will ultimately be settled on the foregoing terms.

(b) DOH increased Medicaid rates to provide funding for recruitment, training and retention of home health aides, personal care workers and/or other personnel with direct patient care responsibility. These funds cover the period from June 1, 2006 through February 29, 2012. In the accompanying financial statements, a portion of these funds is reflected as revenue earned, the balance as a liability. The methodology employed to make this determination was predicated on the approach approved by DOH under a similar program put forth in 2002. The funding was allocated based on the ratio of service hours provided by each licensed agency to the total agency hours provided. CHHA received attestations from those licensed agencies with which it contracts certifying that these funds were paid to home health aides and other personnel with direct patient care responsibilities. This approach and the underlying support are subject to audit by DOH, OMIG and MFCU.

(c) During February 2011, CHHA received a letter from OMIG in connection with an audit of CHHA's cost reports for each of the four years ended December 31, 2004 through 2007. In connection with this audit, CHHA is responding to OMIG's requests for documentation that supports the costs and patient visits/hours claimed by CHHA on its cost reports. On April 1, 2011, CHHA submitted the requested documentation. Until such time as OMIG issues its final audit findings, management will not be in a position to estimate what potential loss, if any, might result from this matter.

Note 11 - Commitments and Contingencies (cont'd.)

(d) In January 2011, YAI entered into agreements to settle the joint state and federal investigations and the qui tam complaint filed under the federal and New York State False Claims Acts after an investigation by the United States Attorney's office for the Southern District of New York and the State of New York, Office of the Attorney General with regard to alleged errors contained in the New York State Consolidated Fiscal Reports submitted for the years 1999 through 2009. The settlement for $18,000,000 ($10,800,000 with New York State and $7,200,000 with the United States of America) covered a ten-year period of time representing approximately 1% of YAI's revenue. YAI paid $5,000,000 in January 2011 with the balance to be paid in equal monthly installments, plus interest at 2.75%, ending December 2015. The repayment is effectuated through a withhold imposed on YAI's weekly Medicaid remittances. The amount due to the United States of America is collateralized by a mortgage lien of $3,200,000 on certain real property and by life insurance policies of certain former management employees. The amount due to New York State is guaranteed by one of the network agencies. The current portion due of $2,644,068 is reported in other current liabilities. The remaining balance of $6,665,412 is reported in other noncurrent liabilities.

At June 30, 2012, the total amount due including interest is $9,309,480 with future payments as follows:

Years Ending June 30:	
2013	$ 2,644,068
2014	2,644,068
2015	2,644,068
2016	1,377,276
	$ 9,309,480

See Note 15 for a subsequent event disclosure relating to this obligation.

(e) YAI is involved in various legal proceedings and litigation arising in the ordinary course of business. YAI is vigorously defending these matters and it is the opinion of legal counsel that these claims are without merit. Potential damages, if successful, are undeterminable at June 30, 2012.

Note 12 - Functional Expenses

Residential services	$	83,441,902
Clinical services		68,970,451
Home health care services		4,622,909
Employment initiatives services		3,689,449
Total program expenses		160,724,711
Mangement and general		18,349,893
Cost of direct benefits of special events		738,178
Fundraising expenses		1,356,416
Total expenses	$	181,169,198

Note 13 - Temporarily Restricted Net Assets

YAI received funds to place computerized health monitoring systems in residences that house individuals who have been diagnosed with developmental disabilities. These monitoring systems will provide health care professionals with more accurate health-related data and in turn provide a better quality of life for these individuals. The balance available at June 30, 2012 is $53,477.

Note 14 - Discontinued Operations

On September 16, 2011, the DOH approved the implementation of the closure plan for the CHHA. The closure plan called for the successful transfer of all CHHA patients to another third-party provider before YAI can relinquish its operating certificate. In February 2012, all patients have been transferred, and YAI has relinquished CHHA's operating certificate.

Note 15 - Subsequent Events

YAI has evaluated all events or transactions that occurred after June 30, 2012 through the date of these financial statements, which is the date that the financial statements were available to be issued. On October 31, 2012, YAI voluntarily prepaid the remaining balances due, inclusive of interest, under the New York State and federal settlement agreements in the amount of $5,178,068 and $3,452,045, respectively (see Note 11d). There were no other material subsequent events requiring disclosure.

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APPENDIX C

UNAUDITED FINANCIAL STATEMENTS OF SERIES 2015 PARTICIPANTS

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APPENDIX C-I

BIRCH FAMILY SERVICES, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2014)

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Birch Family Services, Inc.
Statement of Activities
YTD As of October 31, 2014

	A Actual YTD 10/31/2013	B Actual YTD 10/31/2014	C Variance to PY Actual 10/31/2014	D Budget YTD 10/31/2014	E Variance to Budget 10/31/2014	F Variance% to Budget 10/31/2014
Revenues						
Tuition Revenue	9,206,514	8,913,791	(292,722)	9,963,143	(1,049,352)	(12)%
CS Revenue	5,632,733	6,094,616	461,883	6,008,134	86,482	1%
Grants and Other Revenue	1,422,018	1,017,585	(404,433)	1,397,000	(379,415)	(37)%
Total Revenues	16,261,264	16,025,993	(235,272)	17,368,277	(1,342,285)	(8)%
Expenses						
Personnel Service						
Salary	10,533,029	10,748,178	(215,149)	11,187,640	439,462	4%
Payroll Taxes & Fringe	2,633,753	2,721,755	(88,002)	2,795,834	74,079	3%
Contracted Service	742,523	833,029	(90,506)	365,670	(467,359)	(56)%
Total Personnel	13,909,305	14,302,962	(393,657)	14,349,144	46,182	0%
OTPS						
Supplies	261,075	196,705	64,370	246,844	50,139	25%
Audit & Legal	93,100	160,472	(67,372)	77,332	(83,140)	(52)%
Food	300,073	307,128	(7,056)	312,370	5,242	2%
Repairs And Maintenance	259,897	240,598	19,299	227,540	(13,058)	(5)%
Building Rent & Utilities	1,269,315	1,306,893	(37,578)	1,331,218	24,325	2%
Expensed Equipment	84,432	80,895	3,537	83,092	2,197	3%
Staff Travel & Development	145,749	162,938	(17,189)	148,358	(14,580)	(9)%
Household Supplies	174,110	159,572	14,538	171,494	11,922	7%
Telephone	38,847	42,151	(3,304)	76,756	34,605	82%
Insurance	107,525	125,219	(17,694)	119,512	(5,707)	(5)%
Office Expense	21,279	17,987	3,292	22,646	4,659	26%
Recruitment Fee	32,667	52,301	(19,635)	30,760	(21,541)	(41)%
Bank Charges And Other Fees	42,643	26,748	15,894	28,394	1,646	6%
Property & Equipment	647,723	755,992	(108,269)	703,948	(52,044)	(7)%
Interest - Working Capital & Other	295,364	574,395	(279,031)	393,432	(180,963)	(32)%
Total OTPS	3,773,796	4,209,994	(436,198)	3,973,696	(236,298)	(6)%

C-I-1

Birch Family Services, Inc.
Statement of Activities
YTD As of October 31, 2014

	A Actual YTD 10/31/2013	B Actual YTD 10/31/2014	C Variance to PY Actual 10/31/2014	D Budget YTD 10/31/2014	E Variance to Budget 10/31/2014	F Variance% to Budget 10/31/2014
Total Expenses	17,683,101	18,512,956	(829,855)	18,322,840	(190,116)	(1)%
NET SURPLUS/(DEFICIT)	**(1,421,836)**	**(2,486,963)**	**(1,065,127)**	**(954,563)**	**(1,532,480)**	**62%**

