NEW ISSUE – BOOK-ENTRY ONLY

Moody's: Aa3
(See "RATINGS" herein)

DAC Bond®

$29,670,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS, SERIES 2010A

Consisting of:

$29,015,000	$655,000
Subseries 2010A-1	Subseries 2010A-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 2010A consisting of Subseries 2010A-1 (the "Subseries 2010A-1 Bonds") and Subseries 2010A-2 (Federally Taxable) (the "Subseries 2010A-2 Bonds"; together with the Subseries 2010A-1 Bonds, the "Series 2010A Bonds") will be special obligations of the Dormitory Authority of the State of New York (the "Authority"). Principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2010A 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 the Authority's InterAgency Council Pooled Loan Program Revenue Bond Resolution adopted on March 31, 2010 (the "Resolution") and established with respect to the Series 2010A Bonds by the Series 2010A Resolution Authorizing Up To $45,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2010A, adopted March 31, 2010, as amended and supplemented on May 12, 2010 (the "Series 2010A Resolution" and together with the Resolution, the "Resolutions"), including a Debt Service Reserve Fund.

The Revenues pledged to the payment of the Series 2010A Bonds are comprised of certain payments to be made under separate Loan Agreements dated as of March 31, 2010 (each a "Loan Agreement"), between the Authority and each of the following members of the Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated, each of which is a New York State not-for-profit corporation: Federation Employment and Guidance Service, Inc., Human Care Services for Families & Children, Inc., Lifespire, Inc., SCO Family of Services, SUS - Developmental Disabilities Services, Inc. and Services for the Underserved, Inc. (which shall be considered a single Series 2010A Participant), United Cerebral Palsy of New York City, Inc., Wildwood Programs, Inc. and Young Adult Institute, Inc. (each a "Series 2010A Participant" and collectively, the "Series 2010A Participants").

Each Loan Agreement is a general obligation of the respective Series 2010A 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 2010A Bonds corresponding to such Series 2010A Participant's proportionate share of the proceeds of the Series 2010A Bonds loaned to it by the Authority, and to maintain its Allocable Portion of the Debt Service Reserve Fund Requirement. Payment of amounts due under the Loan Agreements are several and not joint obligations of the Series 2010A Participants. Each of the Series 2010A Participant's obligations under its respective Loan Agreement will be secured by a security interest in certain revenues of such Series 2010A Participant granted to the Authority and pledged and assigned to the Trustee.

A DEFAULT BY ANY ONE OR MORE OF THE SERIES 2010A PARTICIPANTS UNDER THEIR RESPECTIVE LOAN AGREEMENTS MAY RESULT IN A DEFAULT UNDER THE RESOLUTIONS WITH RESPECT TO SUCH SERIES 2010A PARTICIPANT'S ALLOCABLE PORTION OF THE SERIES 2010A BONDS; HOWEVER, ANY LIABILITY WITH RESPECT TO SUCH DEFAULT IS LIMITED SOLELY TO THE SERIES 2010A PARTICIPANT OR SERIES 2010A PARTICIPANTS THAT ARE IN DEFAULT, WITHOUT RIGHT OF CONTRIBUTION FROM THE NON-DEFAULTING SERIES 2010A PARTICIPANTS. ANY SUCH DEFAULT, HOWEVER, COULD RESULT IN A DEFAULT IN PAYMENT OF THE SERIES 2010A BONDS.

The Series 2010A Bonds will not be a debt of the State of New York nor will the State of New York be liable thereon. The Authority has no taxing power.

Description: The Series 2010A Bonds will be issued as fully registered bonds in denominations of $100,000 or any integral multiple of $5,000 in excess thereof. Interest (due January 1, 2011 and each July 1 and January 1 thereafter) on the Series 2010A Bonds will be payable by check mailed to the registered owners thereof and principal and Redemption Price of the Series 2010A 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 2010A Bonds, by wire transfer, as more fully described herein.

The Series 2010A 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 2010A Bonds. Purchases of beneficial ownership interests in the Series 2010A Bonds may be made only through the DTC book-entry system. Beneficial Owners (as defined herein) of the Series 2010A Bonds will not receive certificates representing their interests in the Series 2010A Bonds. See "PART 4 - THE SERIES 2010A BONDS – Book-Entry Only System" herein.

Redemption and Purchase in Lieu of Redemption: The Series 2010A 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 the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Subseries 2010A-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 2010A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax. In addition, interest on the Subseries 2010A-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 the Authority, under existing statutes, interest on the Series 2010A 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 2010A Bonds are offered, when, as and if issued by the Authority, 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 the Authority. Certain legal matters will be passed upon for the Series 2010A Participants by Lombardi, Walsh, Wakeman, Harrison, Amodeo & Davenport, PC, Albany, New York and for the Underwriters by McCarter & English, LLP, New York, New York and Newark, New Jersey. The Authority expects to deliver the Series 2010A Bonds in definitive form in New York, New York on or about June 30, 2010.

MUNICIPAL CAPITAL MARKETS GROUP, INC. **HERBERT J. SIMS & CO., INC.**

June 10, 2010

$29,670,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS,
SERIES 2010A

Consisting of:

$29,015,000
Subseries 2010A-1

Maturing July 1	Principal Amount	Coupon	Yield	CUSIP[1]
2011	$1,835,000	1.50%	1.68%	649905 S31
2012	2,010,000	3.00	1.95	649905 S49
2013	2,280,000	2.10	2.31	649905 S56
2014	2,335,000	2.50	2.66	649905 S64
2015	2,200,000	2.75	2.99	649905 S72
2016	1,800,000	3.20	3.36	649905 S80
2017	1,800,000	3.45	3.64	649905 S98
2018	1,800,000	3.60	3.83	649905 T22
2019	1,800,000	3.85	4.03	649905 T30
2020	1,100,000	5.00	4.21	649905 T89
2020	700,000	4.00	4.21	649905 T48

$8,905,000 4.25% Term Bond due July 1, 2025 to Yield 4.625% CUSIP[1] 649905 T55

$450,000 4.50% Term Bond due July 1, 2030 to Yield 4.75% CUSIP[1] 649905 T63

$655,000
Subseries 2010A-2
(Federally Taxable)

$655,000 3.50% Term Bond due July 1, 2012 to Yield 3.50% CUSIP[1] 649905 T71

(1) CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holder of the Series 2010A Bonds. Neither the Authority nor the Underwriters is responsible for the selection of uses of the CUSIP numbers, and no representation is made as to their correctness on the Series 2010A Bonds or as indicated above. CUSIP numbers are subject to being changed after the issuance of the Series 2010A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2010A Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Series 2010A Bonds.

No dealer, broker, salesman or other person has been authorized by the Authority, the Series 2010A Participants or the Underwriters to give any information or to make any representations with respect to the Series 2010A 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 the Authority, the Series 2010A Participants or the Underwriters.

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 2010A 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 2010A Participants, the Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated (the "Program Facilitator") and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation of the Authority.

Each Series 2010A Participant has reviewed the portions of this Official Statement describing such Series 2010A Participant, its Series 2010A Facilities, its Mortgage, if any, "PART 4 - THE SERIES 2010A PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2010A PARTICIPANT FUNDING," "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS," "PART 11 - BONDHOLDERS' RISKS," and the information relating to it contained in Appendices A, B, and C. It is a condition to the sale and delivery of the Series 2010A Bonds that each Series 2010A 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 2010A Participants make no representations as to the accuracy or completeness of any other information included in this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities law, but the Underwriters do not guarantee the accuracy or completeness of such information.

References in this Official Statement to the Act, the Resolution, the Series 2010A Resolution and the Loan Agreements do not purport to be complete. Refer to the Act, the Resolution, the Series 2010A Resolution and the Loan Agreements for full and complete details of their provisions. Copies of the Resolution, the Series 2010A Resolution and the Loan Agreements are on file with the Authority 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 the Authority or the Series 2010A Participants have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2010A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2010A BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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PAUL T. WILLIAMS, JR. - PRESIDENT ALFONSO L. CARNEY, JR. - CHAIR

OFFICIAL STATEMENT
relating to
$29,670,000
INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS,
SERIES 2010A
Consisting of:

$29,015,000 Subseries 2010A-1 and
$655,000 Subseries 2010A-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 (the "Authority"), Federation Employment and Guidance Service, Inc., Human Care Services for Families & Children, Inc., Lifespire, Inc., SCO Family of Services, SUS - Developmental Disabilities Services Inc. and Services for the Underserved, Inc. (which shall be considered a single Series 2010A Participant), United Cerebral Palsy of New York City, Inc., Wildwood Programs, Inc. and Young Adult Institute, Inc. (collectively, the "Series 2010A Participants") in connection with the offering by the Authority of the $29,670,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2010A, consisting of $29,015,000 Subseries 2010A-1 Bonds and $655,000 Subseries 2010A-2 Bonds (Federally Taxable) (collectively, the "Series 2010A Bonds").

The following is a brief description of certain information concerning the Series 2010A Bonds, the Authority and the Series 2010A Participants. A more complete description of such information and additional information that may affect decisions to invest in the Series 2010A Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain capitalized terms used in this Official Statement are defined in Appendix D hereto.

Purpose of the Issues

The Series 2010A Bonds are being issued for the purpose of (i) financing, refinancing or reimbursing a portion of the cost of the acquisition and renovation of certain facilities (collectively, the "Series 2010A Facilities") of the Series 2010A 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 2010A Facilities (the "Series 2010A Project"), (ii) making a deposit to each account of the Debt Service Reserve Fund in an amount equal to each Series 2010A Participant's Allocable Portion of the Debt Service Reserve Fund Requirement and (iii) paying certain costs of issuance of the Series 2010A Bonds. The Loan Agreements in the aggregate require 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 2010A Bonds as the same become due. See "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS." For a description of the Series 2010A Facilities being financed or refinanced with proceeds of the Series 2010A Bonds, see "Appendix A - Description of Series 2010A Participants."

Authorization of Issuance

The Act authorizes the Authority, 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 Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated, which members include the Series 2010A Participants.

The Series 2010A Bonds will be issued pursuant to the Act, the Resolution and the Series 2010A Resolution. 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 2010A 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 the Authority 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. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS."

Concurrently with or subsequent to the issuance of the Series 2010A Bonds, the Authority expects to issue approximately $7,760,000 aggregate principal amount of its InterAgency Council Pooled Loan Program Revenue Bonds, Series 2010B (the "Series 2010B Bonds," and together with the Series 2010A Bonds, the "Series 2010 Bonds"), for the purpose of making an additional, separate loan to SCO Family of Services to finance or refinance certain facilities which are not a part of the Series 2010A Facilities. See "The Series 2010A Participants" below. In accordance with the Resolution, each Series of the Series 2010 Bonds will be separately secured. A detailed description of the Series 2010B Bonds and the security pledged therefor is set forth in the offering document prepared in connection therewith.

The Authority

The Authority 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 - THE AUTHORITY."

The Program Facilitator

The Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated (the "Program Facilitator") will act as the facilitator for the InterAgency Council Pooled Loan Program. The Program Facilitator is a not-for-profit trade organization voluntarily supported by one hundred twenty 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 2010A Participants. "PART 4 - THE SERIES 2010A PARTICIPANTS."

The Series 2010A Participants

Each of the Series 2010A Participants is a not-for-profit corporation organized and existing under the laws of the State and determined to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). See "PART 4 - THE SERIES 2010A PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2010A PARTICIPANT FUNDING," "Appendix A - Description of Series 2010A Participants," "Appendix B - Audited Financial Statements of Series 2010A Participants," and "Appendix C - Unaudited Financial Information of Series 2010A Participants."

Upon delivery of the Series 2010A Bonds, the Series 2010A Participants will receive loans from the Authority from the proceeds thereof in the following principal amounts, representing each Series 2010A Participant's Allocable Portion of each Subseries of the Series 2010A Bonds:

Series 2010A Participant	Subseries 2010A-1	Subseries 2010A-2	Total
Federation Employment and Guidance Service, Inc.	$ 800,000	$ 20,000	$ 820,000
Human Care Services for Families & Children, Inc.	1,725,000	40,000	1,765,000
Lifespire, Inc.	5,995,000	130,000	6,125,000
SCO Family of Services	1,600,000	35,000	1,635,000
SUS - Developmental Disabilities Services, Inc. and Services for the Underserved, Inc.	3,735,000	80,000	3,815,000
United Cerebral Palsy Services of New York City, Inc.	1,505,000	35,000	1,540,000
Wildwood Programs, Inc.	360,000	15,000	375,000
Young Adult Institute, Inc.	13,295,000	300,000	13,595,000

In addition to the respective loans to be made to the Series 2010A Participants by the Authority from proceeds of the Series 2010A Bonds, it is expected that SCO Family of Services will receive a loan from the Authority from the proceeds of the Series 2010B Bonds. The Series 2010A Bonds will be separately secured from the Series 2010B Bonds.

The Series 2010A Bonds

The Series 2010A Bonds are dated their date of delivery and bear interest from such date (payable January 1, 2011, and on each July 1 and January 1 thereafter) at the rates and will mature at the times set forth on the inside front cover page of this Official Statement. See "PART 3 - THE SERIES 2010A BONDS - Description of the Series 2010A Bonds."

Payment of the Series 2010A Bonds

The Series 2010A Bonds are special obligations of the Authority payable from the Revenues, which consist of certain payments required to be made by the Series 2010A Participants pursuant to their respective Loan Agreements on account of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest due on the Outstanding Series 2010A Bonds. The Revenues are pledged and assigned to the Trustee.

Pursuant to its Loan Agreement, each Series 2010A 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 2010A Bonds, in each case corresponding to the proceeds of each maturity of each Subseries of the Series 2010A Bonds loaned to it by the Authority. The obligation of each Series 2010A Participant to make payments under its Loan Agreement constitutes a general obligation of such Series 2010A Participant. The payment obligations of the Series 2010A Participants are several, not joint. For a listing of each Series 2010A Participant's Allocable Portion of the principal and Sinking Fund Installments of and interest on the Series 2010A Bonds, see "PART 3 – THE SERIES 2010A BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2010A Bonds."

Security for the Series 2010A Bonds

The Series 2010A Bonds will be secured by the pledge and assignment to the Trustee of the Revenues, the proceeds from the sale of the Series 2010A Bonds (until disbursed as provided by the Resolution) and all funds and accounts authorized by the Resolution and established by the Series 2010A Resolution (with the exception of the Arbitrage Rebate Fund), including a Debt Service Reserve Fund (the "Series 2010A Debt Service Reserve Fund") which will be funded at its requirement with proceeds of the Series 2010A Bonds. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010A - Security for the Series 2010A Bonds."

The Series 2010A Bonds are separately secured from all other Series of Bonds. The Holders of any Series of Bonds other than the Series 2010A Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2010A Bonds.

Additional Security - Pledged Revenues and the Standby Intercept

The Series 2010A Bonds will also be secured by the pledge and assignment to the Trustee of the Authority's security interest in the Pledged Revenues, subject to Prior Pledges, granted by each of the Series 2010A Participants to the Authority pursuant to its Loan Agreement. Certain of the Series 2010A Participants have previously pledged their Public Funds (a portion of which consists of the Pledged Revenues) to the Authority or an industrial development agency as security for their obligations in connection with bonds previously issued by the Authority or such industrial development agency and therefore the pledge of the Pledged Revenues securing such Series 2010A Participant's Allocable Portion of the Series 2010A Bonds is subject, and subordinate, to such Prior Pledges in all respects. See "Appendix A - Description of Series 2010A Participants" for a description of which Series 2010A Participants have Prior Pledges of their respective Pledged Revenues.

Pledged Revenues are all Public Funds payable to a Series 2010A Participant with respect to its Series 2010A Facilities, which in the case of each Series 2010A Participant means amounts payable by the New York State Office of Mental Retardation and Developmental Disabilities ("OMRDD") pursuant to separate Prior Property Approvals (each a "PPA") issued by OMRDD with respect to each Series 2010A Facility. The PPA represents OMRDD's pre-approval of the applicable Series 2010A Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2010A Participant in connection with its financing or refinancing of the acquisition and renovation of such Series 2010A Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2010A Participant operates the applicable Series 2010A 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 the Series 2010A Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the Series 2010A Bonds. See "PART 5 - SOURCES OF SERIES 2010A PARTICIPANT FUNDING - New York State Office of Mental Retardation and Developmental Disabilities."

The Pledged Revenues will be paid directly to each Series 2010A Participant and may be disposed of by such Series 2010A Participant for any of its corporate purposes. However, pursuant to the Act, the respective Loan Agreements and certain agreements entered into by the Authority, OMRDD and the respective Series 2010A Participants (each an "Intercept Agreement"), upon the occurrence of certain events described herein, the Authority may direct OMRDD to remit the revenues payable by OMRDD to a Series 2010A Participant pursuant to its PPA or PPAs (the "PPA Funds") directly to the Authority or the Trustee for application to the payment of such Series 2010A Participant's Allocable Portion of the Outstanding Series 2010A Bonds. Pledged Revenues of one Series 2010A Participant will not be available to satisfy the obligations of any other Series 2010A Participant. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS - Security for the Series 2010A Bonds - Pledged Revenues - OMRDD Funds" and "- Standby Intercept." See also, "Appendix E - Summary of Certain Provisions of the Loan Agreements."

The ability of the Series 2010A Participants to satisfy their payment obligations under the respective Loan Agreements with respect to the Series 2010A Bonds and the Authority's ability to realize upon its security interests in the respective Pledged Revenues are largely dependent upon the continued operation by the Series 2010A Participants of their respective Series 2010A 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 2010A Participants and their ability to continue to generate sufficient revenues to support all of their respective facilities, including their Series 2010A Facilities, (ii) the continued compliance by the Series 2010A Participants with State and local operational standards with respect to their Series 2010A Facilities, and (iii) the continued commitment of public funds to support the programs and facilities operated by the Series 2010A Participants, particularly with respect to the Series 2010A Facilities, the continued appropriations by the State in amounts sufficient for OMRDD to make payments to the Series 2010A Participants pursuant to their respective PPAs. For a more detailed discussion of risk factors affecting the ability of the Series 2010A Participants to pay amounts owed under their Loan Agreements and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2010A Bonds, see "PART 11 - BONDHOLDERS' RISKS" herein. See also, "PART 5 - SOURCES OF SERIES 2010A PARTICIPANT FUNDING."

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

A failure by a Series 2010A Participant to timely pay its obligations under its Loan Agreement might result in an event of default under the Resolutions if either (a) such Series 2010A Participant's loan is accelerated in accordance with the provisions of its Loan Agreement, or (b) as a result of such nonpayment, there is failure to pay the principal, Sinking Fund Installments, and Redemption Price of and interest on the Series 2010A 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 2010A Bonds that corresponds to a principal installment on the defaulting Series 2010A Participant's loan under the terms of its Loan Agreement (referred to as the "Defaulted Allocable Portion"). The funds available for the payment of a Defaulted Allocable Portion of the Series 2010A Bonds are limited by the Resolution to only those Revenues payable by or on behalf of such defaulting Series 2010A Participant pursuant to its Loan Agreement, funds on deposit with the Trustee attributable to such Series 2010A Participant and amounts recovered upon the realization on any collateral granted to the Authority as security for such Series 2010A Participant's obligations under its Loan Agreement and pledged to the payment of the Series 2010A Bonds. After the application of all such amounts to the payment of the Defaulted Allocable Portion of the Series 2010A Bonds following the acceleration or extraordinary mandatory redemption thereof in accordance with the Resolutions, such Defaulted Allocable Portion of the Series 2010A 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 2010A BONDS - Events of Default - Special Provisions Relating to Defaults Affecting Only an Allocable Portion of the Series 2010A Bonds" and "Appendix F - Summary of Certain Provisions of the Resolutions." See also, "PART 3 - THE SERIES 2010A BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

The Series 2010A Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

NO SERIES 2010A PARTICIPANT IS RESPONSIBLE FOR THE PAYMENT OBLIGATIONS OF ANY OTHER SERIES 2010A PARTICIPANT. IF A SERIES 2010A PARTICIPANT FAILS TO PAY AMOUNTS DUE UNDER ITS LOAN AGREEMENT IN RESPECT OF ITS ALLOCABLE PORTION OF THE SERIES 2010A BONDS, THE AUTHORITY'S SOLE REMEDY WILL BE AGAINST THE DEFAULTING SERIES 2010A PARTICIPANT AND NO OTHER SERIES 2010A PARTICIPANT.

The Mortgages

In the event that a Series 2010A Participant owns its Series 2010A Facilities, such Series 2010A Participant's obligations under its Loan Agreement will be additionally secured by a mortgage (each a "Mortgage") from such Series 2010A Participant to the Authority, granting a first or subordinate mortgage lien, as applicable, on such owned Series 2010A Facilities, and by a first or subordinate priority security interest, as applicable, in the fixtures, furniture and equipment located therein or used in connection therewith, in each case subject only to Permitted Encumbrances. The Mortgages do not presently provide any security for the Series 2010A Bonds. However, under certain circumstances described herein, one or more of the Mortgages may be assigned to the Trustee. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS - Security for the Series 2010A Bonds - The Mortgages."

In the event that a Series 2010A Participant does not own its Series 2010A Facilities, such Series 2010A Participant's obligations under its Loan Agreement will not be secured by any mortgage or security interest.

See "Appendix A - Description of Series 2010A Participants" for a description of which Series 2010A Participants (i) own or lease their respective Series 2010A Facilities and (ii) will grant first or subordinate mortgages on their respective Series 2010A Facilities.

One of the Mortgaged Properties of Lifespire, Inc. is subject to a right of reacquisition. See "PART 11 - BONDHOLDERS' RISKS - Mortgages - Right of Reacquisition of the Lifespire, Inc. 2213 Wallace Avenue Facility."

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2010A 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 2010A Resolution and the Loan Agreements, copies of which are on file with the Authority and the Trustee. See also "Appendix E - Summary of Certain Provisions of the Loan Agreements" and "Appendix F - Summary of Certain Provisions of the Resolutions" for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of the Series 2010A Bonds

The Series 2010A Bonds are special obligations of the Authority. The principal, Sinking Fund Installments, and Redemption Price of and interest on the Series 2010A Bonds are payable solely from the Revenues. The Revenues consist of the payments required to be made by each of the Series 2010A

Participants under its respective Loan Agreement on account of such Series 2010A Participant's Allocable Portion of (i) the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2010A Bonds, and (ii) the Series 2010A 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 2010A Bonds. The aggregate of payments due and payable to the Authority under all of the Loan Agreements will be sufficient to pay (i) the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2010A Bonds when due, (ii) amounts necessary to maintain the Series 2010A Debt Service Reserve Fund at its required level, and (iii) the annual fees of the Authority and the Trustee.

Each Loan Agreement is a general obligation of the respective Series 2010A Participant, pursuant to which such Series 2010A 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 2010A Bonds as reflected in the debt service table set forth in "PART 3 – THE SERIES 2010A BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2010A Bonds." The payment obligations of the Series 2010A Participants with respect to the Series 2010A Bonds are several, not joint. Each Series 2010A Participant is obligated to repay only its Allocable Portion of the Series 2010A Bonds. Each Series 2010A Participant's payments under its respective Loan Agreement will be applied pro rata to its Allocable Portion of the principal, Sinking Fund Installments, and Redemption Price of and interest due on each Subseries of the Outstanding Series 2010A Bonds.

Payments under each of the Loan Agreements are to be made monthly on the 10th day of each month. Each payment is to be equal to one-sixth of such Series 2010A Participant's Allocable Portion of the interest coming due on the next succeeding interest payment date and one-twelfth of the principal and Sinking Fund Installments coming due on the next succeeding July l. See "PART 3 – THE SERIES 2010A BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2010A Bonds." Each of the respective Loan Agreements also obligates each respective Series 2010A Participant to pay, at least 45 days prior to a redemption date of Series 2010A Bonds called for redemption, its Allocable Portion of the amount, if any, required to pay the Redemption Price of such Series 2010A Bonds. See "PART 3 – THE SERIES 2010A BONDS – Redemption Provisions."

Security for the Series 2010A Bonds

General

The Series 2010A Bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and the Authority's security interest in the Pledged Revenues, subject to Prior Pledges. The Series 2010A Bonds will also be secured by the proceeds from the sale of the Series 2010A Bonds (until disbursed as provided in the Resolutions) and all funds and accounts authorized by the Resolution and established by the Series 2010A Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2010A Debt Service Reserve Fund.

Pursuant to the terms of the Resolution, the Series 2010A Bonds are separately secured from all other Series of Bonds. The Holders of any Series of Bonds other than the Series 2010A Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2010A Bonds.

Pledged Revenues - OMRDD Funds

Pursuant to the Act and the respective Loan Agreements, each Series 2010A Participant has pledged and assigned to the Authority its Pledged Revenues in an amount sufficient to satisfy its payment obligations under its Loan Agreement. With respect to each Series 2010A Participant, the Pledged Revenues consist of the PPA Funds payable to such Series 2010A Participant by OMRDD in connection with its Series 2010A Facilities.

Each Series 2010A Facility is supported by an OMRDD PPA, which the applicable Series 2010A Participant has received. The PPA represents OMRDD's pre-approval of the applicable Series 2010A Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2010A Participant in connection with its financing or refinancing of the acquisition and renovation of such Series 2010A Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2010A Participant operates the applicable Series 2010A 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 the Series 2010A Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the Series 2010A Bonds. See "PART 5 - SOURCES OF SERIES 2010A PARTICIPANT FUNDING - New York State Office of Mental Retardation and Developmental Disabilities."

The Series 2010A Participants' Pledged Revenues are subject to Prior Pledges, if any. See "Appendix A - Description of the Series 2010A Participants" for a description of which Series 2010A Participants have Prior Pledges of their respective Pledged Revenues.

Standby Intercept

The Act authorizes, and each Loan Agreement and Intercept Agreement establishes, an intercept mechanism whereby OMRDD officials are authorized and required to pay a Series 2010A Participant's PPA Funds to the Authority in accordance with a certificate filed by the Authority with such State officer. Until the occurrence of an event with respect to a Series 2010A Participant described in clause (a) or (b) below, a Series 2010A Participant's PPA Funds will be paid directly to such Series 2010A Participant and applied towards any of its corporate purposes. However, pursuant to the respective Loan Agreements and Intercept Agreements, upon the occurrence of (a) an event of default under a Series 2010A Participant's Loan Agreement, or an event which with the passage of time or giving of notice, or both, would become an event of default under such Series 2010A Participant's Loan Agreement, or (b) a drawing of funds from the Debt Service Reserve Fund for the benefit of such Series 2010A Participant that has not been repaid by such Series 2010A Participant as required by its Loan Agreement and the Resolutions, the Authority may, in addition to all other remedies available pursuant to such Series 2010A Participant's Loan Agreement, cause such Series 2010A Participant's PPA Funds to be deducted, withheld and paid directly to the Authority or the Trustee, as appropriate, in an amount sufficient to make the payments required by such Series 2010A Participant pursuant to its Loan Agreement. See "PART 5 - SOURCES OF SERIES 2010A PARTICIPANT FUNDING - New York State Office of Mental Retardation and Developmental Disabilities." PPA Funds of one Series 2010A Participant will not be available to satisfy the payment obligations of any other Series 2010A Participant.

There can be no assurance that the amount of a Series 2010A Participant's PPA Funds will be sufficient to satisfy its payment obligations with respect to its Allocable Portion of the Series 2010A Bonds. In the event that amounts received from OMRDD upon the intercept of a Series 2010A Participant's PPA Funds are insufficient to pay all of a Series 2010A Participant's Allocable Portion of the principal of and interest on the Series 2010A Bonds when due, such amounts received will be applied pro rata to such Series 2010A Participant's Allocable Portion of each Subseries of the Series 2010A Bonds.

The ability of the Series 2010A Participants to satisfy their payment obligations under the respective Loan Agreements with respect to the Series 2010A Bonds and the Authority's ability to realize upon its security interests in the respective Pledged Revenues are largely dependent upon the continued operation by the Series 2010A Participants of their respective Series 2010A 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 2010A Participants and their ability to continue to generate sufficient revenues to support all of their respective facilities, including their Series 2010A Facilities, (ii) the continued compliance by the Series 2010A Participants with State and local operational standards with respect to their Series 2010A Facilities, and (iii) the continued commitment of public funds to support the programs and facilities operated by the Series 2010A Participants, particularly with respect to the Series 2010A Facilities, the continued appropriations by the State in amounts sufficient for OMRDD to make payments to the Series 2010A Participants pursuant to their respective PPAs. For a more detailed discussion of risk factors affecting the ability of the Series 2010A Participants to pay amounts owed under their Loan Agreements and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2010A Bonds, see "PART 11 - BONDHOLDERS' RISKS" herein. See also, "PART 5 - SOURCES OF SERIES 2010A PARTICIPANT FUNDING."

Debt Service Reserve Fund

The Resolution authorizes, and the Series 2010A Resolution establishes, the Series 2010A Debt Service Reserve Fund, which is required to be maintained in an amount equal to one-third 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 2010A Bonds payable during such year and (ii) the principal and the Sinking Fund Installments of such Series 2010A Bonds payable during such year (the "Series 2010A Debt Service Reserve Fund Requirement").

Proceeds of the Series 2010A Bonds will be deposited in separate accounts established in the Series 2010A Debt Service Reserve Fund for each Series 2010A Participant in amounts equal to the respective Series 2010A Participant's Allocable Portion of the Series 2010A Debt Service Reserve Fund Requirement. If, on the fourth Business Day preceding an interest payment date for the Series 2010A Bonds, the amount on deposit in the account established for a Series 2010A Participant in the Debt Service Fund is less than the amount necessary to pay such Series 2010A Participant's Allocable Portion of the principal or Sinking Fund Installments of and interest on the Outstanding Series 2010A Bonds payable on such interest payment date, the Trustee is required to transfer moneys from the applicable account of the Series 2010A Debt Service Reserve Fund to the corresponding account of the Debt Service Fund in an amount sufficient to provide for such payment. Each Loan Agreement requires the respective Series 2010A Participant to restore in full any amount withdrawn from the Series 2010A Debt Service Reserve Fund for its benefit within five (5) days after receiving notice of a withdrawal. Each Loan Agreement also requires the respective Series 2010A Participant to restore in full its Allocable Portion of the Series 2010A Debt Service Reserve Fund Requirement within five (5) days after receiving notice of a deficiency in the Series 2010A Debt Service Reserve Fund resulting from a devaluation of the investments held therein. Moneys in the Series 2010A Debt Service Reserve Fund in excess of its requirement shall be applied in accordance with the Resolutions.

In lieu of or in substitution for moneys in the Series 2010A Debt Service Reserve Fund, the Authority 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 2010A Debt Service Reserve Fund Requirement or any Series 2010A Participant's Allocable Portion thereof. See "Appendix F - Summary of Certain Provisions of the Resolutions."

Mortgages

In the event that a Series 2010A Participant owns its Series 2010A Facilities, such Series 2010A Participant's obligations to the Authority under its Loan Agreement will be additionally secured by its Mortgage granting a first or subordinate mortgage lien, as applicable, on such owned Series 2010A Facilities to the Authority, and by a first or subordinate priority security interest, as applicable, granted to the Authority in the fixtures, furnishings and equipment now or hereafter located on the property subject to such Mortgage, in each case subject to Permitted Encumbrances. See "Appendix A - Description of Series 2010A Participants."

The Authority 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 2010A Debt Service Reserve Fund, which has not been restored by the respective Series 2010A Participant to its requirement within thirty (30) days from the date of such withdrawal or (b) the occurrence and continuance of an event of default under a Series 2010A Participant's Loan Agreement and the acceleration of the loan thereunder, the Authority is required to assign such Series 2010A Participant's Mortgage and the related security interest in the fixtures, furnishings and equipment to the Trustee for the benefit of the Holders of such Series 2010A Participant's Allocable Portion of the Outstanding Series 2010A 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 2010A Bonds. **Each Mortgage secures only the obligations of the Series 2010A Participant granting the Mortgage, and, in the event of a default by a Series 2010A Participant which may lead to the assignment of its Mortgage, only the Mortgage of that defaulting Series 2010A Participant may be assigned**.

Each Series 2010A 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 the Authority. Prior to any assignment of a Mortgage to the Trustee, each Loan Agreement provides that the Authority, without the consent of the Trustee or the Holders of the Series 2010A Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of such Mortgage and of any security interest in furniture, fixtures or equipment located in or on or used in connection therewith and the property subject to such Mortgage or security interest may be released from the lien thereof, all upon such terms and conditions as the Authority may reasonably require. Notwithstanding the foregoing, a Series 2010A Participant may remove furniture, fixtures or equipment from the Mortgaged Property provided that such Series 2010A Participant shall replace such furniture, fixtures or equipment with furniture, fixtures or equipment having equivalent value and utility.

The liens and security interest granted to the Authority by a Mortgage are subject to Permitted Encumbrances. The lien of and security interest in each Series 2010A Participant's owned Series 2010A Facility(ies) as described in its Mortgage may also be limited by certain factors. See "PART 11-BONDHOLDERS' RISKS" and "Appendix A – Description of Series 2010A Participants" herein.

Events of Default

<u>Events of Default</u>

The Resolutions provide that events of default thereunder constitute events of default with respect to the Series 2010A 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 2010A Bonds of any Subseries; *provided, however,* if the failure to make any such payment is caused by a failure of a Series 2010A Participant to timely pay its Allocable Portion of the principal, Sinking Fund Installments or Redemption Price of or interest on the Series 2010A Bonds pursuant to the terms of its Loan Agreement, then it shall be an event of default under the Resolution only with respect to the Defaulted Allocable Portion of the Series 2010A Bonds Outstanding;

(ii) 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 Subseries 2010A-1 Bonds shall no longer be excludable from gross income for federal income tax purposes;

(iii) a default by the Authority in the due and punctual performance of any other covenant, condition, agreement or provision contained in the Series 2010A Bonds or in the

Resolutions which continues for 30 days after written notice thereof is given to the Authority 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 2010A Bonds); or

(iv) an event of default under a Loan Agreement shall have occurred and is continuing and, as a result thereof, all sums payable by a Series 2010A Participant under such Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled; *provided, however*, that such event of default under a Loan Agreement shall constitute an event of default under the Resolutions only with respect to the Defaulted Allocable Portion of the Series 2010A Bonds.

With respect to an event of default affecting only the Defaulted Allocable Portion of the Series 2010A Bonds and not any other portion of the Series 2010A Bonds, the Trustee will determine such Defaulted Allocable Portion in the manner described in "PART 3 - THE SERIES 2010A BONDS - Redemption Provisions - Extraordinary Mandatory Redemption" herein.

The Series 2010A Bonds are separately secured from all other Series of Bonds which may be issued pursuant to the Resolutions. **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 2010A Bonds, an event of default by a Series 2010A 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 2010A Participant's Loan Agreement.** Concurrently with or subsequent to the issuance of the Series 2010A Bonds, the Authority expects to issue the Series 2010B Bonds for the purpose of making an additional, separate loan to SCO Family of Services to finance or refinance certain facilities which are not a part of the Series 2010A Facilities.

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 2010A Participant's failure to timely pay its Allocable Portion of the Series 2010A 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 2010A Bonds, by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Series 2010A 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 2010A 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 2010A Participant to timely pay its Allocable Portion of the Series 2010A Bonds pursuant to its 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 2010A Bonds, declare the principal of and interest on the Defaulted Allocable Portion of the Outstanding Series 2010A 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 2010A Bonds then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

The Holders of not less than 25% in principal amount of the Outstanding Series 2010A Bonds or 25% in principal amount of Defaulted Allocable Portion of the Outstanding Series 2010A 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 2010A Bonds, shall have the right to direct the method and place of conducting all remedial actions to be taken by the Trustee.

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 2010A 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 2010A 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 2010A Bonds.

Special Provisions Relating to Defaults Affecting Only an Allocable Portion of the Series 2010A Bonds

The Resolution provides that upon the happening and continuance of an event of default affecting only a Defaulted Allocable Portion of the Series 2010A 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 2010A 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 the Authority pursuant to the defaulting Series 2010A Participant's Loan Agreement, including such Series 2010A Participant's Pledged Revenues and other amounts derived from the exercise of any remedies under such Loan Agreement and the realization of any security or collateral granted by such defaulting Series 2010A Participant as security for its loan, and (ii) the moneys and securities on deposit in only those accounts established pursuant to the Series 2010A Resolution for the payment of such defaulting Series 2010A Participant's Allocable Portion of the Series of 2010A Bonds. Holders of a Defaulted Allocable Portion of the Series 2010A 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 2010A Participant for the payment of the Series 2010A Bonds or any other security pledged by such other non-defaulting Series 2010A 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 2010A 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 2010A 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 2010A Bonds on a pro rata basis in accordance with the Resolution, (i) the remaining Defaulted Allocable Portion of the Series 2010A 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 Resolutions with respect to such Defaulted Allocable Portion of the Series 2010A Bonds shall be deemed to have been discharged and satisfied, and (iii) the Holders of the Defaulted Allocable Portion of the Series 2010A 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 2010A Bonds. Upon such payment and/or cancellation of a Defaulted Allocable Portion of the Outstanding Series 2010A Bonds, the Authority shall execute and the Trustee shall authenticate a new Series 2010A Bond or Series 2010A Bonds in a principal amount equal to the Outstanding principal amount of the Series 2010A 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 2010A Bonds of less than all of the principal of and interest on a Defaulted Allocable Portion of the Outstanding Series 2010A Bonds following an acceleration or extraordinary mandatory redemption of such Defaulted Allocable Portion of the Series 2010A 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 2010A Bonds under the Resolutions.

General

The Series 2010A Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. The Authority has never defaulted in the timely payment of principal or sinking fund installments of or interest on its bonds or notes. See "PART 7 – THE AUTHORITY."

PART 3 - THE SERIES 2010A BONDS

Set forth below is a narrative description of certain provisions relating to the Series 2010A Bonds. These provisions have been summarized, and this description does not purport to be complete. Reference should be made to the Resolution, the Series 2010A Resolution and the Loan Agreements, copies of which are on file with the Authority and the Trustee. See also "Appendix E - Summary of Certain Provisions of the Loan Agreements" and "Appendix F - Summary of Certain Provisions of the Resolutions," for a more complete description of certain provisions of the Series 2010A Bonds.

General

The Series 2010A Bonds will be issued pursuant to the Resolutions. The Series 2010A 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 2010A 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 2010A Bonds, payments of principal, Sinking Fund Installments, Redemption Price and interest on the Series 2010A 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 2010A 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 2010A Bonds, the Series 2010A Bonds will be exchangeable for fully registered Series 2010A 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 2010A Bonds

The Series 2010A Bonds will be dated their date of delivery and will bear interest from such date (payable on January 1, 2011 and on each July 1 and January 1 thereafter) at the rates per annum, and will mature on July 1 in each of the years set forth on the inside front cover page of this Official Statement. The Series 2010A Bonds will be issuable in fully registered book-entry-only form, without coupons, in denominations of $100,000 or any integral multiple of $5,000 in excess thereof.