Birch Family Services, Inc.
Statement of Financial Position
October 31, 2014

	Actual 6/30/2014	Actual 7/31/2014	Actual 8/31/2014	Actual 9/30/2014	Actual 10/31/2014
ASSETS					
Current Assets					
Cash and cash equivalents					
Operating Cash	2,783,733	2,377,303	3,926,984	3,315,941	2,134,042
Petty Cash And Non-Operating Cash	234,345	220,939	215,055	178,109	199,291
Total Cash and cash equivalents	3,018,079	2,598,242	4,142,038	3,494,050	2,333,334
Restricted Cash	280,830	292,092	301,070	307,873	318,589
Accounts receivable, net of allowance for doubtful	4,950,141	7,836,568	4,272,872	4,890,443	4,483,935
Prepaid expenses & other assets	559,736	696,786	525,216	406,327	377,762
Due from The Herbert G. Birch Services Fund, Inc.	(51,141)	(73,141)	(84,867)	(25,167)	(47,262)
Total Current Assets	8,859,925	11,496,830	9,326,064	9,123,860	7,560,882
Limited use assets	701,193	647,929	618,519	621,668	624,817
Deferred bond, loan financing and other program costs	381,370	381,370	372,845	372,845	364,319
Fixed assets - Net	12,291,409	12,202,890	12,161,702	12,068,729	11,963,221
Total assets	22,233,898	24,729,019	22,479,129	22,187,101	20,513,237
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable, accrued expenses	3,846,158	4,002,946	3,956,108	4,025,249	4,870,452
Due to OPWDD and Othet Government Agencies	(4,223,347)	(4,295,826)	(4,367,159)	(5,896,718)	(3,632,248)
Current Short Term Loan Payable - LOC	650,000	2,150,000	2,150,000	1,350,000	1,350,000
Total Current liabilities	8,719,505	10,448,772	10,473,267	11,271,967	9,852,700
Long-term debt and capital leases					
Loans and mortgages payable	6,360,175	6,426,518	6,367,969	6,309,365	6,250,707
Capital leases	148,990	141,795	134,114	127,331	120,365
Bonds Payable	3,665,368	3,587,035	3,515,969	3,477,635	3,436,569
Total Long-term debt and capital leases	10,174,533	10,155,348	10,018,052	9,914,332	9,807,641
Total Liabilities	18,894,038	20,604,120	20,491,319	21,186,299	19,660,341
Net assets					
Unrestricted Fund	3,339,860	4,124,899	1,987,810	1,000,803	852,897

Birch Family Services, Inc.
Statement of Financial Position
October 31, 2014

	Actual 6/30/2014	Actual 7/31/2014	Actual 8/31/2014	Actual 9/30/2014	Actual 10/31/2014
Net assets- unrestricted	3,339,860	4,124,899	1,987,810	1,000,803	852,897
Total liabilities and net assets	22,233,898	24,729,019	22,479,129	22,187,101	20,513,237

APPENDIX C-II

COMMUNITY RESOURCE CENTER FOR THE DEVELOPMENTALLY DISABLED, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2014)

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Community Resource Ctr_DD, Inc
Statement of Financial Position
As of Date: 10/31/2014
Rounding: Dollars

	Current Year	Prior Year
Assets		
Current Assets:		
Cash & Cash Equivalents	2,352,744	3,953,413
Accounts Receivable	1,172,823	1,301,986
Prepaid Expenses	131,366	300,662
Total Current Assets:	3,656,933	5,556,061
Fixed Assets:		
Property & Equipment Less Accumulated Depre	2,010,564	2,154,971
Total Fixed Assets:	2,010,564	2,154,971
Other Assets:		
Refinancing Costs Less Accumulated	229,476	240,254
Due From Related Party	24,396	33,086
Security Deposits	37,377	17,174
Total Other Assets:	291,248	290,513
Total Assets	5,958,746	8,001,545
Liabilities & Net Assets		
Liabilities		
Current Liabilities:		
Accounts Payable	569,528	764,223
Accrued Expenses	914,880	923,701
Current Portions of Long-Term Debt:	192,097	189,564
Total Current Liabilities:	1,676,506	1,877,488
Long Term Liabilities		
Long-Term Debt Less Current Portion	3,228,788	3,845,893
5th Fl. Security Deposit	0	2,118
Non-Current Rent Payable	86,385	77,376
Total Long Term Liabilities	3,315,174	3,925,387
Total Liabilities	4,991,679	5,802,874
Net Assets		
Unrestricted Net Assets	967,066	2,198,670
Total Net Assets	967,066	2,198,670
Total Liabilities & Net Assets	5,958,746	8,001,545

Community Resource Ctr_DD. Inc
Statement of Activities
As of Date: 10/31/2014
Unrestricted Filter: Consolidated P&L Statement
Temporarily Restricted Filter: Unrestricted
Permanently Restricted Filter: Unrestricted
Rounding: Dollars

	Unrestricted	Total
Revenue		
Medicaid	4,986,957	4,986,957
Other Income	13,282	13,282
Individuals Particcipation	126,316	126,316
Total Revenue	5,126,556	5,126,556
Expenses		
Functional Expenses	5,091,900	5,091,900
Depreciation & Amortization Expense	67,018	67,018
Interest Expense	57,095	57,095
Total Expenses	5,216,012	5,216,012
Change in Net Assets	(89,457)	(89,457)
Net Assets at Beginning of Period	1,285,567	1,285,567
Net Adjustments to Net Assets	(229,043)	(229,043)
Net Assets at End of Period	967,066	967,066

APPENDIX C-III

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2014)

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Eden II School For Autistic Children, Inc.
Statement of Financial Position

		October 31, 2014	June 30, 2014
ASSETS			
Current Assets			
Cash and cash equivalents	$	673,852	743,618
Program services receivable		2,820,348	6,184,205
Grants, contracts, and pledges receivable		3,951,445	640,859
Prepaid expense and other assets		241,445	299,420
Total current assets		7,687,090	7,868,102
Debt service reserve fund		1,283,598	1,288,981
Deferred debt issuance costs, net of accumulated amortization		960,720	980,281
Property and equipment, net		16,939,158	16,140,493
Total assets		**26,870,565**	**26,277,837**
LIABILITIES AND UNRESTRICTED NET ASSETS			
Current Liabilities			
Accounts payable and accrued expenses		523,496	1,896,907
Accrued compensation		2,592,701	1,827,804
Due to state and local agencies		193,895	222,833
Due to related party		25,000	25,000
Line of credit - bank		1,000,000	-
Line of credit - FAAP		1,000,000	-
Due to DASNY, current portion		14,400	33,000
Bonds payable, current portion		520,000	520,000
Long-term debt, current portion		110,151	110,151
Total current liabilities		5,979,643	4,635,695
Long-term Liabilities:			
Interest rate swap agreement		147,442	147,442
Due to related party		2,180,559	3,227,743
Due to DASNY, less current portion		21,700	19,300
Bonds payable, less current portion		4,526,667	7,905,000
Long-term debt, less current portion		6,293,453	2,379,127
Other long-term liabilities		5,000	0
Total Liabilities		19,154,463	18,314,307
Commitments and Contingencies			
Unrestricted Net Assets		7,240,986	7,488,414
Temporarily Restricted Assets		475,116	475,116
Total Net Assets		7,716,102	7,963,530
Total Liabilities and Net Assets	**$**	**26,870,565**	**26,277,837**

Eden II School For Autistic Children Inc.
Statement of Activities

Four months ending October 31, 2014	Actual	Budget	Variance
Revenue			
Program and public support services revenue, net	7,725,876	7,992,728	(266,853)
Grants and contract services	782,539	758,858	23,682
Interest income	11	-	11
Contributions	9,581	-	9,581
Other Revenue	213,433	110,184	103,249
Total Unrestricted Revenue	8,731,440	8,861,770	(130,330)
Expenses			
Educational services	2,985,051	3,148,050	162,999
Family support	268,090	373,497	105,407
Day Hab Services	1,149,203	1,328,362	179,160
Com Hab Services	245,011	322,170	77,159
Residential services	2,477,508	2,513,166	35,658
Outreach	602,338	654,343	52,005
Management and general	1,246,277	1,257,940	11,663
Total Expenses	8,973,478	9,597,529	624,051
Change in unrestricted net assets before other changes	(242,038)	(735,759)	493,721
Other Changes in Unrestricted Net Assets:			
Unrealized gain/(Loss) on investments	(5,391)		(5,391)
Changes in Temporarily Restricted Net Assets:			
Net assets released from restriction	-		-
Change in net assets	(247,429)	(735,759)	488,330
Net Assets as of June 30, 2014	7,963,531		
Fiscal year to date Net Assets as of October 31, 2014	**7,716,102**		