Each Subseries of the Series 2010A Bonds may be exchanged for other Series 2010A Bonds of the same Subseries in any other authorized denominations upon payment of a charge sufficient to reimburse the Authority 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 2010A-1 Bonds maturing after July 1, 2020 are subject to redemption, on or after July 1, 2020, as a whole or in part at any time at the option of the Authority, at a Redemption Price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date.

The Subseries 2010A-2 Bonds are not subject to optional redemption.

Extraordinary Mandatory Redemption

Each Defaulted Allocable Portion of the Series 2010A Bonds is subject to extraordinary mandatory redemption at any time prior to maturity in whole, within forty-five (45) days following the realization by the Trustee pursuant to the Resolution on all security and collateral granted by the applicable defaulting Series 2010A Participant as security for its loan upon an acceleration of such loan under its Loan Agreement. The Series 2010A 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 2010A 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 2010A Bonds on the redemption date less the amount of accrued interest to be paid on such Defaulted Allocable Portion of the Series 2010A Bonds on such date, by (B) the principal amount of the Defaulted Allocable Portion of the Series 2010A 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 2010A Bonds to be redeemed based upon the schedule of amortization of the defaulting Series 2010A Participant's loan which has been accelerated. All Series 2010A 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 2010A 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 2010A Bond by the total principal scheduled to be paid in the year of maturity of such Series 2010A Bond on all loans made with the proceeds of the Series 2010A Bonds, including the defaulted loan.

The particular Series 2010A Bonds of each affected maturity to be redeemed will be selected in the manner described below under "- Selection of Series 2010A Bonds to be Redeemed."

Special Redemption

The Series 2010A Bonds are also subject to redemption at the option of the Authority, as a whole or in part, on any interest payment date at 100% of the principal amount thereof, from the proceeds of a condemnation or insurance award, which is not to be used to repair, restore or replace a Series 2010A Facility of a Series 2010A Participant.

Mandatory Sinking Fund Redemption

The Subseries 2010A-1 Bonds maturing on July 1, 2025 and July 1, 2030 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 2010A-1 Bonds specified for each such year below:

Subseries 2010A-1 Bonds Maturing July 1, 2025		Subseries 2010A-1 Bonds Maturing July 1, 2030	
Year	Sinking Fund Installment	Year	Sinking Fund Installment
2021	$1,855,000	2026	$ 90,000
2022	1,845,000	2027	90,000
2023	1,465,000	2028	120,000
2024	1,480,000	2029	55,000
2025†	2,260,000	2030†	95,000

†Final maturity.

The Subseries 2010A-2 Bonds maturing on July 1, 2012 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 2010A-2 Bonds specified for each such year below:

Subseries 2010A-2 Bonds
Maturing July 1, 2012

Year	Sinking Fund Installment
2011	$400,000
2012†	255,000

†Final maturity.

The Series 2010A Participants may elect to have the Series 2010A 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 2010A Bonds of the same Subseries and maturity. To the extent the Authority'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 2010A Bonds of the Subseries and maturity so purchased will be reduced for such year.

Selection of Series 2010A Bonds to be Redeemed

In the case of redemptions of Subseries 2010A-1 Bonds described above under the heading "Optional Redemption," the Authority will select the maturities of the Allocable Portion of the Subseries 2010A-1 Bonds to be redeemed. In the case of redemption of Series 2010A Bonds described above under the heading "Special Redemption," Series 2010A Bonds will be redeemed to the extent practicable pro rata among maturities of the Allocable Portion of the Series 2010A Bonds, but only in integral multiples of $5,000 within each maturity. If less than all of the Series 2010A Bonds of a maturity are to be redeemed (pursuant to an optional, special, extraordinary mandatory or mandatory sinking fund redemption), the Series 2010A 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 2010A Bond in the name of the Authority which notice shall be given by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the redemption date to the registered owners of any Series 2010A Bonds which are to be redeemed, at their last known addresses appearing on the registration books of the Authority not more than 10 days prior to the date such notice is to be given. If the Authority's obligation to redeem Series 2010A 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 2010A Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Series 2010A Bond. If directed in writing by an Authorized Officer of the Authority, the Trustee shall publish or cause to be published such notice in an Authorized Newspaper not less than thirty (30) days nor more than forty-five (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 2010A Bonds.

If, on the redemption date, moneys for the redemption of the Series 2010A 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 2010A Bonds of such Subseries and maturity will cease to accrue from and after the redemption date and such Series 2010A Bonds will no longer be considered to be Outstanding under the Resolution and the Series 2010A Resolution.

For a more complete description of the redemption and other provisions relating to the Series 2010A Bonds, see "Appendix F - Summary of Certain Provisions of the Resolutions."

Purchase in Lieu of Optional Redemption

The Subseries 2010A-1 Bonds maturing after July 1, 2020 are also subject to purchase prior to maturity, at the election of the Authority, on or after July 1, 2020, in any order, in whole or in part at any time, at a price equal to the principal amount thereof to be purchased (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 2010A-1 Bonds to be so purchased.

Notice of Purchase and its Effect

Notice of the purchase of Subseries 2010A-1 Bonds will be given by the Authority in the name of the Series 2010A Participants to the registered owners of the Subseries 2010A-1 Bonds to be purchased by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the Purchase Date specified in such notice. The Subseries 2010A-1 Bonds to be purchased are required to be tendered on the Purchase Date to the Trustee. Subseries 2010A-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 the Authority evidenced thereby and such Subseries 2010A-1 Bonds need not be cancelled, but shall remain Outstanding under the Resolution and in such case shall continue to bear interest.

The Authority's obligation to purchase a Subseries 2010A-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 2010A-1 Bonds to be purchased on the Purchase Date. If sufficient money is available on the Purchase Date to pay the Purchase Price of the Subseries 2010A-1 Bonds to be purchased, the former registered owners of such Subseries 2010A-1 Bonds will have no claim thereunder or under the Resolution or otherwise for payment of any amount other than the Purchase Price. If sufficient money is not available on the Purchase Date for payment of the Purchase Price, the Subseries 2010A-1 Bonds tendered or deemed tendered for purchase will continue to be registered in the name of the registered owners on the Purchase Date, who will be entitled to the payment of the principal of and interest on such Subseries 2010A-1 Bonds in accordance with their respective terms.

In the event not all of the Outstanding Subseries 2010A-1 Bonds of a maturity are to be purchased, the Subseries 2010A-1 Bonds of such maturity to be purchased will be selected by lot in the same manner as Subseries 2010A-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 2010A Bonds. The Series 2010A 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 2010A Bond certificate will be issued for each maturity of the respective Subseries of Series 2010A 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 Standard & Poor's highest rating: AAA. 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 2010A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2010A 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 2010A 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 2010A Bonds, except in the event that use of the book-entry system for the Series 2010A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010A 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 2010A 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 2010A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010A 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 2010A 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 2010A 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 the Authority 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 2010A 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 2010A 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 the Authority 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 the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2010A Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2010A Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Series 2010A Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Authority and the Trustee shall not have any responsibility or obligation to any Participant or any person claiming a beneficial ownership interest in the Series 2010A Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any 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 2010A 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 the Authority; or other action taken by DTC as a registered owner. Interest, redemption premium, if any, and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct Participants or the Indirect Participants.

For every transfer and exchange of beneficial ownership of the Series 2010A 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 2010A Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law, or the Authority may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the Authority may retain another securities depository for the Series 2010A Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such bond certificates, such Series 2010A Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2010A 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 the Authority.

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 the Authority, the Trustee or the Underwriters 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 2010A Bonds

The following table sets forth the amounts required to be paid by each of the Series 2010A Participants during each twelve month period ending June 30 of the Bond Years shown for the payment of the interest on the Series 2010A Bonds payable on January 1 of such year and the principal and Sinking Fund Installments of and interest on the Series 2010A Bonds payable on the succeeding July 1 and the aggregate payments to be made by the Series 2010A Participants during each such period with respect to the Series 2010A Bonds.

Total Debt Service by Series 2010A Participant

FY Ending	Federation Employment and Guidance Service, Inc.		Human Care Services for Families & Children, Inc.		Lifespire, Inc.		SCO – Family of Services		SUS – Developmental Disabilities Services, Inc. and Services for the Underserved, Inc.		United Cerebral Palsy of New York City, Inc.		Wildwood Programs, Inc.		Young Adult Institute, Inc.	
	Principal & Sinking Fund Install-ments	Interest	Principal & Sinking Fund Install-ments	Interest	Principal & Sinking Fund Install-ments	Interest	Principal & Sinking Fund Install-ments	Interest	Principal & Sinking Fund Install-ments	Interest	Principal & Sinking Fund Install-ments	Interest	Principal & Sinking Fund Install-ments	Interest	Principal & Sinking Fund Installments	Interest
6/30/2011	$50,000.00	$29,190.86	$130,000.00	$60,803.43	$470,000.00	$208,693.10	$95,000.00	$58,038.27	$375,000.00	$123,985.95	$120,000.00	$51,455.03	$20,000.00	$13,349.48	$975,000.00	$470,315.31
6/30/2012	50,000.00	28,160.00	130,000.00	58,285.00	470,000.00	199,465.00	105,000.00	55,852.50	380,000.00	116,617.50	120,000.00	49,112.50	25,000.00	12,812.50	985,000.00	451,187.50
6/30/2013	50,000.00	26,610.00	130,000.00	54,285.00	475,000.00	185,115.00	105,000.00	52,677.50	380,000.00	105,167.50	120,000.00	45,437.50	25,000.00	12,037.50	995,000.00	420,937.50
6/30/2014	50,000.00	25,560.00	130,000.00	51,555.00	495,000.00	175,140.00	105,000.00	50,472.50	380,000.00	97,187.50	125,000.00	42,917.50	25,000.00	11,512.50	1,025,000.00	400,042.50
6/30/2015	50,000.00	24,310.00	130,000.00	48,305.00	410,000.00	162,765.00	105,000.00	47,847.50	380,000.00	87,687.50	125,000.00	39,792.50	25,000.00	10,887.50	975,000.00	374,417.50
6/30/2016	50,000.00	22,935.00	105,000.00	44,730.00	415,000.00	151,490.00	105,000.00	44,960.00	175,000.00	77,237.50	125,000.00	36,355.00	25,000.00	10,200.00	800,000.00	347,605.00
6/30/2017	50,000.00	21,335.00	105,000.00	41,370.00	415,000.00	138,210.00	105,000.00	41,600.00	175,000.00	71,637.50	125,000.00	32,355.00	25,000.00	9,400.00	800,000.00	322,005.00
6/30/2018	55,000.00	19,610.00	105,000.00	37,747.50	415,000.00	123,892.50	105,000.00	37,977.50	175,000.00	65,600.00	125,000.00	28,042.50	25,000.00	8,537.50	795,000.00	294,405.00
6/30/2019	55,000.00	17,630.00	105,000.00	33.967.50	415,000.00	108,952.50	110,000.00	34,197.50	175,000.00	59,300.00	130,000.00	23,542.50	25,000.00	7,637.50	785,000.00	265,785.00
6/30/2020	55,000.00	15,512.50	105,000.00	29,925.00	410,000.00	92,975.00	110,000.00	29,962.50	175,000.00	52,562.50	130,000.00	18,537.50	25,000.00	6,675.00	790,000.00	235,562.50
6/30/2021	55,000.00	12,962.50	105,000.00	25,075.00	415,000.00	74,075.00	110,000.00	24,862.50	175,000.00	44,412.50	170,000.00	12,537.50	25,000.00	5,525.00	800,000.00	199,262.50
6/30/2022	55,000.00	10,625.00	105,000.00	20,612.50	530,000.00	56,437.50	105,000.00	20,187.50	175,000.00	36,975.00	35,000.00	5,312.50	25,000.00	4,462.50	815,000.00	165,262.50
6/30/2023	55,000.00	8,287.50	105,000.00	16,150.00	190,000.00	33,912.50	105,000.00	15,725.00	175,000.00	29,537.50	35,000.00	3,825.00	25,000.00	3,400.00	775,000.00	130,625.00
6/30/2024	55,000.00	5.950.00	105,000.00	11,687.50	190,000.00	25,837.50	105,000.00	11,262.50	175,000.00	22,100.00	55,000.00	2,337.50	20,000.00	2,337.50	775,000.00	97,687.50
6/30/2025	85,000.00	3,612.50	170,000.00	7,225.00	275,000.00	17,762.50	160,000.00	6,800.00	345,000.00	14,662.50			35,000.00	1,487.50	1,190,000.00	64,750.00
6/30/2026					35,000.00	6,075.00									55,000.00	14,175.00
6/30/2027					35,000.00	4,500.00									55,000.00	11,700.00
6/30/2028					65,000.00	2,925.00									55,000.00	9,225.00
6/30/2029															55,000.00	6,750.00
6/30/2030															95,000.00	4,275.00

PART 4 - THE SERIES 2010A PARTICIPANTS

General

Descriptions of the Series 2010A Participants, their operations and the Series 2010A Facilities they will finance or refinance with the proceeds of the Series 2010A Bonds are set forth in Appendix A hereto. Copies of the most recent audited financial statements for each of the Series 2010A Participants are set forth in Appendix B hereto and copies of recent unaudited financial information for each of the Series 2010A Participants are set forth in Appendix C. Prospective purchasers of the Series 2010A Bonds should carefully review Appendix A, Appendix B and Appendix C.

The Series 2010A Participants are not-for-profit corporations, organized and existing under the laws of the State. All of the Series 2010A 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 2010A 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 2010A Participant's charitable purposes. When revenues are not sufficient to cover expenses, the Series 2010A 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 2010A 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 2010A Participants owns and/or leases and operates one or more facilities, including the Series 2010A Facilities as described in Appendix A, in the State of New York, to provide services to individuals who are developmentally disabled or have other special needs. Each of the Series 2010A Participants has represented that it has the appropriate licenses and authority to provide its services under State statutes. In addition to the PPAs with OMRDD on the Series 2010A Facilities, the Series 2010A 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 2010A 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 2010A 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 2010A Participants**. See "PART 5 - SOURCES OF SERIES 2010A PARTICIPANT FUNDING" herein.

The Series 2010A Participants have engaged the Program Facilitator to act as the facilitator for the InterAgency Council Pooled Loan Program. For its services, the Series 2010A Participants will pay the Program Facilitator a fee of .25% of the principal amount of the Series 2010A Bonds at closing and an annual fee of .125% of all outstanding Series 2010A Bonds. Each of the Series 2010A Participants are members of the Program Facilitator.

All of the Series 2010A Facilities financed by the Series 2010A Bonds are covered by PPAs funded by OMRDD. All of the Series 2010A Participants have over 20 years of experience providing services. See "PART 5 - SOURCES OF SERIES 2010A PARTICIPANT FUNDING."

PART 5 - SOURCES OF SERIES 2010A PARTICIPANT FUNDING

OMRDD provides a portion of the revenues of the Series 2010A Participants through contracts and reimbursement arrangements for the provision of their services. The current methodology used by OMRDD in determining the amounts to be paid to the Series 2010A Participants for provision of services is set forth below. Other government funding sources for one or more of the Series 2010A Participants are described in "Appendix A - Description of Series 2010A Participants."

New York State Office of Mental Retardation and Developmental Disabilities

OMRDD meets its statutory mandate almost entirely by contracting with non-profit service provider agencies. Although the community residential program statewide has grown from 9,000 community beds in 1980 to approximately 37,500 community beds in 2009, the list of known individuals awaiting home placements is approximately 6,000. The scope of the waiting list problem in the metropolitan New York City region is much more severe. Although over half of the people on the waiting list reside in this region, only about 30% of the State's existing community services capacity is in the metropolitan New York City region. In recent years OMRDD has adjusted its community development allocation formula to direct a more appropriate portion of new funds to the area in order to address this imbalance. In August 1998, Governor George Pataki announced a comprehensive 5-year plan to virtually eliminate the waiting list for residential services for people with developmental disabilities in New York State. The plan, called New York State CARES, has added approximately 18,000 new community beds to the community service system. The New York State CARES initiative continues beyond the original five years with annual appropriations of funds for new community service development (including residential, day services and support services). These funds are distributed through a Request for Proposal ("RFP") process, and are 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.

OMRDD serves and supports individuals and families of individuals with developmental disabilities. OMRDD works with local governments and non-profit providers to oversee a comprehensive system for delivery of services to people who are developmentally disabled. Both institutional and community-based services are delivered through a network of non-profit providers, nine State developmental centers and numerous State-operated programs based in the community.

OMRDD 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. OMRDD operates 13 Developmental Disabilities Services Offices which have responsibility for regional administration of community-based programs and, where applicable, institutionally based programs. It also provides residential care and habilitative services to approximately 1,500 consumers in nine institutional settings informally known as developmental centers and specialized units located throughout the State. In addition, OMRDD funds and regulates a State-operated and voluntary-operated community based service program which now provides residential services to more than 37,500 individuals and day services supporting nearly 57,000 individuals. Additionally, families who care for nearly 43,000 disabled family members at home are supported by a variety of services, including respite and crisis intervention, which help prevent unnecessary and costly out-of-home placement. These services are made possible by the cooperative efforts of localities, voluntary not-for-profit organizations, and service providers who work with OMRDD to deliver appropriate and cost-effective services to individuals with developmental disabilities.

In connection with the foregoing, OMRDD is responsible for, among other things, the regulation and licensing of the Series 2010A Facilities expected to be financed or refinanced with the proceeds of the Series 2010A Bonds. Such regulation and licensing includes, among other things, participation in the determination as to the need for the Series 2010A Facility, review of plans and specifications for construction/rehabilitation of the Series 2010A Facility, the right to conduct inspections and program audits, and the establishment of a reimbursement rate for an individual's care.

Population

Consistent with its comprehensive Five Year Plan and the ongoing New York State CARES initiative, OMRDD services a diverse population of individuals with developmental disabilities including persons with mental retardation, cerebral palsy, autism, epilepsy and learning disabilities. OMRDD'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 not-for-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. The 2009-2010 New York State Budget included funding to allow this system to serve 1,500 individuals in specialized service units during the 2009-2010 fiscal year. Twelve State-operated developmental centers were formally closed between 1987 and 1998; the proposed New York State Executive Budget for 2010-2011 includes plans to close the remainder of the developmental center units over the next few years.

The proposed New York State Executive Budget for 2010-2011 provides an overall spending increase of 6.2%, and 8.1% increase in Aid to Localities. In addition the proposed budget includes a 3.06% trend to Medicaid programs retroactive to April 1, 2009, and a 2.08% trend to Medicaid programs effective April 1, 2010; a $7.9 million increase in family support services, and funding for an additional 530 New York State CARES beds, 1,640 day service opportunities, 133 new beds for people living in nursing homes, 44 new beds for children currently living in out-of-state residential schools, and 180 beds for people currently living is State-operated institutions.

Population Statistics

The following are actual population statistics for the residential programs for the mentally retarded or the disabled provided by OMRDD (Source: OMRDD):

Year (as of 3/31)	State-Operated Development Centers	Not-for-Profit Community Residences
2003	1,651	35,500
2004	1,600	36,000
2005	1,681*	36,600
2006	1,700	37,000
2007	1,700	37,500
2008	1,593	36,760
2009	1,500	37,500

* Increase related to development of specialized units for forensic populations. Specialized units include two Centers for Intensive Treatment Units and Regional Intensive Treatment Units that serve individuals with development disabilities who are committed to OMRDD facilities by the criminal justice system.

The appropriations made for the operations and costs of OMRDD for State Fiscal Years 2004-2005 through 2009-2010 are as follows (Source: OMRDD):

Year	Aid to Localities	State Operations	Total Operations
2004-2005	$1,546,841,000	$1,266,096,000	$2,812,937,000
2005-2006	1,622,384,000	1,356,624,000	2,979,008,000
2006-2007	1,818,919,000	1,454,196,000	3,273,115,000
2007-2008	2,067,751,000	1,465,083,000	3,532,834,000
2008-2009	2,234,383,899	1,976,645,000	4,211,028,899
2009-2010	2,221,012,000	2,171,410,000	4,392,422,000

The PPA Funds received by the Series 2010A Participants from OMRDD are appropriated through the 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 OMRDD 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 OMRDD 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 the OMRDD. The provider commits to develop the program to serve a specific number of individuals in a specific type of facility and program. OMRDD 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 2010A Facilities, are required to have an operating certificate issued by the New York State Mental Health Commissioner (the "Commissioner"). The Commissioner, upon issuing a notice that he or she will revoke or suspend an operating certificate of a facility, or he or she will disapprove an application for a renewal of such certificate, or prior to suspending an operating certificate for up to 60 days, may ask a court to appoint a receiver for the facility in the event that the health, safety and welfare of the residents are in jeopardy. The court shall appoint a receiver, upon making certain findings as described in the Mental Hygiene Law, which should be a voluntary or not-for-profit corporation recommended 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.

OMRDD Rights With Respect to Series 2010A Facilities

In addition to the statutory receiver remedy described above, each Loan Agreement provides for a contractual remedy upon the failure of a Series 2010A Participant to operate its Series 2010A Facilities in accordance with regulatory standards. Each Series 2010A Participant has covenanted and agreed in its Loan Agreement that in the event that it fails to operate a certified program for the developmentally disabled at one or more of its Series 2010A Facilities in accordance with the valid operating certificate issued by OMRDD for such Series 2010A Facility, in addition to any other legal remedies OMRDD may have, OMRDD 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 2010A Facility for the remaining term during which such Series 2010A Participant has agreed to operate such certified program at the Series 2010A Facility and, further, may assign such rights to another operator. In such event, OMRDD or any assignee will be required to make the payments owed by the Series 2010A Participant under its Loan Agreement with respect to such Series 2010A Facility as they become due and owing. See "Appendix D - Summary of Certain Provisions of the Loan Agreements" for further details of OMRDD's rights with respect to the Series 2010A Facilities and the Authority's remedy upon an event of default by a Series 2010A Participant under its Loan Agreement to request OMRDD to exercise such rights.

PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of proceeds of the Series 2010A Bonds:

Sources of Funds

Principal amount of Subseries 2010A-1 Bonds	$29,015,000
Less Net Original Issue Discount on Subseries 2010A-1 Bonds	(417,958)
Principal amount of Subseries 2010A-2 Bonds	655,000
Total Sources of Funds	**$29,252,042**

Uses of Funds

Deposit into Series 2010A Debt Service Reserve Fund	$ 1,159,829
Deposit into Series 2010A Project Loan Fund	26,586,740
Series 2010A Costs of Issuance[(1)]	1,505,473
Total Uses of Funds	**$29,252,042**

(1) Includes Underwriters' discount and State Bond Issuance fee.

PART 7 - THE AUTHORITY

Background, Purposes and Powers

The Authority is a body corporate and politic constituting a public benefit corporation. The Authority was created by the Act for the purpose of financing and constructing a variety of facilities for certain independent colleges and universities and private hospitals, certain not-for-profit institutions, public educational institutions including The State University of New York, The City University of New York and Boards of Cooperative Educational Services ("BOCES"), certain school districts in the State, facilities for the Departments of Health and Education of the State, the Office of General Services, the Office of General Services of the State on behalf of the Department of Audit and Control, facilities for the aged and certain judicial facilities for cities and counties. The Authority is also authorized to make and purchase certain loans in connection with its student loan program. To carry out this purpose, the Authority was given the authority, among other things, to issue and sell negotiable bonds and notes to finance the construction of facilities of such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions.

On September 1, 1995, the Authority through State legislation (the "Consolidation Act") succeeded to the powers, duties and functions of the New York State Medical Care Facilities Finance Agency (the "Agency") and the Facilities Development Corporation (the "Corporation"), each of which will continue its corporate existence in and through the Authority. Under the Consolidation Act, the Authority has also acquired by operation of law all assets and property, and has assumed all the liabilities and obligations, of the Agency and the Corporation, including, without limitation, the obligation of the Agency to make payments on its outstanding bonds, and notes or other obligations. Under the Consolidation Act, as successor to the powers, duties and functions of the Agency, the Authority is authorized to issue and sell negotiable bonds and notes to finance and refinance mental health services facilities for use directly by the New York State Department of Mental Hygiene and by certain voluntary agencies. As such successor to the Agency, the Authority has acquired additional authorization to issue bonds and notes to provide certain types of financing for certain facilities for the Department of Health, not-for-profit corporations providing hospital, medical and residential health care facilities and services, county and municipal hospitals and nursing homes, not-for-profit and limited profit nursing home companies, qualified health maintenance organizations and health facilities for municipalities constituting social services districts. As successor to the Corporation, the Authority is authorized, among other things, to assume exclusive possession, jurisdiction, control and supervision over all State mental hygiene facilities and to make them available to the Department of Mental Hygiene, to provide for construction and modernization of municipal hospitals, to provide health facilities for municipalities, to provide health facilities for voluntary non-profit corporations, to make its services available to the State Department of Correctional Services, to make its services available to municipalities to provide for the design and construction of local correctional facilities, to provide services for the design and construction of municipal buildings, and to make loans to certain voluntary agencies with respect to mental hygiene facilities owned or leased by such agencies.

The Authority has the general power to acquire real and personal property, give mortgages, make contracts, operate dormitories and other 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, make reasonable rules and regulations to assure the maximum use of facilities, borrow money, issue negotiable bonds or notes and provide for the rights of their holders and adopt a program of self-insurance.

In addition to providing financing, the Authority offers a variety of services to certain educational, governmental and not-for-profit institutions, including advising in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects, designing interiors of projects and designing and managing projects to rehabilitate older facilities. In succeeding to the powers, duties and functions of the Corporation as described above, the scope of design and construction services afforded by the Authority has been expanded.

Outstanding Indebtedness of the Authority (Other than Indebtedness Assumed by the Authority)

At March 31, 2010, the Authority had approximately $41.5 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority's bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

The Authority's bonds and notes include both special obligations and general obligations of the Authority. The Authority's special obligations are payable solely from payments required to be made by or for the account of the institution for which the particular special obligations were issued or from borrowers in connection with its student loan program. Such payments are pledged or assigned to the trustees for the holders of respective special obligations. The Authority has no obligation to pay its special obligations other than from such payments. The Authority's general obligations are payable from any moneys of the Authority legally available for the payment of such obligations. However, the payments required to be made by or for the account of the institution for which general obligations were issued generally have been pledged or assigned by the Authority to trustees for the holders of such general obligations. The Authority has always paid the principal of and interest on its special and general obligations on time and in full.

The total amounts of the Authority bonds and notes (excluding debt of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act) outstanding at March 31, 2010 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
State University of New York Dormitory Facilities	$ 2,350,316,000	$ 1,043,710,000	$ 0	$ 1,043,710,000
State University of New York Educational and Athletic Facilities	13,243,272,999	5,624,057,245	0	5,624,057,245
Upstate Community Colleges of the State University of New York	1,590,645,000	662,375,000	0	662,375,000
Senior Colleges of the City University of New York	10,262,671,762	3,346,519,213	0	3,346,519,213
Community Colleges of the City University of New York	2,444,968,350	542,365,787	0	542,365,787
BOCES and School Districts	2,436,626,208	1,845,580,000	0	1,845,580,000
Judicial Facilities	2,161,277,717	724,132,717	0	724,132,717
New York State Departments of Health and Education and Other	6,138,795,000	4,230,220,000	0	4,230,220,000
Mental Health Services Facilities	8,032,895,000	3,881,765,000	0	3,881,765,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	985,555,000	760,915,000	0	760,915,000
Totals Public Programs	$ 50,420,498,036	$ 22,661,639,962	$ 0	$ 22,661,639,962

Non-Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Independent Colleges, Universities and Other Institutions	$ 18,886,575,260	$ 9,853,091,435	$ 35,975,000	$ 9,889,066,435
Voluntary Non-Profit Hospitals	14,092,059,309	8,070,515,000	0	8,070,515,000
Facilities for the Aged	1,996,020,000	887,495,000	0	887,495,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Totals Non-Public Programs	$ 35,069,654,569	$ 18,811,101,435	$ 35,975,000	$ 18,847,076,435
Grand Totals Bonds and Notes	$ 85,490,152,605	$ 41,472,741,397	$ 35,975,000	$ 41,508,716,397

Outstanding Indebtedness of the Agency Assumed by the Authority

At March 31, 2010, the Agency had approximately $324.9 million aggregate principal amount of bonds outstanding, the obligations as to all of which have been assumed by the Authority. The debt service on each such issue of bonds is paid from moneys received by the Authority (as successor to the Agency) or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue.

The total amounts of the Agency's bonds (which indebtedness was assumed by the Authority on September 1, 1995) outstanding at March 31, 2010 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding
Mental Health Services Improvement Facilities	$ 3,817,230,725	$ 0
Non-Public Programs	**Bonds Issued**	**Bonds Outstanding**
Hospital and Nursing Home Project Bond Program	$ 226,230,000	$ 2,880,000
Insured Mortgage Programs	6,625,079,927	314,970,000
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	7,045,000
Total Non-Public Programs	$ 9,265,549,927	$ 324,895,000
Total MCFFA Outstanding Debt	$ 13,082,780,652	$ 324,895,000

Governance

The Authority carries out its programs through an eleven-member board, a full-time staff of approximately 660 persons, independent bond counsel and other outside advisors. 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 Authority meetings. The members of the Authority serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties.

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

The current members of the Authority are as follows:

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

Alfonso L. Carney, Jr. was appointed as a Member of the Authority by the Governor on May 20, 2009. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical and legal consulting services in New York City. Consulting for the firm in 2005, he 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 directed overall staff management of the foundation, and provided strategic oversight of the administration, communications and legal affairs teams, and developed selected foundation program initiatives. Prior to this, Mr. Carney held several positions with Altria Corporate Services, Inc., most recently as Vice President and Associate General Counsel for Corporate and Government Affairs. Prior to that, Mr. Carney served as Assistant Secretary of Philip Morris Companies Inc. and Corporate Secretary of Philip Morris Management Corp. For eight years, Mr. Carney was Senior International Counsel first for General Foods Corporation and later for Kraft Foods, Inc. and previously served as Trade Regulation Counsel, Assistant Litigation Counsel and Federal Government Relations Counsel for General Foods, where he began his legal career in 1975 as a Division Attorney. Mr. Carney is a trustee of Trinity College, the University of Virginia Law School Foundation, the Riverdale Country School and the Virginia Museum of Fine Arts in Richmond. In addition, he is a trustee of the Burke Rehabilitation Hospital in White Plains. Mr. Carney holds a Bachelors 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, 2013.

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on June 20, 2007. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the *Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer*, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. 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, 2013.

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

Jacques Jiha was appointed as a Member of the Authority by the Governor on December 15, 2008. Mr. Jiha is the Executive Vice President / Chief Operating Officer & Chief Financial Officer of Black Enterprise, a multi-media company with properties in print, digital media, television, events and the internet. He is a member of the Investment Advisory Committee of the New York Common Retirement Fund. Previously, Mr. Jiha served as Deputy Comptroller for Pension Investment and Public Finance in the Office of the New York State Comptroller. As the state's chief investment officer, he managed assets valued at $120 billion and was also in charge of all activities related to the issuance of New York State general obligation bonds, bond anticipation notes, tax and revenue anticipation notes, and certificates of participation. Mr. Jiha was the Co-Executive Director of the New York State Local Government Assistance Corporation (LGAC) in charge of the sale of refunding bonds, the ratification of swap agreements, and the selection of financial advisors and underwriters. Prior thereto, Mr. Jiha was Nassau County Deputy Comptroller for Audits and Finances. He also worked for the New York City Office of the Comptroller in increasingly responsible positions: first as Chief Economist and later as Deputy

Comptroller for Budget. Earlier, Mr. Jiha served as Executive Director of the New York State Legislative Tax Study Commission and as Principal Economist for the New York State Assembly Committee on Ways and Means. He holds a Ph.D. and a Master's degree in Economics from the New School University and a Bachelor's degree in Economics from Fordham University. His current term expires on March 31, 2011.

CHARLES G. MOERDLER, ESQ., New York.

Charles Moerdler was appointed as a Member of the Authority by the Governor on March 16, 2010. Mr. Moerdler is a founding partner in the Litigation Practice of the law firm Stroock & Stroock & Lavan LLP. His areas of practice include defamation, antitrust, securities, real estate, class actions, health care, international law, labor law, administrative law and zoning. Mr. Moerdler also specializes in State and Federal appellate practice. He served as Commissioner of Housing and Buildings of the City of New York, as a real estate and development consultant to New York City Mayor John Lindsay, as a member of the City's Air Pollution Control Board, and as Chairman and Commissioner of the New York State Insurance Fund. Mr. Moerdler currently serves on the Board of Directors of the New York City Housing Development Corporation and as a member of the New York City Board of Collective Bargaining. He holds a Bachelors of Arts degree from Long Island University and a Juris Doctor degree from Fordham University. His current term expires on March 31, 2012.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on December 15, 2008. A certified public accountant with more than 37 years of experience, Mr. Martino is a retired partner of the Buffalo CPA firm Lumsden & McCormick, LLP. He began his career at Price Waterhouse where he worked in the firm's Buffalo and Washington, DC, offices. Mr. Martino is a member of the American Institute of CPAs and the New York State Society of CPAs. Long involved in community organizations, he serves on the boards of the Buffalo Niagara Medical Campus as Vice Chairman, Mount Calvary Cemetery as Chair of the Investment Committee, Cradle Beach Camp of which he is a former Chair, the Kelly for Kids Foundation and Key Bank. Mr. Martino received a Bachelor of Science degree in accounting from the University at Buffalo. Mr. Martino's current term expires on August 31, 2010.

SANDRA M. SHAPARD, Delmar.

Ms. Shapard was appointed as a Member of the Authority by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from January, 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 Budget, from 1991 to 1994, and Deputy Assistant Commissioner for Transit for the State Department of Transportation, from 1988 to 1991. She began her career in New York State government with the Assembly in 1975 where, over a thirteen year period, 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. Ms. Shapard also served as Assistant to the County Executive in Dutchess County. A graduate of Mississippi University for Women, Ms. Shapard received a Masters of Public Administration from Harvard University, John F. Kennedy School of Government, where she has served as visiting lecturer, and has completed graduate work at Vanderbilt University.

GERARD ROMSKI, Esq., Mount Kisco.

Mr. Romski was appointed as a Member of the Authority by the Temporary President of the State Senate on June 8, 2009. 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, NY. Mr. Romski is also of counsel to the New York City law firm of Bauman, Katz and Grill LLP. He formerly was a partner in the law firm of Ross & Cohen, LLP (now merged with Duane Morris, LLP) for twelve years, handling all aspects of real estate and construction law for various clients. He previously served as Assistant Division Chief for the New York City Law Department's Real Estate Litigation Division where he managed all aspects of litigation arising from real property owned by The City of New York. Mr. Romski is a member of the Urban Land Institute, Council of Development Finance Agencies, the New York State Bar Association, American Bar Association and New York City Bar Association. He previously served as a member of the New York City Congestion Mitigation Commission and the Board of Directors for the Bronx Red Cross. 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.

Dr. Hedges was appointed as a Member of the Authority 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. Dr. Hedges previously served as the Director of Fiscal Studies of the 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 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.

DAVID M. STEINER, Ph.D., *Commissioner of Education of the State of New York,* Albany; *ex-officio.*

David M. Steiner was appointed by the Board of Regents as President of the University of the State of New York and Commissioner of Education on October 1, 2009. Prior to his appointment, Dr. Steiner served as the Klara and Larry Silverstein Dean of the School of Education at Hunter College CUNY. Prior to his time with Hunter College, Dr. Steiner served as Director of Arts Education at the National Endowment for the Arts and Chairman of the Department of Education Policy at Boston University. As Commissioner of Education, Dr. Steiner serves as chief executive officer of the Board of Regents, which has jurisdiction over the State's entire educational system, which includes public and non-public elementary, middle and secondary education; public and independent colleges and universities; museums, libraries and historical societies and archives; the vocational rehabilitation system; and responsibility for licensing, practice and oversight of numerous professions. He holds a Doctor of Philosophy in political science from Harvard University and a Bachelor of Arts and Master of Arts degree in philosophy, politics and economics from Balliol College at Oxford University.

RICHARD F. DAINES, M.D., *Commissioner of Health*, Albany; *ex-officio*.

Richard F. Daines, M.D., became Commissioner of Health on March 21, 2007. Prior to his appointment he served as President and CEO at St. Luke's-Roosevelt Hospital Center since 2002. Before joining St. Luke's-Roosevelt Hospital Center as Medical Director in 2000, Dr. Daines served as Senior Vice President for Professional Affairs of St. Barnabas Hospital in the Bronx, New York since 1994 and as Medical Director from 1987 to 1999. Dr. Daines received a Bachelor of History degree from Utah State University in 1974 and served as a missionary for the Church of Jesus Christ of Latter-day Saints in Bolivia, 1970-1972. He received his medical degree from Cornell University Medical College in 1978. He served a residency in internal medicine at New York Hospital and is Board Certified in Internal Medicine and Critical Care Medicine.

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

Mr. Megna was appointed Budget Director on June 15, 2009. He is responsible for the overall development and management of the State's fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State's debt portfolio, as well as pensions and employee benefits. Mr. Megna previously served as Commissioner of the New York State Department of Taxation and Finance, responsible for overseeing the collection and accounting of more than $90 billion in State and local taxes, the administration of State and local taxes, including New York City and the City of Yonkers income taxes and the processing of tax returns, registrations and associated documents. Prior to this he served as head of the Economic and Revenue Unit of the New York State Division of the Budget where he was responsible for State Budget revenue projections and the development and monitoring of the State Financial Plan. Mr. Megna was Assistant Commissioner for Tax Policy for the Commonwealth of Virginia. He also served as Director of Tax Studies for the New York State Department of Taxation and Finance and as Deputy Director of Fiscal Studies for the Ways and Means Committee of the New York State Assembly. Mr. Megna was also an economist for AT&T. He holds Masters degrees in Public Policy from Fordham University and Economics from the London School of Economics.

The principal staff of the Authority is as follows:

PAUL T. WILLIAMS, JR. is the President and chief executive officer of the Authority. Mr. Williams is responsible for the overall management of the Authority's administration and operations. He most recently served as Senior Counsel in the law firm of Nixon Peabody LLP. Prior to working at Nixon Peabody, Mr. Williams helped to establish a boutique Wall Street investment banking company. Prior thereto, Mr. Williams was a partner in, and then of counsel to, the law firm of Bryan Cave LLP. He was a founding partner in the law firm of Wood, Williams, Rafalsky & Harris, which included a practice in public finance and served there from 1984-1998. Mr. Williams began his career as an associate at the law firm of Walker & Bailey in 1977 and thereafter served as a counsel to the New York State Assembly. Mr. Williams is licensed to practice law in the State of New York and holds professional licenses in the securities industry. He holds a Bachelor’s degree from Yale University and a Juris Doctor degree from Columbia University School of Law.

MICHAEL T. CORRIGAN is the Vice President of the Authority, and assists the President in the administration and operation of the Authority. Mr. Corrigan came to the Authority 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 the Authority, 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 Authority bond issuance in the capital markets, through financial feasibility analysis and financing structure determination for Authority clients; as well as implementing and overseeing financing programs, including interest rate exchange and similar agreements; overseeing the Authority’s compliance with continuing disclosure requirements and monitoring the financial condition of existing Authority 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. In addition, Ms. Lee has extensive public service experience working for over 10 years in various positions in the Governor's Office, NYS Department of Social Services, as well as the New York State Assembly. She holds a Bachelor's degree from the State University of New York at Albany.