Eden II School For Autistic Children, Inc.
Statement of Activities
Four months ending October 31, 2014

Changes in Unrestricted Net Assets	School	Family Services	Day Hab	Com Hab	Residential	Outreach	Admini-stration	Actual	Budget	Positive (Negative) Variance
Revenue:										
Program revenues	3,120,546	425,024	1,346,761	318,516	2,645,141	615,594	61,290	8,532,872	8,751,586	(218,714)
Miscellaneous Income	8,155	(0)	(4)	(0)	53,451	5	46,912	108,519	110,184	(1,665)
Total Operating Revenue	3,128,701	425,023	1,346,757	318,516	2,698,593	615,599	108,202	8,641,390	8,861,770	(220,380)
Expenses										
Payroll	2,098,386	205,409	728,172	184,121	1,533,851	441,105	737,140	5,928,184	6,333,804	405,620
Benefits	537,068	40,193	177,706	45,779	368,292	101,824	176,859	1,447,722	1,585,987	138,265
Non-payroll	291,656	19,493	168,265	9,231	413,224	53,298	257,811	1,212,978	1,337,490	124,512
Interest	27,719	1,574	19,241	3,292	31,465	-	15,124	98,415	115,818	17,404
Bad Debts	-	-	-	-	-	4,973	30,000	34,973	6,317	(28,656)
Total Operating Expenses	2,954,830	266,670	1,093,383	242,423	2,346,832	601,200	1,216,933	8,722,271	9,379,416	657,144
Revenue over(under) expenses	173,871	158,353	253,373	76,093	351,760	14,399	(1,108,731)	(80,881)	(517,646)	436,765
Non-Operating Revenue (Expense)										
Restricted contributions	-	-	-	-	-	-	90,050	90,050		90,050
Depreciation	(30,222)	(1,421)	(55,819)	(2,588)	(130,676)	(1,138)	(29,344)	(251,207)	(218,113)	(33,094)
Unrealized loss on investments	(2,018)	(115)	574	(240)	(2,579)	-	(1,014)	(5,391)		(5,391)
Total Non-Operating Items	(32,240)	(1,535)	(55,246)	(2,828)	(133,255)	(1,138)	59,693	(166,548)	(218,113)	51,565
Change in Net Assets:	141,631	156,818	198,128	73,266	218,506	13,261	(1,049,038)	(247,429)	(735,759)	488,330
Gross Profit percentage	8.6%	29.8%	14.0%	26.3%	6.0%	-3.5%	-359.7%	-2.9%	-8.3%	
Contribution w/Admin Allocation	(243,000)	104,567	32,562	34,109	(113,249)	(62,419)	-			

C-III-3

Eden II School For Autistic Children, Inc.
Statement of Functional Expenses

Four months ending October 31, 2014

	Program Services						Total Program Services	Management and General	Total
	Educational	Family Support	Day Hab	Com Hab	Residential	Outreach			
Salaries and wages	2,098,386	205,409	728,172	184,121	1,533,851	441,105	5,191,044	737,140	5,928,184
Fringe benefits	537,068	40,193	177,706	45,779	368,292	101,824	1,270,863	176,859	1,447,722
Repairs and maintenance	49,722	4,284	51,558	2,426	62,472	5,015	175,477	22,002	197,480
Rent	129,339	-	13,925	-	-	25,623	168,887	6,051	174,938
Interest	27,719	1,574	19,241	3,292	68,004	-	119,830	15,124	134,953
Consumable supplies	37,295	5,852	19,979	1,248	37,477	6,277	108,130	17,812	125,942
Insurance	8,935	804	11,671	235	17,794	64	39,503	53,940	93,443
Utilities	28,215	562	12,009	1,177	25,183	570	67,714	7,895	75,610
Food	52	622	459	-	81,774	-	82,908	-	82,908
Participants Incidentals	531	-	8,879	-	49,369	1,268	60,048	-	60,048
Professional fees	3,797	247	3,128	332	5,079	1,015	13,598	36,142	49,740
Consultants and contractual services	1,015	-	-	-	8,480	-	9,495	33,523	43,018
Travel	3,230	6,338	5,742	806	1,375	2,981	20,473	3,377	23,850
Equipment	5,962	-	6,417	58	2,628	(450)	14,616	1,866	16,482
Telephone and communication	10,970	216	4,200	1,305	10,134	2,572	29,396	5,523	34,920
Leased vehicles	1,804	-	24,316	-	17,082	-	43,202	-	43,202
Payroll Processing	-	-	-	-	-	-	-	27,153	27,153
Leased equipment	6,442	338	4,608	1,058	13,069	1,379	26,895	3,604	30,498
Staff training and development	2,833	155	1,024	586	2,915	1,589	9,102	14,631	23,732
Advertising	-	-	-	-	-	4,310	4,310	3,845	8,155
Dues and subscriptions	118	100	49	-	-	781	1,048	7,000	8,048
Miscellaneous	1,396	(27)	300	-	41,854	303	43,826	13,447	57,274
Bad debts expenses	-	-	-	-	-	4,973	4,973	30,000	34,973
Operating Subtotal	2,954,830	266,670	1,093,383	242,423	2,346,832	601,200	7,505,338	1,216,933	8,722,271
Depreciation and amortization	30,222	1,421	55,819	2,588	130,676	1,138	221,863	29,344	251,207
Total Functional Expenses	**2,985,051**	**268,090**	**1,149,203**	**245,011**	**2,477,508**	**602,338**	**7,727,201**	**1,246,277**	**8,973,478**

Eden II School For Autistic Children, Inc.
Budget Variance Summary
Four months ending October 31, 2014

	Operating Revenue Actual	Operating Revenue Budget	Operating Revenue Variance	Personnel Costs Actual	Personnel Costs Budget	Personnel Costs Variance	Non-Personnel Actual	Non-Personnel Budget	Non-Personnel Variance	Cash Operating Income (Loss) Actual	Cash Operating Income (Loss) Budget	Cash Operating Income (Loss) Variance	GAAP Net Income (Loss) Actual	GAAP Net Income (Loss) Budget	GAAP Net Income (Loss) Variance
Educational services	3,126,701	3,170,482	(41,781)	2,635,455	2,789,857	154,403	319,375	345,040	25,665	173,871	35,584	138,287	141,631	22,432	119,200
Family Services	425,023	403,660	21,364	245,603	339,144	93,541	21,067	33,649	12,582	158,353	30,867	127,487	156,818	30,162	126,656
DayHab	1,346,757	1,473,618	(126,861)	905,878	1,082,102	176,224	187,506	194,820	7,315	253,373	196,696	56,678	198,128	145,255	52,872
Com Hab	318,516	408,298	(89,782)	229,900	306,987	77,087	12,523	13,678	1,155	76,093	87,633	(11,540)	73,266	86,128	(12,863)
Residential services	2,698,593	2,706,279	(7,686)	1,902,143	1,926,767	24,624	444,689	475,671	30,982	351,760	303,841	47,920	218,506	193,113	25,393
Outreach	615,599	622,155	(6,556)	542,930	552,066	9,136	58,270	99,812	41,542	14,399	(29,723)	44,122	13,261	(32,188)	45,449
Administration	108,202	77,279	30,923	913,998	922,868	8,869	302,935	296,954	(5,981)	(1,108,731)	(1,142,542)	33,811	(1,049,038)	(1,180,661)	131,623
	8,641,390	8,861,770	(220,380)	7,375,906	7,919,791	543,885	1,346,365	1,459,625	113,260	(80,881)	(517,646)	436,765	(247,429)	(735,759)	488,330

	Revenue Actual	Revenue Budget	Revenue Variance	Personnel Costs Actual	Personnel Costs Budget	Personnel Costs Variance	Non-Personnel Actual	Non-Personnel Budget	Non-Personnel Variance	Cash Operating Income (Loss) Actual	Cash Operating Income (Loss) Budget	Cash Operating Income (Loss) Variance	GAAP Net Income (Loss) Actual	GAAP Net Income (Loss) Budget	GAAP Net Income (Loss) Variance
Staten Island	6,348,663	6,602,322	(253,659)	4,591,418	5,118,588	527,170	759,953	852,784	92,832	997,293	630,950	366,343	821.735	494,183	327,552
Long Island	2,184,525	2,182,169	2,357	1,870,490	1,878,335	7,845	289,309	309,887	20,578	24,726	(6,054)	30,780	(25,957)	(49,281)	23,324
Administration	108,202	77,279	30,923	913,998	922,868	8,869	297.103	296,954	(150)	(1,102,900)	(1,142,542)	39,643	(1,043,207)	(1,180,661)	137,454
	8,641,390	8,861,770	(220,380)	7,375,906	7,919,791	543,885	1,346,365	1,459,625	113,260	(80,881)	(517,646)	436,765	(247,429)	(735,759)	488,330

C-III-5

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APPENDIX C-IV

HASC CENTER, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2014)

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HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
October 31, 2014

ASSETS

Current Assets		October 31, 2014
Cash and Cash Equivalents	$	5,229,149
Cash-JP Morgan Annuity		1,183,597
Investments		9,572,991
Accounts Receivable (Less $4,000 Allowance)		826,929
Medicaid and Grants Receivable		9,799,957
Prepaid Expenses		316,738
Prepaid Interest		25,897
Total Current Assets	**$**	**26,955,258**
Fixed Assets		
Land	$	2,481,500
Building		16,449,856
Leasehold Improvements		2,933,603
Machinery & Equipment		1,195,091
Furniture & Fixtures		516,110
Accumulated Depreciation		-9,009,941
Total Fixed Assets	**$**	**14,566,219**
Other Assets		
Due From Blanche Kahn Family Health Center	$	1,182,204
Reserve Funds		924,857
Security Deposits		89,176
Retirement Trust Fund		913,736
Bond Closing Costs (Net of Amortization of $440,845)		666,056
Total Other Assets	**$**	**3,776,029**
TOTAL ASSETS	**$**	**45,297,506**

HASC CENTER, INC.
STATEMENT OF FINANCIAL POSITION
October 31, 2014

LIABILITIES AND NET ASSETS

Current Liabilities		**October 31, 2014**
Accounts Payable	$	616,948
Accrued Wages & Taxes		1,181,677
Accrued Expenses		73,738
Loans & Leases Payable		519,433
Advances from OMRDD		58,970
Due to Employees- HCA		415,523
Mortgages Payable		1,515,603
Total Current Liabilities	**$**	**4,381,892**
Other Liabilities		
Loans Payable	$	10,052
Advances From OMRDD		250,218
Mortgages Payable		7,609,847
Retirement Fund Payable		913,736
Total Other Liabilities	**$**	**8,783,853**
TOTAL LIABILITIES	**$**	**13,165,745**
Net Assets		
Unrestricted Net Assets	$	31,516,169
Board Designated Net Assets		615,592
Total Net Assets	**$**	**32,131,761**
TOTAL LIABILITIES AND NET ASSETS	**$**	**45,297,506**

HASC CENTER, INC.
STATEMENT OF ACTIVITIES
FOR THE SEVEN MONTHS ENDED OCTOBER 31, 2013

		October 31, 2014
REVENUE		
Workshop Sales	$	34,963
Government Contracts		12,000
Program Services Fees		12,181,804
Management Income		6,666
Other Income		30,794
Interest Income		50,401
TOTAL REVENUE	**$**	**12,316,628**
EXPENSES		
Program Services	$	11,240,568
General & Administrative		891,945
TOTAL EXPENSES	**$**	**12,132,513**
Net Surplus	**$**	**184,115**
Net Assets- Beginning		31,947,646
NET ASSETS - ENDING	**$**	**32,131,761**

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APPENDIX C-V

LIFESPIRE, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2014)

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LIFESPIRE, INC.
STATEMENT OF FINANCIAL POSITION
October 31, 2014
(Unaudited)

Assets	
Cash and cash equivalents	9,402,983
Cash and cash equivalents designated for recoupments payable	16,518,610
Cash and cash equivalents designated for self funded insurance	5,396,908
Cash and cash equivalents designated for health reimbursement accounts	1,968,709
Cash and cash equivalents restricted to debt service escrow	4,540,169
Cash and cash equivalents restricted - other	1,048,351
Investments	3,958,005
Debt Service Reserve Fund due from New York State	318,841
Accounts Receivable - Net	92,141
Accrued Income Receivables	22,277,139
Due From Related Parties	910,436
Security Deposits and Prepaid Expenses	646,976
Property and Equipment	17,895,828
Deferred Charges - Bond Issue Costs-Net	4,206,898
Total Assets	**89,181,994**
Liabilities and Net Assets	
Liabilities	
Accounts Payable and Accrued Expenses	4,187,973
Accrued Payroll	4,724,939
Accrued Compensated Absences	3,649,412
Recoupments Payable and Deferred Income	16,518,609
Mortgages Payable - DASNY	1,701,125
Bonds Payable - DASNY	9,265,000
Bonds Payable IDA	5,340,000
Lines of Credit	547,383
Deferred Rent	3,013,328
Self Funded Insurance Liability	2,310,997
Pension Liability	5,565,386
Postretirement Health Insurance Liability	6,787,122
Total Liabilities	63,611,274
Net Assets:	
Unrestricted:	11,869,146
Residential Reserve for Replacement	929,971
Property and Equipment	5,006,900
Board Designated - Program Expansion	1,077,795
Board Designated - Anticipated Pension Contributions	1,290,000
Board Designated - Self Funded Insurance	5,396,908
Total Net Assets	25,570,720
Total Liabilities and Net Assets	**89,181,994**

LIFESPIRE, INC.
STATEMENT OF ACTIVITIES
PERIOD ENDED 10/31/2014
(Unaudited)

Support and Revenue - Program Operations:	
Program Service Fees	32,407,699
Participant's Share of Room and Board	627,712
Subcontract - Net	154,282
MCFAA and DASNY Bond Fees	203,182
Subtotal Support and Revenue - Program Operations	33,392,875
Expenses:	
Program Services	30,320,169
Management and Administration	2,189,698
Total Expenses	32,509,867
Change in unrestricted net assets before other revenue and prior year revenue	883,008
Other Revenue	
Investment Return	7,142
Contributions and Fund Raising	1,873
Miscellaneous	46,754
Total other revenue	55,769
Changes in unrestricted net assets before prior period revenue	938,777
Prior Period Revenue	
Increase in unrestricted net assets	938,777
Net Assets, Beginning of the Period	24,631,943
Net Assets, End of the Period	**25,570,720**

APPENDIX C-VI

QSAC, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2014)

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QSAC

Un-Audited Financial Statements
For the Period: July 1, 2014 - October 31, 2014

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QSAC, INC.
Balance Sheet
As of Date: 10/31/14

Assets		
Cash and cash equivalents	$	3,563,293
Certificate of deposit		1,707,294
Program services receivable, net		5,699,653
Prepaid expenses and other assets		3,956,077
Debt service reserve funds		123,000
Deferred debt issuance costs		197,195
Property and equipment		9,785,492
Total Assets	$	25,032,004
Liabilities & Net Assets		
Liabilities		
Accounts payable and accrued expenses	$	1,438,313
Accrued compensation		6,892,233
Due to governmental agencies		1,568,419
Loans payable		8,001,707
Bonds payable		587,948
Deferred rent payable		1,518,586
Total Liabilities		20,007,206
Net Assets		
Fund Balance		5,024,798
Total Net Assets		5,024,798
Total Liabilities & Net Assets	$	25,032,004

QSAC, INC.
Statement of revenue and expense
Report Period: 7/01/14 - 10/31/14

Revenue	
Program service fees	$ 17,025,777
Government grants and contracts	749,542
Contributions	35,243
Other revenue	269,592
Special events	144,380
Total Revenue	18,224,534
Expenses	
Salaries	10,842,725
Fringe benefits	3,037,017
Grants and other assistance to individuals	153,243
Consultant fees	64,083
Audit and accounting fees	36,370
Legal fees	9,162
Fingerprinting	10,783
Medical supplies	20,319
Occupancy	1,380,230
Office expense	608,864
Travel	332,025
Conferences, conventionsand meetings	7,729
Catering, rental and food	10,022
Insurance	479,519
Information technology	157,665
Lobbying services	5,000
Advertising dues and subscriptions	43,788
Consumer-related expenses	313,621
Interest	106,269
Miscellaneous expense	38,206
Depreciation expense	168,787
Total Expenses	17,825,427
Excess or (Deficiency) of Revenue Over Expenses	$ 399,107

APPENDIX C-VII

SERVICES FOR THE UNDERSERVED, INC.