PAUL W. KUTEY is the Chief Financial Officer of the Authority. Mr. Kutey oversees and directs the activities of the Office of Finance and Information Services. He is responsible for supervising the Authority's investment program, accounting functions, operation, maintenance and development of computer hardware, software and communications infrastructure; as well as the development and implementation of financial policies, financial management systems and internal controls for financial reporting. Previously, Mr. Kutey was Senior Vice President of Finance and Operations for AYCO Company, L.P., a Goldman Sachs Company, where his responsibilities included finance, operations and facilities management. Prior to joining AYCO Company, he served as Corporate Controller and Acting Chief Financial Officer for First Albany Companies, Inc. From 1982 until 2001, Mr. Kutey held increasingly responsible positions with PricewaterhouseCoopers, LLP, becoming Partner in 1993. He is a Certified Public Accountant and holds a Bachelor of Business Administration degree from Siena College.

JEFFREY M. POHL is General Counsel to the Authority. Mr. Pohl is responsible for all legal services including legislation, litigation, contract matters and the legal aspects of all Authority financings. He is a member of the New York State Bar, and most recently served as a counsel in the public finance group of a large New York law firm. Mr. Pohl had previously served in various capacities in State government with the Office of the State Comptroller and the New York State Senate. He holds a Bachelor's degree from Franklin and Marshall College and a Juris Doctor degree from Albany Law School of Union University.

STEPHEN D. CURRO, P.E. is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, purchasing, contract administration, interior design, and engineering and other technology services. Mr. Curro joined the Authority 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 Rhode Island and has worked in the construction industry for over 20 years as a consulting structural engineer and a technology solutions provider. Mr. Curro is also an Adjunct Professor at Hudson Valley Community College and Bryant & Stratton College. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

CARRA WALLACE is the Managing Director of the Office of Executive Initiatives (OEI). In that capacity, she oversees the Authority's Communications and Marketing, Opportunity Programs, Environmental Initiatives, Client Outreach, Training, Executive Projects, and Legislative Affairs units. Ms. Wallace is responsible for strategic efforts in developing programs, maximizing the utilization of Minority and Women Owned Businesses, and communicating with Authority clients, the public and governmental officials. She possesses more than twenty years of senior leadership experience in diverse private sector businesses and civic organizations. Ms. Wallace most recently served as Executive Vice President at Telwares, a major telecommunications service firm. Prior to her service at Telwares, Ms. Wallace served as Executive Vice President of External Affairs at the NYC Leadership Academy. She holds a Bachelor of Science degree in management from the Pepperdine University Graziadio School of Business and Management.

Claims and Litigation

Although certain claims and litigation have been asserted or commenced against the Authority, the Authority believes that these claims and litigation are covered by the Authority's insurance or by bonds filed with the Authority should the Authority be held liable in any of such matters, or that the Authority has sufficient funds available or the legal power and ability to seek sufficient funds to meet any such claims or judgments resulting from such litigation.

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 the Authority 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. The Authority has obtained the approval of the PACB for the issuance of the Series 2010A Bonds.

Legislation

From time to time, bills are introduced into the State Legislature which, if enacted into law, would affect the Authority and its operations. The Authority 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 the Authority) and their financing programs. Any of such periodic studies could result in proposed legislation which, if adopted, would affect the Authority and its operations.

Environmental Quality Review

The Authority 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 respecting the Series 2010A Project to the extent such acts and regulations are applicable.

Independent Auditors

The accounting firm of KPMG LLP audited the financial statements of the Authority for the fiscal year ended March 31, 2009. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 8 - LEGALITY OF THE SERIES 2010A BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2010A 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 2010A Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 9 - NEGOTIABLE INSTRUMENTS

The Series 2010A Bonds are negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution, the Series 2010A Resolution and in the Series 2010A Bonds.

PART 10 - TAX MATTERS

Subseries 2010A-1 Bonds

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Subseries 2010A-1 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Subseries 2010A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and each of the Series 2010A Participants, as applicable, and the Program Facilitator, and Bond Counsel has assumed compliance by Authority, each of the Series 2010A Participants, as applicable, and the Program Facilitator, with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subseries 2010A-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 2010A Participants regarding, among other matters, the current qualifications of the Series 2010A 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 2010A-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 2010A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. 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 2010A-1 Bonds, or under state and local tax law on the Series 2010A Bonds.

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 2010A 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 2010A-1 Bonds in order that interest on the Subseries 2010A-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 2010A-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 2010A-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. The Authority and the Series 2010A Participants, as applicable, and the Program Facilitator have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Subseries 2010A-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 2010A-1 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Subseries 2010A-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 2010A-1 Bonds.

The Subseries 2010A-1 Bonds are not taken into account (subject to certain limitations) in determining the portion of a financial institution's interest expense subject to the pro rata interest disallowance rule of Section 265(b) of the Code for costs of indebtedness incurred or continued to purchase or carry certain tax-exempt obligations. The Subseries 2010A-1 Bonds, however, are taken into account in the calculation of the amount of a financial institution's preference items under Section 291 of the Code.

Prospective owners of the Subseries 2010A-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 2010A-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 2010A-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 2010A-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 2010A-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 2010A-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 2010A-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 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 2010A-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 2010A-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 2010A-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 2010A-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 unless the recipient is one of a limited class of exempt recipients, including corporations. 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 2010A-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 2010A-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 2010A-1 Bonds under Federal or state law and could affect the market price or marketability of the Subseries 2010A-1 Bonds.

Prospective purchasers of the Subseries 2010A-1 Bonds should consult their own tax advisors regarding the foregoing matters.

Subseries 2010A-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 2010A-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 2010A-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 2010A-2 Bonds as a position in a "hedge" or "straddle" for United States Federal income tax purposes, or holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar. Each prospective purchaser of the Subseries 2010A-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 the Subseries 2010A-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 2010A-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 2010A-2 Bonds (i) is included in gross income for United States Federal income tax purposes, pursuant to the Code and (ii) is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York.

U.S. Holders – Disposition of Subseries 2010A-2 Bonds

Except as discussed above, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Subseries 2010A-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 2010A-2 Bond. A U.S. Holder's adjusted tax basis in a Subseries 2010A-2 Bond generally will equal such U.S. Holder's initial investment in the Subseries 2010A-2 Bond, decreased by the amount of any payments, other than qualified stated interest payments, received. Such gain or loss generally will be long-term capital gain or loss if the Subseries 2010A-2 Bond was held for more than one year.

U.S. Holders – Defeasance

U.S. Holders of the Subseries 2010A-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 2010A-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 2010A-2 Bonds subsequent to any such defeasance could also be affected. U.S. Holders of the Subseries 2010A-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 proceeds of the sale of a Subseries 2010A-2 Bond before maturity within the United States. Backup withholding at a rate of 28% for the years 2003-2010 and at a rate of 31% for the year 2011 and thereafter, will apply to such payments 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.

IRS Circular 230 Disclosure

The advice under the caption "Subseries 2010A-2" concerning certain income tax consequences of the acquisition, ownership and disposition of the Subseries 2010A-2 Bonds, was written to support the marketing of the Subseries 2010A-2 Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, each prospective purchaser of the Subseries 2010A-2 Bonds is advised that (i) any Federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Authority is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the bondholder under the Code, and (ii) the bondholder should seek advice based on the bondholder's particular circumstances from an independent tax advisor.

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 2010A-2 Bonds under state law and could affect the market price or marketability of the Subseries 2010A-2 Bonds.

Prospective purchasers of the Subseries 2010A-2 Bonds should consult their own tax advisors regarding the foregoing matters.

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

PART 11 - BONDHOLDERS' RISKS

General

The Series 2010A Bonds involve a certain degree of risk. Prospective investors in the Series 2010A Bonds should review all of the information in this Official Statement and information pertaining to the Series 2010A Participants incorporated herein by reference carefully prior to purchasing any of the Series 2010A Bonds. This Official Statement contains only summaries of the Resolution, the Series 2010A Resolution, the Loan Agreements and the related documents. Prospective investors are urged to read such documents in their entirety prior to investing in the Series 2010A Bonds. Copies of such documents may be obtained from the Underwriters prior to the issuance of the Series 2010A Bonds. In addition, prospective investors should carefully review Appendix A for a discussion of the financial condition and results of operations of the Series 2010A Participants, Appendix B for copies of the audited financial statements of the Series 2010A Participants and Appendix C for copies of recent unaudited financial information for each of the Series 2010A Participants.

Set forth below are certain risk factors, among others, that could adversely affect a Series 2010A Participant's operation and revenues and expenses of its Series 2010A Facilities to an extent which cannot be determined at this time. Such risk factors should be considered before any investment in the Series 2010A Bonds is made. These risk factors should not be considered definitive or exhaustive.

Special, Limited Obligations of Authority

The Series 2010A Bonds are special, limited obligations of the Authority payable solely from revenues to be received by the Authority from the Series 2010A Participants under the Loan Agreements and from amounts held in the funds established pursuant to the Resolutions (other than the Arbitrage Rebate Fund). The Series 2010A Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

Several Obligations of Series 2010A Participants

The obligations of each Series 2010A Participant under its Loan Agreement are independent of the obligations of the other Series 2010A Participants under their Loan Agreements. A failure by a Series 2010A Participant to timely pay its obligations under its Loan Agreement might result in an event of default under the Resolutions with respect to such Series 2010A Participant's Allocable Portion of the Series 2010A Bonds. Upon the happening and continuance of an event of default affecting only a Defaulted Allocable Portion of the Series 2010A Bonds, payment on such Defaulted Allocable Portion of Series 2010A Bonds will be limited to amounts received from or payable by or on behalf of such Series 2010A Participant and amounts derived upon the realization of any security or collateral granted by such defaulting Series 2010A Participant. Holders of a Defaulted Allocable Portion of the Series 2010A 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 2010A Participant for the payment of the Series 2010A Bonds or any other security pledged by such other non-defaulting Series 2010A 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 2010A BONDS - Events of Default - Special Provisions Relating to Defaults Affecting Only an Allocable Portion of the Series 2010A Bonds" and "Appendix F - Summary of Certain Provisions of the Resolutions."

Reliance on Credit of the Series 2010A Participants

The Series 2010A Bonds are being issued without credit enhancement in the form of a letter of credit, bond insurance or any other form. While the amounts payable to the Series 2010A 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 2010A Participant pursuant to its PPA or PPAs (or by the Authority or Trustee upon the intercept of such PPA Funds) will be sufficient for the repayment of such Series 2010A Participant's Allocable Portion of the Series 2010A Bonds (whether because of non-appropriation of funds by the State, failure of a Series 2010A Participant to operate its Series 2010A Facility or Facilities in accordance with operational standards or otherwise). Moreover, the payment obligations of the Series 2010A Participants are several, not joint. The Holders of the Series 2010A Bonds must therefore rely upon the credit of each Series 2010A Participant for the repayment of the Series 2010A Bonds (and not the credit of the Authority, the Trustee, the Underwriters, the State or any other municipality of the State) for all payments due to them under the Series 2010A Bonds. See "PART 1 - INTRODUCTION - Additional Security - Pledged Revenues and The Standby Intercept," "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS - Security for the Series 2010A Bonds," and "PART 5 - SOURCES OF SERIES 2010A PARTICIPANT FUNDING - New York State Office of Mental Retardation and Developmental Disabilities."

Revenues of Series 2010A Participants

Future revenues of each Series 2010A Participant are dependent upon, among other things, legislative appropriations, 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 2010A Bonds depends upon the receipt by the Trustee of the Loan Repayments under the Loan Agreements. A number of risks that could affect the Series 2010A 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 2010A Participants; (ii) the State, various county and city departments to make timely payments to the Series 2010A Participants of appropriated amounts caused by revenue short falls or other State and local fiscal considerations; (iii) the Series 2010A Participants to fulfill their obligations which entitle them to receive payments; (iv) the Series 2010A Participants to receive the appropriate certifications from the required licensing or certifying entity(ies) to provide services as required; and/or (v) the Series 2010A Participants to obtain the renewal of their contracts. In addition, a Series 2010A Participant's license and/or certification may be revoked for failure to comply with standards of operation applicable to the Series 2010A Participant. The Loan Repayment obligation of a Series 2010A Participant may be accelerated in the event of such Series 2010A Participant's default. In the event a Series 2010A Participant's Loan Repayment obligation is accelerated due to a default, the Series 2010A Participant's Allocable Portion of the Series 2010A Bonds may likewise be accelerated. See "PART 1 - INTRODUCTION - Limitations on Payment and Security Upon the Occurrence of Certain Events of Default" and "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS - Events of Default - Special Provisions Relating to Defaults Affecting Only an Allocable Portion of the Series 2010A Bonds."

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 2010A Participants, the applicable Series 2010A Participant and the Authority shall enter into separate loan agreements. The Series 2010A Bonds are separately secured from all other Series of Bonds and the Holders of any Series of Bonds other than the Series 2010A Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2010A 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 2010A Bonds, an event of default by a Series 2010A 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 2010A Participant's Loan Agreement. See "PART 1 - INTRODUCTION - Authorization of Issuance" and "- Security for the Series 2010A Bonds" and "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS."

Enforceability of Remedies; Effect of Bankruptcy of a Series 2010A Participant

The Series 2010A 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 2010A Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Resolutions, the respective Loan Agreements and the respective Mortgages. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Resolutions, the Loan Agreements and the Mortgages may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinions to be delivered concurrently with the delivery of the Series 2010A 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 2010A Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If a Series 2010A 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 2010A Participant and its property, including the commencement of foreclosure proceedings under its Mortgage, if applicable. Such Series 2010A Participant would not be permitted or required to make payments of principal or interest under its Loan Agreement, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court the automatic stay may serve to prevent the Authority from intercepting the Series 2010A Participant's PPA Funds pursuant to the applicable Intercept Agreement or the Trustee from applying amounts on deposit in the accounts established with respect to such Series 2010A 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 2010A Participant's Allocable Portion of the Series 2010A 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 2010A Participant, which could affect the likelihood or timing of obtaining such relief. In addition, if the Mortgage of such defaulting Series 2010A Participant is assigned by the Authority to the Trustee as described herein and the value of the related Mortgaged Property is less than the principal amount of such Series 2010A Participant's total Loan Repayment obligation at the time of a bankruptcy proceeding, the security interest of the Trustee in such property is subject to the claims of creditors that the mortgaged indebtedness in excess of the fair market value of the Mortgaged Property is unsecured and, therefore, to the extent of such excess is not entitled to a secured priority position in the administration of the bankruptcy estate.

The Series 2010A 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 2010A 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 2010A Bonds

The Mortgages do not presently provide any security for the Series 2010A Bonds. However, under certain circumstances described herein, one or more of the Mortgages may be assigned to the Trustee. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS - Security for the Series 2010A 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 2010A Participant and included in the Mortgaged Property and the proceeds of sale of such property, (vi) statutory liens and other liens arising as a matter of law, (vii) the rights of parties secured by other liens or encumbrances permitted by the applicable Loan Agreements or the applicable Mortgages, and (viii) claims by creditors that the mortgaged indebtedness in excess of the fair market value of the Mortgaged Property is unsecured to the extent of such excess.

Insufficiency of Mortgage Foreclosure Proceeds; Environmental Impairment of Property

One of the options under each Series 2010A Participant's Loan Agreement, and one of the options under the Resolution, is to institute proceedings to enforce the lien on and sell the Series 2010A Participant's Mortgaged Property in the event of a default under its Loan Agreement, its Mortgage(s) or the Resolutions. However, due to the limited uses for which a Series 2010A Participant's Mortgaged Property may be utilized, none of the Authority, the Program Facilitator, the Trustee, the applicable Series 2010A Participant, or the Underwriters makes any assurances or representations that a sale of a Series 2010A 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 2010A Participant established under the Resolution, will be sufficient to pay in full the principal of, or interest on, the Allocable Portion of the Series 2010A Bonds attributable to such defaulting Series 2010A Participant.

In exercising the rights of foreclosure under a Mortgage, the Authority 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 the Authority, 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 the Authority 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 2010A Bonds that would otherwise have been available absent the existence of such hazardous materials.

Another option under a Series 2010A Participant's Loan Agreement is to institute proceedings to enforce the lien on and sell the Series 2010A Participant's Equipment (as defined in each Mortgage) in the event of a default under its Loan Agreement, its Mortgage(s) or the Resolutions. However, due to the limited uses for which a Series 2010A Participant's Equipment may be utilized, none of the Authority, the Program Facilitator, the Trustee, the applicable Series 2010A Participant, or the Underwriters makes any assurances or representations that the Authority or the Trustee will be able to sell a Series 2010A 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 2010A Participant established under the Resolution, would be sufficient to pay in full the principal of, or interest on, the Series 2010A Bonds attributable to such defaulting Series 2010A 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 2010A Participants. Such approval was not sought in connection with the execution, delivery and performance by the Series 2010A Participants of the Mortgages or the pledges of assets and revenues that are contemplated by the Resolution and the Loan Agreement. It is the opinion of counsel to the Series 2010A Participants that such actions do not require approval pursuant to NFPCL §510. However, absent court decisions definitively resolving this issue, it cannot be ruled out that a defendant in a foreclosure action may raise as an affirmative defense the failure to obtain NFPCL §510 court approval.

Right of Reacquisition of the Lifespire, Inc. 2213 Wallace Avenue Facility

Lifespire, Inc. ("Lifespire") acquired title to the Series 2010A Facility located at 2213 Wallace Avenue, Bronx, New York (the "Wallace Avenue Facility"), from the State of New York, acting by and through OMRDD (the "Seller") for $1.00 on February 2, 2004. The deed pursuant to which Lifespire acquired title to the Wallace Avenue Facility contained a right of reacquisition by the Seller in the event that Lifespire, its successors and assigns fail to utilize the Wallace Avenue Facility as authorized not-for-profit community mental hygiene services facilities for persons with mental retardation and developmental disabilities or, in the event that there is no longer a need for community mental hygiene services for persons with mental retardation and development disabilities, another legally authorized not-for-profit mental hygiene program purpose. Lifespire has requested the Seller to enter into a subordination agreement in order to subordinate its right of reacquisition to the lien granted by Lifespire's Mortgage on the Wallace Avenue Facility. There is no guarantee that Lifespire will be able to obtain such subordination agreement from the Seller or that Lifespire's title to the Wallace Avenue Facility will not continue to be subject to the right of reacquisition.

Release of Series 2010A Facilities from Lien of Mortgages

Each Loan Agreement, each Mortgage and the Resolution provide a Series 2010A Participant the ability to prepay a portion of its loan attributable to a Series 2010A Facility and, upon the redemption or defeasance of the related Series 2010A Bonds to have such Series 2010A Facility released from the lien of the applicable Mortgage. There is no assurance that the security, if any, provided by the remaining Series 2010A 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 2010A Participant's Allocable Portion of the Series 2010A Bonds. In such event none of the Authority, the Trustee, the Program Facilitator or any Bondholder will have any recourse to, claim against or right of contribution from any other Series 2010A Participant.

In view of the foregoing, investors should rely on their own examination of the creditworthiness and financial condition of each of the Series 2010A 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 the Authority.

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

The Series 2010A Participants are subject to Federal, State and local actions, including, among others, actions by the various State, county and city departments. The Series 2010A Bonds are payable from operating revenues of the Series 2010A 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 2010A 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 2010A 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 2010A Participants to generate sufficient revenues from other sources (or have access to sufficient fund balances) to make the scheduled Loan Repayments that are to be used by the Trustee to repay the applicable Series 2010A Bonds, will materially adversely affect a Series 2010A Participant's ability to make its Loan Repayments and, consequently, the repayment of the Series 2010A Bonds attributable to such Series 2010A Participant.

Federal Medicaid Reform

A majority of PPA Funds are received from Medicaid. Future Medicaid reform may materially adversely affect the PPA Funds received by the Series 2010A Participants.

Completion of the Projects; Zoning; Certificate of Occupancy

The acquisition and renovation of all of the Series 2010A Facilities are complete except for the renovations for Young Adult Institute, Inc.'s ("YAI") project located at 460 Johnson Avenue, Ronkonkoma, New York (the "Johnson Avenue Facility") which are approximately 90% complete and are expected to be complete by June, 2010. The Johnson Avenue Facility has an older Certificate of Occupancy and will receive a new Certificate of Occupancy within 12 months after the completion of the renovations. There can be no assurance that such project will be completed, or that such project can be completed for the cost and within the time estimated by YAI. Failure to complete the Johnson Avenue Facility or failure to complete the Johnson Avenue Facility on time and for the cost estimated by YAI could materially adversely affect the financial position of YAI and its ability to satisfy its Loan Repayment obligations.

In addition, each Series 2010A Facility may require special use permits, certificates of occupancy or compliance or other zoning approval (each, a "Certificate") from the applicable municipality. Failure of a Series 2010A Participant to obtain an appropriate Certificate where the same is required could materially adversely affect the financial position of such Series 2010A Participant. Moreover, the failure of a Series 2010A Participant's Series 2010A Facility to receive a Certificate when required could materially adversely impact either the Series 2010A Participant's, the Trustee's or another party's right to use or occupy the Series 2010A Facility, before or after the exercise of default remedies.

The renovations have been completed for the following Series 2010A Facilities and Operating Certificates have been issued by OMRDD which permit the Series 2010A Participants to operate such Series 2010A Facilities: (i) Human Care Services for Families & Children, Inc.'s Series 2010A Facility located at 4114 10th Avenue, Brooklyn, New York; (ii) LifeSpire Inc.'s Series 2010A Facility located at 2213 Wallace Avenue, Bronx, New York; and (iii) United Cerebral Palsy of New York City, Inc.'s Series 2010A Facility located at 1862 Stillwell Avenue, Bronx, New York. These Series 2010A Facilities are expected to receive their respective Certificates of Occupancy within the next 12 months.

Additional Indebtedness

Under its Loan Agreement, each Series 2010A Participant has the ability to incur additional debt. An event of default by a Series 2010A 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 2010A Participant's Loan Agreement. See "Appendix E - Summary of Certain Provisions of the Loan Agreements."

Grant of Additional Security Interests

A Series 2010A Participant may grant security interests in its Accounts Receivable (which excludes PPA Funds), 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 2010A Participant and its ability to satisfy its Loan Repayment obligations.

A Series 2010A Participant may also grant a subordinate mortgage as security for bonds issued by the Authority after the date of issuance of the Series 2010A Bonds, in an amount up to the amount approved by OMRDD pursuant to the PPA process, for the purpose of financing the cost of renovating, constructing, equipping or completing a Series 2010A Facility, and any loan agreement, or amendment to the applicable Loan Agreement, between the Authority and such Series 2010A 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 2010A Participant is subject to various requirements affecting its operation. The failure of a Series 2010A Participant to maintain its tax-exempt status may affect the Series 2010A Participant's ability to receive funds from State and federal sources, which could adversely affect its ability to pay its principal Loan Repayments under its Loan Agreement. Further, a loss of a Series 2010A Participant's status as a Section 501(c)(3) organization, failure of a Series 2010A Participant to comply with certain legal requirements of the Code, or adoption of amendments to the Code applicable to such Series 2010A Participant that restrict the use of tax-exempt bonds for facilities, such as one or more of its Series 2010A Facilities, could cause interest on the Subseries 2010A-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 2010A-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 2010A-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 2010A-1 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Subseries 2010A-1 Bonds. See "PART 10 - TAX MATTERS" above. The Subseries 2010A-1 Bonds are not subject to redemption, nor will the interest rate on the Subseries 2010A-1 Bonds be changed, if interest on the Subseries 2010A-1 Bonds is included in the gross income of the Bondholders or former Bondholders.

Risk of Audit by Internal Revenue Service

The Internal Revenue Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Internal Revenue Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Subseries 2010A-1 Bonds.

PART 12 - STATE NOT LIABLE ON THE SERIES 2010A BONDS

The Act provides that notes and bonds of the Authority 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 the Authority. The Resolution specifically provides that the Series 2010A Bonds are not a debt of the State and that the State is not liable on them.

PART 13 - COVENANT BY THE STATE

The Act states that the State pledges and agrees with the holders of the Authority's notes and bonds that the State will not limit or alter the rights vested in the Authority to provide projects, to establish and collect rentals therefrom and to fulfill agreements with the holders of the Authority'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 the Authority and with the holders of the Authority's notes or bonds.

PART 14 - LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2010A Bonds by the Authority are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority, whose approving opinion will be delivered with the Series 2010A 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 2010A Participants by Lombardi, Walsh, Wakeman, Harrison, Amodeo & Davenport, PC, Albany, New York and for the Underwriters 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 2010A Bonds or questioning or affecting the validity of the Series 2010A Bonds or the proceedings and authority under which they are to be issued.

See "Appendix A - Description of Series 2010A Participants" for a description of any litigation which has a material adverse affect on the Series 2010A Participants.

PART 15 - CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), each Series 2010A Participant has undertaken in a written agreement (collectively, the "Continuing Disclosure Agreements") for the benefit of the Holders of the Series 2010A Bonds to provide to Digital Assurance Certification LLC ("DAC"), on behalf of the Authority as the Authority's disclosure dissemination agent, on or before 180 days after the end of each fiscal year, commencing with the fiscal year of the Series 2010A Participants ending June 30, 2010 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 2010A Participant's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America and audited by an independent firm of certified public accountants in accordance with auditing standards generally accepted in the United States of America; provided, however, that if the audited financial statements are not then available, unaudited financial statements shall be provided and such audited financial statements shall be delivered to DAC for delivery to the MSRB.

If, and only if, and to the extent that it receives the Annual Information and annual financial statements described above from the Series 2010A Participants, DAC has undertaken in each Continuing Disclosure Agreement, on behalf of and as agent for the applicable Series 2010A Participant and the Authority, to file such information and financial statements, as promptly as practicable, but no later than three business days after receipt of the information by DAC from the Series 2010A Participant, with the MSRB.

The Series 2010A Participants also will undertake in their respective Continuing Disclosure Agreements to provide to the Authority, the Trustee and DAC, in a timely manner, the notices required to be provided by Rule 15c2-12 and described below (the "Notices"). In addition, the Authority and the Trustee will undertake to provide such notices to DAC, should they have actual knowledge of the occurrence of a Notice Event (as hereinafter defined). Upon receipt of Notices from a Series 2010A Participant, the Trustee or the Authority, DAC will file the Notices with the MSRB in a timely manner. With respect to the Series 2010A 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 2010A Participant, the Trustee or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, a Series 2010A Participant, the Trustee, the Owners of the Series 2010A Bonds or any other party. DAC has no responsibility for the Authority, any Series 2010A 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 2010A Participant, the Trustee or the Authority has complied with the Continuing Disclosure Agreements and DAC may conclusively rely upon certifications of a Series 2010A Participant, the Trustee and the Authority with respect to their respective obligations under the Continuing Disclosure Agreements. In the event that the obligations of DAC as the Authority's disclosure dissemination agent terminate, the Authority will either appoint a successor disclosure dissemination agent or, alternatively, assume all responsibilities of the disclosure dissemination agent for the benefit of the Bondholders.

The Annual Information will consist of the operating data and financial information of the type included in this Official Statement in "Appendix A - Description of Series 2010A Participants."

The Notices include notice of any of the following events with respect to the Series 2010A Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status of the Series 2010A Bonds; (7) modifications to rights of the Owners of the Series 2010A Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2010A Bonds; and (11) rating changes on the Series 2010A Bonds. In addition, DAC will undertake to provide to the MSRB, in a timely manner, notice of any failure by any of the Series 2010A Participants to provide the Annual Information and annual financial statements by the date required in the Series 2010A 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 2010A Participant and/or the Authority or the Trustee, and no person, including any Holder of the Series 2010A Bonds, may recover monetary damages thereunder under any circumstances. The Authority or such defaulting Series 2010A Participant may be compelled to comply with their respective obligations under a Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any Holder of Outstanding Series 2010A Bonds or by the Trustee on behalf of the Owners of Outstanding Series 2010A Bonds or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the Owners of Outstanding Series 2010A Bonds. However, the Trustee is not required to take any enforcement action unless so directed by the Owners of not less than 25% in aggregate principal amount of Outstanding Series 2010A Bonds. A breach or default under a Continuing Disclosure Agreement will not constitute an event of default under the Resolutions. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreements, insofar as the provisions of Rule

15c2-12 no longer in effect required the providing of such information, will no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. Any Continuing Disclosure Agreement, however, may under certain circumstances be amended or modified without the consent of Owners of the Series 2010A Bonds. Copies of all Continuing Disclosure Agreements when executed by the parties thereto upon the delivery of the Series 2010A Bonds will be on file at the principal office of the Authority.

The Series 2010A Participants are in compliance with all of their continuing disclosure undertakings made pursuant to Rule 15c2-12.

PART 16 - UNDERWRITING

The Series 2010A Bonds are being purchased by Municipal Capital Markets Group, Inc., as representative of the underwriters (collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Series 2010A Bonds from the Authority at a purchase price of $28,627,191.86 and to make a public offering of the Series 2010A Bonds at prices not in excess public offering prices set forth on the inside front cover page of this Official Statement. The Underwriters will be obligated to purchase all Series 2010A Bonds if any Series 2010A Bonds are purchased. The Series 2010A Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2010A 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 Underwriters.

The Series 2010A Participants have agreed to indemnify the Underwriters and the Authority with respect to certain liabilities, including certain liabilities under the Federal securities laws.

PART 17 - RATINGS

The Series 2010A Bonds have been rated "Aa3" by Moody's. The rating on the Series 2010A Bonds is based upon the obligation of the Series 2010A Participants under the Loan Agreements to make certain payments from the Revenues, and on the security interest in the Pledged Revenues granted by the Series 2010A Participants to the Authority under the 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 the rating may have an adverse effect on the market price of the Series 2010A Bonds.

PART 18 - INDEPENDENT PUBLIC ACCOUNTANTS

Each of the Series 2010A Participants has provided its financial statements as of and for the years ended June 30, 2009, June 30, 2008 and June 30, 2007. 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 19 - MISCELLANEOUS

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

The agreements of the Authority with Holders of the Series 2010A Bonds are fully set forth in the Resolutions. Neither any advertisement of the Series 2010A Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2010A 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 2010A Participants contained in this Official Statement and information concerning the Series 2010A Facilities contained herein has, in each case, been furnished by the Series 2010A Participants. The Authority believes that this information is reliable, but the Authority 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. The Authority 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 2010A Participants," "Appendix B - Audited Financial Statements of Series 2010A Participants" and "Appendix C - Unaudited Financial Information of Series 2010A Participants" were supplied by the Series 2010A Participants.

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

Each Series 2010A Participant has reviewed the parts of this Official Statement describing such Series 2010A Participant, its Series 2010A Facilities, its Mortgage, if any, its sources of funding, the Estimated Sources and Uses of Funds, the Bondholders' Risks and Appendices A, B and C. It is a condition to the sale and delivery of the Series 2010A Bonds that each Series 2010A Participant certify as of the dates of sale and delivery of the Series 2010A 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 2010A Participant has agreed to indemnify the Authority 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 2010A Participant.

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

DORMITORY AUTHORITY OF THE STATE OF NEW YORK

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

APPENDIX A

DESCRIPTION OF PARTICIPANTS

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

General Operations. Federation Employment and Guidance Service, Inc. d/b/a "F·E·G·S" and d/b/a "F·E·G·S Health and Human Services System" ("F·E·G·S") was founded in 1934. Operating out of over 300 facilities, F·E·G·S provides a wide range of in-home and residential services to the developmentally disabled community of New York City. F·E·G·S is a comprehensive voluntary not-for-profit human services organization. A part of F·E·G·S's mission is to provide support and assistance to individuals with developmental and related disabilities and their families. In order to achieve its mission, F·E·G·S 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. F·E·G·S is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State Law.

F·E·G·S's funding sources for its 2009 Fiscal Year were: the State of New York Office of Mental Retardation and Developmental Disabilities ("OMRDD") (approximately 28%), the State of New York Office of Mental Health ("OMH") (approximately 27%), the New York City Human Resources Administration ("HRA") (approximately 23%), New York State Industries for the Disabled, Inc. (approximately 4%), the New York City Department of Mental Health ("DMH") (approximately 2.5%), the New York State Education Department ("SED") (approximately 2.5%), and miscellaneous other sources (approximately 13%).

Description of Facility and Financing Plan. The Authority will lend F·E·G·S approximately $820,000 from the proceeds of its InterAgency Council Pooled Loan Revenue Bonds, Series 2010A (the "Series 2010A Bonds") ("F·E·G·S's Allocable Portion"). Such amount will be used to refinance debt incurred to acquire and renovate the following Individual Residential Alternative ("IRA") facility (the "Facility") for consumers with developmental disabilities:

- 28 Carol Street, West Hempstead, New York: approximately $728,219 to refinance existing loans from Bank of America which were used for the acquisition and renovation of a residential facility for six developmentally disabled adults in a 2,840 square foot, 1.5 floor building.

The remaining Series 2010A Bond proceeds to be loaned to F·E·G·S in the amount of approximately $91,781 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facility is OMRDD and the Facility is supported by a New York State OMRDD Prior Property Approval ("PPA"), which F·E·G·S has received. This means the Facility is pre-approved by OMRDD for reimbursement by OMRDD of principal and interest costs incurred in connection with the acquisition and renovation of the Facility and financing or refinancing costs incurred in connection therewith. F·E·G·S has received a Certificate of Occupancy for the Facility.

F·E·G·S owns the Facility and will grant a first priority mortgage on such Facility to the Authority. F·E·G·S will also grant the Authority a lien on the Public Funds attributable to the Facility. F·E·G·S has a loan from the Authority outstanding as of March 31, 2010 in the principal amount of $975,000, which is secured by a Prior Pledge of F·E·G·S's Public Funds.

Other Properties. F·E·G·S also owns 64 other properties and leases another 258 properties throughout New York.

Employees. F·E·G·S and its affiliated companies employ a total of approximately 2,421 employees, of which approximately nine full time employees are employed at the Facility. F·E·G·S does not expect that the operation of the Facility will require it to employ additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and F·E·G·S, the actual Debt Service Coverage for Fiscal Year 2009 and the Pro Forma Debt Service Coverage (which includes F·E·G·S's Allocable Portion of the Series 2010A Bonds) are as follows:

	2009 Actual	**2009 Pro Forma**
Net Income (after adj.)	(681,044)	(681,044)
Depreciation	5,461,215	5,461,215
Interest Expense	1,232,233	1,232,233
PPA Reimbursement	0	76,610
Cash Flow for Debt Service	6,012,404	6,089,014
Maximum Annual Debt Service	2,508,015	2,584,625
Debt Service Coverage	2.397	2.36

Financials. Audited financial statements for F·E·G·S's fiscal years ended June 30, 2007 through June 30, 2009 were prepared by Loeb & Troper LLP and are attached as Appendix B-I. Interim unaudited financial information prepared by F·E·G·S's Management covering the period from July 1, 2009 through March 31, 2010 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 summary of financial information for F·E·G·S for the most recently ended five (5) fiscal years for which audited financial statements were available and has been prepared by F·E·G·S's Management and derived from F·E·G·S'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-I.

Fiscal Year Ended June 30,

	2005	**2006**	**2007**	**2008**	**2009**
Current Assets	$78,507,021	$89,190,823	$91,210,220	$98,497,629	$97,705,860
Net Fixed Assets	42,453,137	45,637,454	50,033,531	48,724,199	46,969,897
Other	1,025,225	1,471,524	1,462,643	1,519,507	1,582,369
Total	121,985,383	136,299,801	142,706,394	148,741,335	146,258,126
Current Liabilities	56,212,402	64,335,015	66,679,242	70,592,134	69,233,469
Other Liabilities	21,844,732	23,913,858	25,542,558	25,145,709	24,702,209
Net Assets	43,928,249	48,050,928	50,484,594	53,003,492	52,322,448
Total	121,985,383	136,299,801	142,706,394	148,741,335	146,258,126
Operating Revenue:					
Program Revenue	159,908,130	200,905,381	212,434,526	218,600,984	227,256,773
Non program Revenue	7,286,817	8,303,973	9,963,098	7,155,864	4,361,375
Total	167,194,947	209,209,354	222,397,624	225,756,848	231,618,148
Operating Expenses	164,954,950	205,359,196	219,636,894	223,237,950	232,299,192
Change In Net Assets	2,239,997	3,850,158	2,433,666	2,518,898	(681,044)
Net Assets, Beginning of Year	41,688,252	43,928,249	48,050,928	50,484,594	53,003,492
Net Assets acquired	0	272,521	0	0	0
Net Assets, End of Year	43,928,249	48,050,928	50,484,594	53,003,492	52,322,488
Cash & Equivalents	14,650,563	12,066,772	7,051,752	6,180,924	13,350,740

Management's Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal - F·E·G·S had current assets of $97,705,860 and $98,497,629 at the end of the fiscal years of June 30, 2009 and 2008, respectively. (b) External - F·E·G·S has available a $3,000,000 line of credit with JPMorgan Chase Bank.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: F·E·G·S is not aware of any trends or uncertainties that have had or that are reasonably expected to have a material impact on 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 2009 and 2008 were $4,361,375 and $7,155,864, respectively. See APPENDIX C-I for interim unaudited financial information through March 31, 2010.

(5) Causes for Changes in Financial Statement: Changes in the number of persons served in a particular program normally affects the revenue of such program. F·E·G·S's total operations have increased due to additional programs and the expansion of residential services provided. In the fiscal year ending June 30, 2009, F·E·G·S had decrease of $681,044 in its net assets due to an unrealized loss on investments in the amount of $1,861,545.

Liquidity and Capital Resources. As of June 30, 2009, F·E·G·S had $13,350,740 in unrestricted cash and cash equivalents and $53,892,765 in net accounts receivable.

As of March 31, 2010, F·E·G·S had an available line of credit of $3,000,000 with JPMorgan Chase Bank carrying an interest rate of equal to the higher of prime plus 0.5% or LIBOR plus 2.5%. The loan with respect to the line of credit is secured through March 31, 2011 by F·E·G·S's accounts receivable. As of March 31, 2010, the outstanding balance on the line of credit was $1,780,306.

Long-Term Debt. As of June 30, 2009, F·E·G·S had $19,120,127 in outstanding long term indebtedness. Of this amount, $14,870,127 is secured by a security interest in certain receivables of F·E·G·S, which may include F·E·G·S's Public Funds. See Note 6 of F·E·G·S' Audited Financial Statements under title "Mortgages Payable."

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 F·E·G·S to continue to operate its facilities or to challenge title to its properties or which would otherwise limit, restrain or enjoin the ability of F·E·G·S to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement or seeking damages in excess of applicable insurance coverage.

Management.