AND RELATED ORGANIZATIONS

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2014)

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Services for the UnderServed Inc.
Balance Sheet
As of Date: 10/31/2014
Rounding: Dollars

	Current Year
Assets	
Current Assets	
Cash and cash equivalents	5,419,707
Accounts receivable, net of allowance	15,349,453
Prepaid expenses and other assets	2,596,761
Due from affiliates	1,937,310
Deferred bond financing costs	933,195
PATHWAYS ARREARS OTHER RECEIVABLE	1,800
Total Current Assets	26,238,226
Fixed Assets	
Bond escrow fund	273,341
Debt service reserve	1,993,726
Fixed assets, net of depreciation	35,628,523
Total Fixed Assets	37,895,591
Total Assets	64,133,816
Liabilities & Net Assets	
Liabilities	
Current Liabilities	
Accounts payable and accrued expenses	5,966,888
Accrued compensation and related taxes	3,817,890
Due to affiliates	1,938,953
Due to clients	178,141
Other liabilities	960,472
Deferred revenue	5,762,924
Due to governmental agencies	2,092,226
Workers' compensation assessment payable	678,837
Total Current Liabilities	21,396,332
Long Term Liabilities	
Lines of credit	3,573,675
Mortgages and loans payable	6,564,962
Bonds payable	11,086,377
Total Long Term Liabilities	21,225,014

Services for the UnderServed Inc.
Balance Sheet
As of Date: 10/31/2014
Rounding: Dollars

	Current Year
Total Liabilities	42,621,346
Net Assets	
Net Assets	
FUND BALANCE	21,512,470
Total Net Assets	21,512,470
Total Net Assets	21,512,470
Total Liabilities & Net Assets	64,133,816

Services for the UnderServed Inc.
Revenue and Expense Analysis Report
Current Period: 7/1/2014 - 10/31/2014
Year-to-Date: 7/1/2014 - 10/31/2014
Budget Period: 7/1/2014 - 6/30/2015
Rounding: Dollars

	Current Period Actual
Revenue	
Medicaid Revenue	14,474,481
Client Income/Food Stamp/Clothing	2,603,014
Prior Year Revenue	61,244
Management fee	33,166
Rental Income	0
Program Development Revenue	150,168
Interest	6,531
Other Income	15,113,811
Temp Restr Contributions	100,000
FEE FOR SERVICE	691,692
CACFP Revenue	6,793
Clinical Revenue	272,465
Metrocard Clinic Revenue	12,075
Total Revenue	33,525,440
Expenses	
Personal Services	
Salaries & Wages	10,269,244
Union Employees	4,201,920
Temporary Labor	2,094,556
Contract Professionals	68,359
Total Personal Services	16,634,078
Fringe Benefits	
Fringe Benefits	3,669,454
Total Fringe Benefits	3,669,454
Real Estate and Facilities	
Repairs & Maintenance	734,954
Rent	4,028,167
Utilities/Telephone	1,160,015
Interest Expense	321,934
Insurance - RE&F	82,505
Equipment	526,345
Computer Operations	657,699
Other - RE&F	73,041
Capital Reserve & Bond Payment	3,421
Total Real Estate and Facilities	7,588,082
Program Services	
Food	468,356
Rec/Group Act/Special needs	67,049
Household/Office Supplies	1,027,148
Transportation	824,153
Client Services Subcontractor	265,434
Total Program Services	2,652,141
OTPS	
Professional Fees	762,147
Training/Travel/Recruitment/Meetings	312,081
Insurance - OTPS	126,101
Bad Debt	0
Other - OTPS	606,763
Total OTPS	1,807,092
Facility Tax and Sheltered Wkshp	52,199
Agency Administration	0
Depreciation and Amortization	940,863
Prop/Equip/Comp Ops/Leasehold - Capital	(10,975)

	Current Period Actual
QUALITY CONTROL	8,269
Total Expenses	33,341,204
Excess or (Deficiency) of Revenue Over Expenses	184,236

APPENDIX C-VIII

WILDWOOD PROGRAMS, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2014)

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CFO Year to Date Report October 2014

Wildwood Programs Current Operations. I also adjusted for the donations from the Foundation. I have also adjusted for retroactive rate adjustments which are booked in the current year but for a prior period year. This gives us a good idea of how our actual operations are doing in the current year. I have adjusted for the BTOP depreciation which we experience this year but the income which paid for the equipment was booked in previous years.

Wildwood Programs	Actual	Budget	Variance	% Variance
Total Income	11,283,516	11,431,683	(148,168)	-1.30%
Adjust for Foundation	92,851	8,164		
Adjust for Retro Funds	59,110		59,110	
Net Inc. Current Operations	11,131,554	11,423,519	(207,278)	-1.81%
Salary	6,074,448	6,353,606	(279,158)	-4.39%
Fringe	2,333,373	2,575,758	(242,385)	-9.41%
Depreciation	447,735	460,864	(13,129)	-2.85%
Occupancy	807,416	772,302	35,115	4.55%
Office Expenses	80,004	75,218	4,786	6.36%
Purchase Service	92,565	90,105	2,460	2.73%
Travel & Training	616,724	745,532	(128,808)	-17.28%
Operating Expense	515,464	530,084	(14,620)	-2.76%
Insurance	62,300	65,349	(3,049)	-4.67%
Total Expenses	11,030,028	11,668,818	-638,790	-5.47%
Adjust for BTOP Depreciation	(37,183)	(35,994)	(1,189)	
Adjusted Expenses	10,992,844	11,632,824	-639,980	-5.50%
Net Income	253,488	(237,135)		
Adj. Net Income (Deficit)	138,710	(209,305)	348,014	
current operations after adjustments				

Income and Expenses: Our income is down 1.81% for the first four months our expenses are down 5.5%. We have received a revised tuition rate for 2014-15 which was approximately 3%. We will be planning on how to utilize these funds in the next month. School was down students but also has been down staff. We still have delays in hiring staff which delays our fringe benefit expenses. Our adjusted net income is just $139,000 compared to a budgeted net income of ($209,000).

Programs Income & Expense History: We had a positive month. The revised tuition rate added over a $100,000 of increased revenue. We are ahead of where we were at this time last year.

	Oct. 2014	Oct. 2013	Oct. 2012	Oct. 2011	Oct. 2010	Oct. 2009	Oct. 2008
Adj. Income	11,131,554	10,640,068	10,507,630	10,096,000	10,177,935	9,666,611	9,312,114
Adj. Expense	10,992,844	10,543,347	10,756,901	10,323,587	10,096,981	9,923,596	9,581,546
Net Income	138,710	96,721	(249,271)	(227,587)	80,954	(256,985)	(269,432)

Balance Sheet Ratios:

	10/31/2014	10/31/2013	10/31/2012	10/31/2011	10/31/2010	10/31/09
Liquidity Ratio	3.59	3.69	3.75	3.62	3.04	2.16
Net Working Capital	10,690,591	10,210,445	9,657,355	9,147,456	7,149,364	5,247,344
Solvency Ratio	49.67%	50.51%	52.36%	53.85%	59.91%	61.84%
Receivable Collection	52	48	45	47	57	49
Days Cash	89	89	82	78	51	52
Fund Balance	14,012,277	13,774,056	13,448,457	13,378,816	11,101,313	10,685,439

The balance sheet contains both Programs and the Foundation. Our liquidity rate is 2.12 for Programs and when you add the Foundation, it increases to 3.59 which is slightly less than last year. Our solvency ratio (49.67%) is under the 50% target. A solvency rate of under 50% means that you have twice as many long term assets as you do long term liabilities. This is the recommended target by many financing institutions and it is slightly better than last year at 50.51%. If we look at programs alone we have 28 days cash compared to 25 days cash last year. This has been improving as we go through the year. Our accounts receivable 52 days compared to 55 last month and 48 days last year. This represents almost $500,000. However, I have been able to move money around from our various accounts and not had to borrow on our operating line of credit this year. OPWDD recommends that you have a minimum of 30 days cash. When you add in the Foundation cash it goes to 89 days compared to 89 days last year. We still have some state grants that we have not been paid for at this point. Cash flow has been improving where I have had to move less money from our designated reserves each month.

Foundation Unrestricted Giving.

Annual Giving: We are very close to where we were last year at the same time.

Annual Giving	Income	Expense	Net	Budget	%	13-14	12-13	11-12
Unrestricted	53,584	84,195	(30,611)	165,000	(19%)	(22,817)	15,945	(21,891)
Temp Restricted	61,745	0	61,745			42,511	9,252	52,625
Conover Scholar	-1,595	436	(2,031)	0		984		
Total Ann Giving	113,734	84,631	29,103	165,000	18%	20,678	25,197	30,734

Special Events: The Walk for Wildwood did very well. We are well ahead of where we were a year ago.

Special Events	Income	Expense	Net	Budget	%	13-14	12-13	11-12
Spring Gala	3,175	24,765	(21,590)	73,000	(30%)	(5,763)	(6,018)	(7,854)
Walk for WW	81,254	28,692	52,562	8,565	614%	4,374	6	(1,192)
Total Spec Events	84,429	53,457	30,972	81,565	38%	(1,389)	(6,012)	(9,046)

Restricted Giving: The endowment funds did not do well this summer. There was a lot of volatility in the stock market. Hopefully we will see better results at the end of December.

	Income	Exp.	Net	Budget	%	13-14	12-13	11-12
Randi Joan Andersen	137	1,886	(1,749)	875	(199.89%	1,300	1,041	(4,689)
Spirit of Jeanne	1	0	1	1,225	0.08%	0	0	1
Renee Beebe	1,283	70	1,213	1,525	79.54%	1,033	1,227	(1,859)
Conover Pet Therapy	229	244	(15)	5,175	(0.29%)	4,333	4,554	(10,976)
Ned Pitkin	(35,164)	4,821	(39,985)	140,350	(28.49%)	59,386	64,412	(240,303)
General Endowment	(12,394)	1,537	(13,931)	40,650	(34.27%)	16,835	14,298	(41,001)
Blackmore	(1,930)	2,651	(4,581)	2,000	(229.05%	2,105	5,234	(13,513)
Hearst Endowment	(3,461)	6,940	(10,401)	12,750	(81.58%)	6,655	6,602	0
Delmar Family Fund		0	0	0	0	0	0	0
Amy Thompson	775	0	775	0	0	830	963	798
Conover Farm Fund	221	201	20	5,700	0.35%	3,977	646	0
Conover Scholar Endow	(7,579)	1,918	(9,497)	57,500	(16.52%)	21,464	24,055	0
CRT	3,191	0	3,191	0	0.00%	6,968	7,393	1,306,151
Total Restricted Funds	(54,691)	20,268	(74,959)	267,750	(28.00%)	124,886	130,425	994,609

Other cost centers : It is still very early to make any comments.

	Income	Exp.	Net	Budget	%	13-14	12-13	11-12
Capital Campaign			0	0		118	8,909	993
Legislative Rep		5,050	-5,050	(20,000)		(5,050)	(5,050)	(5,050)
Rest.. Capital Donatio	1,997	0	1,997			0		
Cart. Gift Ann.	49,610		49,610					

Cash Flow:

I have continued to borrow from our designated reserves in lieu of using our lines of credit. We continue to need around $500,000 at the end of the month which we then replenish once our income from Medicaid is received at the beginning of the month. In September, we were not able to replenish these funds but needed another $500,000 to end the month. We continue to borrow on our real estate line for the purchase and renovation of Helderberg Ave. We have submitted an application to get into a pool bond fund for the mortgage. We are anticipating a January closing. Cash flow continues to be variable each month depending upon our income and our spending.

Rates:

State Education: We have just received our prospective rate for 2014-15. Normally this rate is not received until in the Spring. The gross rate is going up approximately 3%. There was a 3.8% cost of living adjustment but it does not apply to our property costs. Unlike last year, the trend this year was not limited to direct care costs but was for the direct and indirect costs of 2012-13 minus the property costs. This rate will be effective retroactive to July 1, 2014. I hope to get the billing out for this week for the retroactive portion of the year (July to October) and then bill November at the new rate. We plan on increasing staff salaries retroactively to September 1st now that we know we have a trend factor and the cash should become available by December.

OPWDD: We now know that there will be a 2% trend factor for Direct Care employees effective January 1, 2015. There should be another 2% trend on April 1, 2015 for Direct Care and Clinical employees. Thus we will receive in this fiscal year approximately 1.5% on the Direct Care and 1/2 of 1% on clinical. There were no funds included for administration or support staff. We plan on implementing a 2% increase for non school staff in January. CMS has approved the rate rationalization process. They are now looking at a rate rationalization process for Pre-Vocational Services, Hourly Respite, Free Standing Respite, and Family Care. We will be affected by the Pre-Vocational Services rate and the Hourly Respite rates. These rates will be effective January 1, 2015. They have also cancelled our OPTS contracts. Our rates will drop down to the base rates for the rate rationalization process in January. They will provide some limited assistance funds (25% of the gap) for six months to help bridge the gap until the next round of rate rationalization next July.

Major Concerns: We have good start to the year. We anticipate a reduction in our respite rate for our recreation and family support programs. We do not know yet what the impact will be of the new rate rationalization process on the pre-vocational program but the process is similar to the Day Habilitation process, which was cost neutral for us.

Wildwood Programs Balance Sheet Comparison 11/26/14

Assets	10/31/14 Foundation	10/31/14 Programs	10/31/14 Total WW	10/31/13 Total WW	9/30/14 Total WW
Operating Cash	114,898	1,677,115	1,792,013	1,539,168	1,307,949
Property & Plant Funds		476,104	476,104	546,669	476,079
Restricted Funds	354,812	773,748	1,128,560	1,757,689	966,500
Res Bond Rest Funds, 03,10,11		115,615	115,615	126,892	116,503
Latham 2006 Bond Rest Funds		317,624	317,624	335,945	317,624
Investments Assets	267,169	15,333	282,502	239,560	282,502
Endowment Funds	5,459,130	256,810	5,715,940	4,883,038	5,710,655
Cur Due To/From Foundation	-24,290	24,290	0	0	0
Cur Due from Cloud Services		16,977	16,977		16,977
AccountsReceivables		4,703,478	4,703,478	4,364,919	4,967,695
Prepaid Expenses	29,385	241,105	270,489	214,997	266,743
Total Current Assets	**6,201,105**	**8,618,199**	**14,819,303**	**14,008,877**	**14,429,228**
Loans & Pledges Receivables	163,741		163,741	179,761	162,943
Total Improved Land Value		2,682,064	2,682,064	2,645,543	2,682,064
Total Building Value		22,516,024	22,516,024	22,296,974	22,478,474
Total Equipment and Vehicle	6,813	3,697,781	3,704,594	3,523,015	3,704,594
Accumulated Deprec. & Amort.	(1,398)	-16,042,301	-16,043,699	-14,819,402	-15,928,597
Net Fixed Assets	**169,156**	**12,853,567**	**13,022,723**	**13,825,891**	**13,099,477**
Total Assets	**6,370,261**	**21,471,765**	**27,842,026**	**27,834,768**	**27,528,705**
Liabilities					
Accounts Payable	0	2,223,451	2,223,451	1,313,364	1,566,888
Pension Payable		399,320	399,320	437,567	300,548
Accrued Expenses	5,678	979,780	985,458	1,503,724	1,570,591
Debt Service Res Fund Payable		163,333	163,333	158,363	126,250
2006 Latham Debt Servie Payable		0	0	18,257	0
Deferred Revenue	51,500	305,350	356,850	367,157	376,647
Grant Deferred Revenue		301	301	0	301
Line of Credit			0	0	0
Total Current Liabilities	**57,178**	**4,071,534**	**4,128,712**	**3,798,432**	**3,941,226**
Long Term Payable		280,000	280,000	161,568	280,000
Total Vehicle Loans		495,327	495,327	342,542	512,867
Residential Bonds & Mortgages		1,380,335	1,380,335	1,576,079	1,395,664
2006 Latham Bonds Payable		2,611,667	2,611,667	2,765,000	2,625,000
2007 Curry Rd Bonds Payable		4,046,667	4,046,667	4,481,667	4,083,750
2007 CR SWAP Liability		887,042	887,042	935,424	887,042
Total Long Term Liabilities	**0**	**9,701,037**	**9,701,037**	**10,262,280**	**9,784,324**
Total Liabilities	**57,178**	**13,772,571**	**13,829,749**	**14,060,712**	**13,725,549**
Fund Balance	**6,313,083**	**7,699,194**	**14,012,277**	**13,774,056**	**13,803,156**
Ratios					
Liquidity Ratio Target > 2.0		2.12	3.59	3.69	3.66
Net Working Capital	6,143,927	4,546,664	10,690,591	10,210,445	10,488,003
Solvency Ratio Target < 50%	0.90%	64.14%	49.67%	50.51%	49.86%
Receivable Collect Target 45 days		53	52	48	55
Days Cash Target > 60 days		28	89	89	82