Directors and Officers. The affairs of F·E·G·S are governed by a Board of Directors. The officers are comprised of Stuart Oltchick, President, Joseph Stein, Jr., Chairman, Barry M. Gosin, Treasurer and Allen Alter, Secretary. Other members of the Board of Directors are: George Asch, Lynn

Berger, Thomas Blumberg, Martin I. Bresler, Edward A. Brill, Feliks Frenkel, Alex Gabay, Benjamin Ira Gertz, Morton J. Getman, Bernard E. Goldberg, H. David Goodman, M.D., Allen Greenberg, Lynn Halbfinger, Richard D. Isserman, Brian A. Kane, Bobi Klotz, Harry M. Lander, PhD, Deborah S. Larkin, Robert O. Lehrman, M. Joseph Levin, Howard M. Leibman, Nancy Locker, Judith Rose Margulies, Morton Moskin, Michael S. Preston, Jonathan Schulhof, Patricia Silverstein, Burton M. Strauss, Jr., James W. Wetzler, Arlene Wittels, and David E. Wolkoff. The Board of Directors meets six times per year. The members of the Board of Directors serve without compensation. As of June 1, 2010, the position of Treasurer will be held by Burton M. Strauss, Jr., who will replace Barry M. Gosin in that role.

Executive and Administrative Officers. Gail Magaliff has been the Chief Executive Officer of F·E·G·S since June 1, 2007. She previously served as Chief Operating Officer and has been associated with F·E·G·S for more than 35 years. She holds a M.A. in Rehabilitation and a B.A. in Mathematics. Angela R. Falcone assumed the role of Chief Financial Officer of F·E·G·S effective June 1, 2009. For the previous year, she was Senior Vice President, Finance for the organization. Prior to joining F·E·G·S, Ms. Falcone was the Chief Financial Officer of the Jewish Federation of Greater Philadelphia for ten years and had previously held numerous senior financial roles for a Fortune 500 company. She holds her MBA and a B.A. in Economics. She also obtained her CPA license in New York.

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HUMAN CARE SERVICES FOR FAMILIES & CHILDREN, INC.

General Operations. Human Care Services for Families & Children, Inc. ("HCS") was founded and incorporated in New York on September 30, 1996 and began operations in November 1997. A part of HCS's mission is to provide support and assistance to developmentally disabled consumers, as well as supportive counseling to their families. These services enable consumers to be able to become as independent as possible and realize their potential. HCS 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.

HCS's funding source for its 2009 Fiscal Year was OMRDD.

Description of Facility and Financing Plan. The Authority will lend HCS approximately $1,765,000 from the proceeds of the Series 2010A Bonds ("HCS's Allocable Portion"). Such amount will be used to refinance debt incurred to acquire and renovate the following IRA facility (the "Facility") for consumers with developmental disabilities:

- 4114 10th Avenue, Brooklyn, New York: approximately $1,578,673.35 to refinance existing loans from a not-for-profit foundation, which were used for the acquisition and renovation of a residential facility for eight developmentally disabled adults in a 4,680 square foot, four floor building.

The remaining Series 2010A Bond proceeds to be loaned to HCS in the amount of approximately $186,326.65 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facility is OMRDD and the Facility is supported by a PPA, which HCS has received. This means the Facility is pre-approved by OMRDD for reimbursement by OMRDD 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. HCS has applied for but not yet received a Certificate of Occupancy for the Facility. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

HCS owns the Facility and will grant a first priority mortgage on such Facility to the Authority. HCS will also grant the Authority a lien on the Public Funds attributable to the Facility.

Other Properties. HCS also owns two other properties and leases another 10 properties throughout Brooklyn, New York.

Employees. HCS employs 38 full-time and 325 part-time employees in New York City, of which approximately 18 employees were hired for the Facility.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and HCS, the actual Debt Service Coverage for Fiscal Year 2009 and the Pro Forma Debt Service Coverage (which includes HCS's Allocable Portion of the Series 2010A Bonds) are as follows are as follows:

	2009 Actual	**2009 Pro Forma**
Net Income (after adj.)	2,491,030	2,491,030
Depreciation	265,589	265,589
Interest Expense	130,158	130,158
PPA Reimbursement	0	184,285
Cash Flow for Debt Service	2,886,777	3,071,062
Maximum Annual Debt Service	437,431	621,716
Debt Service Coverage	6.60	4.94

Financials. Audited financial statements for HCS's fiscal years ended June 30, 2007 through June 30, 2009 were prepared by Loeb & Troper LLP and are attached as Appendix B-II. Interim unaudited financial information prepared by HCS's Management covering the period from July 1, 2009 through March 31, 2010 is attached as Appendix C-II. Significant accounting policies are contained in the audited financial statements.

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

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

The following is a summary of financial information for HCS for the most recently ended five (5) fiscal years for which audited financial statements were available and has been prepared by HCS's Management and derived from HCS'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-II.

Fiscal Year Ended June 30,

	2005	**2006**	**2007**	**2008**	**2009**
Current Assets	$2,989,042	$3,230,562	$4,435,275	$5,289,164	$7,375,683
Assets Limited to Use	255,695	125,172	154,236	259,540	283,110
Net Fixed Assets	949,537	1,462,857	2,054,046	3,473,787	4,020,225
Total	4,194,274	4,818,591	6,643,557	9,022,491	11,679,018
Current Liabilities	714,681	534,019	1,025,175	1,027,543	716,245
Other Liabilities	1,030,000	1,130,000	1,736,558	2,875,257	3,352,052
Net Assets	2,449,593	3,154,572	3,881,824	5,119,691	7,610,721
Total	4,194,274	4,818,591	6,643,557	9,022,491	11,679,018
Operating Revenue:					
Program Revenue	5,536,949	6,544,212	7,741,495	10,812,593	13,173,061
Non Program Revenue	12,590	25,259	70,311	147,664	149,099
Total	5,549,539	6,569,471	7,811,806	10,960,617	13,322,160
Operating Expenses	4,590,134	5,864,492	7,084,554	9,713,175	10,831,130
Change In Net Assets	959,405	704,979	727,252	1,237,867	2,491,030
Net Assets, Beginning of Year	1,490,188	2,499,593	3,154,572	3,881,824	5,119,691
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	2,449,593	3,154,572	3,881,824	5,119,691	7,610,721
Cash & Equivalents	719,463	392,979	2,412,761	2,706,786	5,228,512

Management's Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal – HCS had assets of $11,679,081 and $9,022,491 at the end of fiscal years 2009 and 2008 respectively; (b) External – HCS has now available a $2,500,000 line of credit and a capital line of credit of $2,500,000.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: HCS is not aware of any trends or uncertainties that have had or are reasonably expected to have a material impact on 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, insurance recoveries, interest and other miscellaneous items for fiscal years 2009 and 2008 were $149,099 and $147,664, respectively. See APPENDIX C-II for interim unaudited financial information through March 31, 2010.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally effects the revenue of this program. In the fiscal year ending June 30, 2009, HCS had surplus revenues of $2,491,030.

Liquidity and Capital Resources. As of June 30, 2009, HCS had $5,228,512 in unrestricted cash and cash equivalents and $2,071,238 in net accounts receivable.

As of March 31, 2010, HCS had two available lines of credit of $2,500,000 each with Capital One Bank carrying an interest rate of prime plus 1/4% and a minimum of 4% for one line of credit and LIBOR plus 300 basis points for the other line of credit. The loans with respect to the lines of credit are secured through May 1, 2011 by HCS's accounts receivable. As of March 31, 2010, there was no outstanding balance on either of the Capital One Bank lines of credit.

Long-Term Debt. As of June 30, 2009, HCS had $6,466,871 outstanding in long term indebtedness. HCS does not have any Prior Pledges of its Public Funds. See Notes 6 and 7 of the Financial Report of HCS under titles of "Capital Leases Payable" and "Operating Leases."

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 HCS to continue to operate its facilities or to challenge title to its properties or which would otherwise limit, restrain or enjoin the ability of HCS to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement or seeking damages in excess of applicable insurance coverage.

Management.

Directors and Officers. The operations of HCS is overseen by the Executive Director of HCS. HCS is managed by a Board of Directors (the "Board"). The current Board consists of seven members: Bernard Spitzer, President, Aaron Oberlander, Vice President and Treasurer, Rabbi Abraham Friedlander, Secretary and the following members: Elliot Spitzer, Abraham Sicherman, Fivel Sofer, and Rabbi Moshe Gross.

Executive and Administrative Officers. HCS has the following key executives including Esther Lustig, LCSW, Executive Director, Sarah Weiss, Associate Director and Edward S. Kirshenbaum, Chief Financial Officer.

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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 whose goals 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 care givers 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 2009 Fiscal Year were: OMRDD (approximately 95%) and miscellaneous other sources (approximately 5%).

Description of Facilities and Financing Plan. The Authority will lend Lifespire approximately $6,125,000 from the proceeds of the Series 2010A Bonds ("Lifespire's Allocable Portion"). Such amount will be used to refinance debt incurred in the acquisition and/or renovation of seven properties at the following residential facilities (the "Facilities") for developmentally disabled adults:

- 312 West 23rd Street, #3M, New York, New York - approximately $312,172 for the acquisition of a 326 square foot condominium apartment to be used as a residence for one developmentally disabled adult.

- 312 West 23rd Street, #4K, New York, New York - approximately $315,645 for the acquisition of a 343 square foot condominium apartment to be used as a residence for one developmentally disabled adult.

- 312 West 23rd Street, #4S, New York, New York - approximately $312,172 for the acquisition of a 332 square foot condominium apartment to be used as a residence for one developmentally disabled adult.

- 2213 Wallace Avenue, Bronx, New York - approximately $658,326 for the renovation of a 3,036 square foot, three-floor building to be used as a residence for ten developmentally disabled adults.

- 49 Burhans Avenue, Yonkers, New York - approximately $1,079,847 for the acquisition and renovation of a 5,136 square foot, two-floor building to be used as a residence for six developmentally disabled adults.

- 162-10 Jamaica Avenue, Jamaica, New York - approximately $2,559,026 for the renovation of a 25,000 square foot space comprising one floor of a building to be used as a Day Habilitation program for 140 developmentally disabled adults.

- 450 19th Street, Brooklyn, New York - approximately $248,607 for the renovation of a 13,880 square foot, one-floor building to be used as a Day Habilitation program for 100 developmentally disabled adults.

The remaining Series 2010A Bond proceeds to be loaned in the amount of approximately $639,205 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OMRDD and the Facilities are supported by PPAs, which Lifespire has received. This means the Facilities are pre-approved by OMRDD for reimbursement by OMRDD 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. Lifespire has received a Certificate of Occupancy for each of the Facilities.

Lifespire owns the properties located at 312 West 23rd Street, New York, New York, 2213 Wallace Avenue, Bronx, New York and 49 Burhans Avenue, Yonkers, New York (the "Owned Facilities"), and leases the properties located at 162-10 Jamaica Avenue, Jamaica, New York and 450 19th Street, Brooklyn, New York. Lifespire will grant a first priority mortgage on the Owned Facilities to the Authority. Lifespire will also grant the Authority a lien on the Public Funds attributable to the Facilities.

Other Properties. Lifespire also owns 32 other properties and leases another 41 residential and day program properties in the Boroughs of New York City and leases office space in Manhattan and Staten Island.

Employees. Lifespire employs 1,208 full-time and 369 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.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and Lifespire, the actual Debt Service Coverage for Fiscal Year 2009 and the Pro Forma Debt Service Coverage (which includes Lifespire's Allocable Portion of the Series 2010A Bonds) are as follows:

	2009 Actual	**2009 Pro Forma**
Net Income (after adj.)	80,670	80,670
Depreciation	2,232,416	2,232,416
Interest Expense	2,340,779	2,340,779
PPA Reimbursement	0	670,140
Cash Flow for Debt Service	4,653,865	5,324,005
Maximum Annual Debt Service	3,445,779	3,518,630
Debt Service Coverage	1.35	1.51

Financials. Audited financial statements for Lifespire's fiscal years ended June 30, 2007 through June 30, 2009 were prepared by ERE LLP and are attached as Appendix B-III. Interim unaudited financial information prepared by Lifespire's Management covering the period from July 1, 2009 through March 31, 2010 is attached as Appendix C-III. 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 (5) 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-III.

Fiscal Year Ended June 30,

	2005	**2006**	**2007**	**2008**	**2009**
Current Assets	$21,001,148	$23,473,810	$25,110,571	$27,711,125	$32,327,387
Net Fixed Assets	13,931,326	18,501,001	19,299,733	19,816,115	21,680,546
Other	9,017,812	9,538,049	9,199,363	10,199,177	10,473,509
Total	43,950,286	51,512,860	53,609,667	57,726,417	64,481,442
Current Liabilities	13,987,381	17,474,880	17,051,759	18,977,281	20,776,032
Other Liabilities	18,830,029	19,080,967	24,235,030	27,677,626	32,553,230
Net Assets	11,132,876	15,017,013	12,322,878	11,071,510	11,152,180
Total	43,950,286	51,512,860	53,609,667	57,726,417	64,481,442
Operating Revenue:					
Program Revenue	76,330,470	80,985,555	89,024,484	91,314,448	96,963,334
Nonprogram Revenue	359,106	3,967,909	516,572	546,558	222,910
Total	76,689,576	84,941,927	89,541,056	91,861,006	97,186,244
Operating Expenses	76,789,600	84,409,373	92,777,158	93,706,180	98,780,232
Change in Net Assets	(100,024)	532,584	(3,236,102)	(1,845,174)	(1,593,988)
Net Assets, Beginning of Year	10,558,588	11,132,876	15,017,013	12,322,878	11,071,510
Prior Period Adjustment	674,312	3,340,016	541,967	593,806	1,674,658
Net Assets, End of Year	11,132,876	15,017,013	12,322,878	11,071,510	11,152,180
Cash & Equivalents	5,701,860	8,782,880	4,548,959	10,660,141	9,109,636

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 $32,327,387 and $27,711,125 at the end of the fiscal years of 2009 and 2008, respectively. (b) External – Lifespire has available a $5 million line of credit with JP Morgan Chase Bank for working capital and a $7 million line of credit with Bank of America for capital improvements.

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

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, and interest for fiscal years 2008 and 2009 were $544,358 and $216,865, respectively. See APPENDIX C-III for interim unaudited financial information through March 31, 2010.

(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, 2009, Lifespire had $9,109,636 in unrestricted cash and cash equivalents and $929,461 in net accounts receivable.

As of March 31, 2010, Lifespire had an available line of credit of $5 million with JP Morgan Chase Bank carrying an interest rate of either LIBOR or the bank's prime rate, but in no event less than the adjusted one month LIBOR rate as defined therein. The line of credit is available through March 15, 2011, and is secured by Lifespire's government receivables. There is no outstanding balance as of March 31, 2010.

As of March 31, 2010, Lifespire had an available line of credit of $7 million with Bank of America carrying an interest rate of 3.75%. The line of credit is available through March 31, 2011, and is secured by Lifespire's accounts receivable. The current outstanding balance as of March 31, 2010, is $6,449,903.

Long-Term Debt. As of June 30, 2009, Lifespire had $15,473,339 in outstanding long term indebtedness. Of this amount, $4,243,339 is secured by a security interest in certain receivables of Lifespire, which may include Lifespire's Public Funds. See Notes 12, 14 and 15 of Lifespire's Audited Financial Statements under titles of "Mortgages Payable - DASNY," "Bonds Payable - DASNY" and "Bonds Payable - IDA."

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 which would otherwise limit, restrain or enjoin the ability of Lifespire to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement or seeking damages in excess of applicable insurance coverage.

Management.

Directors and Officers: The affairs of Lifespire are governed by a Board of Directors of sixteen. The officers are comprised of: Michael S. Gross, Chairperson, Jeffrey Goodman, Vice Chair, Patrick Vatel, Treasurer and Julian Palmo, Secretary. Other members of the Board are: Anne Dunbar, Audrey Lieberman, Michael R. Dillon, Margaret Davino, Ellen R. Greene, Jerome Greene, Sister Grace Henke, Lawrence Hirsch, Robert Krakow, Michael Rappaport, Elizabeth Schiff and Jules Shorr. 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: 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.

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SCO FAMILY OF SERVICES

General Operations. SCO Family of Services ("SCO") was founded in 1947 although it traces its history back to 1895. As one of New York's largest social service agencies, SCO has played a vital role for the people of New York City and Long Island. SCO works with New York's most vulnerable who are striving to overcome the devastating impact of developmental and mental challenges, poverty, neglect or abuse. With a comprehensive array of services, SCO gives individuals and families the support and tools needed for a healthy, stable and successful future, building stronger communities throughout the area. SCO 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.

SCO's funding sources for its 2009 Fiscal Year were: the New York State Office of Children and Family Services ("OCFS") (approximately 44%), the New York City Administration for Children's Services ("ACS") (approximately 24%), OMRDD (approximately 12.5%), OMH (approximately 9.5%), SED (approximately 5%), and miscellaneous other sources (approximately 5%).

Description of Facilities and Financing Plan. The Authority will lend SCO approximately $1,635,000 from the proceeds of the Series 2010A Bonds ("SCO's Allocable Portion"). Such amount will be used to refinance debt incurred to acquire and renovate two properties at the following residential and school facilities (the "Facilities") for developmentally disabled adults:

- 113-14 204th Street, St. Albans, New York - approximately $638,406 for the acquisition and renovation of a 1,384 square foot two-floor building to be used as a residence for four developmentally disabled adults.

- 14 Shady Lane, Coram, New York - approximately $810,741 for the acquisition and renovation of a 2,662 square foot two-floor building to be used as a residence for five developmentally disabled adults.

The remaining Series 2010A Bond proceeds to be loaned to SCO in the amount of approximately $185,853 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OMRDD, and the Facilities are supported by PPAs, which SCO has received. This means the Facilities are pre-approved for reimbursement by OMRDD for reimbursement by OMRDD of principal and interest costs incurred in connection with the acquisition and renovation of the Facilities and financing or refinancing costs incurred in connection therewith. SCO has received a Certificate of Occupancy for each of the Facilities.

SCO owns the Facilities and will grant a first priority mortgage on the Facilities to the Authority. SCO will also grant the Authority a lien on the Public Funds attributable to the Facility. SCO has two loans from the Authority outstanding as of March 31, 2010 in the aggregate principal amount of $17,220,000, which are secured by a Prior Pledge of SCO's Public Funds.

In addition to receiving a loan from the proceeds of the Series 2010A Bonds, SCO will receive a loan in the approximate amount of $7,720,000 from the proceeds of the Authority's InterAgency Council Pooled Loan Program, Series 2010B (the "Series 2010B Bonds"), which are expected to be issued concurrently with or subsequent to the issuance of the Series 2010A Bonds and will used to refinance debt incurred to acquire and renovate two schools for special needs students and one administrative facility.

Other Properties. SCO also owns 49 other properties and leases another 91 properties in New York City, Nassau County and Suffolk County.

Employees. SCO employs 2,238 full-time and 1,321 part-time employees, of which approximately 204 full-time employees and 38 part-time employees are employed at the Facilities.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and SCO, the actual Debt Service Coverage for Fiscal Year 2009 and the Pro Forma Debt Service Coverage (which includes SCO's Allocable Portion of the Series 2010A Bonds and the Series 2010B Bonds) are as follows:

	2009 Actual	2009 Pro Forma
Net Income (after adj.)	1,030,712	1,030,712
Depreciation	2,769,972	2,769,972
Interest Expense	2,305,902	2,305,902
PPA Reimbursement	0	157,678
Cash Flow for Debt Service	6,106,586	6,264,264
Maximum Annual Debt Service	4,497,798	4,879,648
Debt Service Coverage	1.36	1.28

Financials. Audited financial statements for SCO's fiscal years ended June 30, 2007 through June 30, 2009 were prepared by UHY LLP and are attached as Appendix B-IV. Interim unaudited financial information prepared by SCO's Management covering the period July 1, 2009 through March 31, 2010 is attached as Appendix C-IV. Significant accounting policies are contained in the audited financial statements.

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

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

The following is a summary of financial information for SCO for the most recently ended five (5) fiscal years for which audited financial statements were available and has been prepared by SCO's Management and derived from SCO'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,

	2005	**2006**	**2007**	**2008**	**2009**
Current Assets	$56,980,677	$63,296,737	$65,800,492	$72,319,951	$74,864,085
Net Fixed Assets	30,081,380	30,923,887	34,475,216	39,963,686	38,270,152
Other	6,548,597	5,570,255	5,517,789	5,310,532	5,051,792
Total	93,610,654	99,790,879	105,793,497	117,594,169	118,186,029
Current Liabilities	19,828,852	24,246,788	28,602,561	41,057,116	46,268,558
Other Liabilities	34,082,760	34,303,072	32,482,006	31,471,982	28,695,094
Net Assets	39,699,042	41,241,019	44,708,930	45,065,071	43,222,377
Total	93,610,654	99,790,879	105,793,497	117,594,169	118,186,029
Operating Revenue:					
Program Revenue	132,276,512	145,782,347	162,719,221	182,984,408	192,171,889
Nonprogram Revenue	2,831,975	2,610,100	4,871,223	1,131,303	1,245,612
Total	135,108,487	148,392,447	167,590,444	184,115,711	193,417,501
Operating Expenses	133,901,960	147,822,104	164,586,757	184,478,724	195,441,611
Change in Net Assets	1,687,802	1,541,977	3,467,911	356,141	(1,842,694)
Net Assets, Beginning of Year	38,011,240	39,699,042	41,241,019	44,708,930	45,065,071
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	39,699,042	41,241,019	44,708,930	45,065,071	43,222,377
Cash & Equivalents	5,312,470	3,812,405	3,480,792	1,722,658	5,841,051

Management's Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal – SCO had current assets of $74,864,085 and $72,319,951 at the end of the fiscal years of 2009 and 2008, respectively. (b) External – SCO has available a $20 million line of credit with JP Morgan Chase Bank and a $5 million line of credit with JP Morgan Chase Bank.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: SCO 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 for fiscal years 2008 and 2009 were $1,131,303 and $1,245,612, respectively. See APPENDIX C-IV for interim unaudited financial information through March 31, 2010.

(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 the fiscal year ending June 30, 2009, SCO had decrease of $1,842,694 in its net assets due to an unrealized loss on investments in the amount of $3,615,434.

Liquidity and Capital Resources. As of June 30, 2009, SCO had $5,841,051 in unrestricted cash and cash equivalents and $48,305,471 in net accounts receivable.

As of March 31, 2010, SCO had an available line of credit of $20 million, of which $14.5 million was outstanding, and an available line of credit of $5 million, which had no outstanding balance. Both lines of credit are with JP Morgan Chase Bank. The $20 million line of credit carries an interest rate of LIBOR plus 1.50 basis points; the $5 million line of credit carries an interest rate of LIBOR plus 6.00 basis points. The $20 million line of credit is available through December 31, 2010, and is secured by SCO's investment portfolio. The $5 million line of credit is available through December 31, 2010, and is secured by SCO's accounts receivable.

Long-Term Debt. As of June 30, 2009, SCO had $26,724,495 in outstanding long term indebtedness. Of this amount, $18,932,096 is secured by a security interest in certain receivables of SCO, which may include SCO's Public Funds. See Note 8 of SCO's Audited Financial Statements under title "Long Term Debt."

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 SCO to continue to operate its facilities or to challenge title to its properties or which would otherwise limit, restrain or enjoin the ability of SCO to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement or seeking damages in excess of applicable insurance coverage.

Management.

Directors and Officers: The affairs of SCO are governed by a Board of Directors of not more than thirty. The Board of Directors meets at least four times a year. One-third of the members of the Board, or not less than seven, constitute a quorum. The members of the Board serve without compensation.

The officers are comprised of Edward W. Stack, Chair, Dennis E. Henchy, Vice Chair, H. Craig Trieber, Vice Chair, Thomas N. Dufek, Treasurer, Joseph M. Matarese, Assistant Treasurer, Photeine M. Anagnostopoulos, Secretary, and Cynthia King Vance, Assistant Secretary. Other members of the Board of Directors are: Sr. Yvette Arnold, Roger Bennett, Benjamin Bram, Dorothy Brengel, Vincent J. DeLaurentis, Brian Edwards, John Gallagher, Joan Imhof, Sr. Ellen Kelly, Sr. Paulette LoMonaco, Kerryann Tomlinson, Stephen Tyree, Kelly Williams, Douglas Schloss and Anne Sherman.

Executive and Administrative Officers: Robert J. McMahon has been the Executive Director of SCO for over 36 years. He holds an M.A. and a B.A. in Education. Johanna M. Richman has been the Associate Executive Director and Chief Financial Officer of SCO since October 2008. She holds a B.B.A. Degree in Business Administration. Renée Skolaski Anderson is the Assistant Executive Director of SCO. She has been associated with SCO since December 2002. She holds an M.S. in Social Service Administration and Planning and a B.S. in Psychology.

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

General Operations. Services for the Underserved, Inc. ("SUS") and its six affiliates were founded in and after 1978. Operating out of 57 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 the elderly communities of New York City. The mission of SUS and its affiliates is to provide support and assistance to individuals with developmental, mental and related disabilities and their families. In order to achieve their mission, SUS and its affiliates provide 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. 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 2010A 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 2010A Bonds, this Appendix includes financial information about SUS and its related organizations, which include all SUS subsidiaries, including SUS-DD, notwithstanding that the Series 2010A 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's funding sources for its 2009 Fiscal Year were: OMRDD (approximately 37%), HRA (approximately 31%), OMH (approximately 15%), client fees (approximately 7%), and miscellaneous other sources (approximately 10%). SUS-DD's funding sources for its 2009 Fiscal Year were: OMRDD (approximately 87%), client fees (approximately 5%), and miscellaneous other sources (approximately 8%).

Description of Facilities and Financing Plan. The Authority will lend SUS and SUS-DD approximately $3,815,000 from the proceeds of the Series 2010A Bonds ("SUS and SUS-DD's Allocable Portion"). Such amount will be used to refinance debt incurred to acquire and renovate the following residential facilities (the "Facilities") for developmentally disabled adults:

- 3005 Cruger Avenue, Bronx, New York: approximately $1,207,013 for the acquisition and renovation of a 3,150 square foot three-floor building to be used as a residence for nine developmentally disabled adults.

- 115-44 127th Street, Hollis, New York: approximately $1,096,795 for the acquisition and renovation of a 2,800 square foot two-floor building to be used as a residence for seven developmentally disabled adults.

- 107-37 Pinegrove Street, Jamaica, New York: approximately $1,099,362 for the acquisition and renovation of a 3,375 square foot two-floor building to be used as a residence for seven developmentally disabled adults.

The remaining Series 2010A Bond proceeds to be loaned to SUS and SUS-DD in the amount of approximately $411,830 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OMRDD, and the Facilities are supported by PPAs, which SUS has received. This means the Facilities are pre-approved by OMRDD for reimbursement by OMRDD 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.

SUS-DD owns the Facilities and will grant a first priority mortgage on the Facilities to the Authority. SUS and SUS-DD will also grant the Authority a lien on the Public Funds attributable to the Facilities. SUS has a loan from the Authority outstanding as of March 31, 2010 in the principal amount of $3,350,000, which is secured by a Prior Pledge of SUS Public Funds.

Other Properties. SUS-DD and other SUS affiliates own 45 other properties and lease another 18 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. SUS is also affiliated with Child Development Center of the Hamptons which leases space in Long Island.

Employees. SUS employs a staff of 1,481, of which 1,391 are full-time employees and 90 are part-time employees. Approximately 26 full-time and 7 part-time employees are employed at the Facilities.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement among the Authority, SUS and SUS-DD, the actual Debt Service Coverage for Fiscal Year 2009 and the Pro Forma Debt Service Coverage (which includes SUS and SUS-DD's Allocable Portion of the Series 2010A Bonds) are as follows:

	2009 Actual	2009 Pro Forma
Net Income (after adj.)	1,216,631	1,216,631
Depreciation	2,506,414	2,506,414
Interest Expense	1,397,121	1,397,121
PPA Reimbursement	0	486,268
Cash Flow for Debt Service	5,120,166	5,606,434
Maximum Annual Debt Service	4,670,651	5,156,919
Debt Service Coverage	1.10	1.09

Financials. Audited financial statements for SUS and its affiliates for fiscal year ended June 30, 2007 through June 30, 2009 were opined upon by BDO Seidman, LLP and are attached as Appendix B-V. Interim unaudited financial information for SUS and its affiliates prepared by SUS's and SUS-DD's

Management covering the period from July 1, 2009 through March 31, 2010 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 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-V.

Fiscal Year Ended June 30,

	2005	**2006**	**2007**	**2008**	**2009**
Current Assets	$16,483,791	$20,764,044	$21,605,964	$18,878,822	$23,961,797
Net Fixed Assets	34,241,557	35,953,025	36,568,212	39,438,499	36,295,289
Other	4,901,979	3,334,788	4,542,365	6,211,250	5,772,906
Total	55,627,327	60,051,857	62,716,541	64,528,571	66,029,992
Current Liabilities	6,681,494	7,049,935	6,579,542	7,280,662	7,771,017
Other Liabilities	36,183,488	39,568,410	40,192,041	40,919,531	23,168,957
Net Assets	12,762,345	13,433,512	15,944,958	16,328,378	17,545,009
Total	55,627,327	60,051,857	62,716,541	64,528,571	48,484,983
Operating Revenue:					
Program Revenue	66,395,805	70,505,155	75,012,920	78,686,517	81,123,408
Nonprogram Revenue	786,900	935,449	2,293,073	472,242	1,542,963
Total	67,182,705	71,440,604	77,305,993	79,158,759	82,666,371
Operating Expenses	65,532,716	70,430,488	74,795,547	77,542,499	81,449,740
Change in Net Assets	1,649,989	1,010,116	2,511,446	383,420	1,216,631
Net Assets, Beginning of Year	11,509,612	12,762,345	13,433,512	15,944,958	16,328,378
Prior Period Adjustment	(397,256)	(338,949)	0	0	0
Net Assets, End of Year	12,762,345	13,433,512	15,944,958	16,328,378	17,545,009
Cash & Equivalents	4,173,211	4,177,009	3,217,089	3,954,858	11,595,476

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 $23,961,797 and $18,878,822 at the end of the fiscal years of 2009 and 2008, respectively. (b) External – SUS has available an $8 million line of credit with Bank of America for operating expenses and a capital line of credit of $6 million.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: SUS is not aware any trends or uncertainties that have had or that are reasonably expected to have a material impact on revenues or income. (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 2009 and 2008 was $588,761 and $297,449, respectively. See APPENDIX C-V for interim unaudited financial information through March 31, 2010.

(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. SUS's total operations have increased due to expansion of residential services provided. In the fiscal year ending June 30, 2009, SUS and related organizations had surplus revenues of $1,216,631.

Liquidity and Capital Resources. As of June 30, 2009, SUS had $11,595,476 in unrestricted cash and cash equivalents and $10,903,386 in net accounts receivable.

As of March 31, 2010, SUS had an available operating line of credit of $8 million with Bank of America carrying an interest rate of prime plus 0.50%. The bank also charges SUS a quarterly fee on the unused available line of credit in the amount of 0.50%. The line of credit is available through June 30, 2010, and is secured by SUS's accounts receivable and certain personal property and fixtures. There was no balance as of March 31, 2010.

As of March 31, 2010, SUS had an acquisition and renovation line of $6 million with Bank of America carrying an interest rate of prime plus 0.25%. The line of credit is available through June 30, 2010, and is secured by SUS's accounts receivable and certain personal property and fixtures. There was a balance of $2.7 million as of March 31, 2010.

Long-Term Debt. As of June 30, 2009, SUS had $23,901,897 in outstanding long term indebtedness. Of this amount, $16,350,257 is secured by a security interest in certain receivables of SUS, which may include SUS's Public Funds. See Notes 8 and 9 of SUS's Audited Financial Statements under titles of "Mortgages and Loans Payable" and "Bonds Payable."

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 their facilities or to challenge title to their properties or which would otherwise limit, restrain or enjoin the ability of SUS or SUS-DD to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement or seeking damages in excess of applicable insurance coverage.

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: Carolyn P. Powell, Chair, Earl D. Brown, Vice-Chair, John A. McKesson, Treasurer and Arnold E. Eagle, Secretary . Other members of the Board of Directors are: Jim Donna, Colette B. Foster-Franck, Peter Friedland, Jacquie A. Holmes, Kenneth Kornbluth, Daniel Lawrence, Beverly C. Reid, Joann Y. Sacks, Ph.D. and Taylor Yoo. 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 on the Board of the Coalition of Voluntary Mental Health Agencies where she chairs the Housing Committee. Michael Whelan joined SUS as Chief Financial Officer in July 2009. Mr. Whelan is a chartered accountant.

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

General Operations. United Cerebral Palsy of New York City, Inc. ("UCP") was founded in 1946. UCP provides a wide range of services to children and adults with cerebral palsy and related disabilities. UCP's mission is to provide the highest quality services in health care, education, employment, housing and technology resources that support people with cerebral palsy and related disabilities in leading independent and productive lives. UCP 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.

UCP's funding sources for its 2009 Fiscal Year were: OMRDD (approximately 69%), SED (approximately 20%), the New York State Department of Health ("DOH") (approximately 8%), and other miscellaneous sources (approximately 3%).

Description of Facilities and Financing Plan. The Authority will lend UCP approximately $1,540,000 from the proceeds of the Series 2010A Bonds ("UCP's Allocable Portion"). Such amount will be used to refinance debt incurred to acquire and/or renovate the following residential facilities (the "Facilities") for developmentally disabled adults:

- 1862 Stillwell Avenue (a/k/a 1770 Stillwell Avenue), Bronx, New York: approximately $958,000 for the acquisition of a residential facility for eight developmentally disabled adults in a 3,595 square foot, one-floor building.

- 369 8th Avenue, 1st Floor, New York, New York: approximately $421,761 for the renovation of a residential facility for six developmentally disabled adults in a 2,933 square foot, one-floor building.

The remaining Series 2010A Bond proceeds to be loaned to UCP in the amount of approximately $160,239 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OMRDD. The Facilities are each supported by a PPA, which UCP has received. This means that the Facilities are pre-approved by OMRDD for reimbursement by OMRDD 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. UCP has received a Certificates of Occupancy for each of the Facilities.

UCP owns the property located at 1862 Stillwell Avenue, Bronx, New York (the "Owned Facility") and leases the property located at 369 8th Avenue, New York, New York. UCP will grant a first priority mortgage on the Owned Facility to the Authority. UCP will also grant the Authority a lien on the Public Funds attributable to the Facilities. UCP has two loans from the Authority outstanding as of March 31, 2010 in the aggregate principal amount of $9,815,000, which are secured by a Prior Pledge of UCP's Public Funds.

Other Properties. UCP also owns 38 other properties and leases another 78 properties in New York City.

Employees. UCP employs 1,104 full-time and 622 part-time employees, of which approximately 21 full-time employees and 15 part-time employees are employed at the Facilities. UCP does not expect that the operation of the Facilities will require it to employ additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and UCP, the actual Debt Service Coverage for Fiscal Year 2009 and the Pro Forma Debt Service Coverage (which includes UCP's Allocable Portion of the Series 2010A Bonds) are as follows:

	2009 Actual	**2009 Pro Forma**
Net Income (after adj.)	(8,143,000)	(8,143,000)
Depreciation	3,275,000	3,275,000
Interest Expense	1,073,000	973,000
PPA Reimbursement	0	167,918
One time non-cash accounting change	7,622,000	7,622,000
Cash Flow for Debt Service	3,827,000	3,894,918
Maximum Annual Debt Service	862,000	1,029,918
Debt Service Coverage	4.44	3.78

Financials. Audited financial statements for UCP's fiscal years ended June 30, 2007 through June 30, 2009 were prepared by Holtz Rubenstein Reminick LLP and are attached as Appendix B-VI. Interim unaudited financial information prepared by UCP's Management covering the period July 1, 2009 through March 31, 2010 is attached as Appendix C-VI. Significant accounting policies are contained in the audited financial statements.

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

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

The following is a summary of financial information for UCP for the most recently ended five (5) fiscal years for which audited financial statements were available and has been prepared by UCP's Management and derived from UCP'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-VI.

Fiscal Year Ended June 30,

	2005	**2006**	**2007**	**2008**	**2009**
Current Assets	$31,569,000	$30,616,000	$32,009,000	$35,211,000	$33,650,000
Net Fixed Assets	31,037,000	31,792,000	30,346,000	29,148,000	29,197,000
Other	1,304,000	1,454,000	1,345,000	1,525,000	1,652,000
Total	63,910,000	63,862,000	63,700,000	65,884,000	64,499,000
Current Liabilities	21,842,000	13,084,000	12,137,000	15,614,000	16,900,000
Other Liabilities	25,841,000	33,801,000	32,551,000	32,996,000	38,468,000
Net Assets	16,227,000	16,977,000	19,012,000	17,274,000	9,131,000
Total	63,910,000	63,862,000	63,700,000	65,884,000	64,499,000
Operating Revenue:					
Program Revenue	78,058,000	83,065,000	88,289,000	92,324,000	95,616,000
Nonprogram Revenue	1,519,000	2,871,000	4,396,000	1,787,000	709,000
Total	80,982,000	85,936,000	92,685,000	94,111,000	96,325,000
Operating Expenses	82,168,000	85,816,000	91,275,000	92,958,000	96,846,000
Change in Net Assets	(1,186,000)	750,000	2,035,000	(1,738,000)	(8,143,000)
Net Assets, Beginning of Year	17,413,000	16,227,000	16,977,000	19,012,000	17,274,000
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	16,227,000	16,977,000	19,012,000	17,274,000	9,131,000
Cash & Equivalents	5,355,000	7,361,000	9,874,000	13,858,000	12,119,000

Management's Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal – UCP had current assets of $33,650,000 and $35,211,000 at the end of the fiscal years of 2009 and 2008, respectively. (b) External – UCP has available (a) a $4 million line of credit and (b) a $6 million line of credit, both with JP Morgan Chase Bank.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: UCP 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, rental and interest for fiscal years 2008 and 2009 were $1,693,000 and $1,455,000, respectively. See APPENDIX C-VI for interim unaudited financial information through March 31, 2010.

(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 the fiscal year ending June 30, 2009, UCP had a decrease of $8,143,000 in its net assets due to unrealized losses on investments, losses in pension benefit plan assets and projected pension obligations.

Liquidity and Capital Resources. As of June 30, 2009, UCP had $12,119,000 in unrestricted cash and cash equivalents and $12,240,000 in net accounts receivable.

As of March 31, 2010, UCP had two available lines of credit of $4 million and $6 million, respectively, with JP Morgan Chase Bank, each carrying an interest rate of 1.50%. The lines of credit are available through July 1, 2010, and are secured by UCP's accounts receivable. There were outstanding balances of (a) $1,150,000 and (b) $1,708,000, respectively, as of March 31, 2010.

Long-Term Debt. As of June 30, 2009, UCP had $16,547,000 in outstanding long term indebtedness. Of this amount, $10,264,000 is secured by a security interest in certain receivables of UCP, which may include UCP's Public Funds. See Notes 7 and 8 of UCP's Audited Financial Statements under titles of "Loans and Capital Leases Payable" and "Mortgages Payable."

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 UCP to continue to operate its facilities or to challenge title to its properties or which would otherwise limit, restrain or enjoin the ability of UCP to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement or seeking damages in excess of applicable insurance coverage.

Management.

Directors and Officers: The affairs of UCP are governed by a Board of Directors. The officers are comprised of Jerome Belson, President, Martin C. Hausman, Chairman, Kenneth Carmel, Vice-Chairman, James Kase, Executive Vice-President, Kenneth R. Auerbach, Vice-President, Gary Geresi, Vice-President and Treasurer, Joseph M. Gindi, Vice-President, Kelly E. Kaminski, Vice-President, and Hilda S. Sloan, Secretary. Other members of the Board of Directors are: James E. Introne, Jane Lyons, David S. Portny, Al Rutsky and John Weaver. The Board of Directors meet three times per year. The members of the Board serve without compensation.

Executive and Administrative Officers: Edward R. Matthews has been the Chief Executive Officer of UCP since April 1989. He has over thirty years of experience in the developmental disabilities field and began his professional career as a clinical psychologist in New York City. He has worked for various New York State agencies in developing residential programs for persons with disabilities. Marianne Diczok has been the Chief Financial Officer of UCP since 2005. She holds a BS degree in Accounting and a certification as a public accountant. Prior to joining UCP, Ms. Diczok worked for the accounting firm of Ernst and Young. In 1991 she was hired as Controller for UCP and in 2003 was appointed to the position of Director of Finance.

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WILDWOOD PROGRAMS, INC.

General Operations. Wildwood Programs, Inc. ("Wildwood") was founded in 1967. Operating out of 20 facilities, Wildwood provides a wide range of in-home educational and residential services to the developmentally disabled community of the Capital District. 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 2009 Fiscal Year were: OMRDD (approximately 53%), SED (approximately 39%), participant's fees (approximately 6%), and other miscellaneous sources (approximately 2%).

Description of Facility and Financing Plan. The Authority will lend Wildwood approximately $375,000 from the proceeds of the Series 2010A Bonds ("Wildwood's Allocable Portion"). Such amount will be used to refinance debt incurred to acquire and renovate the following facility (the "Facility") to be used as a residence for developmentally disabled adults:

- 110 Davis Avenue, Albany, New York: approximately $322,337 for the purchase and renovation of a residential facility for four developmentally disabled adults in a 2,100 square foot, two floor building.

The remaining Series 2010A Bond proceeds to be loaned to Wildwood in the amount of approximately $52,663 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facility is OMRDD, and the Facility is supported by a PPA, which Wildwood has received. This means the Facility is preapproved by OMRDD for reimbursement by OMRDD 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. Wildwood has received a Certificate of Occupancy for the Facility.

Wildwood owns the Facility and will grant a first priority mortgage on such Facility to the Authority. Wildwood will also grant the Authority a lien on the Public Funds attributable to the Facility. Wildwood has a loan from the Authority outstanding as of March 31, 2010 in the principal amount of $640,000, which is secured by a Prior Pledge of Wildwood's Public Funds.

Other Properties. Wildwood also owns or leases approximately 24 other properties in the Capital District.

Employees. Wildwood employs 470 full-time and 200 part-time employees in the Capital District of upstate New York, of which approximately six full-time employees and a variety of relief staff, whose cumulative full-time equivalent status does not exceed 0.5 full-time employees, are employed at the Facility. Wildwood does not expect the operation of the Facility will require it to employ additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and Wildwood, the actual Debt Service Coverage for Fiscal Year 2009 and the Pro Forma Debt Service Coverage (which includes Wildwood's Allocable Portion of the Series 2010A Bonds) are as follows:

	2009 Actual	2009 Pro Forma
Net Income (after adj.)	(321,017)	(321,017)
Depreciation	1,280,067	1,280,067
Interest Expense	760,056	760,056
PPA Reimbursement	0	37,038
Cash Flow for Debt Service	1,719,106	1,756,144
Maximum Annual Debt Service	1,206,805	1,243,843
Debt Service Coverage	1.425	1.412

Financials. Audited financial statements for Wildwood's fiscal years ended June 30, 2007 through June 30, 2009 were prepared by Bryans & Gramuglia CPAs, LLC (for the fiscal year ended June 30, 2009) and by Marvin and Company, P.C. (for the fiscal years ended June 30, 2008 and 2007) and are attached as Appendix B-VII. Interim unaudited financial information prepared by Wildwood's Management covering the period from July 1, 2009 through March 31, 2010 is attached as Appendix C-VII. Significant accounting policies are contained in the audited financial statements.

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Management's Summary of Financial Information and 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 (5) 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. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-VII.

Fiscal Year Ended June 30,

	2005	**2006**	**2007**	**2008**	**2009**
Current Assets	$ 5,429,918	$ 5,066,155	$ 5,259,441	$ 8,518,715	$ 8,751,217
Net Fixed Assets	6,976,310	10,541,651	26,250,299	15,834,947	15,756,539
Other	3,220,876	3,789,915	5,183,275	5,871,866	4,853,016
Total	15,627,104	19,397,721	36,693,015	30,225,528	29,360,772
Current Liabilities	2,990,627	2,366,089	8,921,351	3,096,287	6,100,353
Other Liabilities	5,231,770	8,788,922	18,488,682	16,451,798	12,903,993
Net Assets	7,404,707	8,242,710	9,282,982	10,677,443	10,356,426
Total	15,627,104	19,397,721	36,693,015	30,225,528	29,360,772
Operating Revenue:					
Program Revenue	20,235,008	22,593,778	24,704,198	27,279,630	28,765,421
Nonprogram Revenue	345,062	557,063	544,581	1,986,748	1,478,785
Total	20,580,070	23,150,841	25,248,779	29,266,378	30,244,206
Operating Expenses	20,740,153	22,881,877	25,601,867	27,966,163	29,410,615
Change in Net Assets	(160,083)	268,964	(353,088)	1,300,215	833,591
and net assets of related party	256,559	569,039	1,393,360	688,591	(1,018,850)
Net Assets, Beginning of Year	7,308,231	7,404,707	8,242,710	9,239,104	10,677,443
Prior Period Adjustment	0	0	0	(43,878)	0
Net Assets, End of Year	7,404,707	8,242,710	9,282,982	10,677,443	10,356,426
Cash & Equivalents	1,478,452	1,357,918	1,633,033	3,055,348	3,405,102

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 $8,751,217 and $8,518,715 at the end of the fiscal years of 2009 and 2008, respectively; (b) External – Wildwood has available lines of credit aggregating $2.5 million from RBS Citizens, N.A. and KeyBank, N.A.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: Wildwood is not aware of any trends or uncertainties that have had or that are reasonably expected to have a material impact on net revenues or income. (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 2009 and 2008 were $1,478,785 and $1,986,748, respectively. See APPENDIX C-VII for interim unaudited financial information through March 31, 2010.

(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. In the fiscal year ending June 30, 2009, Wildwood had a decrease of $321,017 in its net assets due to unrealized losses on investments.

Liquidity and Capital Resources. As of June 30, 2009, Wildwood had $3,405,102 in unrestricted cash and cash equivalents and $3,010,051 in net accounts receivable.

As of March 31, 2010, Wildwood had available lines of credit as follows: $500,000 with KeyBank, N.A. carrying an interest rate equal to the LIBOR rate, expiring December 31, 2010; $500,000 with RBS Citizens, N.A. carrying an interest rate equal to the LIBOR rate, which is a demand line. The loans with respect to the lines of credit are unsecured. As of March 31, 2010, a total of $652,701.09 was outstanding under the lines of credit.

Long-Term Debt. As of June 30, 2009, Wildwood had $17,926,296 in outstanding long term indebtedness. Of this amount, $640,000 is secured by a security interest in certain receivables of Wildwood, which may include Wildwood's Public Funds. See Notes 6 and 7 of Wildwood's Audited Financial Statements under titles "Leases" and "Long-Term Debt."

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 Wildwood to continue to operate its facilities or to challenge title to its properties or which would otherwise limit, restrain or enjoin the ability of Wildwood to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement or seeking damages in excess of applicable insurance coverage.

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: Joseph Fitzgerald, President; Peter Nickel, Vice-President; Edward S. Knapp, Treasurer; and Gerald L. Lynch, Jr., Secretary. Other members of the Board of Directors are: Kevin G. Banes, Debra R. Barkman, Shirley Davis, Janet Deixler, William Hedberg, Peter Loyola, Cheryl Marcella, Karen Nagy, Roseanne O'Brien, Kevin Ryan, Wilma Schmeler, Linda Siatkowski, Edward Wilcenski, Robin Worobey and Amanda Zenner. 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.

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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 2009 Fiscal Year were: OMRDD (approximately 94%), DOH (approximately 5%), and miscellaneous other sources (approximately 1%).

Description of Facilities and Financing Plan. The Authority will lend YAI approximately $13,595,000 from the proceeds of the Series 2010A Bonds ("YAI's Allocable Portion"). Such amount will be used to refinance debt incurred to acquire and/or renovate the following residential facilities (the "Facilities") for developmentally disabled adults:

- 197 Canterbury Road, Williston Park, New York - approximately $711,651 for the renovation of a 5,362 square foot, three-floor building to be used as a residence for ten developmentally disabled adults.

- 1514 New York Avenue, Brooklyn, New York - approximately $1,346,404 for the acquisition and renovation of a 4,320 square foot, four-floor building to be used as a residence for eight developmentally disabled adults.

- 47-52 Glenwood Street, Little Neck, New York - approximately $1,468,995 for the acquisition and renovation of a 2,766 square foot, three-floor building to be used as a residence for six developmentally disabled adults.

- 736 West 187th Street, Apartments 202 and 203, New York, New York - approximately $1,811,647 for the acquisition and renovation of two condominium apartments of 2,150 square feet in a seven-floor building to be used as a residence for five developmentally disabled adults.

- 45 Spencer Drive West, New Rochelle, New York - approximately $1,436,674 for the acquisition and renovation of a 3,670 square foot, one-floor building to be used as a residence for six developmentally disabled adults.

- 475 Union Avenue, Westbury, New York - approximately $422,899 for the renovation of a 7,000 square foot, one-floor building to be used as a Day Habilitation program for 12 developmentally disabled adults.

- 314 East 35th Street, Suites 1, 2 and 3, New York, New York - approximately $1,099,006 for the renovation of 14,000 square feet in a three-floor building to be used as a residence for developmentally disabled adults.

- 135-39 Union Turnpike, Queen, New York - approximately $650,646 for the renovation of a 4,186 square foot, three-floor building to be used as a residence for eight developmentally disabled adults.

- 555 Washington Avenue, Suites 5 and 6, Brentwood, New York - approximately $160,543 for the renovation of a 2,600 square foot, one-floor building to be used as a Day Habilitation program for 20 developmentally disabled adults.

- 340 Old Town Road, East Setauket, New York - approximately $457,366 for the renovation of a 4,131 square foot, one-floor building to be used as a residence for six developmentally disabled adults.

- 3321 Bainbridge Avenue, Bronx, New York - approximately $506,981 for the acquisition and renovation of a 3,742 square foot, four-floor building to be used as a residence for eight developmentally disabled adults.

- 177 Falmouth Road, Yonkers, New York - approximately $923,153 for the renovation of a 5,196 square foot, three-floor building to be used as a residence for eleven developmentally disabled adults.

- 640 Johnson Avenue, Ronkonkoma, New York - approximately $1,198,608 for the acquisition and renovation of a 4,349 square foot, one-floor building to be used as a residence for seven developmentally disabled adults.

The remaining Series 2010A Bond proceeds to be loaned to YAI in the amount of approximately $1,400,427 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OMRDD, and the Facilities are supported by PPAs, which YAI has received. This means the Facilities are pre-approved by OMRDD for reimbursement by OMRDD 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. YAI has received a Certificate of Occupancy for each of the Facilities.

YAI owns all of the Facility properties except those located at 475 Union Avenue, Westbury, New York and 555 Washington Avenue, Brentwood, New York. YAI will grant a first priority mortgage on the Facilities located at (i) 197 Canterbury Road, Williston Park, New York, (ii) 1514 New York Avenue, Brooklyn, New York, (iii) 47-52 Glenwood Street, Little Neck, New York, (iv) 736 West 187th Street, Apartments 202 and 203, New York, New York, (v) 45 Spencer Drive West, New Rochelle, New York, and (vi) 640 Johnson Avenue, Ronkonkoma, New York to the Authority. The Mortgages at the following properties will be a second lien priority: (i) 314 East 35th Street, Suites 1, 2 and 3, New York, New York; (ii) 135-39 Union Turnpike, Queen, New York; (iii) 3321 Bainbridge Avenue, Bronx, New York; and (iv) 177 Falmouth Road, Yonkers, New York. The Mortgage on 340 Old Town Road, East Setauket, New York will be a third lien priority. YAI will also grant the Authority a lien on the Public Funds attributable to the Facilities.

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

Employees. YAI employs 2,195 full-time and 1,262 part-time employees in the State of New York, of which a total of 194 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.

Calculated in accordance with the requirements of the Loan Agreement between the Authority and YAI, the actual Debt Service Coverage for Fiscal Year 2009 and the Pro Forma Debt Service Coverage (which includes YAI's Allocable Portion of the Series 2010A Bonds) are as follows:

	2009 Actual	2009 Pro Forma
Input Data		
Net Income (after adj.)	882,218	882,218
Depreciation	4,983,794	4,983,794
Interest Expense	3,060,927	3,060,927
PPA Reimbursement	0	1,425,043
Cash Flow for Debt Service	8,926,939	10,351,982
Maximum Annual Debt Service	9,643,561	10,318,604
Debt Service Coverage	0.9257	1.0032

Financials. Audited financial statements for YAI's fiscal years ended June 30, 2007 through June 30, 2009 were prepared by Loeb & Troper LLP and are attached as Appendix B-VIII. Interim unaudited financial information prepared by YAI's Management covering the period July 1, 2009 through March 31, 2010 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 YAI for the most recently ended five (5) 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-VIII.

	Fiscal Year Ended June 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Current Assets	$42,738,638	$50,952,345	$53,355,508	$54,959,775	$52,104,395
Net Fixed Assets	32,014,690	36,731,080	39,573,930	41,387,757	42,560,951
Other	11,269,832	9,847,275	10,134,676	10,028,144	10,225,709
Total	86,023,160	97,530,700	103,064,114	106,375,676	104,891,055
Current Liabilities	16,022,310	21,733,509	22,302,003	22,704,744	22,657,640
Other Liabilities	55,939,464	64,419,756	64,621,606	66,668,889	64,349,222
Net Assets	14,061,386	15,377,435	16,140,505	17,002,043	17,884,193
Total	86,023,160	97,530,700	103,064,114	106,375,676	104,891,055
Operating Revenue:					
Program Revenue	134,527,959	146,661,611	151,418,407	161,873,905	170,141,420
Nonprogram Revenue	2,371,539	3,582,751	3,339,297	3,413,054	4,437,249
Total	136,899,498	150,244,362	154,757,704	165,286,959	174,578,669
Operating Expenses	135,878,215	147,980,012	153,121,660	163,121,579	172,509,475
Change in Net Assets	1,021,283	1,316,049	763,070	861,538	882,150
Net Assets, Beginning of Year	13,040,103	14,061,386	15,377,435	16,140,505	17,002,043
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	14,061,386	15,377,435	16,140,505	17,002,043	17,884,193
Cash & Equivalents	6,357,608	9,664,738	8,542,592	8,197,412	15,019,296

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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 $52,104,395 and $54,959,775 at the end of the fiscal years of 2009 and 2008, respectively; (b) External - YAI has available lines of credit totaling $41,500,000 from KeyBank and Bank of America.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: YAI is not aware of any trends or uncertainties that have had or that are reasonably expected to have a material impact on revenues or income. (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 2009 and 2008 were $4,437,249 and $3,413,054, respectively. See APPENDIX C-VIII for interim unaudited financial information through March 31, 2010.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally impact the revenue of the program. In the fiscal year ending June 30, 2009, YAI had surplus revenues of $882,218.

Liquidity and Capital Resources. As of June 30, 2009, YAI had $15,019,296 in unrestricted cash and cash equivalents and $31,931,459 in net accounts receivable.

As of March 31, 2010, YAI had available lines of credit totaling $41,500,000 as follows: $18 million line of credit with KeyBank carrying an interest rate of .25% over the prime rate of KeyBank, expiring August 31, 2010; $2 million line of credit with Bank of America carrying an interest rate of .75% over the prime rate of Bank of America, expiring August 7, 2012; $6 million line of credit with Bank of America carrying an interest rate of .75% over the prime rate of Bank of America, expiring July 24, 2012 and an $15.5 million line of credit with Bank of America carrying an interest rate of .50% over the prime rate of Bank of America, expiring April 29, 2011. The loans with respect to the lines of credit are secured through July 31, 2010, by YAI's accounts receivable, Medicaid rate appeal accounts receivable, Medicaid rate adjustment accounts receivable and PPAs, respectively. Approximately $32,400,000 was outstanding as of March 31, 2010.

Long-Term Debt. As of June 30, 2009, YAI had $39,708,331 in outstanding long term indebtedness. Of this amount, $7,966,290 is secured by a security interest in certain receivables of YAI, which may include YAI's Public Funds. See Notes 5 and 6 of YAI's Audited Financial Statements under titles of "Notes and Mortgages Payable" and "Capital Lease Obligations."

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 YAI to continue to operate its facilities or to challenge title to its properties or which would otherwise limit, restrain or enjoin the ability of YAI to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement or seeking damages in excess of applicable insurance coverage.

Management.

Directors and Officers. The affairs of YAI are governed by a 21 member Board of Trustees. The officers are comprised of: Eliot P. Green, Esq., Chairman; and Sheldon F. Kwiat, Vice Chair, Diana Ming Sung, Co-Secretary, Paul Levitz, Ed.D, Co-Secretary, Frederick Z. Konigsberg, Esq., Co-Treasurer, and Theodore Shapiro, CPA, Co-Treasurer. Other Members of the Board of Trustees are: Peter Blanck, Ph.D., J.D., Michael Block, Esq., Lee Chaikin, Charles M. Dombeck, Marcella Fava, Paul M. Koren, CPA, Jeffrey Lieberman, Esq., Lawrence A. Jacobs, Esq., Lewis A. Lindenberg, Esq., Miriam Endelson, Jeffery A. Mordos, Joseph Newirth, Ph.D., Arie Rimmerman, Ph.D./D.S.W., David B. Stafford, Esq., Matthew Winkler, Lynn B. Goddess (hon.) and Oakleigh B. Thorne (hon.). 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. Dr. Philip H. Levy is the Chief Executive Officer. He has over 27 years of experience in the field of developmental and mental disabilities. He is a longtime advocate for the rights of people with developmental and mental disabilities and their families. He has served on the boards of numerous governmental and professional organizations including: Member, Mayor's Community Services Board, Department of Health and Mental Hygiene and has been a faculty member of New York University, Columbia University, City University of New York and Adelphia University. He has built the YAI/National Institute for People with Disabilities Network, where he serves as President, into one of the largest health and human services, not-for-profit organizations in the United States serving infants, children, adults and seniors with developmental and learning disabilities, including autism, intellectual disabilities, Down syndrome and neurological impairments. The Network employs over 5,600 staff, serves 20,000 people daily, and has an annual budget of over $250,000,000.

Karen Wegmann, Chief Financial Officer, has been with YAI/National Institute for People With Disabilities since 1986. She has served as Assistant Controller, Controller and Chief Financial Officer during her tenure. She is part of the management team that facilitated the growth of services to individuals with disabilities. Previously, Ms. Wegmann held various financial positions at CBS, Inc. in broadcasting and publishing. She holds an M.B.A. from Pace University and a B.A. from Queens College. She is an Adjunct Lecturer of Economics at CUNY and has lectured on financial topics at Adelphi Graduate School of Social Work, CUNY Graduate School and University of Pennsylvania Graduate School of Social Work. She serves as Chair of the InterAgency Council of OMRDD Agencies Controllers Group.

YAI's Co-Chief Operating Officers are Stephen E. Freeman and Thomas A. Dern. Mr. Freeman was promoted to Co-Chief Operating Officer in 2009, having been with YAI since 1977. Mr. Freeman earned a B.A. from Queens College and a Masters of Social Work from The Hunter College School of Social Work. Prior to joining YAI, he was a counselor and social worker for cardiac and surgical patients at North Shore University Hospital in Manhasset and Montefiore Hospital and Medical Center in the Bronx. He is a member of the National Association of Social Workers, the American Association for Mental Deficiency, the NYS Association of Day Treatment Providers, the NYS Advisory Committee on Day Services for Mentally Retarded, the Autism Spectrum News Editorial Board, and has served on the Executive Board of the NYC Association for Community Residence Administrators.

Mr. Dern was also promoted to Co-Chief Operating Officer in 2009, having been employed by YAI for over thirty years in various capacities. Mr. Dern graduated from St. John's University with a Baccalaureate Degree with a dual major of psychology and sociology. Mr. Dern also earned his Masters of Social Work Degree from the Hunter College School of Social Work. Mr. Dern is an adjunct lecturer at the Hunter College School of Social Work where he has designed, implemented and teaches a course entitled Social Policy and Disabilities. He has also taught a course on the graduate level at the Adelphi College School of Social work entitled Organizational Theory. Mr. Dern has lectured at a number of universities including St. John's University, Long Island University, Nassau Community College and Manhattan Community College. He was a founding member and a member of the management team of the Community Residence Information Service Program which had as its main goal the development of community residences for people with disabilities. He has spoken in hundreds of communities throughout the metropolitan area in an effort to develop these residential programs.

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APPENDIX B-I

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

AUDITED FINANCIAL STATEMENTS

FISCAL YEARS 2009, 2008 AND 2007

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FEDERATION EMPLOYMENT AND GUIDANCE
SERVICE, INC.

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2009

LOEB & TROPER LLP

FEDERATION EMPLOYMENT AND GUIDANCE
SERVICE, INC.

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Board of Directors
Federation Employment and Guidance Service, Inc.

We have audited the accompanying balance sheet of Federation Employment and Guidance Service, Inc. as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the organization'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 Federation Employment and Guidance Service, Inc.'s 2008 financial statements and, in our report dated November 13, 2008, 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 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 Federation Employment and Guidance Service, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Federation Employment and Guidance Service, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

December 8, 2009

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors
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EXHIBIT A

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

BALANCE SHEET

JUNE 30, 2009
(With Summarized Financial Information for June 30, 2008)

	2009	2008
ASSETS		
Cash and cash equivalents	$ 13,350,740	$ 6,180,924
Cash - escrow	51,071	104,370
Investments (Note 3)	20,466,031	24,020,794
Accounts receivable (net of allowance for accounts doubtful of collection of $5,372,550 in 2009 and $4,620,250 in 2008)	53,892,765	56,917,165
Assets held for deferred compensation	1,225,433	2,081,954
Contributions receivable (Note 4)	695,623	1,058,276
Prepaid expenses and other assets	8,024,197	8,134,146
Deposits	1,582,369	1,519,507
Fixed assets (Note 5)	46,969,897	48,724,199
Total assets	$ 146,258,126	$ 148,741,335
LIABILITIES AND NET ASSETS		
Accounts payable, accrued expenses and other liabilities	$ 36,164,319	$ 37,975,412
Accrued salaries and vacations payable	9,397,280	8,380,405
Allowance for third-party adjustments	5,104,513	5,098,738
Advances	17,341,924	17,055,625
Liability for deferred compensation	1,225,433	2,081,954
Mortgages payable (Note 6)	19,120,127	20,562,343
Loan payable (Note 7)	1,780,306	697,566
Construction advances (Note 8)	3,801,776	3,885,800
Total liabilities	93,935,678	95,737,843
Net assets (Exhibit B)		
Unrestricted		
Operating	14,055,194	14,607,333
Board designated	30,000,410	30,844,026
Total unrestricted	44,055,604	45,451,359
Temporarily restricted (Note 16)	6,580,908	5,866,197
Permanently restricted (Note 16)	1,685,936	1,685,936
Total net assets	52,322,448	53,003,492
Total liabilities and net assets	$ 146,258,126	$ 148,741,335

See independent auditor's report.

The accompanying notes are an integral part of these statements.

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC. — EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009
(With Summarized Financial Information for the Year Ended June 30, 2008)

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	
	Operating	Board Designated	Total			2009	2008
Revenues, gains (losses) and other support							
Program revenues and support	$ 227,256,773		$ 227,256,773			$ 227,256,773	$ 218,600,984
UJA/Federation - basic and pension grants	3,295,757		3,295,757			3,295,757	3,295,757
Contributions	865,944	$ 70,580	936,524	$ 513,777		1,450,301	1,837,620
Special events		923,200	923,200			923,200	1,176,086
Less direct cost of special events expenses (Exhibit C)		(170,873)	(170,873)			(170,873)	(137,833)
Investment income (loss) (Note 3)	373,182	(1,543,171)	(1,169,989)	32,979		(1,137,010)	984,314
Net assets released from restrictions							
Satisfaction of program restrictions (Note 16)	203,731		203,731	(203,731)			
Total revenues, gains (losses) and other support	231,995,387	(720,264)	231,275,123	343,025		231,618,148	225,756,848
Program service expenses (Exhibit C)							
Educational, vocational and youth services	59,726,260		59,726,260			59,726,260	57,854,826
Behavioral health and family services	50,931,060		50,931,060			50,931,060	50,391,182
Developmental disabilities and work services	47,108,953		47,108,953			47,108,953	44,067,624
Residential	47,790,429		47,790,429			47,790,429	44,907,545
Various other	334,424	195,301	529,725			529,725	820,260
Total program service expenses	205,891,126	195,301	206,086,427			206,086,427	198,041,437
Supporting services							
Management and general	26,135,301		26,135,301			26,135,301	25,143,075
Fund raising		77,464	77,464			77,464	53,438
Total supporting services	26,135,301	77,464	26,212,765			26,212,765	25,196,513
Total expenses	232,026,427	272,765	232,299,192			232,299,192	223,237,950
Change in net assets before other changes	(31,040)	(993,029)	(1,024,069)	343,025		(681,044)	2,518,898
Reclassification to comply with donor intent	(521,099)	149,413	(371,686)	371,686			
Change in net assets (Exhibit D)	(552,139)	(843,616)	(1,395,755)	714,711		(681,044)	2,518,898
Net assets - beginning of year	14,607,333	30,844,026	45,451,359	5,866,197	$ 1,685,936	53,003,492	50,484,594
Net assets - end of year (Exhibit A)	$ 14,055,194	$ 30,000,410	$ 44,055,604	$ 6,580,908	$ 1,685,936	$ 52,322,448	$ 53,003,492

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC. — EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009
(With Summarized Financial Information for the Year Ended June 30, 2008)

	Program Services						Supporting Services			Total	
	Educational, Vocational and Youth Services	Behavioral Health and Family Services	Developmental Disabilities and Work Services	Residential	Various Other	Total	Management and General	Fund Raising	Special Events	2009	2008
Salaries and stipends	$ 30,828,491	$ 29,430,509	$ 16,537,537	$ 21,694,621	$ 218,821	$ 98,709,979	$ 9,731,191	$ 1,065		$ 108,442,235	$ 104,616,378
Payroll taxes and employee benefits	8,499,322	7,980,400	4,112,551	5,968,188	44,466	26,604,927	2,579,195			29,184,122	26,889,435
Total salaries and related expenses	39,327,813	37,410,909	20,650,088	27,662,809	263,287	125,314,906	12,310,386	1,065		137,626,357	131,505,813
Rent	4,982,525	3,731,999	3,389,341	6,080,677	13,553	18,198,095	1,667,407			19,865,502	18,313,958
Utilities	1,080,857	1,287,536	795,386	1,724,172	2,816	4,890,747	477,945			5,368,692	5,141,507
Contract/subcontract services	6,503,475	1,363,501	10,325,440	208,923	2,977	18,404,316	335,054	45,000		18,784,370	20,300,131
Skills training supplies	57,728	384,235	41,607	12,870	6,736	503,176	636			503,812	541,746
Office equipment	83,770	75,328	34,295	335,134	3,821	532,348	42,829	6,194		581,371	741,180
Building and equipment maintenance	204,330	310,542	228,425	682,100	1,988	1,427,385	255,148			1,682,533	1,787,350
Janitorial	148,948	186,254	197,690	300,670	199	833,761	38,266			872,027	806,220
Consultants	601,157	679,685	4,284,761	212,154	80,075	5,857,832	10,976			5,868,808	4,002,127
Professional fees	1,204,961	21,019	19,487	10,775		1,256,242	9,112,485			10,368,727	10,049,673
Travel	92,437	345,264	130,612	145,874	6,083	720,270	163,241	530		884,041	940,959
Client transportation	1,777,249	808,561	4,852,194	505,839	139	7,943,982	2,919			7,946,901	8,382,790
Office supplies/printing	335,436	306,101	120,959	208,338	19,902	990,736	221,398	2,167		1,214,301	1,303,030
Advertising	23,915	45,303	17,953	59,610	4,065	151,846	56,424			208,272	230,033
Postage and delivery	82,180	65,233	28,106	85,515	1,119	262,153	80,463	643		343,259	362,552
Dues and subscriptions	11,113	42,754	15,465	36,998	148	106,478	52,312			158,790	169,141
Food	81,524	470,953	117,274	1,871,033	2,864	2,543,638	7,766			2,551,404	2,400,468
Medical/test supplies	14,499	470,791	20,674	154,275		660,239	598			660,837	548,631
Equipment leasing	193,902	149,229	84,458	117,051	1,325	545,965	191,254			737,219	697,474
Accreditation	185,933	3,959	4,856	85,734	672	281,154	121,732	540		403,426	330,559
Temporary help	934,251	753,335	418,307	2,568,382	6	4,674,281	142,016			4,816,297	4,046,236
Insurance	207,266	440,469	222,035	756,153	546	1,626,469	113,956			1,740,425	1,753,451
Client trips/entertainment/clothing	210,932	59,465	58,789	243,737	5,216	578,139	1,173			579,312	563,570
Bad debts		400,000	400,000	100,064		900,064				900,064	746,251
Interest			459	1,231,774		1,232,233				1,232,233	1,313,008
Catering and facilities									$ 170,873	170,873	137,833
Miscellaneous	118,282	274,664	20,084	289,775	106,029	808,834	63,652	20,291		892,777	576,536
Total expenses before depreciation and amortization	58,464,453	50,088,089	46,478,745	45,690,436	523,566	201,245,289	25,470,038	76,430	170,873	226,962,630	217,672,277
Direct cost of special events									(170,873)	(170,873)	(137,833)
Depreciation and amortization	1,261,807	842,971	630,208	2,053,773	6,159	4,794,918	665,263	1,034		5,461,215	5,680,312
Amortization of finance costs				46,220		46,220				46,220	23,194
Total expenses (Exhibit B)	$ 59,726,260	$ 50,931,060	$ 47,108,953	$ 47,790,429	$ 529,725	$ 206,086,427	$ 26,135,301	$ 77,464	$ -	$ 232,299,192	$ 223,237,950

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

EXHIBIT D

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ (681,044)	$ 2,518,898
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	5,461,214	5,680,312
Amortization of finance costs	46,220	23,194
Loss (gain) on investments	1,861,545	(344,619)
Decrease (increase) in assets		
Accounts receivable	3,024,400	(11,187,164)
Contributions receivable	362,653	(712,032)
Prepaid expenses and other assets	63,729	(592,458)
Deposits	(62,862)	(56,864)
Increase (decrease) in liabilities		
Accounts payable, accrued expenses and other liabilities	(1,811,093)	3,155,242
Accrued salaries and vacations payable	1,016,875	867,970
Allowance for third-party adjustments	5,775	720,000
Advances	286,299	1,366,070
Net cash provided by operating activities	9,573,711	1,438,549
Cash flows from investing activities		
Purchase of fixed assets	(3,706,912)	(4,370,980)
Purchase of investments	(12,763,158)	(21,266,105)
Proceeds from sale of investments	14,456,376	23,540,976
Decrease in escrow account	53,299	183,581
Net cash used by investing activities	(1,960,395)	(1,912,528)
Cash flows from financing activities		
Payments on loan and mortgage principal	(1,484,716)	(4,662,827)
Proceeds from loan and bonds	1,125,240	4,799,623
Reduction of construction advances	(84,024)	(533,645)
Net cash used by financing activities	(443,500)	(396,849)
Net change in cash and cash equivalents	7,169,816	(870,828)
Cash and cash equivalents - beginning of year	6,180,924	7,051,752
Cash and cash equivalents - end of year	$ 13,350,740	$ 6,180,924
Supplemental disclosure of cash flow information		
Cash paid for interest during the year	$ 1,232,233	$ 1,313,008

See independent auditor's report.

The accompanying notes are an integral part of these statements.

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - NATURE OF ORGANIZATION

Federation Employment and Guidance Service, Inc. (F.E.G.S), also doing business as F.E.G.S Health and Human Services System and F.E.G.S, established in 1934, is a voluntary, not-for-profit health and human services organization. Since its founding, F.E.G.S and its subsidiaries and affiliated organizations have served more than 3 million people.

F.E.G.S' extensive service delivery network provides a range of services to more than 100,000 individuals annually in the areas of Employment, Career and Workforce Development, Behavioral Health, Education and Youth Services, Vocational Rehabilitation, Residential and Housing Services, Developmental Disabilities, Family Services and Home Health Care. In developing these comprehensive and responsive programs to meet ever-changing needs in the community, F.E.G.S utilizes resources from both the private and public sectors, and integrates services from a wide array of professional disciplines throughout the Agency.

F.E.G.S is a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code and New York State Tax Commission Regulation Section 1-3.4(b)(6).

F.E.G.S is funded primarily by fee-for-service and reimbursement contracts with New York State and New York City.

These financial statements are for F.E.G.S only and do not include the following subsidiary organizations, which have been reported in these financial statements on the equity method:

HR Dynamics, Inc., a 100% for-profit subsidiary located in New York; AllSector Technology Group, Inc., a 95% for-profit subsidiary located in New York; and Staff Resources, Inc., a wholly owned for-profit subsidiary located in New York.

The undistributed income, reflected on the equity method, has been included in investment income. Consolidated financial statements are issued.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Method of Accounting*

The financial statements are prepared on the accrual basis.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fixed Assets

F.E.G.S capitalizes all expenditures in excess of $500 for property and equipment having a useful life of greater than one year. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets.

C. Inventories

Inventories are stated at the lower of cost or market.

D. Cash Equivalents

F.E.G.S considers all highly liquid investments with maturities of three months or less when acquired to be cash equivalents.

E. Investments

Investments are stated at fair value as follows:

Publicly traded securities held by F.E.G.S - market value
Limited partnership investments - as determined by investment managers

The financial statements may include investments whose estimated fair values, in the absence of readily ascertainable market values, have been determined by the investment manager. The methods and procedures used to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities; (2) obtaining valuation-related information from issuers; and/or (3) other analytical data relating to the investment and using other available indications of value. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' changes, and that such changes could materially affect the amounts reported in the financial statements.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Functional Expenses

The costs of providing F.E.G.S' services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services for which the costs have been incurred.

H. Summarized Financial Information

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 the organization's financial statements for the year ended June 30, 2008, from which the summarized information was derived. Certain balances have been restated to conform to the current year's presentation.

I. 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 temporarily restricted 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.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Net Assets

Temporarily restricted net assets are those whose use by F.E.G.S has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by F.E.G.S in perpetuity.

Unrestricted net assets represent funds available for any purpose in performing the primary objectives of the corporation.

K. Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

L. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded when services are rendered. F.E.G.S. management determines whether an allowance for uncollectible accounts should be provided for account receivable. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions and historical information. Receivables are charged to bad debt expense when they are deemed to be uncollectible based upon a periodic review of the accounts by management. Interest is not accrued or recorded on outstanding accounts receivable.

M. Assets held for Deferred Compensation/Liability

The carrying amount approximated the fair value of the investment instruments which equals the liability for deferred compensation.

N. Deposits

The carrying amount approximates fair value due to the short-term nature of the instruments.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements

Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that F.E.G.S. has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2009.

Limited partnerships - Estimated fair values, in the absence of readily ascertainable market values, have been determined by the investment manager. The methods and procedures used to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities; (2) obtaining valuation-related information from issuers; and/or (3) other analytical data relating to the investment and using other available indications of value.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements (continued)

U.S. Government obligations, corporate bonds and common stocks - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value (NAV) of shares held at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while F.E.G.S believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2009:

	Level 1	Level 2	Level 3	Total
U.S. Government and agency obligations	$ 11,630,735	$ -	$ -	$ 11,630,735
Mutual funds	2,887,456	-	-	2,887,456
Limited partnerships	-	-	4,265,423	4,265,423
Corporate bonds	200,629	-	-	200,629
Common stocks	1,481,788	-	-	1,481,788
	$ 16,200,608	$ -	$ 4,265,423	$ 20,466,031

The following criteria have been used to determine fair value by the investment managers:

(a) performing comparisons with prices of comparable or similar securities
(b) obtaining valuation-related information from issuers
(c) other analytical data relating to the investment and using other available indications of fair value

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements (continued)

However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

The following table discloses the change in Level 3 assets during the year:

	Fair Value Measurements Using Significant Unobservable Inputs
Beginning balance	$ 9,277,116
Total gains realized included in changes in net assets for 2009	2,181,734
Total losses unrealized included in changes in net assets for 2009	(2,654,786)
Sales	(6,720,091)
Purchases	2,181,450
Ending balance	$ 4,265,423
The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date	$ 1,270,753

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements (continued)

Fair Value Measurements on a Nonrecurring Basis

As permitted by FSP 157-2, the fair value measurement disclosure was deferred for any (a) long-lived assets and finite-lived intangible assets in the determination of impairment under SFAS No. 142 or SFAS No. 144, (b) asset retirement obligations initially measured at fair value under SFAS No. 143, *Accounting for Asset Retirement Obligations*, and (c) nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115* (SFAS No. 159), permits but does not require measurement of financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As F.E.G.S did not elect to fair value any of the financial instruments under the provisions of SFAS No. 159, the adoption of this statement did not have an impact on the financial statements.

P. FASB Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for nonpublic companies and not-for-profits for periods beginning after December 15, 2008.

As FIN 48 has not been adopted, F.E.G.S is continuing to use FASB Statement No. 5, *Accounting for Contingencies* (FAS 5) to evaluate uncertain tax positions. F.E.G.S is currently evaluating the impact on the financial statements of adopting FIN 48.

Q. Subsequent events

Subsequent events have been evaluated through December 8, 2009, which is the date the financial statements were available to be issued.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Rent income and expense

All leases are operating leases and are driven by SFAS No. 13, *Accounting for Leases*; therefore, all leases are reflected on the straight-line basis. Rent expense and income are recognized on the first day of each month for the current month's rent.

S. Advances

Advances represent advances from government agencies which are funds advanced by various government agencies for future contracts from those agencies.

T. Construction Advances

Construction advances represent advances received from government agencies for various construction projects.