Wildwood Programs Balance Sheet Comparison 11/26/14

Assets	10/31/14 Total WW	10/31/13 Total WW	10/31/12 Total WW	10/31/11 Total WW	10/31/10 Total WW
Operating Cash	1,792,013	1,539,168	1,333,305	2,773,131	527,189
Property & Plant Funds	476,104	546,669	588,151	486,289	428,752
Restricted Funds	1,128,560	1,757,689	1,616,542	1,634,817	1,204,028
Res Bond Rest Funds, 03,10,11	115,615	126,892	145,626	157,936	137,858
Latham 2006 Bond Rest Funds	317,624	335,945	333,253	306,217	302,173
Curry Rd 2007 Bond Rest Funds	0	0	0	0	0
Investments Assets	282,502	239,560	203,781	165,317	164,775
Endowment Funds	5,715,940	4,883,038	4,623,735	2,625,080	2,734,734
Cur Due To/From Foundation	0	0	0	0	0
Cur Due from Cloud Services	16,977				
AccountsReceivables	4,703,478	4,364,919	4,100,189	4,240,588	4,941,888
Prepaid Expenses	270,489	214,997	220,982	251,886	218,070
Total Current Assets	**14,819,303**	**14,008,877**	**13,165,565**	**12,641,260**	**10,659,467**
Loans & Pledges Receivables	163,741	179,761	376,433	722,401	1,401,524
Total Improved Land Value	2,682,064	2,645,543	2,661,694	2,654,619	2,620,027
Total Building Value	22,516,024	22,296,974	22,263,202	22,104,311	21,637,174
Total Equipment and Vehicle	3,704,594	3,523,015	3,651,549	3,490,452	2,828,144
Accumulated Deprec. & Amort.	-16,043,699	-14,819,402	-13,891,316	-12,623,877	-11,458,772
Net Fixed Assets	**13,022,723**	**13,825,891**	**15,061,563**	**16,347,907**	**17,028,097**
Total Assets	**27,842,026**	**27,834,768**	**28,227,127**	**28,989,167**	**27,687,564**
Liabilities					
Accounts Payable	2,223,451	1,313,364	1,117,680	1,453,479	1,369,612
Pension Payable	399,320	437,567	430,203	430,971	393,764
Accrued Expenses	985,458	1,503,724	1,411,587	1,242,860	1,103,704
Debt Service Res Fund Payable	163,333	158,363	233,333	0	0
2006 Latham Debt Servie Payable	0	18,257	0	0	0
Deferred Revenue	356,850	367,157	315,407	354,847	494,863
Grant Deferred Revenue	301	0	0	11,648	4,600
Line of Credit	0	0	0	0	0
Total Current Liabilities	**4,128,712**	**3,798,432**	**3,508,210**	**3,493,804**	**3,510,103**
Long Term Payable	280,000	161,568	0	30,805	382,777
Total Vehicle Loans	495,327	342,542	440,139	454,771	413,016
Residential Bonds & Mortgages	1,380,335	1,576,079	1,771,304	1,961,064	1,568,928
2006 Latham Bonds Payable	2,611,667	2,765,000	2,911,667	3,053,333	3,190,000
2007 Curry Rd Bonds Payable	4,046,667	4,481,667	4,806,667	5,715,000	6,430,000
2007 CR SWAP Liability	887,042	935,424	1,340,684	901,573	1,091,427
Total Long Term Liabilities	**9,701,037**	**10,262,280**	**11,270,460**	**12,116,547**	**13,076,148**
Total Liabilities	**13,829,749**	**14,060,712**	**14,778,670**	**15,610,351**	**16,586,251**
Fund Balance	**14,012,277**	**13,774,056**	**13,448,457**	**13,378,816**	**11,101,313**
Ratios					
Liquidity Ratio Target > 2.0	3.59	3.69	3.75	3.62	3.04
Net Working Capital	10,690,591	10,210,445	9,657,355	9,147,456	7,149,364
Solvency Ratio Target < 50%	49.67%	50.51%	52.36%	53.85%	59.91%
Receivable Collect Target 45 days	52	48	45	47	57
Days Cash Target > 60 days	89	89	82	78	51

APPENDIX C-IX

YOUNG ADULT INSTITUTE, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2014)

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Young Adult Institute, Inc.
Statement of Activities - Unaudited
Four Months Ended Ocotober 31, 2014

Operating revenues	$	56,639,780
Operating expenses		53,162,628
Change in unrestricted net assets from operations		3,477,152
Nonoperating revenues		531,814
Change in unrestricted net assets		4,008,966
Net assets - beginning of year		21,735,090
Net assets - end of year (Exhibit A)	$	25,744,056

Young Adult Institute, Inc.
Balance Sheet - Unaudited
October 31, 2014

ASSETS

Current assets	
Cash and cash equivalents	$ 10,060,765
Investments	18,329,693
Medicaid	15,864,697
New York State	2,404,914
New York City	254,668
Client fees	207,072
Private Pay	390,484
Medicare	297,846
Prepaid expenses and other receivables	4,031,254
Total current assets	51,841,393
Bond issuance costs net	1,898,371
Fixed assets - net	34,014,035
Assets limited as to use	4,366,769
Deferred charges	4,511,023
Other assets	4,853,428
Total assets	$ 101,485,019

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued expenses	$ 11,643,955
Due to New York State	17,655,075
Notes and mortgages payable	1,980,930
Capital lease obligations	1,926,467
Other current liabilities	1,945,997
Total current liabilities	35,152,424
Due to New York State	579,798
Notes and mortgages payable	28,342,277
Capital lease ohligations	8,624,164
Other non current liabilities	3,042,300
Total liabilities	75,740,963
Net Assets (Exhibit B)	
Unrestricted	25,364,733
Temporarily restricted	379,323
Total Net Assets	25,744,056
Total liabilities and net assets	$ 101,485,019

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 2015A 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 February 1, 2015, 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.

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.

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.

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.

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 Expenses means with respect to a Participant, all operating and nonoperating expenses of such Participant other than PPA Expenses.

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.

Non-PPA Revenues means with respect to a Participant, all operating and nonoperating revenues of such Participant other than PPA Revenues.

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 nonoperating 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 or **Series 2015A Facility** 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 2015A Resolution means the Authority's Series Resolution Authorizing Up to $44,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2015A adopted by the Authority on November 12, 2014, 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 hereunder and having the duties, responsibilities and rights provided for herein 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 hereto.