U. Government Support and Revenues

F.E.G.S receives funding for its Employment, Career and Workforce Development, Behavioral Health, Education and Youth Services, Vocational Rehabilitation, Residential and Housing Services, Developmental Disabilities, Family Services and Home Health Care contracts principally entered into with New York State and New York City. Certain other governmental revenues are recorded based on estimated expenditures incurred and are subject to audit and adjustment by Medicaid and other regulatory agencies. Third-party reimbursement adjustments are recorded when reasonably determinable.

Revenues from fee-for-service and reimbursement contracts with New York State and New York City - Accounts receivable for such services are recorded at rates established by governmental payors (principally with New York State and New York City). Revenues are recorded based on estimated allowable costs and are subject to audit and adjustment by governmental payors. The effects of such adjustments are recorded when reasonably determinable.

The current third-party-payor programs, including Medicaid and Medicare, are based upon extremely complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. F.E.G.S is not aware of any allegations of noncompliance that could have a material adverse effect on F.E.G.S' consolidated change in net assets or consolidated financial position and believes that it is substantially in compliance with all applicable laws and regulations.

-continued-

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

U. Government Support and Revenues (continued)

F.E.G.S receives certain funding for its programs in the form of operational grants, which usually run for a period of one year or longer. This support is restricted to operations within the terms of the grants and, accordingly, recognition of grant support is deferred until qualified expenditures are incurred. Any excess of grant support over expenses incurred is recorded as due to third parties.

NOTE 3 - INVESTMENTS

Market values as of June 30, 2009 are summarized as follows:

U.S. Government and agency obligations	$ 11,630,735
Mutual funds	2,887,456
Limited partnerships	4,265,423
Corporate bonds	200,629
Common stocks	1,481,788
	$ 20,466,031

Investment income (loss) consists of the following:

Loss on investments	$ (1,861,545)
Interest income and dividend income	724,535
	$ (1,137,010)

-continued-

NOTE 4 - CONTRIBUTIONS RECEIVABLE

All contributions receivable have been recorded at present value using a 5% discount rate. The contributions receivable are due as follows:

2010	$ 404,040
2011	170,000
2012	50,000
2013	50,000
2014	50,000
Subtotal	724,040
Less discount to present value	(28,417)
Total	$ 695,623

NOTE 5 - FIXED ASSETS

	2009	2008	Estimated Useful Lives (in Years)
Land	$ 2,079,183	$ 1,611,683	
Building	29,557,556	28,958,507	25 - 30
Building improvements	12,677,186	12,162,563	28 - 30
Leasehold improvements	26,367,421	24,426,450	2 - 15
Equipment	22,716,789	21,810,722	3 - 10
Office equipment	6,993,707	6,937,486	3 - 10
Construction in progress		1,437,290	
	100,391,842	97,344,701	
Accumulated depreciation and amortization	(53,421,945)	(48,620,502)	
	$ 46,969,897	$ 48,724,199	

Depreciation and amortization were $5,461,214 in 2009 and $5,680,312 in 2008.

-continued-

NOTE 6 - MORTGAGES PAYABLE

	Interest Rate	Amount Outstanding
A. F.E.G.S has various signed building loan notes with the Dormitory Authority of the State of New York amounting to a total of $22,737,373, issued on its behalf. These notes are secured by the properties. The building loan notes have various maturity dates through December 1, 2031.	4.95% - 7.58%	$ 14,870,127
B. F.E.G.S has various signed building loan notes with the Industrial Development Agency of the State of New York and Suffolk County amounting to a total of $4,595,000, issued on its behalf. These notes are secured by the properties. The building loan notes have various maturity dates through July 1, 2026.	5.70% - 5.86%	4,250,000
Total		$ 19,120,127

Principal payments for all mortgages for the next five years are as follows:

2010	$ 1,162,499
2011	1,208,539
2012	1,206,748
2013	1,257,103
2014	1,275,782
Thereafter	13,009,456
	$ 19,120,127

NOTE 7 - LOAN PAYABLE

F.E.G.S has obtained an uncollateralized $3,000,000 line of credit with JP Morgan Chase for the acquisition and renovation of residences. The interest rate charged on amounts drawn on the line of credit is the higher of prime rate plus 0.5% or LIBOR plus 2.5%. As of June 30, 2009, F.E.G.S has drawn down $1,780,306 on the line of credit and the interest rate at June 30, 2009 was 3.75%. The credit line expires March 31, 2010.

-continued-

NOTE 8 - CONSTRUCTION ADVANCES

Construction advances at June 30, 2009 totaled $3,801,776, comprised of the following:

A. The Department of Housing and Urban Development gave F.E.G.S a $400,000 construction advance for the Burnside Avenue project. As of June 30, 2009, the construction advance balance is $145,000. The final repayment date is December 15, 2015.

B. New York State Office of Mental Health gave F.E.G.S a $1,064,712 capital advance for the design and construction of a 43-bed Community Residence to be located at 265 Burnside Avenue, Bronx, New York. As of June 30, 2009, the construction advance balance is $349,468. The final repayment date is December 15, 2015.

C. The Department of Housing and Urban Development gave F.E.G.S a $400,000 construction advance for the 124th Street SRO project. As of June 30, 2009, the construction advance balance is $172,000. The final repayment date is June 1, 2022.

D. As of June 30, 2009, F.E.G.S' attorney (Escrow Agent) has received $3,135,308, including escrow of $0, from the New York State Department of Mental Health designated as a capital advance for the design and construction of the Yatzkan Center located at 15-19 Duryea Place, Brooklyn, New York. The escrow fund has earned interest of $179, which is deemed part of the escrow. As of June 30, 2009, the total disbursements were $3,552,012.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. __Operating Leases__

F.E.G.S has various operating leases expiring through 2033. F.E.G.S subleases office space to AllSector Technology Group, Inc. and HR Dynamics, Inc. The sublease lease expires on February 18, 2010. The rental expense associated with this sublease was $117,574 for AllSector Technology Group, Inc. and $207,389 for HR Dynamics, Inc.

Rent expense was $19,865,501 in 2009 and $18,313,958 in 2008. Future minimum rental commitments exclusive of real estate taxes and maintenance charges under noncancelable operating leases as of June 30, 2009 are as follows:

-continued-

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

A. *Operating Leases (continued)*

Year Ending June 30	
2010	$ 16,916,746
2011	14,943,595
2012	12,440,703
2013	11,713,022
2014	10,598,946
2015 and thereafter	55,487,075
	$ 122,100,087

Minimum future rental income commitments exclusive of real estate taxes and maintenance charges under noncancelable operating leases from AllSector Technology Group, Inc. and HR Dynamics, Inc. as of June 30, 2009 are as follows:

Year Ending June 30	
2010	$ 307,400
	$ 307,400

B. *Letters of Credit*

F.E.G.S maintains three letters of credit related to leased properties. The collateral for these letters is a board-designated investment with a market value of approximately $4.8 million. The letters total $3,796,000 with a fee rate of .45%.

C. *Unemployment Insurance*

F.E.G.S is a self-insurer for any unemployment compensation claims from former employees.

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 10 - PENSION PLAN

Employees of F.E.G.S are covered under the UJA/Federation of Jewish Philanthropies of New York's pension plan. The UJA/Federation pension plan is noncontributory for all nonunion employees, but contributory for employees who are covered by a collective bargaining agreement. F.E.G.S' pension expense was $3,472,897 in 2009.

NOTE 11 - POSTRETIREMENT MEDICAL BENEFIT PLAN

F.E.G.S has a noncontributory postretirement medical benefit plan. The postretirement medical insurance plan covers a closed group of retirees.

The following table sets forth the plan's funded status and amounts recognized in the balance sheet at June 30, 2009:

Benefit obligation at June 30, 2009	$ (362,255)
Fair value of plan assets at June 30, 2009	-
Accrued postretirement liability	$ (362,255)

Weighted average assumptions as of June 30, 2009:

Discount rate	5.50%
Expected return on plan assets	N/A

For measurement purposes, a 5.5% annual rate of increase in the per capita cost of covered health benefits was assumed for 2009.

Benefit cost	$ 62,756
Employer contributions	52,818
Plan participants' contributions	-
Benefits paid	52,818

-continued-

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NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the funds in estimating the fair value of their financial instruments:

Cash and cash equivalents - The carrying amount approximates fair value because the instrument is liquid in nature.

Investments - The carrying amount approximates fair value, which is based upon market value or value determined by the general partner for limited partnerships.

Contributions receivable - The fair value is estimated by discounting the future cash flows using a risk-free rate.

Mortgages payable - The fair values approximate carrying values.

Loan payable - The carrying amount approximates fair value because F.E.G.S can obtain similar loans at similar terms.

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 13,401,811	$ 13,401,811
Investments	20,466,031	20,466,031
Contributions receivable	695,623	695,623
Mortgages payable	19,120,127	19,120,127
Loan payable	1,780,306	1,780,306

NOTE 13 - CONCENTRATIONS

Financial instruments which potentially subject F.E.G.S to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

Financial instruments which potentially subject F.E.G.S to a concentration of credit risk are the outstanding accounts receivable from New York State, New York City and Medicaid, totaling $45,775,627.

-continued-

NOTE 14 - RELATED PARTIES

Federation Employment and Guidance Service, Inc., FEGS Home Attendant Services, Inc., FEGS Home Care Services, Inc., FEGS Holding Corp., Waverly Residence, Inc. and Jewish Care Services of Long Island, Inc. are related through common board control.

F.E.G.S owns 100% of HR Dynamics, Inc. The purpose of this corporation is to offer human resource support services, including benefits, administration, recruitment, salary administration, and consulting on labor issues and other similar human resource services. In the current fiscal year, HR Dynamics, Inc.'s gross revenues were approximately $8,137,000, of which $2,153,303 was provided to F.E.G.S for human resource support services. F.E.G.S provided administrative services and office space to HR Dynamics, Inc. totaling $304,760.

F.E.G.S owns 95% of AllSector Technology Group, Inc. The purpose of this corporation is to offer a complete management information systems function, including single-service solution for creating a coordinated information technology platform, a wide range of state-of-the-art information technology services as well as project management, technical consulting in applications and other similar information management services. In the current fiscal year, AllSector Technology Group, Inc.'s gross revenues were approximately $3,695,000, of which $5,375,521 of information management services was provided to F.E.G.S. F.E.G.S provided administrative services and office space to AllSector Technology Group, Inc. totaling $560,218.

F.E.G.S is the sponsor organization for Waverly Residence, Inc., a not-for-profit corporation, which is a single-asset housing corporation established for the construction of an Individual Residential Alternative (IRA) program for the developmentally disabled.

Staff Resources, Inc., a wholly-owned subsidiary, is a for-profit corporation, the purpose of which is to develop and market consulting, technical assistance and alternative staffing to other for-profit and not-for-profit corporations. The total gross revenue reported was approximately $240,000.

F.E.G.S was approved after the merger with the New York Society for the Deaf (NYSD) on January 6, 2006 as the sponsor organization for Tanya Towers, Inc., a not-for-profit corporation, which is a single-asset housing corporation operating under Section 223F of the National Housing Act and regulated by HUD.

F.E.G.S was approved after the merger with NYSD on January 6, 2006 as the sponsor organization for NYSD Forsyth Housing Development Fund Company, Inc. (184(F)), a not-for-profit corporation, which is a single-asset housing corporation regulated by HUD with respect to rent charges and operating methods.

-continued-

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NOTE 14 - RELATED PARTIES (continued)

F.E.G.S was approved after the merger with NYSD on January 6, 2006 as the sponsor organization for NYSD Housing Development Fund Company, Inc. a/k/a Tanya Towers II (174(F)), a not-for-profit corporation, which is a single-asset housing corporation operating under Section 202/811 of the National Housing Act and regulated by HUD with respect to rent charges and operating methods.

F.E.G.S was approved after the merger with NYSD on January 6, 2006 as the sponsor organization for NYSD Rombouts HDFC, Inc., a not-for-profit corporation, which is a single-asset housing corporation operating under Section 202/811 of the National Housing Act and regulated by HUD with respect to rent charges and operating methods.

Due from related parties are the following:

HR Dynamics, Inc.	$	53,716
AllSector Technology Group, Inc.		517,960
Waverly Residence, Inc.		116,474
Staff Resources, Inc.		11,689
Tanya Towers, Inc.		186,165
NYSD Forsyth HDFC, Inc. (184(F))		101,697
NYSD HDFC, Inc. a/k/a Tanya Towers II (174(F))		183,714
NYSD Rombouts HDFC, Inc.		271,110
Total	$	1,442,525

Due to related parties are the following:

HR Dynamics, Inc.	$	521,143
AllSector Technology Group, Inc.		123,379
	$	644,522

-continued-

NOTE 15 - BENEFICIARY TRUST

F.E.G.S is named as a beneficiary of at least a 25% share of the remainder of the UJA-Federation Community Trust for Disabled Adults under the auspices of UJA-Federation of New York. A receivable has not been recorded on the financial statements, since it cannot be determined if any principal will remain at the termination of the trust.

As of June 30, 2009, the UJA-Federation Community Trust for Disabled Adults was valued at approximately $6,500,000.

NOTE 16 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Training and intern programs	$	973,099
Awards and scholarships		634,378
Social and family programs and services		4,973,431
	$	6,580,908

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors:

Training and intern programs	$	185,631
Awards and scholarships		18,100
	$	203,731

General

The F.E.G.S' permanently restricted net assets consist of endowment fund assets to be held in perpetuity. The income from the assets can be used to support F.E.G.S' training and intern programs.

As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

-continued-

NOTE 16 - RESTRICTED NET ASSETS (continued)

Interpretation of Relevant Law

The Board of Directors of F.E.G.S has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as being the relevant sections of the New York State Not-for-Profit Corporations Law (N-PCL) requiring preservation of the fair value of a gift as of the gift date of donor-restricted endowment funds (historic dollar value), absent explicit donor stipulations to the contrary. As a result, and in accordance with the direction of the original donor gift instrument, the F.E.G.S classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment, the original value of any subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Any interest, dividends, rents, royalties or other revenue generated by donor-restricted endowment funds is used by the organization in a manner consistent with the standard of prudence required by law, absent explicit donor stipulations.

Return Objectives, Strategies Employed and Spending Policy

The objective of F.E.G.S is to maintain the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

Funds with Deficiencies

F.E.G.S does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of June 30, 2009

Endowment net asset composition of $1,685,936 consists of the following:

Investment in perpetuity, the income from which is expendable to support training and intern activities of the organization	$ 1,685,936

-continued-

NOTE 16 - RESTRICTED NET ASSETS (continued)

Changes in Endowment Net Assets for the Year Ended June 30, 2009

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year		$ 1,685,936	$ 1,685,936
Investment income	$ 105,620		105,620
Appropriated for expenditures	(105,620)		(105,620)
Endowment net assets, end of year	$ -	$ 1,685,936	$ 1,685,936

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

JUNE 30, 2008

LOEB & TROPER LLP

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

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Independent Auditor's Report

Board of Directors
Federation Employment and Guidance Service, Inc.

We have audited the accompanying balance sheet of Federation Employment and Guidance Service, Inc. as of June 30, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the organization'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 Federation Employment and Guidance Service, Inc.'s 2007 financial statements and, in our report dated November 6, 2007, 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 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 Company'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.

The accompanying financial statements were prepared to present the financial position, changes in net assets and cash flows of Federation Employment and Guidance Service, Inc. and do not include the financial position, changes in net assets and cash flows of its related organizations, which are discussed in Note 1, and are not intended to be a complete presentation of Federation Employment and Guidance Service, Inc.'s consolidated financial statements.

Auditors and Consultants
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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federation Employment and Guidance Service, Inc. as of June 30, 2008, 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.

This report is intended solely for the information and use of the Board of Directors and management of Federation Employment and Guidance Service, Inc. and the New York State Office of Mental Health, the New York State Office of Mental Retardation and Developmental Disabilities, the New York State Education Department and the New York City Human Resources Administration, and is not intended to be and should not be used by anyone other than these specified parties.

Loeb + Troper LLP

November 13, 2008

EXHIBIT A

FEDERATION EMPLOYMENT & GUIDANCE SERVICE, INC.

BALANCE SHEET

JUNE 30, 2008
(With Summarized Financial Information for June 30, 2007)

	2008	2007
ASSETS		
Cash and cash equivalents	$ 6,180,924	$ 7,051,752
Cash - escrow	104,370	287,951
Investments (Note 3)	24,020,794	25,801,631
Accounts receivable (net of allowance for accounts doubtful of collection of $4,620,250 in 2008 and $3,579,136 in 2007)	56,917,165	45,730,001
Assets held for deferred compensation	2,081,954	4,278,344
Contributions receivable (Note 4)	1,058,276	346,244
Prepaid expenses and other assets	8,134,146	7,714,297
Deposits	1,519,507	1,462,643
Fixed assets (net of accumulated depreciation and amortization of $48,619,551 in 2008 and $42,940,190 in 2007) (Note 5)	48,724,199	50,033,531
Total assets	$ 148,741,335	$ 142,706,394
LIABILITIES AND NET ASSETS		
Accounts payable, accrued expenses and other liabilities	$ 37,975,412	$ 34,820,170
Accrued salaries and vacations payable	8,380,405	7,512,435
Allowance for third-party adjustments	5,098,738	4,378,738
Advances	17,055,625	15,689,555
Liability for deferred compensation	2,081,954	4,278,344
Mortgages payable (Note 6)	20,562,343	17,219,551
Loans payable (Note 7)	697,566	3,903,562
Construction advances (Note 8)	3,885,800	4,419,445
Total liabilities	95,737,843	92,221,800
Net assets (Exhibit B)		
Unrestricted		
Operating	14,607,333	14,648,247
Board designated	30,844,026	32,522,708
Total unrestricted	45,451,359	47,170,955
Temporarily restricted (Note 16)	5,866,197	1,627,703
Permanently restricted (Note 16)	1,685,936	1,685,936
Total net assets	53,003,492	50,484,594
Total liabilities and net assets	$ 148,741,335	$ 142,706,394

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC. EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008
(With Summarized Financial Information for the Year Ended June 30, 2007)

	Unrestricted					Total	
	Operating	Board Designated	Total	Temporarily Restricted	Permanently Restricted	2008	2007
Revenues, gains and other support							
Program revenues and support	$ 218,600,984		$ 218,600,984			$ 218,600,984	$ 212,434,526
UJA/Federation - basic and pension grants	3,295,757		3,295,757			3,295,757	3,295,757
Contributions	319,876	$ 206,743	526,619	$ 1,311,001		1,837,620	1,079,614
Special events		1,176,006	1,176,006			1,176,006	1,169,892
Less direct expenses (Exhibit C)		(137,833)	(137,833)			(137,833)	(135,987)
Investment income (Note 3)	763,239	55,596	818,835	165,479		984,314	4,596,322
Net assets released from restrictions							
Satisfaction of program restrictions (Note 16)	51,234		51,234	(51,234)			
Total revenues, gains and other support	223,031,090	1,300,512	224,331,602	1,425,246		225,756,848	222,440,124
Expenses (Exhibit C)							
Program services	199,322,486	112,508	199,434,994			199,434,994	196,201,229
Supporting services							
Management and general	23,749,518		23,749,518			23,749,518	23,427,958
Fund raising		53,438	53,438			53,438	50,207
Total expenses	223,072,004	165,946	223,237,950			223,237,950	219,679,394
Change in net assets before other changes	(40,914)	1,134,566	1,093,652	1,425,246		2,518,898	2,760,730
Reclassification		(2,813,248)	(2,813,248)	2,813,248			
Change in accounting policy (Note 11)							(327,064)
Change in net assets (Exhibit D)	(40,914)	(1,678,682)	(1,719,596)	4,238,494		2,518,898	2,433,666
Net assets - beginning of year	14,648,247	32,522,708	47,170,955	1,627,703	$ 1,685,936	50,484,594	48,050,928
Net assets - end of year (Exhibit A)	$ 14,607,333	$ 30,844,026	$ 45,451,359	$ 5,866,197	$ 1,685,936	$ 53,003,492	$ 50,484,594

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC. EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008
(With Summarized Financial Information for the Year Ended June 30, 2007)

	Program Services	Management and General	Fund Raising	Special Events	Total 2008	Total 2007
Regular wages	$ 92,868,246	$ 8,846,788			$ 101,715,034	$ 98,099,712
Client wages	2,470,873	19,075			2,489,948	2,085,014
Stipends	406,784	4,612			411,396	326,848
Payroll taxes	6,878,625	1,008,874			7,887,499	7,732,129
Employee benefits	17,653,959	1,232,948			18,886,907	18,838,716
Client payroll taxes	113,419	1,610			115,029	99,010
Total salaries and related expenses	120,391,906	11,113,907			131,505,813	127,181,429
Rent	17,538,299	775,659			18,313,958	17,825,247
Utilities	2,875,753	100,498			2,976,251	2,875,776
Telephone	1,991,511	173,640	$ 105		2,165,256	2,248,099
Contract costs and services	10,996,713	7,870,614	45,000		18,912,327	16,022,771
Skills training supplies	540,251	1,495			541,746	577,069
Office equipment	690,356	49,493			739,849	1,136,348
Building maintenance	1,294,654	49,111			1,343,765	1,460,219
Equipment maintenance	341,999	91,650			433,649	490,289
Janitorial	758,045	48,175			806,220	707,158
Consultants	3,894,135	38,000			3,932,135	4,125,802
Professional fees	986,746	1,503,727			2,490,473	1,878,776
Travel	548,708	108,177	63		656,948	673,290
Client transportation	8,381,548	1,242			8,382,790	7,822,137
Office supplies/printing	1,045,617	256,583	830		1,303,030	1,650,297
Conferences	218,065	65,816	130		284,011	340,202
Advertising	176,643	53,390			230,033	369,638
Postage and delivery	282,379	80,151	22		362,552	367,293
Dues and subscriptions	119,080	50,061			169,141	214,412
Food	2,394,148	6,320			2,400,468	2,250,071
Equipment leasing	500,213	197,261			697,474	671,451
Medication, medical exams/test supplies	546,742	1,939			548,681	388,682
Accreditation	221,976	108,583			330,559	433,374
Temporary help	3,937,185	109,051			4,046,236	4,479,598
Insurance	1,642,941	110,510			1,753,451	1,920,604
Moving	88,289	1,767			90,056	158,727
Client trips/entertainment/clothing	543,143	427			543,570	629,545
Facility and assessment fee	9,936				9,936	157,823
Subcontracts	9,016,998				9,016,998	12,863,208
Bad debts	736,339	6,912			743,251	403,000
Interest	1,313,008				1,313,008	1,119,256
Catering and facilities				$ 137,833	137,833	135,987
Miscellaneous	420,576	65,012	5,221		490,809	547,220
Total expenses before depreciation and amortization	194,443,902	23,039,171	51,371	137,833	217,672,277	214,124,798
Less direct expenses of special events				(137,833)	(137,833)	(135,987)
Depreciation and amortization	4,967,898	710,347	2,067		5,680,312	5,676,911
Amortization of finance costs	23,194				23,194	13,672
Total expenses (Exhibit B)	$ 199,434,994	$ 23,749,518	$ 53,438	$ -	$ 223,237,950	$ 219,679,394

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

EXHIBIT D

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 2,518,898	$ 2,433,666
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	5,680,312	5,676,911
Amortization of finance costs	23,194	13,672
Gain on investments	(344,619)	(2,780,270)
Decrease (increase) in assets		
Accounts receivable	(11,187,164)	(9,292,623)
Contributions receivable	(712,032)	404,799
Prepaid expenses and other assets	(592,458)	(1,022,055)
Deposits	(56,864)	8,881
Increase (decrease) in liabilities		
Accounts payable, accrued expenses and other liabilities	3,155,242	4,931,471
Accrued salaries and vacations payable	867,970	730,477
Allowance for third-party adjustments	720,000	(522,072)
Advances	1,366,070	(1,768,382)
Net cash provided (used) by operating activities	1,438,549	(1,185,525)
Cash flows from investing activities		
Purchase of fixed assets	(4,370,980)	(10,072,988)
Purchase of investments	(21,266,105)	(12,061,156)
Proceeds from sale of investments	23,540,976	16,585,116
Decrease in escrow account	183,581	90,833
Net cash used by investing activities	(1,912,528)	(5,458,195)
Cash flows from financing activities		
Payments on loan and mortgage principal	(4,662,827)	(747,475)
Proceeds from loan and bonds	4,799,623	6,531,250
Repayment of construction advances	(533,645)	(4,155,075)
Net cash provided (used) by financing activities	(396,849)	1,628,700
Net decrease in cash and cash equivalents	(870,828)	(5,015,020)
Cash and cash equivalents - beginning of year	7,051,752	12,066,772
Cash and cash equivalents - end of year	$ 6,180,924	$ 7,051,752
Supplemental disclosure		
Cash paid for interest during the year	$ 1,313,008	$ 1,119,256

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

NOTE 1 - NATURE OF ORGANIZATION

Federation Employment and Guidance Service, Inc. (F.E.G.S), also doing business as F.E.G.S Health and Human Services System and F.E.G.S, established in 1934, is a voluntary, not-for-profit health and human services organization. Since its founding, F.E.G.S and its subsidiaries and affiliated organizations have served more than 3 million people.

F.E.G.S' extensive service delivery network provides a range of services to more than 100,000 individuals annually in the areas of Employment, Career and Workforce Development, Behavioral Health, Education and Youth Services, Vocational Rehabilitation, Residential and Housing Services, Developmental Disabilities, Family Services and Home Health Care. In developing these comprehensive and responsive programs to meet ever-changing needs in the community, F.E.G.S utilizes resources from both the private and public sectors, and integrates services from a wide array of professional disciplines throughout the Agency.

NYANA transferred a number of contracts and programs to F.E.G.S effective July 1, 2008.

F.E.G.S is a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code and New York State Tax Commission Regulation Section 1-3.4(b)(6).

F.E.G.S is funded primarily by fee-for-service and reimbursement contracts with New York State and New York City.

These financial statements are for F.E.G.S only and do not include the following subsidiary organizations, which have been reported in these financial statements on the equity method:

HR Dynamics, Inc., a 90% for-profit subsidiary located in New York; AllSector Technology Group, Inc., an 85.5% for-profit subsidiary located in New York; and Staff Resources, Inc., a wholly owned for-profit subsidiary located in New York.

The undistributed income, reflected on the equity method, has been included in investment income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*A. **Method of Accounting***

The financial statements are prepared on the accrual basis.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*B. **Fixed Assets***

F.E.G.S capitalizes all expenditures in excess of $500 for property and equipment having a useful life of greater than one year. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets.

*C. **Inventories***

Inventories are stated at the lower of cost or market.

*D. **Cash Equivalents***

F.E.G.S considers all highly liquid investments with maturities of three months or less when acquired to be cash equivalents.

*E. **Investments***

Investments are stated at fair value as follows:

Publicly traded securities held by F.E.G.S - market value.
Limited partnership investments - market value as determined by investment manager.
Limited liability corporations - offshore investments - net asset value based upon market value or value determined by investment manager.

The financial statements may include investments whose estimated fair values, in the absence of readily ascertainable market values, have been determined by the investment manager. The methods and procedures used to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities; (2) obtaining valuation-related information from issuers; and/or (3) other analytical data relating to the investment and using other available indications of value. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' declines, and that such changes could materially affect the amounts reported in the financial statements.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. ***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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. ***Functional Expenses***

The costs of providing F.E.G.S' services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services for which the costs have been incurred.

H. ***Summarized Financial Information***

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 the organization's financial statements for the year ended June 30, 2007, from which the summarized information was derived. Certain balances have been restated to conform to the current year's presentation.

I. ***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 temporarily restricted 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.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. ***Contributions** (continued)*

Unconditional promises to give are recorded as receivables and revenues and are recognized when the promises are made, at their net present value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates. Conditional promises to give are not included in support until the conditions are substantially met.

J. ***Net Assets***

Temporarily restricted net assets are those whose use by F.E.G.S has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by F.E.G.S in perpetuity.

Unrestricted net assets represent funds available for any purpose in performing the primary objectives of the corporation.

NOTE 3 - INVESTMENTS

Market values as of June 30, 2008 are summarized as follows:

U.S. Government and agency obligations	$ 10,614,330
Mutual funds	4,123,926
Limited partnerships	7,281,016
Limited liability corporation - offshore investments	1,996,100
Stocks	5,422
	$ 24,020,794

Investment income consists of the following:

Gain on investments	$ 344,619
Interest income	403,967
Dividend income	235,728
	$ 984,314

-continued-

NOTE 4 - CONTRIBUTIONS RECEIVABLE

All contributions receivable have been recorded at present value using a 5% discount rate. The contributions receivable are due as follows:

2009	$ 618,673
2010	170,000
2011	170,000
2012	50,000
2013	50,000
2014	50,000
Subtotal	1,108,673
Less discount to present value	(50,397)
Total	$ 1,058,276

NOTE 5 - FIXED ASSETS

	2008	2007	Estimated Useful Lives (in Years)
Land	$ 1,611,683	$ 1,369,182	
Building	28,958,507	28,782,844	25 - 30
Building improvements	12,162,563	11,090,690	28 - 30
Leasehold improvements	24,426,450	21,441,359	2 - 15
Equipment	21,810,722	20,510,743	3 - 10
Office equipment	6,937,486	6,497,975	3 - 10
Construction in progress	1,437,290	3,280,928	
	97,344,701	92,973,721	
Accumulated depreciation and amortization	(48,620,502)	(42,940,190)	
	$ 48,724,199	$ 50,033,531	

Depreciation and amortization were $5,680,312 in 2008 and $5,676,911 in 2007.

-continued-

NOTE 6 - MORTGAGES PAYABLE

	Interest Rate	Amount Outstanding
A. F.E.G.S has various signed building loan notes with the Dormitory Authority of the State of New York amounting to a total of $22,737,373, issued on its behalf. These notes are secured by the properties. The building loan notes have various maturity dates through December 1, 2031.	4.95% - 7.58%	$ 15,904,078
B. On May 19, 1999, F.E.G.S purchased a building located at 85 Dover Street, Massapequa, New York for $158,265. In conjunction with this purchase, the Town of Islip Community Development Agency ("CDA") has taken out a mortgage in the amount of $158,265 for the property located at 85 Dover Street, Massapequa, New York. The mortgage is non-interest-bearing and due on May 19, 2009 at the end of the ten-year life of the mortgage.		
The Town of Islip gave F.E.G.S a grant stipulating that if the property is used for a minimum period of ten years as a residence for persons afflicted with AIDS, the Town of Islip Community Development Agency will forgive the debt at the end of the ten-year period of the mortgage.		158,265
C. F.E.G.S has various signed building loan notes with the Industrial Development Agency of the State of New York and Suffolk County amounting to a total of $4,595,000, issued on its behalf. These notes are secured by the properties. The building loan notes have various maturity dates through July 1, 2026.	5.70% - 5.86%	4,500,000
Total		$ 20,562,343

Principal payments for all mortgages for the next five years are as follows:

2009	$ 1,246,950
2010	1,182,499
2011	1,225,539
2012	1,206,748
2013	1,206,748

-continued-

NOTE 7 - LOANS PAYABLE

Loans payable at June 30, 2008 totaled $697,566, comprised of the following:

F.E.G.S has obtained a $2,500,000 line of credit with Bank of America for the acquisition and renovation of residences. The interest rate charged on amounts drawn on the line of credit is the prime rate plus 0.75%. As of June 30, 2008, F.E.G.S has drawn down $655,066 on the line of credit and the interest rate at June 30, 2008 was 5.00%. The credit line expires March 29, 2009.

F.E.G.S has obtained a $4,000,000 line of credit from JP Morgan Chase for the acquisition and renovation of buildings. The interest rate on amounts drawn down on the line of credit is the prime rate plus 0.75%. As of June 30, 2008, F.E.G.S has drawn down $42,500 on the line of credit and the interest rate at June 30, 2008 was 5.00%. The loan expires on March 31, 2009.

NOTE 8 - CONSTRUCTION ADVANCES

Construction advances at June 30, 2008 totaled $3,885,800, comprised of the following:

A. The Department of Housing and Urban Development gave F.E.G.S a $400,000 construction advance for the Burnside Avenue project. As of June 30, 2008, the construction advance balance is $165,000.

B. New York State Office of Mental Health gave F.E.G.S a $1,064,712 capital advance for the design and construction of a 43-bed Community Residence to be located at 265 Burnside Avenue, Bronx, New York. As of June 30, 2008, the construction advance balance is $397,670.

C. The Department of Housing and Urban Development gave F.E.G.S a $400,000 construction advance for the 124th Street SRO project. As of June 30, 2008, the construction advance balance is $188,000.

D. As of June 30, 2008, F.E.G.S' attorney (Escrow Agent) has received $3,135,130, including escrow of $32,561, from the New York State Department of Mental Health designated as a capital advance for the design and construction of the Yatzkan Center located at 15-19 Duryea Place, Brooklyn, New York. The escrow fund has earned interest of $3,311, which is deemed part of the escrow. As of June 30, 2008, the total disbursements were $3,552,012.

-continued-

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. __Operating Leases__

F.E.G.S has various operating leases expiring through 2029. F.E.G.S subleases office space to AllSector Technology Group, Inc. and HR Dynamics, Inc. The lease expires on February 18, 2018. The rental expense associated with this sublease was $105,446 for AllSector Technology Group, Inc. and $177,417 for HR Dynamics, Inc.

The lease agreements require F.E.G.S. to maintain three open letters of credit with JP Morgan Chase totaling $3,871,000. The letters of credit are secured by investments held by Seix Advisors. The letters of credit renew annually with an annual charge of .45% and expire February 28, 2010, by July 31, 2013 and December 31, 2013.

Rent expense was $18,313,958 in 2008 and $17,825,247 in 2007. Minimum rental commitments exclusive of real estate taxes and maintenance charges under noncancelable operating leases as of June 30, 2008 are as follows:

Year Ending June 30	
2009	$ 14,894,850
2010	12,576,135
2011	11,375,173
2012	10,939,138
2013	10,427,911
2014 and thereafter	50,377,448
	$ 110,590,655

B. __Unemployment Insurance__

F.E.G.S is a self-insurer for any unemployment compensation claims from former employees.

NOTE 10 - PENSION PLAN

Employees of F.E.G.S are covered under the UJA/Federation of Jewish Philanthropies of New York's pension plan. The UJA/Federation pension plan is noncontributory for all nonunion employees, but contributory for employees who are covered by a collective bargaining agreement.

-continued-

NOTE 11 - POSTRETIREMENT MEDICAL BENEFIT PLAN

F.E.G.S has a noncontributory postretirement medical benefit plan. The postretirement medical insurance plan covers all employees that have retired after age 65 with ten years of service.

The following table sets forth the plan's funded status and amounts recognized in the balance sheet at June 30, 2008:

Benefit obligation at June 30, 2008	$ (431,550)
Fair value of plan assets at June 30, 2008	-
Accrued postretirement liability	$ (431,550)
Weighted average assumptions as of June 30, 2008:	
Discount rate	6.50%
Expected return on plan assets	N/A

The Financial Accounting Standards Board issued a new pronouncement, No. 158, entitled "Employers' Accounting for Defined Benefits Pension and Other Postretirement Plans." The requirement is to measure plan assets and benefit obligations as of the date of the year-end balance sheet. The effect on the F.E.G.S 2007 financial report resulted in an additional benefit cost of $327,064.

For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered health benefits was assumed for 2008.

Benefit cost	$ 71,435
Employer contributions	67,990
Plan participants' contributions	-
Benefits paid	67,990

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the funds in estimating the fair value of their financial instruments:

Cash and cash equivalents - The carrying amount approximates fair value because the instrument is liquid in nature.

-continued-

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Investments - The carrying amount approximates fair value, which is based upon market value or value determined by the general partner for limited partnerships and limited liability corporations-offshore investments in nonpublicly traded securities.

Contributions receivable - The fair value is estimated by discounting the future cash flows using a risk-free rate.

Mortgages payable - The fair values approximate carrying values.

Loans payable - The carrying amount approximates fair value because F.E.G.S can obtain similar loans at similar terms.

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 6,285,294	$ 6,285,294
Investments	24,020,794	24,020,794
Contributions receivable	1,058,276	1,058,276
Mortgages payable	20,562,343	20,562,343
Loans payable	697,566	697,566

NOTE 13 - CONCENTRATIONS

Financial instruments which potentially subject F.E.G.S to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

Financial instruments which potentially subject F.E.G.S to a concentration of credit risk are the outstanding accounts receivable from New York State, New York City and Medicaid, totaling $54,919,464.

NOTE 14 - RELATED PARTIES

Federation Employment and Guidance Service, Inc., FEGS Home Attendant Services, Inc., FEGS Home Care Services, Inc., FEGS Holding Corp., Waverly Residence, Inc. and Jewish Care Services of Long Island, Inc. are related through common board control.

-continued-

NOTE 14 - RELATED PARTIES (continued)

F.E.G.S owns 90% of HR Dynamics, Inc. The purpose of this corporation is to offer human resource support services, including benefits, administration, recruitment, salary administration, and consulting on labor issues and other similar human resource services. In the current fiscal year, HR Dynamics, Inc. provided $3,085,346 of human resource support services to F.E.G.S. F.E.G.S provided administrative services and office space to HR Dynamics, Inc. totaling $265,040.

F.E.G.S owns 85.5% of AllSector Technology Group, Inc. The purpose of this corporation is to offer a complete management information systems function, including single-service solution for creating a coordinated information technology platform, a wide range of state-of-the-art information technology services as well as project management, technical consulting in applications and other similar information management services. In the current fiscal year, AllSector Technology Group, Inc. provided $4,604,221 of information management services to F.E.G.S. F.E.G.S provided administrative services and office space to AllSector Technology Group, Inc. totaling $384,737.

F.E.G.S is the sponsor organization for Waverly Residence, Inc., a not-for-profit corporation, which is a single-asset housing corporation established for the construction of an Individual Residential Alternative (IRA) program for the developmentally disabled.

Staff Resources, Inc., a wholly owned subsidiary, is a for-profit corporation, the purpose of which is to develop and market consulting, technical assistance and alternative staffing to other for-profit and not-for-profit corporations.

Due from related parties are the following:

HR Dynamics, Inc.	$ 43,286
AllSector Technology Group, Inc.	111,322
Waverly Residence, Inc.	119,507
Staff Resources, Inc.	197,841
Extreme Behavioral Risk Management Corp.	303,365
Total	$ 775,321

-continued-

NOTE 14 - RELATED PARTIES (continued)

Due to related parties are the following:

HR Dynamics, Inc.	$ 337,839
AllSector Technology Group, Inc.	447,858
	$ 785,697

NOTE 15 - BENEFICIARY TRUST

F.E.G.S is named as a beneficiary of at least a 25% share of the remainder of the UJA-Federation Community Trust for Disabled Adults under the auspices of UJA-Federation of New York. A receivable has not been recorded on the financial statements, since it cannot be determined if any principal will remain at the termination of the trust.

As of June 30, 2008, the UJA-Federation Community Trust for Disabled Adults was valued at approximately $7,400,000.

NOTE 16 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Training and intern programs	$ 946,572
Awards and scholarships	634,377
Social and family programs and services	4,285,248
	$ 5,866,197

-continued-

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 16 - RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors:

Training and intern programs	$ 30,095
Awards and scholarships	8,400
Social and family programs and services	12,739
	$ 51,234

Permanently restricted net assets are available for investment in perpetuity, the income and appreciation from which are expendable to support the following:

Training and intern programs	$ 1,685,936

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

JUNE 30, 2007

LOEB & TROPER LLP

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

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FEGSI-FS07

LOEB & TROPER LLP

LOEB & TROPER LLP

Independent Auditor's Report

Board of Directors
Federation Employment and Guidance Service, Inc.

We have audited the accompanying balance sheet of Federation Employment and Guidance Service, Inc. as of June 30, 2007, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the organization'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 Federation Employment and Guidance Service, Inc.'s 2006 financial statements and, in our report dated November 3, 2006, 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 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 Company'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.

The accompanying financial statements were prepared to present the financial position, changes in net assets and cash flows of Federation Employment and Guidance Service, Inc. and do not include the financial position, changes in net assets and cash flows of its related organizations, which are discussed in Note 1, and are not intended to be a complete presentation of Federation Employment and Guidance Service, Inc.'s consolidated financial statements.

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors

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As discussed in Note 11 of the financial statements, Federation Employment and Guidance Service, Inc. has changed its basis of accounting for the postretirement medical benefit plan.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federation Employment and Guidance Service, Inc. as of June 30, 2007, 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.

This report is intended solely for the information and use of the Board of Directors and management of Federation Employment and Guidance Service, Inc. and the New York State Office of Mental Health, the New York State Office of Mental Retardation and Developmental Disabilities, the New York State Education Department and the New York City Human Resources Administration, and is not intended to be and should not be used by anyone other than these specified parties.

Loeb & Troper LLP

November 6, 2007

EXHIBIT A

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

BALANCE SHEET

JUNE 30, 2007
(With Summarized Financial Information for June 30, 2006)

	2007	2006
ASSETS		
Cash and cash equivalents	$ 7,051,752	$ 12,066,772
Cash - escrow	287,951	378,784
Investments (Note 3)	25,801,631	27,545,321
Accounts receivable (net of allowance for accounts doubtful of collection of $3,579,136 in 2007 and $3,276,038 in 2006)	45,730,001	36,437,378
Assets held for deferred compensation	4,278,344	5,305,611
Contributions receivable (Note 4)	346,244	751,043
Prepaid expenses and other assets	7,714,297	6,705,914
Deposits	1,462,643	1,471,524
Fixed assets (net of accumulated depreciation and amortization of $42,940,190 in 2007 and $37,280,663 in 2006) (Note 5)	50,033,531	45,637,454
Total assets	$ 142,706,394	$ 136,299,801
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 34,820,170	$ 29,888,699
Accrued salaries and vacations payable	7,512,435	6,781,958
Allowance for third-party adjustments	4,378,738	4,900,810
Advances	15,689,555	17,457,937
Liability for deferred compensation	4,278,344	5,305,611
Mortgages payable (Note 6)	17,219,551	12,213,026
Loans payable (Note 7)	3,903,562	3,126,312
Construction advances (Note 8)	4,419,445	8,574,520
Total liabilities	92,221,800	88,248,873
Net assets (Exhibit B)		
Unrestricted		
Operating	14,648,247	11,945,118
Board designated	32,522,708	32,614,769
Total unrestricted	47,170,955	44,559,887
Temporarily restricted (Note 16)	1,627,703	1,805,105
Permanently restricted (Note 16)	1,685,936	1,685,936
Total net assets	50,484,594	48,050,928
Total liabilities and net assets	$ 142,706,394	$ 136,299,801

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007
(With Summarized Financial Information
for the Year Ended June 30, 2006)

	Unrestricted					Total	
	Operating	Board Designated	Total	Temporarily Restricted	Permanently Restricted	2007	2006
Revenues, gains and other support							
Program revenues and support (Note 17)	$ 212,434,526		$ 212,434,526			$ 212,434,526	$ 200,905,381
UJA/Federation - basic and pension grants	3,295,757		3,295,757			3,295,757	3,191,590
Contributions	610,280	$ 452,802	1,063,082	$ 16,532		1,079,614	649,588
Special events		1,169,892	1,169,892			1,169,892	2,000,345
Less direct expenses		(178,487)	(178,487)			(178,487)	(227,395)
Investment income (Note 3)	1,835,717	2,633,095	4,468,812	127,510		4,596,322	2,689,845
Board designated net asset transfer - operating	1,069,413	(1,069,413)					
Satisfaction of program restrictions (Note 16)	169,815	151,629	321,444	(321,444)			
Total revenues, gains and other support	219,415,508	3,159,518	222,575,026	(177,402)		222,397,624	209,209,354
Expenses (Exhibit C)							
Program services	195,957,357	243,872	196,201,229			196,201,229	184,615,258
Supporting services							
Management and general	23,427,958		23,427,958			23,427,958	20,729,390
Fund raising		7,707	7,707			7,707	14,548
Total expenses	219,385,315	251,579	219,636,894			219,636,894	205,359,196
Change in net assets before other changes	30,193	2,907,939	2,938,132	(177,402)		2,760,730	3,850,158
Net asset transfer from New York Society for the Deaf merger							272,521
Board designated net asset transfer - fixed asset acquisitions	3,000,000	(3,000,000)					
Change in accounting policy (Note 11)	(327,064)		(327,064)			(327,064)	
Change in net assets (Exhibit D)	2,703,129	(92,061)	2,611,068	(177,402)		2,433,666	4,122,679
Net assets - beginning of year	11,945,118	32,614,769	44,559,887	1,805,105	$ 1,685,936	48,050,928	43,928,249
Net assets - end of year (Exhibit A)	$ 14,648,247	$ 32,522,708	$ 47,170,955	$ 1,627,703	$ 1,685,936	$ 50,484,594	$ 48,050,928

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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EXHIBIT C

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2007
(With Summarized Financial Information for the Year Ended June 30, 2006)

	Program Services	Management and General	Fund Raising	Special Events	Total 2007	Total 2006
Regular wages	$ 89,226,423	$ 8,873,289			$ 98,099,712	$ 92,212,570
Client wages	2,065,039	19,975			2,085,014	1,691,246
Stipends	326,848				326,848	317,142
Payroll taxes	6,735,436	1,095,703			7,831,139	7,138,945
Employee benefits	17,622,031	1,216,685			18,838,716	15,903,433
Total salaries and related expenses	115,975,777	11,205,652			127,181,429	117,263,336
Rent	17,051,019	774,228			17,825,247	17,118,644
Utilities	2,777,082	98,694			2,875,776	2,784,244
Telephone	2,065,955	182,144			2,248,099	2,216,904
Contract costs and services	8,647,437	7,332,834			15,980,271	12,648,869
Skills training supplies	576,362	707			577,069	414,848
Office equipment	1,090,382	45,966			1,136,348	1,036,742
Building maintenance	1,399,964	60,255			1,460,219	1,444,631
Equipment maintenance	356,744	133,545			490,289	742,707
Janitorial	657,767	49,391			707,158	679,585
Consultants	4,091,542	34,260			4,125,802	4,820,541
Professional fees	608,027	1,270,749			1,878,776	1,656,527
Travel	510,016	163,123	$ 151		673,290	679,927
Client transportation	7,821,966	171			7,822,137	5,976,926
Office supplies and printing	1,278,770	369,869	1,658		1,650,297	1,857,916
Conferences	262,815	77,387			340,202	325,390
Advertising	327,107	42,531			369,638	601,847
Postage and delivery	280,245	87,028	20		367,293	362,420
Dues and subscriptions	151,324	63,088			214,412	239,549
Food	2,241,959	8,112			2,250,071	2,057,698
Equipment leasing	488,735	182,716			671,451	508,106
Medication, medical exam/test supplies	386,395	2,287			388,682	135,563
Accreditation	306,729	126,645			433,374	327,522
Temporary help	4,340,172	139,426			4,479,598	6,031,764
Insurance	1,787,492	133,112			1,920,604	1,574,582
Moving	158,152	575			158,727	105,589
Client trips/entertainment/clothing	628,945	600			629,545	533,439
Facility and assessment fee	157,751	72			157,823	393,167
Subcontracts	12,863,208				12,863,208	13,895,036
Bad debts	403,000				403,000	350,799
Interest	1,119,256				1,119,256	982,120
Catering and facilities				$ 178,487	178,487	227,395
Miscellaneous	517,032	26,377	3,811		547,220	584,457
Total expenses before depreciation and amortization	191,329,127	22,611,544	5,640	178,487	214,124,798	200,578,790
Less direct expenses of special events				(178,487)	(178,487)	(227,395)
Depreciation and amortization	4,858,430	816,414	2,067		5,676,911	4,994,129
Amortization of finance costs	13,672				13,672	13,672
Total expenses (Exhibit B)	$ 196,201,229	$ 23,427,958	$ 7,707	$ -	$ 219,636,894	$ 205,359,196

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

EXHIBIT D

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 2,433,666	$ 4,122,679
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	5,676,911	4,994,129
Amortization of finance costs	13,672	13,672
Gain on investments	(2,780,270)	(1,538,543)
Net fixed assets acquired in merger with New York Society for the Deaf		(272,521)
Cash acquired in New York Society for the Deaf		134,488
Decrease (increase) in assets		
Accounts receivable	(9,292,623)	(9,585,084)
Contributions receivable	404,799	(501,979)
Prepaid expenses and other assets	(1,022,055)	(378,357)
Deposits	8,881	(432,423)
Increase (decrease) in liabilities		
Accounts payable, accrued expenses and other liabilities	4,931,471	8,114,918
Accrued salaries and vacations payable	730,477	(3,473,128)
Allowance for third-party adjustments	(522,072)	206,800
Advances	(1,768,382)	1,357,711
Net cash provided (used) by operating activities	(1,185,525)	2,762,362
Cash flows from investing activities		
Purchase of fixed assets	(10,072,988)	(8,074,504)
Purchase of investments	(12,061,156)	(9,993,145)
Proceeds from sale of investments	16,585,116	10,793,932
Decrease (increase) in escrow account	90,833	(71,254)
Net cash used by investing activities	(5,458,195)	(7,344,971)
Cash flows from financing activities		
Payments on loan principal and mortgages	(747,475)	(1,086,982)
Proceeds from loan and bonds	6,531,250	1,670,360
Proceeds from (reductions in) construction advances	(4,155,075)	1,415,440
Net cash provided by financing activities	1,628,700	1,998,818
Net decrease in cash and cash equivalents	(5,015,020)	(2,583,791)
Cash and cash equivalents - beginning of year	12,066,772	14,650,563
Cash and cash equivalents - end of year	$ 7,051,752	$ 12,066,772
Supplemental disclosure		
Cash paid for interest during the year	$ 1,119,256	$ 982,120

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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NOTE 1 - NATURE OF ORGANIZATION

Federation Employment and Guidance Service, Inc. (F.E.G.S), also doing business as F.E.G.S Health and Human Services System and F.E.G.S, established in 1934, is a voluntary, not-for-profit health and human services organization. Since its founding, F.E.G.S and its subsidiaries and affiliated organizations have served more than 3 million people.

F.E.G.S' extensive service delivery network provides a range of services to more than 100,000 individuals annually in the areas of Employment, Career and Workforce Development, Behavioral Health, Education and Youth Services, Vocational Rehabilitation, Residential and Housing Services, Developmental Disabilities, Family Services and Home Health Care. In developing these comprehensive and responsive programs to meet ever-changing needs in the community, F.E.G.S utilizes resources from both the private and public sectors, and integrates services from a wide array of professional disciplines throughout the Agency.

F.E.G.S is a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code and New York State Tax Commission Regulation Section 1-3.4(b)(6).

F.E.G.S is funded primarily by fee-for-service and reimbursement contracts with New York State and New York City.

These financial statements are for F.E.G.S only and do not include the following subsidiary organizations, which have been reported in these financial statements on the equity method:

HR Dynamics, Inc., a 90% for-profit subsidiary located in New York; AllSector Technology Group, Inc., an 85.5% for-profit subsidiary located in New York; and Staff Resources, Inc., a wholly owned for-profit subsidiary located in New York.

The undistributed income, reflected on the equity method, has been included in investment income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Method of Accounting*

The financial statements are prepared on the accrual basis.

B. *Fixed Assets*

F.E.G.S capitalizes all expenditures in excess of $500 for property and equipment having a useful life of greater than one year. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. *Inventories*

Inventories are stated at the lower of cost or market.

D. *Cash Equivalents*

F.E.G.S considers all highly liquid investments with maturities of three months or less when acquired to be cash equivalents.

E. *Investments*

Investments are stated at fair value as follows:

Publicly traded securities held by F.E.G.S - market value.
Limited partnership investments - market value as determined by investment manager.
Limited liability corporations - offshore investments - net asset value based upon market value or value determined by investment manager.

The financial statements may include investments whose estimated fair values, in the absence of readily ascertainable market values, have been determined by the investment manager. The methods and procedures used to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities; (2) obtaining valuation-related information from issuers; and/or (3) other analytical data relating to the investment and using other available indications of value. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interest may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

F. *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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Functional Expenses

The costs of providing F.E.G.S' services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services for which the costs have been incurred.

H. Summarized Financial Information

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 the organization's financial statements for the year ended June 30, 2006, from which the summarized information was derived. Certain balances have been restated to conform to the current year's presentation.

I. 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 temporarily restricted 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.

Unconditional promises to give are recorded as receivables and revenues and are recognized when the promises are made, at their net present value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates.

Conditional promises to give are not included in support until the conditions are substantially met.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Net Assets

Temporarily restricted net assets are those whose use by F.E.G.S has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by F.E.G.S in perpetuity.

Unrestricted net assets represent funds available for any purpose in performing the primary objectives of the corporation.

NOTE 3 - INVESTMENTS

Market values as of June 30, 2007 are summarized as follows:

U.S. Government and agency obligations	$ 9,926,139
Mutual funds	4,725,129
Limited partnerships	9,361,831
Limited liability corporation - offshore investments	1,775,747
Stocks	12,785
	$ 25,801,631

Investment income consists of the following:

Gain on investments	$ 2,780,270
Interest income	1,697,196
Dividend income	118,856
	$ 4,596,322

NOTE 4 - CONTRIBUTIONS RECEIVABLE

All contributions receivable have been recorded at present value. The receivables are due within one year.

NOTE 5 - FIXED ASSETS

	2007	2006	Estimated Useful Lives (in Years)
Land	$ 1,369,182	$ 1,369,182	
Building	28,782,844	28,401,256	25 - 30
Building improvements	11,090,690	9,635,902	28 - 30
Leasehold improvements	21,441,359	16,354,309	2 - 15
Equipment	20,510,743	18,164,058	3 - 10
Office equipment	6,497,975	4,865,279	3 - 10
Construction in progress	3,280,928	4,128,131	
	92,973,721	82,918,117	
Accumulated depreciation and amortization	(42,940,190)	(37,280,663)	
	$ 50,033,531	$ 45,637,454	

Depreciation and amortization were $5,676,911 in 2007 and $4,994,129 in 2006.

NOTE 6 - MORTGAGES PAYABLE

	Interest Rate	Amount Outstanding
A. F.E.G.S has various signed building loan notes with the Dormitory Authority of the State of New York amounting to a total of $22,737,373, issued on its behalf. These notes are secured by the properties. The building loan notes have various maturity dates through December 1, 2031.	4.95%-7.58%	$ 17,061,286

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NOTE 6 - MORTGAGES PAYABLE (continued)

	Interest Rate	Amount Outstanding
B. On May 19, 1999, F.E.G.S purchased a building located at 85 Dover Street, Massapequa, New York for $158,265. In conjunction with this purchase, the Town of Islip Community Development Agency ("CDA") has taken out a mortgage in the amount of $158,265 for the property located at 85 Dover Street, Massapequa, New York. The mortgage is non-interest-bearing and due on May 19, 2009 at the end of the ten-year life of the mortgage. The Town of Islip gave F.E.G.S a grant stipulating that if the property is used for a minimum period of ten years as a residence for persons afflicted with AIDS, the Town of Islip Community Development Agency will forgive the debt at the end of the ten-year period of the mortgage.		$ 158,265
Total		$ 17,219,551

Principal payments for all mortgages for the next five years are as follows:

2008	$ 1,157,208
2009	996,950
2010	927,499
2011	970,539
2012	947,748

NOTE 7 - LOANS PAYABLE

Loans payable at June 30, 2007 totaled $3,903,562, comprised of the following:

F.E.G.S has obtained a $2,500,000 line of credit with Bank of America for the acquisition and renovation of residences. The interest rate charged on amounts drawn on the line of credit is the prime rate plus 0.75%. As of June 30, 2007, F.E.G.S has drawn down $1,738,440 on the line of credit and the interest rate at June 30, 2007 was 8.25%. The credit line expires March 29, 2008.

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NOTE 7 - LOANS PAYABLE (continued)

F.E.G.S has obtained a $2,202,470 building loan from JP Morgan Chase for the renovation of buildings. The interest rate on amounts drawn down on the line of credit is the prime rate plus 0.75%. As of June 30, 2007, F.E.G.S has drawn down $2,165,122 on the line of credit and the interest rate at June 30, 2007 was 8.25%. The loan expires on March 29, 2008.

NOTE 8 - CONSTRUCTION ADVANCES

Construction advances at June 30, 2007 totaled $4,419,445, comprised of the following.

A. The Department of Housing and Urban Development gave F.E.G.S a $400,000 construction advance for the Burnside Avenue project. As of June 30, 2007, the construction advance balance is $185,000.

B. New York State Office of Mental Health gave F.E.G.S a $1,064,712 capital advance for the design and construction of a 43-bed Community Residence to be located at 265 Burnside Avenue, Bronx, New York. As of June 30, 2007, the construction advance balance is $445,872.

C. The Department of Housing and Urban Development gave F.E.G.S a $400,000 construction advance for the 124th Street SRO project. As of June 30, 2007, the construction advance balance is $204,000.

D. As of June 30, 2007, F.E.G.S' attorney (Escrow Agent) has received $6,159,392, including escrow of $190,242, from the New York State Department of Mental Health designated as a capital advance for the design and construction of a 50-bed CR/SRO to be located at 2666 Kingsbridge Terrace, Bronx, New York. The escrow fund has earned interest of $28,816, which was deemed part of the escrow. As of June 30, 2007, the total disbursements were $5,956,605. In April 2007, the capital advance from the State Department of Mental Health was financed through the Dormitory Authority of the State of New York (DASNY). The terms and description of this loan are included in Footnote 6, Section B.

E. As of June 30, 2007, F.E.G.S' attorney (Escrow Agent) has received $3,584,573, including escrow of $41,707, from the New York State Department of Mental Health designated as a capital advance for the design and construction of the Yatzkan Center located at 15-19 Duryea Place, Brooklyn, New York. The escrow fund has earned interest of $2,754, which is deemed part of the escrow. As of June 30, 2007, the total disbursements were $3,542,866.

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NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. Operating Leases

F.E.G.S has various operating leases expiring through 2029. F.E.G.S subleases office space to AllSector Technology Group, Inc. and HR Dynamics, Inc. The lease expires on February 18, 2018 and F.E.G.S was required to deposit $105,000 to an escrow account. The rental expense associated with this sublease was $153,234 for AllSector Technology Group, Inc. and $91,087 for HR Dynamics, Inc.

Rent expense was $17,825,247 in 2007 and $17,118,644 in 2006. Minimum rental commitments exclusive of real estate taxes and maintenance charges under noncancelable operating leases as of June 30, 2007 are as follows:

Year Ending June 30	
2008	$ 14,690,924
2009	12,767,272
2010	11,215,580
2011	10,562,512
2012	10,316,686
2013 and thereafter	54,905,757
	$ 114,458,731

B. Unemployment Insurance

F.E.G.S is a self-insurer for any unemployment compensation claims from former employees.

NOTE 10 - PENSION PLAN

Employees of F.E.G.S are covered under the UJA/Federation of Jewish Philanthropies of New York's pension plan. The UJA/Federation pension plan is noncontributory for all nonunion employees, but contributory for employees who are covered by a collective bargaining agreement. F.E.G.S' pension expense was $2,855,817 in 2007.

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NOTE 11 - POSTRETIREMENT MEDICAL BENEFIT PLAN

F.E.G.S has a noncontributory postretirement medical benefit plan. The postretirement medical insurance plan covers all employees that have retired after age 65 with ten years of service.

The following table sets forth the plan's funded status and amounts recognized in the balance sheet at June 30, 2007:

Benefit obligation at June 30, 2007	$	(557,196)
Fair value of plan assets at June 30, 2007		-
Accrued postretirement liabilty	$	(557,196)

Weighted average assumptions as of June 30, 2007:	
Discount rate	6.00%
Expected return on plan assets	N/A

The Financial Accounting Standards Board issued a new pronouncement, No. 158, entitled "Employers' Accounting for Defined Benefits Pension and Other Postretirement Plans." The requirement is to measure plan assets and benefit obligations as of the date of the year-end balance sheet. The effect on the F.E.G.S financial report would result in an additional benefit cost of $327,064.

For measurement purposes, a 6% annual rate of increase in the per capita cost of covered health benefits was assumed for 2007.

Benefit cost	$	73,146
Employer contributions		72,460
Plan participants' contribution		-
Benefits paid		72,460

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the funds in estimating the fair value of their financial instruments:

Cash and cash equivalents - The carrying amount approximates fair value because the instrument is liquid in nature.

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NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Investments - The carrying amount approximates fair value, which is based upon market value or value determined by the general partner for limited partnerships and limited liability corporations-offshore investments in nonpublicly traded securities.

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 7,339,703	$ 7,339,703
Investments	25,801,631	25,801,631

NOTE 13 - CONCENTRATIONS

A. Financial instruments which potentially subject F.E.G.S to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. These financial institutions have strong credit ratings and management believes that credit risk related to these accounts is minimal.

B. Financial instruments which potentially subject F.E.G.S to a concentration of credit risk are the outstanding accounts receivable from New York State, New York City and Medicaid, totaling $43,778,802.

NOTE 14 - RELATED PARTIES

Federation Employment and Guidance Service, Inc., FEGS Home Attendant Services, Inc., FEGS Home Care Services, Inc., FEGS Holding Corp., Waverly Residence, Inc. and Jewish Care Services of Long Island, Inc. are related through common board control.

F.E.G.S and New York Association of New Americans (NYANA) jointly formed a for-profit corporation, HR Dynamics, Inc., each corporation having a 50% joint ownership. Effective October 1, 1999, F.E.G.S owns 90% of the corporation. The purpose of this corporation is to offer human resource support services, including benefits, administration, recruitment, salary administration, and consulting on labor issues and other similar human resource services to F.E.G.S, NYANA and other corporations. In the current fiscal year, HR Dynamics, Inc. provided $3,025,230 of human resource support services to F.E.G.S. F.E.G.S provided administrative services and office space to HR Dynamics, Inc. totaling $275,046.

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NOTE 14 - RELATED PARTIES (continued)

F.E.G.S and NYANA jointly formed a for-profit corporation, AllSector Technology Group, Inc., each corporation having a 50% joint ownership. Effective November 1, 2000, F.E.G.S owns 85.5% of the corporation. The purpose of this corporation is to offer a complete management information systems function, including single-service solution for creating a coordinated information technology platform, a wide range of state-of-the-art information technology services as well as project management, technical consulting in applications and other similar information management services to F.E.G.S, NYANA and other corporations. In the current fiscal year, AllSector Technology Group, Inc. provided $4,276,665 of information management services to F.E.G.S. F.E.G.S provided administrative services and office space to AllSector Technology Group, Inc. totaling $395,157.

F.E.G.S is the sponsor organization for Waverly Residence, Inc., a not-for-profit corporation, which is a single-asset housing corporation established for the construction of an Individual Residential Alternative (IRA) program for the developmentally disabled.

Staff Resources, Inc., a wholly owned subsidiary, is a for-profit corporation, the purpose of which is to develop and market consulting, technical assistance and alternative staffing to other for-profit and not-for-profit corporations.

Due from related parties are the following:

HR Dynamics, Inc.	$ 46,121
AllSector Technology Group, Inc.	85,616
Waverly Residence, Inc.	117,160
Staff Resources, Inc.	197,841
Extreme Behavioral Risk Management Corp.	247,336
Total	$ 694,074

Due to related parties are the following:

HR Dynamics, Inc.	$ 427,493
AllSector Technology Group, Inc.	248,789
	$ 676,282

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NOTE 15 - BENEFICIARY TRUST

F.E.G.S is named as a beneficiary of at least a 25% share of the remainder of the UJA-Federation Community Trust for Disabled Adults under the auspices of UJA-Federation of New York. A receivable has not been recorded on the financial statements, since it cannot be determined if any principal will remain at the termination of the trust.

As of June 30, 2007, the UJA-Federation Community Trust for Disabled Adults was valued at approximately $7,700,000.

NOTE 16 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Training programs	$ 993,326
Awards and scholarships	634,377
	$ 1,627,703

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors:

Training and intern programs	$ 161,735
Awards and scholarships	10,593
Presidents award fund	149,116
	$ 321,444

Permanently restricted net assets are available for investment in perpetuity, the income and appreciation from which are expendable to support the following:

Training programs	$ 1,685,936

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 17 - PROGRAM REVENUES AND SUPPORT

Program revenues and support consist of:

	2007	2006
Special grants through UJA/Federation of Jewish Philanthropies of New York	$ 2,064,968	$ 1,349,704
Fees for services	101,755,938	95,316,627
Special projects, programs and grants	107,378,168	102,772,584
Contract sales	1,235,452	1,466,466
	$ 212,434,526	$ 200,905,381

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APPENDIX B-II

HUMAN CARE SERVICES FOR FAMILIES & CHILDREN, INC.

AUDITED FINANCIAL STATEMENTS

FISCAL YEARS 2009, 2008 AND 2007

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HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2009

LOEB & TROPER LLP

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

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LOEB & TROPER LLP

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Independent Auditor's Report

Board of Trustees
Human Care Services
for Families & Children, Inc.

We have audited the accompanying balance sheet of Human Care Services for Families & Children, Inc. as of June 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Human Care Services for Families & Children, Inc.'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 Human Care Services for Families and Children, Inc.'s 2008 financial statements and, in our report dated November 4, 2008, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Human Care Services for Families & Children, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Human Care Services for Families & Children, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

November 30, 2009

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors
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EXHIBIT A

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

BALANCE SHEET

JUNE 30, 2009
(With Summarized Financial Information for June 30, 2008)

	2009	2008
ASSETS		
Cash and cash equivalents (Note 2)	$ 5,228,512	$ 2,706,786
Accounts receivable (Note 2)	2,071,238	2,515,126
Prepaid expenses and other assets	75,933	67,252
Assets limited as to use (Note 2)	283,110	259,540
Fixed assets - net (Note 3)	4,020,225	3,473,787
Total assets	$ 11,679,018	$ 9,022,491
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 716,245	$ 1,027,543
Loan payable (Note 4)	1,450,000	750,000
Capital leases payable (Note 6)	1,902,052	2,125,257
Total liabilities	4,068,297	3,902,800
Net assets - unrestricted (Exhibit B)	7,610,721	5,119,691
Total liabilities and net assets	$ 11,679,018	$ 9,022,491

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

EXHIBIT B

HUMAN CARE SERVICES FOR FAMILIES & CHILDREN, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009 (With Summarized Financial Information for the Year Ended June 30, 2008)

	2009	2008
Revenues		
Service revenues		
At home residential habilitation services	$ 6,419,359	$ 5,484,549
Respite	400,392	257,571
Service coordination	850,707	815,304
Adaptive technology	92,725	197,383
Residential services - IRA (Note 10)	4,395,699	3,566,053
Day habilitation	915,354	404,201
Family support services	52,116	52,472
Individualized support services	46,709	35,420
Contributions	2,654	6,591
Insurance recoveries	97,861	2,846
Miscellaneous	1,434	767
Interest income	47,150	137,460
Total revenues	13,322,160	10,960,617
Expenses (Exhibit C)		
Program services		
At home residential habilitation services	4,827,633	4,481,857
Residential services - IRA	4,265,586	3,685,856
Day habilitation services	744,663	550,763
Family reimbursement program	54,596	49,525
Individual supportive services	39,324	35,488
Other services	20,266	152,294
Total program services	9,952,068	8,955,783
Management and general	879,062	757,392
Total expenses	10,831,130	9,713,175
Change in unrestricted net assets before other changes	2,491,030	1,247,442
Loss on disposal of fixed assets		(9,575)
Change in unrestricted net assets (Exhibit D)	2,491,030	1,237,867
Net assets - unrestricted - beginning of year	5,119,691	3,881,824
Net assets - unrestricted - end of year (Exhibit A)	$ 7,610,721	$ 5,119,691

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009
(With Summarized Financial Information for the Year Ended June 30, 2008)

	Program Services									
	At Home Residential Habilitation Services	Residential Services - IRA	Day Habilitation Services	Family Reimbursement Program	Individual Supportive Services	Other Services	Total	Management and General	Total 2009	Total 2008
Salaries	$ 3,079,547	$ 2,503,920	$ 363,812	$ 23,367		$ 15,638	$ 5,986,284	$ 505,815	$ 6,492,099	$ 4,818,479
Payroll taxes and employee benefits	422,594	591,630	91,248	2,209		1,196	1,108,877	76,364	1,185,241	888,888
Purchase of health services	779,679	31,517	5,874	28,326			845,396	100	845,496	1,568,306
Rent (Note 7)	94,388	109,021	110,034		$ 31,899		345,342	70,350	415,692	383,458
Food	11	174,504	19,001		6,389	1,748	201,653	860	202,513	156,009
Program supplies	116,566	75,356	8,821		236	1,372	202,351	3,110	205,461	234,387
Vehicle expenses		128,412	47,231				175,643	503	176,146	122,278
Professional and other fees	91,311	48,963	9,491	88		312	150,165	111,252	261,417	211,354
Office supplies	9,742	12,375	1,507	104			23,728	23,152	46,880	57,700
Equipment rental	9,451	10,029	6,317				25,797	5,465	31,262	22,509
Insurance	38,319	34,122	8,995	302			81,738	9,908	91,646	94,385
Postage	4,390	586	1,475				6,451	4,018	10,469	10,416
Advertising and recruitment	7,228	13,724	3,352				24,304	1,861	26,165	43,264
Telephone	18,642	34,462	15,609	200			68,913	14,998	83,911	78,639
Repairs and maintenance	2,692	35,958	4,062				42,712	3,824	46,536	49,783
Conferences and meetings	1,162	1,326	213				2,701	9,758	12,459	9,567
Utilities	12,104	49,158	17,431				78,693	11,144	89,837	68,874
Interest	1,954	121,812	3,899				127,665	2,493	130,158	133,628
Miscellaneous	15,342	1,440	76				16,858	8,337	25,195	26,618
Bad debts	100,000	80,958	6,000				186,958		186,958	531,166
Depreciation and amortization	22,511	206,313	20,215		800		249,839	15,750	265,589	203,467
Total (Exhibit B)	$ 4,827,633	$ 4,265,586	$ 744,663	$ 54,596	$ 39,324	$ 20,266	$ 9,952,068	$ 879,062	$ 10,831,130	$ 9,713,175

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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EXHIBIT D

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

Cash flows from operating activities	
Change in net assets (Exhibit B)	$ 2,491,030
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	265,589
Decrease (increase) in assets	
Accounts receivable	443,888
Prepaid expenses and other assets	(8,681)
Decrease in liabilities	
Accounts payable and accrued expenses	(311,298)
Net cash provided by operating activities	2,880,528
Cash flows from investing activities	
Purchase of fixed assets	(812,027)
Increase in assets limited as to use	(23,570)
Net cash used by investing activities	(835,597)
Cash flows from financing activities	
Principal payments on loan payable	(750,000)
Proceeds from loan payable	1,450,000
Principal payments on capital leases payable	(223,205)
Net cash provided by financing activities	476,795
Net increase in cash and cash equivalents	2,521,726
Cash and cash equivalents - beginning of year	2,706,786
Cash and cash equivalents - end of year	$ 5,228,512
Supplemental cash flow information	
Cash paid for interest	$ 130,158

See independent auditor's report.

The accompanying notes are an integral of these statements.

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - NATURE OF ORGANIZATION

Human Care Services for Families & Children, Inc. (Human Care) is a not-for-profit organization which primarily provides housing and related services to developmentally disabled individuals. The primary source of revenues is service revenues.

Human Care is a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxes under Internal Revenue Code Section 501(a).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents are highly liquid investments having original maturities when acquired of three months or less. Included in cash and cash equivalents is approximately $2,500,000 invested in money market funds.

Accounts receivable and allowance for doubtful accounts - Human Care records receivables based on established rates or contracts for service provided. Interest is not charged on overdue receivables. Bad debt expenses on accounts and contributions receivable are charged if the receivable is determined to be uncollectible based on periodic review 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. As of June 30, 2009 and 2008, Human Care has recorded an allowance for doubtful receivables in the amount of $558,000 and $980,000, respectively.

Prepaid expenses - Payments made to vendors for contracts that overlap more than one fiscal year are recorded as prepaid expenses.

Assets limited as to use - Assets limited as to use are amounts set aside under the terms of the bonding agreement.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

Fixed assets - Fixed assets are stated at cost. Items with a cost of $500 or more and an estimated useful life of more than one year are capitalized. Depreciation and amortization are recorded on the straight-line method over the estimated useful lives of the assets, ranging from 5 to 30 years.

Net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Revenue recognition - Service revenues are reported at the estimated net realizable amounts 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.

Contributions - Human Care reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Functional expenses - The costs of providing Human Care's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising costs - Advertising costs are expensed as incurred.

Leases - Human Care maintains capital leases for its building and equipment and operating leases for its space, equipment and vehicle rentals. Leases are categorized as capital or operating based on Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases. Human Care's policy is to reflect rent expense on the straight-line basis. However, no adjustment was made to record deferred rent, as it had no material effect on the financial statements.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115 (SFAS No. 159) - SFAS No. 159 permits but does not require measurement of financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As Human Care did not elect to fair value any of the financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective July 1, 2008 did not have an impact on the financial statements.

Financial Accounting Standards Board (FASB) Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for nonpublic companies and not-for-profits for periods beginning after December 15, 2008.

Reclassification - Certain 2008 balances have been reclassified to conform to the 2009 presentation.

Subsequent events - Subsequent events have been evaluated through November 30, 2009 which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

	Cost	Estimated Useful Life
Land	$ 635,000	
Building	903,711	30 years
Building improvements	2,836,961	30 years
Furniture and equipment	586,232	5 years
	4,961,904	
Less accumulated depreciation and amortization	(941,679)	
	$ 4,020,225	

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NOTE 3 - FIXED ASSETS (continued)

Included in accumulated depreciation and amortization is $273,379 of accumulated amortization related to the capital leases.

NOTE 4 - LOANS PAYABLE

Human Care obtained a loan in the amount of $1,700,000 from FJC. Interest is payable quarterly. The principal is due on April 30, 2010. Interest is at the prime rate plus 3%. At June 30, 2009, the prime rate was 3.25%, for a total effective rate of 6.25%. As of June 30, 2009, $1,450,000 was outstanding. Interest expense for the year ended June 30, 2009 was $22,499.

NOTE 5 - LINES OF CREDIT

Human Care has two capital lines of credit with Capital One Bank for $2,500,000 each. Interest is at prime plus ¼% and a minimum of 4% for one and LIBOR plus 300 basis points for the other. No amount was outstanding on either line of credit at June 30, 2009.

NOTE 6 - CAPITAL LEASES PAYABLE

Capital Lease - Buildings

In 2003, Human Care purchased a building for its Residential Program. In order to finance the purchase, on December 15, 2002 Human Care secured financing of $1,270,000 from the Industrial Development Agency of New York (IDA). As part of the agreement with IDA, Human Care transferred title to the existing land and building at 218 Avenue N, Brooklyn, New York. IDA has leased the land and building back to Human Care for a term concurrent with the bond repayment schedule. At the conclusion of the lease term, Human Care has the option to repurchase all leased property for $1. During the term of the lease, Human Care is responsible for maintaining the property.

The bonds are the obligation of IDA. Human Care has the obligation under the lease agreement to make payments equal to the amounts payable as principal and interest on the outstanding bonds. Principal and interest, at an annual rate of 6.235%, are due monthly and final payment is due July 1, 2017. The payment of the bonds is secured by a mortgage and a security agreement.

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NOTE 6 - CAPITAL LEASES PAYABLE (continued)

Capital Lease - Buildings (continued)

In 2007, Human Care purchased a building for its Residential Program. In order to finance the purchase, Human Care secured financing of $1,355,000 from IDA. As part of the agreement with IDA, Human Care transferred title to the existing land and building at 1592 East 34th Street, Brooklyn, New York. IDA has leased the land and building back to Human Care for a term concurrent with the bond repayment schedule. At the conclusion of the lease term, Human Care has the option to repurchase all leased property for $1. During the term of the lease, Human Care is responsible for maintaining the property.

The bonds are the obligation of IDA. Human Care has the obligation under the lease agreement to make payments equal to the amounts payable as principal and interest on the outstanding bonds. Principal and interest, at annual rates ranging from 4.10% to 5.25% over the life of the bonds, are due monthly and final payment is due July 1, 2022. The payment of the bonds is secured by a mortgage and a security agreement.

The payments on these leases are as follows:

Year Ending June 30	
2010	$ 307,273
2011	297,170
2012	292,041
2013	206,675
2014	199,038
Thereafter	1,138,075
	2,440,272
Less amount representing interest	(595,272)
Present value of net minimum lease payments	$ 1,845,000

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NOTE 6 - CAPITAL LEASES PAYABLE (continued)

Capital Lease - Telephone and Computer Equipment

During 2008, Human Care entered into capital lease agreements for its telephone and computer systems with a value of $81,678. The leases expire in June 2013. The future lease payments are as follows:

Year Ending June 30	
2010	$ 23,599
2011	23,599
2012	13,418
2013	3,794
	64,410
Less amount representing interest	(7,358)
Present value of net minimum lease payments	$ 57,052

Interest expense on the leases for the year ended June 30, 2009 was $107,659.

NOTE 7 - OPERATING LEASES

Human Care rents space for programs and its administrative offices under operating leases. The leased space is located in Brooklyn, New York. These leases expire at various times through 2019. Rent expense for the year ended June 30, 2009 was $411,151. In addition, Human Care leases eleven vans for its programs. Most of these leases are for about four years, with the last ones expiring in 2014.

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NOTE 7 - OPERATING LEASES (continued)

Future rental payments are as follows:

	Space	Vehicles
2010	$ 447,644	$ 103,139
2011	418,182	68,649
2012	431,272	40,998
2013	442,198	15,965
2014	454,818	1,005
2015	461,222	
2016	474,572	
2017	464,881	
2018	369,162	
2019	371,112	
	$ 4,335,063	$ 229,756

NOTE 8 - CONCENTRATIONS

Financial instruments which potentially subject Human Care to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits.