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2015 LOAN AGREEMENTS

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SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2015 LOAN AGREEMENTS

The following is a brief summary of certain provisions of one Series 2015 Loan Agreement (or "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.

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)

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 tax-exempt status with respect to interest on the Subseries 2015A-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 tax-exempt status with respect to interest on the Subseries 2015A-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 tax-exempt status with respect to interest on the Subseries 2015A-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 written 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 in writing to purchase or redeem Bonds or portions thereof in accordance with the Resolution or to give the Trustee irrevocable written 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 in writing 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.

Notwithstanding anything in the Loan Agreement or in the Resolution to the contrary, the Participant's Loan Repayment schedule set forth in the Loan Agreement may be amended from time to time by the Participant and the Authority 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 schedule 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 the 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 2015A-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.

(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 Project 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.

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; provided, however, that failure by the Participant in any Fiscal Year to demonstrate compliance with the Total Debt Service Coverage Ratio shall not constitute an Event of Default under the Loan Agreement if the Participant delivers to the Authority, the Underwriter and the Trustee, by the last day of the next succeeding Fiscal Year, a certificate of an Authorized Officer of the Participant along with a schedule or schedules demonstrating compliance with the Total Debt Service Coverage Ratio for a rolling 12-month period ending no earlier than 90 days after the end of the Fiscal Year for which the Participant is unable to demonstrate compliance.

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, to the extent secured by the Participant's Accounts Receivables, 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 2015A-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 2015A-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 2015A-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 2015A-1 Bonds will not cause interest on the Subseries 2015A-1 Bonds to be included in the gross income of the owners of such Subseries 2015A-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 2015A-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 2015A-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)

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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 and the Series 2015A 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 and Bonds Constitute a Contract

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 2015A Resolution establishes a Debt Service Reserve Fund to be held and maintained by the Trustee with respect to the Series 2015A 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 herein, 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 2015A 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 herein 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;
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> 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 hereby, (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 hereby 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 Series 2015A Bonds or Permitted Investments in an amount sufficient to satisfy each Applicable Series 2015A Participant's Allocable Portion of the Debt Service Reserve Fund Requirement as set forth in the Applicable Bond Series Certificate. An Applicable Series 2015A 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 Series 2015A Bonds for all or any part of the Debt Service Reserve Fund Requirement or any Applicable Series 2015A 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 Series 2015A are not rated by Moody's and S&P by whichever of said rating services that then rates the Outstanding Series 2015A 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 Series 2015A Participant's Allocable Portion of a Debt Service Reserve Fund is less than such Applicable Series 2015A 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 Series 2015A Participant of such deficiency. Such Applicable Series 2015A 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 Series 2015A Participant's Allocable Portion of the Debt Service Reserve Fund to 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 Series 2015A Participant's Allocable Portion of, respectively, interest on the Outstanding Series 2015A 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 each Applicable Facility Provider, if any, of any withdrawal from the Debt Service Reserve Fund.

A Series 2015A 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 Series 2015A Bonds upon the acceleration of such Series 2015A Participant's Loan pursuant to the Applicable Loan Agreement.

Upon the exercise by a Series 2015A 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 Series 2015A 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 Series 2015A 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 Series 2015A 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 2015A 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 Series 2015A 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 2015A 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 hereby and by the Applicable Series Resolution as provided in Article IV hereof.

(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 and Accounts

(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 hereof.

(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 hereunder 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 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 9.01)

Supplemental Resolutions Effective With Consent

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 9.02)

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 hereby 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 hereunder 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 hereunder) 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 hereinabove 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 OPINION OF BOND COUNSEL

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PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL

Upon delivery of the Series 2015A Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, proposes to issue its legal opinion in substantially the following form:

HAWKINS DELAFIELD & WOOD LLP
ONE CHASE MANHATTAN PLAZA
NEW YORK, NEW YORK 10005

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We, as Bond Counsel to the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic of the State of New York (the "State"), constituting a public benefit corporation created and existing under the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the "Act"), have examined a record of proceedings relating to the issuance of $29,290,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2015A, consisting of two subseries: $28,115,000 Subseries 2015A-1 (the "Subseries 2015A-1 Bonds") and $1,175,000 Subseries 2015A-2 (Federally Taxable) (the "Subseries 2015A-2 Bonds" and together with the Subseries 2015A-1 Bonds, the "Series 2015A Bonds").

The Series 2015A Bonds are issued under and pursuant to the Act, the InterAgency Council Pooled Loan Program Revenue Bond Resolution adopted by the Authority on March 31, 2010 (the "Bond Resolution") and the series resolution adopted by the Authority on November 12, 2014 (the "Series 2015A Resolution"). The Bond Resolution and the Series 2015A Resolution are herein collectively referred to as the "Resolutions."

The Series 2015A Bonds are dated, mature, are payable, bear interest and are subject to redemption as provided in the Resolutions and the Bond Series Certificate (as defined in the Resolutions) of the Authority fixing the terms and details of the Series 2015A Bonds.

We are of the opinion that:

1. The Authority has been duly created and is validly existing under the Act and has the right, power and authority to adopt the Resolutions and the Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms.

2. The Resolutions create the valid pledge which they purport to create of the proceeds of the sale of the Series 2015A Bonds, the Revenues and all funds and accounts established by the Series 2015A Resolution other than the Arbitrage Rebate Fund (as such terms are defined in the Resolutions), including the investments thereof and the proceeds of such investments, if any, subject only to the provisions of the Resolutions permitting the application thereof to the purposes and on the terms and conditions set forth in the Resolutions.

3. The Series 2015A Bonds have been duly and validly authorized and issued by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Resolutions.

4. The Series 2015A Bonds are not a debt of the State of New York, and the State of New York is not liable thereon, nor shall the Series 2015A Bonds be payable out of funds of the Authority other than those pledged for the payment of the Series 2015A Bonds.

5. The Loan Agreements between the Authority and, respectively, Birch Family Services, Inc., Community Resource Center for the Developmental Disabled, Inc., Eden II School for Autistic Children, Inc., HASC Center, Inc., Lifespire, Inc., QSAC, Inc., Services for the Underserved, Inc. and SUS-Developmental Disabilities Services, Inc., Wildwood Programs, Inc. and Young Adult Institute, Inc. (collectively, the "Series 2015A Participants"), each dated as of November 12, 2014 (collectively, the "Loan Agreements"), have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by each of the Series 2015A Participants, constitute legal, valid and binding obligations of the Authority enforceable in accordance with their terms.

6. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Subseries 2015A-1 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Subseries 2015A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, each of the Series 2015A Participants, as applicable, and others, and we have assumed compliance by Authority and each of the Series 2015A Participants, as applicable, with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subseries 2015A-1 Bonds from gross income under Section 103 of the Code.

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Subseries 2015A-1 Bonds in order that interest on the Subseries 2015A-1 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Subseries 2015A-1 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Subseries 2015A-1 Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered.

In addition, we have relied on the opinion of counsel to the Series 2015A Participants regarding, among other matters, the current qualifications of the Series 2015A Participants as organizations described in Section 501(c)(3) of the Code. For any Subseries 2015A-1 Bonds having original issue discount (“OID”), OID that has accrued and is properly allocable to the owners of such Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Subseries 2015A-1 Bonds.

7. Interest on the Subseries 2015A-2 Bonds is included in gross income for Federal income tax purposes pursuant to the Code.

8. Under existing statutes, interest on the Series 2015A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Except as stated in paragraphs 6, 7 and 8 above, we express no opinion regarding any other Federal or state tax consequences with respect to the Series 2015A Bonds. We render this opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Furthermore, we express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2015A Bonds, or under state and local tax law.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Series 2015A Bonds, the Resolutions and the Loan Agreements may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Subseries 2015A-1 Bond and a Subseries 2015A-2 Bond and, in our opinion, the form of said Series 2015A Bonds and their execution are regular and proper.

Very truly yours,

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DORMITORY AUTHORITY OF THE STATE OF NEW YORK • INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS, SERIES 2015A

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