At June 30, 2009 and 2008, approximately 98% and 93%, respectively, of accounts receivable is due from Medicaid. In addition, almost all revenues are from the New York State Office of Mental Retardation and Developmental Disabilities. Therefore, Human Care is highly dependent on the New York State reimbursement system.

NOTE 9 - CONTINGENCIES

The New York State Office of Mental Retardation and Developmental Disabilities has the right to examine the books of Human Care and adjust Medicaid reimbursements accordingly. No provision has been made on the books for possible adjustments that may arise from these examinations. Management estimates that these adjustments, if any, would not have a material effect on the financial position of Human Care.

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HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2008

LOEB & TROPER LLP

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

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B-II-10

Independent Auditor's Report

Board of Trustees
Human Care Services
for Families & Children, Inc.

We have audited the accompanying balance sheet of Human Care Services for Families & Children, Inc. as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Human Care Services for Families & Children, Inc.'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 Human Care Services for Families and Children, Inc.'s 2007 financial statements and, in our report dated February 7, 2008, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Human Care Services for Families & Children, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Human Care Services for Families & Children, Inc. as of June 30, 2008, 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.

Loeb & Troper LLP

November 4, 2008

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors

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EXHIBIT A

HUMAN CARE SERVICES
FOR FAMILIES AND CHILDREN, INC.

BALANCE SHEET

JUNE 30, 2008
(With Summarized Financial Information for June 30, 2007)

	2008	2007
ASSETS		
Cash and cash equivalents	$ 2,706,786	$ 2,412,761
Accounts receivable (Note 2)	2,515,126	1,856,329
Prepaid expenses and other assets	67,252	166,185
Assets limited as to use (Note 2)	259,540	154,236
Fixed assets - net (Note 3)	3,473,787	2,054,046
Total assets	$ 9,022,491	$ 6,643,557
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 1,027,543	$ 1,025,175
Line of credit (Note 8)	750,000	791,000
Capital leases payable (Note 5)	2,125,257	835,000
Due to OMRDD (Note 9)		110,558
Total liabilities	3,902,800	2,761,733
Net assets - unrestricted (Exhibit B)	5,119,691	3,881,824
Total liabilities and net assets	$ 9,022,491	$ 6,643,557

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT B

HUMAN CARE SERVICES
FOR FAMILIES AND CHILDREN, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008
(With Summarized Financial Information for the Year Ended June 30, 2007)

	2008	2007
Revenues		
At home Residential Habilitation services	$ 5,484,549	$ 4,314,859
Respite	257,571	217,090
Service coordination	815,304	700,968
Adaptive technology	197,383	94,687
Residential services - IRA	3,566,053	2,388,936
Day Habilitation	404,201	
Family support services	52,472	
Individualized support services	35,420	24,955
Contributions	6,591	3,600
Miscellaneous	3,613	4,335
Interest income	137,460	62,376
Total revenues	10,960,617	7,811,806
Expenses (Exhibit C)		
Program services		
At home Residential Habilitation services	4,481,857	3,916,426
Residential services - IRA	3,685,856	2,628,335
Day habilitation	550,763	
Other	237,307	24,137
Total program services	8,955,783	6,568,898
Management and general	757,392	515,656
Total expenses	9,713,175	7,084,554
Change in unrestricted net assets before other changes	1,247,442	727,252
Loss on disposal of fixed assets	(9,575)	
Change in unrestricted net assets (Exhibit D)	1,237,867	727,252
Net assets - beginning of year	3,881,824	3,154,572
Net assets - end of year (Exhibit A)	$ 5,119,691	$ 3,881,824

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008
(With Summarized Financial Information for the Year Ended June 30, 2007)

	Program Services							
	At Home Residential Habilitation Services	Residential Services - IRA	Day Habilitation	Other	Total	Management and General	Total 2008	Total 2007
Salaries	$ 2,092,632	$ 2,094,297	$ 197,400	$ 19,253	$ 4,403,582	$ 414,897	$ 4,818,479	$ 3,070,588
Payroll taxes and employee benefits	307,085	450,878	52,179	1,552	811,694	77,194	888,888	600,804
Purchase of health services	1,540,842	33,917	2,316	180,789	1,757,864	24	1,757,888	2,058,038
Rent	76,181	104,532	100,865	25,326	306,904	76,554	383,458	204,882
Food	485	138,747	10,207	5,729	155,168	841	156,009	95,437
Program supplies	797	60,341	22,965	888	84,991	1,512	86,503	48,386
Vehicle expenses		98,428	22,393		120,821	1,457	122,278	55,097
Professional and other fees	53,988	34,797	9,018		97,803	71,853	169,656	176,861
Office supplies	13,515	21,996	2,185	104	37,800	19,900	57,700	53,784
Equipment rental	6,088	7,713	3,893		17,694	4,815	22,509	14,050
Insurance	27,952	42,081	9,252		79,285	15,100	94,385	52,772
Postage	4,778	512	1,445		6,735	3,681	10,416	17,909
Advertising and recruitment	18,617	5,968	9,173		33,758	9,506	43,264	14,712
Telephone	18,225	31,470	14,471	200	64,366	14,273	78,639	48,677
Repairs and maintenance	2,059	33,798	5,245	3,200	44,302	5,481	49,783	30,574
Conferences and meetings	1,337	550	496		2,383	7,184	9,567	2,085
Utilities	9,330	38,409	11,870		59,609	9,265	68,874	35,692
Interest	1,496	127,358	3,183		132,037	1,591	133,628	59,058
Miscellaneous	13,965	4,855	57		18,877	7,741	26,618	38,169
Bad debts	274,633	196,533	60,000		531,166	0	531,166	300,467
Depreciation and amortization	17,852	158,676	12,150	266	188,944	14,523	203,467	106,512
Total (Exhibit B)	$ 4,481,857	$ 3,685,856	550,763	$ 237,307	$ 8,955,783	$ 757,392	$ 9,713,175	$ 7,084,554

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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EXHIBIT D

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2008

Cash flows from operating activities	
Change in net assets (Exhibit B)	$ 1,237,867
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	203,467
Loss on disposal of fixed assets	9,575
Decrease (increase) in assets	
Accounts receivable	(658,797)
Prepaid expenses and other assets	98,933
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	2,368
Due to government agency	(110,558)
Net cash provided by operating activities	782,855
Cash flows from investing activities	
Purchase of fixed assets	(1,551,105)
Increase in assets limited as to use	(105,304)
Net cash used by investing activities	(1,656,409)
Cash flows from financing activities	
Proceeds from line of credit	926,121
Payments on line of credit	(967,121)
Proceeds from capital leases	1,355,000
Principal payments on capital leases payable	(146,421)
Net cash provided by financing activities	1,167,579
Net increase in cash and cash equivalents	294,025
Cash and cash equivalents - beginning of year	2,412,761
Cash and cash equivalents - end of year	$ 2,706,786
Supplemental cash flow information	
Cash paid for interest	$ 133,628

During 2008, HCFCS purchased equipment in the amount of $81,678 through a capital lease.

See independent auditor's report.

The accompanying notes are an integral of these statements.

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - NATURE OF ORGANIZATION

Human Care Services for Families & Children, Inc. (Human Care) is a not-for-profit organization which primarily provides housing and related services to developmentally disabled individuals. The primary source of revenues is government fees.

Human Care is a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxes under Internal Revenue Code Section 501(a).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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.

Cash equivalents - Cash equivalents are highly liquid investments having original maturities when acquired of three months or less.

Contributions - Human Care reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Functional expenses - The costs of providing Human Care's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fixed assets - Fixed assets are stated at cost. Depreciation and amortization are recorded on the straight-line method over the estimated useful lives of the assets, ranging from 5 to 30 years. Furniture and equipment replacements and minor purchases under $500 are expensed in the year of purchase.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

Assets limited as to use - Assets limited as to use are set aside under the terms of the bonding agreement.

Allowance for doubtful accounts receivable - As of June 30, 2008 and 2007, Human Care has recorded an allowance of $980,000 and $450,000, respectively, for potential uncollectible accounts receivable.

NOTE 3 - FIXED ASSETS

	Cost	Estimated Useful Life
Land	$ 320,000	
Building	468,711	30 years
Building improvements	1,977,339	30 years
Furniture and equipment	528,691	5 years
Construction in progress	855,136	
	4,149,877	
Less accumulated depreciation and amortization	(676,090)	
	$ 3,473,787	

NOTE 4 - CONTINGENCIES

The New York State Office of Mental Retardation and Developmental Disabilities has the right to examine the books of Human Care and adjust Medicaid reimbursements accordingly. No provision has been made on the books for possible adjustments that may arise from these examinations. Management estimates that these adjustments, if any, would not have a material effect on the financial position of Human Care.

-continued-

NOTE 5 - CAPITAL LEASES PAYABLE

<u>Capital Lease - Building</u>

In 2003, Human Care purchased a building for its Resident Program. In order to finance the purchase, on December 15, 2002 Human Care secured financing of $1,270,000 from the Industrial Development Agency of New York (IDA). As part of the agreement with IDA, Human Care transferred title to the existing land and building at 218 Avenue N, Brooklyn, New York. IDA has leased the land and building back to Human Care for a term concurrent with the bond repayment schedule. At the conclusion of the lease term, Human Care has the option to repurchase all leased property for $1. During the term of the lease, Human Care is responsible for maintaining the property.

The bonds are the obligation of IDA. Human Care has the obligation under the lease agreement to make payments equal to the amounts payable as principal and interest on the outstanding bonds. Principal and interest, at an annual rate of 6.235%, are due monthly and final payment is due July 1, 2017. The payment of the bonds is secured by a mortgage and a security agreement.

In 2007, Human Care purchased a building for its Resident Program. In order to finance the purchase, Human Care secured financing of $1,355,000 from the Industrial Development Agency of New York (IDA). As part of the agreement with IDA, Human Care transferred title to the existing land and building at 1592 East 34th Street, Brooklyn, New York. IDA has leased the land and building back to Human Care for a term concurrent with the bond repayment schedule. At the conclusion of the lease term, Human Care has the option to repurchase all leased property for $1. During the term of the lease, Human Care is responsible for maintaining the property.

The bonds are the obligation of IDA. Human Care has the obligation under the lease agreement to make payments equal to the amounts payable as principal and interest on the outstanding bonds. Principal and interest, at annual rates ranging from 4.10% to 5.25% over the life of the bonds, are due monthly and final payment is due July 1, 2022. The payment of the bonds is secured by a mortgage and a security agreement.

-continued-

NOTE 5 - CAPITAL LEASES PAYABLE (continued)

The payments on these leases are as follows:

Year Ending June 30	
2009	$ 53,830
2010	312,517
2011	302,272
2012	292,105
2013	286,858
Thereafter	1,510,452
	2,758,034
Less amount representing interest	(703,034)
Present value of net minimum lease payments	$ 2,055,000

Capital Lease - Telephone and Computer Equipment

During 2008, Human Care entered into capital lease agreements for its telephone and computer systems with a value of $81,678. The leases expire in June 2013. The future lease payments are as follows:

Year Ending June 30	
2009	$ 23,165
2010	24,186
2011	24,186
2012	13,516
2013	3,794
	88,847
Less amount representing interest	(18,590)
Present value of net minimum lease payments	$ 70,257

Interest expense on the leases for the year ended June 30, 2008 was $105,278.

-continued-

NOTE 6 - OPERATING LEASES

Human Care rents space for programs and its administrative offices under operating leases. The leased space is located in Brooklyn, New York. These leases expire at various times up until 2020.

Rent expense for the year ended June 30, 2008 was $383,458.

In addition, HCS leases eleven vans for its programs. Most of these leases are for a duration of about four years, with the last ones expiring in 2012.

On July 1, 2007, Human Care leased space for a new Day Habilitation program and Administrative Offices in Brooklyn, New York. This lease will expire on July 1, 2017.

Rent payable over the next five years and thereafter is as follows:

	Space	Vehicles
2009	$ 389,796	$ 67,924
2010	313,378	58,110
2011	228,958	30,496
2012	225,238	
2013	191,364	
2014	197,100	
2015	197,100	
2016	203,016	
2017	203,016	

NOTE 7 - CONCENTRATIONS

Financial instruments which potentially subject Human Care to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits.

At June 30, 2008 and 2007, approximately 93% and 99%, respectively, of accounts receivable is due from Medicaid. In addition, almost all revenues are from the New York State Office of Mental Retardation and Developmental Disabilities.

-continued-

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 8 - LINE OF CREDIT

Human Care obtained a line of credit in the amount of $1,700,000 from FJC. Interest is payable quarterly. The principal is due on April 10, 2010. Interest is at the prime rate plus 3%. At June 30, 2008, the prime rate was 5%, for a total effective rate of 8%. As of June 30, 2008, $750,000 was outstanding. Human Care also had a $1,250,000 line of credit with Bank of America which expires in December 2008. No amount was outstanding on this line at June 30, 2008.

NOTE 9 - DUE TO OMRDD

Human Care has incurred liabilities to the Office of Mental Retardation and Developmental Disabilities (OMRDD) as a part of the start-up and operations of its residential programs. These liabilities include contract funds advanced to the agency for preoperational start-up costs. These liabilities were recouped by New York State through the Medicaid reimbursement system.

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HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2007

LOEB & TROPER LLP

B-II-17

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

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LOEB & TROPER LLP

LOEB & TROPER LLP

Independent Auditor's Report

Board of Trustees
Human Care Services
for Families & Children, Inc.

We have audited the accompanying balance sheet of Human Care Services for amilies & Children, Inc. as of June 30, 2007, and the related statements of activities, fi ctional expenses, and cash flows for the year then ended. These financial statements re the responsibility of Human Care Services for Families & Children, Inc.'s manageme . Our responsibility is to express an opinion on these financial statements based on our au t. The prior year summarized comparative information has been derived from Human Care Se ces for Families and Children, Inc.'s 2006 financial statements and, in our report dated Oc er 17, 2006, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accept in the United States of America. Those standards require that we plan and perform the audit obtain reasonable assurance about whether the financial statements are free of material miss ement. An audit includes consideration of internal control over financial reporting as a sis for designing audit procedures that are appropriate in the circumstances, but not for the p ose of expressing an opinion on the effectiveness of Human Care Services for Families & ildren, Inc.'s internal control over financial reporting. Accordingly, we express no such opi n. An audit also includes examining, on a test basis, evidence supporting the amounts and di losures in the financial statements, assessing the accounting principles used and significant timates made by management, as well as evaluating the overall financial statement presentat n. 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 aterial respects, the financial position of Human Care Services for Families & Children, I . as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ded in conformity with accounting principles generally accepted in the United States of Americ

Loeb + Troper LLP

February 7, 2008

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors
655 Third Avenue, 12th Floor, New York, NY 1017
(212) 867-4000 / Fax (212) 867-9810 / www. handtroper.com

EXI BIT A

HUMAN CARE SERVICES
FOR FAMILIES AND CHILDREN, INC.

BALANCE SHEET

JUNE 30, 2007
(With Summarized Financial Information for June 30, 2006)

	2007	:)6
ASSETS		
Cash and cash equivalents	$ 2,412,761	$ 1, 3,757
Accounts receivable (net of allowance for doubtful accounts of $450,000 in 2007 and $175,000 in 2006)	1,856,329	1, 2,778
Prepaid expenses and other assets	166,185	4,027
Assets limited as to use (Note 2)	154,236	5,172
Fixed assets - net (Note 3)	2,054,046	1, 2,857
Total assets	$ 6,643,557	$ 4, 8,591
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 1,025,175	$ 4,019
Line of credit (Note 8)	791,000	0,000
Capital lease payable - revenue bonds (Note 5)	835,000	0,000
Due to OMRDD (Note 9)	110,558	
Total liabilities	2,761,733	1, 4,019
Net assets - unrestricted (Exhibit B)	3,881,824	3. 4,572
Total liabilities and net assets	$ 6,643,557	$ 4, 8,591

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EX IBIT B

HUMAN CARE SERVICES
FOR FAMILIES AND CHILDREN, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007
(With Summarized Financial Information for June 30, 2006)
for the Year Ended June 30, 2006)

	2007	06
venues		
4edicaid waiver		
In-home services	$ 4,314,859	$ 4 37,026
Respite	217,090	52,729
Case management	700,968	93,118
Adaptive technology	94,687	16,277
Residential services	2,388,936	1 20,471
ISS projects	24,955	14,591
Contributions	3,600	90
Other	4,335	
Interest income	62,376	25,169
Total revenues	7,811,806	6 59,471
enses (Exhibit C)		
ogram services		
Medicaid waiver and related services	3,916,426	3 78,409
Residential services	2,628,335	1 24,454
ISS projects	24,137	13,572
Total program services	6,568,898	5 16,435
Management and general	515,656	48,057
Total expenses	7,084,554	5 54,492
hange in unrestricted net assets (Exhibit D)	727,252	04,979
Net assets - beginning of year	3,154,572	2 49,593
Net assets - end of year (Exhibit A)	$ 3,881,824	$ 3 54,572

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2007
(With Summarized Financial Information for the Year Ended June 30, 2006)

	Program Services						
	Medicaid Waiver and Related Services	Residential Services	ISS Projects	Total	Management and General	Total 2007	Total 2006
Salaries	$ 1,424,271	$ 1,355,179		$ 2,779,450	$ 291,138	$ 3,070,588	$ 1,853,279
Payroll taxes and employee benefits	234,939	301,091		536,030	64,774	600,804	331,332
Purchase of health services	1,859,850	198,188		2,058,038		2,058,038	2,732,432
Adaptive technology							22,557
Rent	66,091	92,467	$ 18,000	176,558	28,324	204,882	161,232
Food	346	92,469	973	93,788	1,649	95,437	62,504
Program supplies	2,096	44,522	1,768	48,386		48,386	30,775
Vehicle expenses		55,036		55,036	61	55,097	37,145
Professional and other fees	53,757	54,192		107,949	68,912	176,861	150,367
Office supplies	22,525	20,587	599	43,711	10,073	53,784	27,029
Equipment rental	3,038	6,873		9,911	4,139	14,050	9,030
Insurance	7,548	42,819		50,367	2,405	52,772	57,065
Postage	9,686	1,638		11,324	6,585	17,909	6,901
Advertising and recruitment	7,683	3,804		11,487	3,225	14,712	6,044
Telephone	8,244	31,196		39,440	9,237	48,677	33,533
Repairs and maintenance	720	26,619	2,797	30,136	438	30,574	14,354
Conferences and meetings	842	41		883	1,202	2,085	2,374
Utilities	8,184	24,001		32,185	3,507	35,692	32,180
Interest		58,121		58,121	937	59,058	66,162
Miscellaneous	20,768	6,838		27,606	10,563	38,169	5,582
Bad debts	175,000	125,467		300,467		300,467	125,000
Depreciation and amortization	10,838	87,187		98,025	8,487	106,512	97,615
Total (Exhibit B)	$ 3,916,426	$ 2,678,335	$ 24,137	$ 6,568,898	$ 515,656	$ 7,084,554	$ 5,864,497

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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EXH IT D

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2007

Cash flows from operating activities	
Change in net assets (Exhibit B)	$ 7: ,252
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	1! ,512
Increase in assets	
Accounts receivable	(,551)
Prepaid expenses and other assets	(1 ,158)
Increase in liabilities	
Accounts payable and accrued expenses	4! ,156
Due to government agency	1 ,558
Net cash provided by operating activities	1,3! ,769
Cash flows from investing activities	
Purchase of fixed assets	(6! ,701)
Increase in assets limited as to use	(,064)
Net cash used by investing activities	(7: ,765)
Cash flows from financing activities	
Proceeds from line of credit	1,0! ,000
Payments on line of credit	(5! ,000)
Principal payments on capital lease payable	(,000)
Net cash provided by financing activities	4! ,000
Net increase in cash and cash equivalents	1,0' ,004
Cash and cash equivalents - beginning of year	1,3: ,757
Cash and cash equivalents - end of year	$ 2,4 ,761
Supplemental cash flow information	
Cash paid for interest	$,058

See independent auditor's report.

The accompanying notes are an integral of these statements.

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - NATURE OF ORGANIZATION

Human Care Services for Families & Children, Inc. (Human Care) is a not-for-profit or; iization which primarily provides housing and related services to developmentally disabled individ ls. The primary source of revenues is government fees.

Human Care is a charitable organization as defined by Internal Revenue Code Section 501)(3) and is exempt from federal income taxes under Internal Revenue Code Section 501(a).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of accounting - The accompanying financial statements have been prepared on tl accrual basis of accounting in accordance with accounting principles generally accepted in the Uni d States of America.

Cash equivalents - Cash equivalents are highly liquid investments having original maturi :s when acquired of three months or less.

Contributions - Human Care reports gifts of cash and other assets as restricted support i hey are received with donor stipulations that limit the use of the donated assets. When a donor striction expires, that is, when a stipulated time restriction ends or purpose restriction is acc plished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the atement of activities as net assets released from restrictions.

Use of estimates - The preparation of financial statements in conformity with accounting inciples generally accepted in the United States of America requires management to make estii ites and assumptions that affect the reported amounts of assets and liabilities at the date of the inancial statements and the reported amounts of revenues and expenses during the reporting perio Actual results could differ from those estimates.

Net assets - Unrestricted net assets include funds having no restriction as to use or purpos mposed by donors.

Functional expenses - The costs of providing the organization's programs and other acti ies have been summarized on a functional basis. Accordingly, certain costs have been allocated : iong the programs and supporting services benefited.

Fixed assets - Fixed assets are stated at cost. Depreciation and amortization are recorc l on the straight-line method over the estimated useful lives of the assets, ranging from 5 to) years. Furniture and equipment replacements and minor purchases under $500 are expensed in t year of purchase.

-continued-

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

Investments - Investments in mutual funds are stated at fair value. Fair value is determined ased on the underlying value of the marketable securities.

Assets limited as to use - Assets limited as to use are set aside under the terms of the onding agreement.

NOTE 3 - FIXED ASSETS

	Cost	Estimated Useful Life
Land	$ 320,000	
Building	468,711	30 years
Building improvements	1,383,792	30 years
Furniture and equipment	284,513	5 years
Construction in progress	84,838	
	2,541,854	
Less accumulated depreciation and amortization	(487,808)	
Total	$ 2,054,046	

NOTE 4 - CONTINGENCIES

The New York State Office of Mental Retardation and Developmental Disabilities has th ight to examine the books of Human Care and adjust Medicaid reimbursements accordingly. No ; ovision has been made on the books for possible adjustments that may arise from these exan ations. Management estimates that these adjustments, if any, would not have a material effec on the financial position of Human Care.

-continued-

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 5 - CAPITAL LEASE PAYABLE

Capital Lease - Building

In 2003, Human Care purchased a building for its Resident Program. In order to fi nce the purchase, on December 15, 2002 Human Care secured financing of $1,270,000 from the idustrial Development Agency of New York (IDA). As part of the agreement with IDA, Hu an Care transferred title to the existing land and building at 218 Avenue N, Brooklyn, New York. DA has leased the land and building back to Human Care for a term concurrent with the bond ayment schedule. At the conclusion of the lease term, Human Care has the option to repurchase ll leased property for $1. During the term of the lease, Human Care is responsible for maint ing the property.

The bonds are the obligation of IDA. Human Care has the obligation under the lease ag ment to make payments equal to the amounts payable as principal and interest on the outstandi ; bonds. Principal and interest, at an annual rate of 6.235%, are due monthly and final payment is c : July 1, 2017. The payment of the bonds is secured by a mortgage and a security agreement.

The payments on this lease are as follows:

Year Ending June 30	
2008	$ 127,400
2009	122,900
2010	118,400
2011	113,900
2012	109,400
2013	104,900
2014	100,025
2015	95,150
2016	90,275
2017	170,400
	1,152,750
Less amount representing interest	(317,750)
Present value of net minimum lease payments	$ 835,000

-continued-

HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 6 - OPERATING LEASES

Human Care rents space for programs and its administrative offices under operating l ses. The leased space is located in Brooklyn, New York. These leases expire at various times expi g up until 2020.

Rent expense for the year ended June 30, 2007 was $198,624.

In addition, HCS leases eight vans for its programs. Most of these leases are for a durat ı of about four years with the last ones expiring in 2010.

On July 1, 2007, Human Care Services leased space for a new Day Habilitation p gram and Administrative Offices in Brooklyn, New York. This lease will expire in July 1, 2017.

Rent payable over the next five years and thereafter is as follows:

	Space	Vehicles
2008	$ 375,102	$ 63,136
2009	374,318	60,744
2010	331,399	52,142
2011	244,261	15,439
2012	225,238	
2013	191,364	
2014	197,100	
2015	197,100	
2016	203,016	
2017	203,016	

NOTE 7 - CONCENTRATIONS

Financial instruments which potentially subject Human Care to a concentration of credit r c are cash accounts with major financial institutions in excess of FDIC insurance limits. The financial institutions have strong credit ratings and management believes that credit risk relat to these accounts is minimal.

At June 30, 2007, approximately 99% of accounts receivable is due from Medicaid. addition, almost all revenues are from the New York State Office of Mental Retardation and De opmental Disabilities.

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HUMAN CARE SERVICES
FOR FAMILIES & CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 8 - LINE OF CREDIT

HCS obtained a line of credit with the FJC. The maximum line available is $1,10 708. On September 7, 2006, $526,000 was drawn down. Interest is payable quarterly. The first p ment was due on September 30, 2006. The principal is due on September 7, 2008. Interest is at pri : plus 3% (which was 10.75% at June 30, 2007). An addition, $265,000 was drawn down on Ma 24, 2007. The first payment on the $265,000 is due on June 30, 2007. The $265,000 of princip is due on September 7, 2008.

Subsequent to the year end, on August 20, 2007, an additional $125,000 was drawn down ı the line. Interest on the $125,000 is payable quarterly and the first interest payment was due on Se mber 30, 2007. The $125,000 of principal will be due on September 7, 2008.

Human Care had a $1,250,000 line of credit with Bank of America to be used for fi ncing the construction of a building at 1592 East 34th Street, Brooklyn, New York. The line of cre t requires interest only payments at the Bank's prime rate payable monthly starting April 13, 2006 d then on the same day of each month thereafter, through the expiration date of September 13, 200 When all unpaid principal and interest was due in full. The line of credit was secured by equ nent and inventory owned by Human Care. The line of credit was fully paid off with interest on Se mber 13, 2006.

NOTE 9 - DUE TO OMRDD

HCS has incurred liabilities to the Office of Mental Retardation and Developmental Disa ities as a part of the start-up and operations of its residential programs. These liabilities include co act funds advanced to the agency for preoperational start-up costs. These liabilities are recouped by ew York State through the Medicaid reimbursement system.

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APPENDIX B-III

LIFESPIRE, INC.

AUDITED FINANCIAL STATEMENTS

FISCAL YEARS 2009, 2008 AND 2007

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B-III-1

LIFESPIRE, INC. AND SUBSIDIARY
(A NOT-FOR-PROFIT ORGANIZATION)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009

Page

ERE
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lifespire, Inc. and Subsidiary

We have audited the accompanying consolidated statement of financial position of Lifespire, Inc., (a non-profit organization) and Subsidiary as of June 30, 2009 and the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of Lifespire, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lifespire, Inc. and Subsidiary as of June 30, 2009 and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ERE LLP

New York, NY
November 23, 2009

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30,		**2009**
Assets:		
Cash and cash equivalents	$	9,109,636
Investments		2,342,145
Accounts receivable - net of allowance for doubtful accounts of $19,106		929,461
Accrued income receivables		19,946,145
Note receivable from related party		140,203
Security deposits and prepaid expenses		1,063,162
Assets restricted to investment in property, plant and equipment		8,254,903
Property, plant and equipment - net of accumulated depreciation of $16,499,341		21,680,546
Deferred charges - net of accumulated amortization for bond issuance costs of $532,607		1,015,241
Total Assets	**$**	**64,481,442**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$	8,401,309
Accrued payroll		2,069,308
Accrued compensated absences		2,795,762
Recoupments payable		4,984,499
Deferred income		2,281,470
Due to funding sources		243,684
Mortgages payable - DASNY		4,213,339
Underfunded pension obligation		8,604,294
Underfunded health insurance obligation		3,322,474
Notes payable		5,153,123
Bond payable - DASNY		30,000
Bonds payable - IDA		11,230,000
Total Liabilities		53,329,262
Net Assets:		
Unrestricted - undesignated		4,811,175
Unrestricted - board designated		1,070,110
Unrestricted - property, plant and equipment		5,227,338
Total Unrestricted Net Assets		11,108,623
Temporarily restricted		43,557
Total Net Assets		11,152,180
Total Liabilities and Net Assets	**$**	**64,481,442**

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

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LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30,	2009
Support and revenue - program operations:	
Program service fees	$ 92,441,716
Participants' share of room and board	2,967,862
Subcontract	691,201
MCFAA and DASNY bond fees	862,555
Subtotal - support and revenue - program operations	96,963,334
Net assets released from restrictions	5,092
Total support and revenue - program operations	96,968,426
Expenses:	
Program services	93,242,318
Management and administration	5,537,913
Total expenses	98,780,232
Change in unrestricted net assets before other revenue and prior period revenue	(1,811,806)
Other revenue:	
Interest income	250,780
Contributions and fundraising	28,676
Unrealized loss on investments	(76,417)
Miscellaneous	13,826
Total other revenue	216,865
Changes in unrestricted net assets before prior period revenue	(1,594,941)
Prior period revenue	1,674,658
Increase in unrestricted net assets	79,717
Changes in temporarily restricted net assets:	
Donors	6,045
Net assets released from restrictions	(5,092)
Change in temporarily restricted net assets	953
Increase in net assets	80,670
Net assets - beginning of year	11,071,510
Net assets - end of year	**$ 11,152,180**

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

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30,	2009
Unrestricted net assets - beginning of the year	$ 11,028,906
Increase in unrestricted net assets	79,717
Unrestricted net assets - end of year	**11,108,623**
Temporarily restricted net assets - beginning of the year	42,604
Increase in temporarily restricted net assets	953
Temporarily restricted net assets - end of year	**$ 43,557**

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2009	Program Services							
	Waiver Services	Vocational Services	Residential	Mental Health	Other Programs	Total Program Services	Management and General	Total Expenses
Salaries	$ 17,355,188	$ 455,514	$ 17,745,588	$ 1,013,668	$ 2,948,530	$ 39,518,466	$ 2,649,235	$ 42,067,722
Payroll taxes and benefits	6,826,681	149,179	6,833,308	327,370	1,168,371	15,304,910	763,769	16,068,678
Total personnel costs	24,181,869	604,693	24,578,896	1,341,038	4,116,900	54,823,396	3,313,004	58,136,400
Professional fees and contracted services	711,988	57	898,493	2,723	3,831,418	5,444,679	508,930	5,953,609
General and professional liability insurance	913,216	95,485	420,574	114,843	42,927	1,587,048	221,012	1,808,057
Supplies and expenses:								
Food, household supplies and services	252,880	3,776	2,255,279	3,619	20,638	2,536,192	27,740	2,563,932
Rent and real estate taxes	2,830,269	262,483	2,292,403	347,245	178,699	5,911,068	482,724	6,393,792
Transportation	10,489,852	400,614	1,110,284	84,450	175,020	12,270,320	191,885	12,462,205
Utilities and telephone	997,345	108,102	874,315	178,976	115,316	2,274,053	107,918	2,381,972
Maintenance and repair	240,827	12,716	422,619	19,527	18,832	714,520	32,382	746,903
General	616,824	401,891	1,081,828	84,047	901,429	3,086,019	541,488	3,627,507
Bond related expense	7,716	156	110,379	-	244	116,495	1,824	120,318
Fund-raising - unrestricted	-	-	-	-	7,250	7,250	-	7,250
Fund-raising - restricted	-	-	-	-	5,092	5,092	-	5,092
Total expenses before interest, fees and bond expense, depreciation and amortization	41,252,886	1,889,944	34,045,069	2,176,468	9,413,763	88,778,130	5,428,907	94,207,037
Interest, fees and bond expense	692,543	18,714	1,568,352	-	40,958	2,320,567	20,213	2,340,779
Depreciation and amortization	825,020	42,573	1,205,355	14,863	55,811	2,143,622	88,794	2,232,418
Total Expenses	$ 42,770,448	$ 1,951,231	$ 36,818,776	$ 2,191,331	$ 9,510,532	$ 93,242,318	$ 5,537,913	$ 98,780,232

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

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LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30,		2009
Cash flows from operating activities:		
Increase in net assets	$	80,670
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		2,232,418
Amortization of bond issue costs		94,453
Unrealized loss on investments		76,417
Loss on disposal of asset		5,750
Changes in operating assets and liabilities:		
Increase in investments		(64,168)
Increase in accounts receivable		(52,917)
Increase in accrued income receivables		(5,840,439)
Decrease in security deposits and prepaid expenses		1,045,296
Increase in accounts payable and accrued expenses		1,481,214
Increase in accrued payroll		173,646
Increase in accrued compensated absences		102,236
Decrease in deferred income		(19,684)
Increase in underfunded pension obligation		2,968,662
Increase in underfunded health insurance obligation		244,813
Net cash provided by operating activities		2,528,367
Cash flows from investing activities:		
Purchase of investments		(1,674,842)
Proceeds from sale of investments		1,484,486
Purchase of property, plant and equipment		(4,102,599)
Reinvested investment activity		(95,304)
Increase in assets restricted to investment in property, plant and equipment		(1,414,081)
Net cash used in investing activities		(5,802,340)
Cash flows from financing activities:		
Decrease in recoupments payable		61,339
Repayments of mortgages payable - DASNY		(449,425)
Proceeds from notes payable		3,221,554
Repayments of bond payable - DASNY		(140,000)
Repayments of bonds payable - IDA		(970,000)
Net cash provided by financing activities		1,723,468
Net decrease in cash and cash equivalents		(1,550,505)
Cash and cash equivalents, at beginning of year		10,660,141
Cash and cash equivalents, at end of year	**$**	**9,109,636**
Non Cash Investing and Financing Activities:		
Unrealized loss on investments	$	76,417
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$	597,289
Income taxes	$	-

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

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009

1. ORGANIZATION, TAX STATUS AND SIGNIFICANT ACCOUNTING POLICIES:

Organization
Lifespire, Inc. (the Agency) serves individuals with disabilities and their families through various programs which include, but are not limited to, residential, habilitation and day programs. The Agency is funded through government programs, consumer contributions and gifts. It is the Agency's aim to provide individuals with disabilities the assistance and support necessary to achieve a level of functional behaviors and cognitive skills to enable them to maintain themselves in their community in the most integrated and independent manner possible.

Principles of Consolidation
The consolidated financial statements include the accounts of the Agency and its wholly owned subsidiary, Manhattan Management Solutions, LLC (the Organization). Manhattan Management Solutions, LLC was established to provide consulting services to other not-for-profit organizations. The Organization is being consolidated since the Agency has both an economic interest in and control over the Organization through a majority voting interest in its governing board. As of June 30, 2009, the Organization was dormant with no activity taking place.

Tax Status
The Agency is organized under the not-for-profit corporation law of the State of New York. The Agency has been granted exemption from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and is deemed to be a public charity pursuant to the Internal Revenue Service.

Financial Statement Presentation
The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

The classification of an organization's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted - Net assets resulting from (a) contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Temporarily Restricted - Net assets resulting from (a) contributions and other inflows of assets the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal of actions of the organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets. However, if a restriction is fulfilled in the same time period in which the contributions are received, the Agency reports the support as unrestricted.

Unrestricted Net Assets - The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
Management has reviewed subsequent events and transactions that occurred after the balance sheet date through November 23, 2009. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

Risks and Uncertainties
The Agency has a Pension Plan (the "Plan") that invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Consolidated Statement of Financial Position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

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Cash and Cash Equivalents
For purposes of the statement of cash flows, the Agency considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents, except for those money market funds and short-term certificates of deposit which are included in investments. Included in cash and cash equivalents as of June 30, 2009 are several amounts of restricted cash.

Investments
The Agency carries its investments at fair value. In accordance with accounting standards, investments have been measured at fair value determined by quoted market prices and realized and unrealized gains and losses are reported in the Consolidated Statement of Activities. Income from investments is considered unrestricted net assets unless restricted by a donor. Management reviews its investments for declines other than temporary.

Valuation of Investment in Securities at Fair Value-Definition and Hierarchy
Effective January 1, 2008, the Agency adopted fair value measurement standards. Under these standards, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standards establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable units be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Agency. Unobservable inputs reflect the Agency's assumption about inputs market participants at the measurement date. The fair value hierarchy is categorized into three levels based on inputs as follows:

Level 1- Valuation based on quoted prices in active markets for identical assets or liabilities that the Cooperative has the ability to access.

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

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

The Agency's investment consists of bank certificates of deposit and money market funds. The Agency uses the Level 2 fair value hierarchy in the valuation of these securities.

Accounts Receivable - Net
All known uncollected accounts receivable have been written down to the collectible value as of June 30, 2009. In addition, there exists a reserve for doubtful accounts of $19,106 as of June 30, 2009 for accounts receivable. The

allowance for doubtful accounts is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts based on current economic conditions. Management uses 5% of subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts.

Accrued Income Receivables and Program Service Fees
The Agency receives a major portion of its program service fees from Medicaid in conjunction with the New York State Office of Mental Retardation and Developmental Disabilities (OMRDD). Program service fees are also received from the Social Security Administration and directly from OMRDD. Rates of reimbursement derived from cost based methodologies are established annually by OMRDD. Substantially all of the accrued income receivables of $19,946,145 are due from these governmental agencies.

There is no provision within these financial statements for any possible contingent liability that may result from any disallowances as a result of reimbursement rate adjustments for program service fees relating to the year ended June 30, 2009. Although such possible disallowances could be substantial in amount, in the opinion of management, any actual disallowance would be immaterial.

Property, Plant and Equipment
Property and equipment is stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized in accordance with funding source guidelines. For those items that are not paid for by funding sources, the Agency maintains a policy to capitalize those costing in excess of $1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease.

The Agency reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future discounted cash flows is less than the carrying amount of the assets, the Agency recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2009.

Deferred Income
The Agency records unearned advances to fee for service revenue as deferred revenue until it is expended for the purpose of the funding source, at which time it is recognized as revenue. The balance in deferred revenue as of June 30, 2009 represents amounts received for various programmatic operations that will be recognized as revenue in the future, as it is earned.

Bond Costs
Bond costs which reflect bond premiums and discounts are amortized over the life of the bonds. Amortization expense of these costs for the year ended June 30, 2009

is $94,453. These costs are included in interest, fees and bond expense of $2,340,779 shown on the Consolidated Statement of Functional Expenses.

Contributions

Contributions - Contributions are considered to be available for unrestricted use unless specifically raised for special purposes or designated by the donor.

Restricted Contributions - The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the same statement of activities as net assets released from restrictions. If the restriction will be satisfied within one year, then the Agency would record the contribution as temporarily restricted net assets and reallocate to unrestricted net assets when the restriction is satisfied.

In-Kind Contributions
In-kind contributions consist of property and services donated by state agencies and individuals. The value placed by the state agencies and individuals are used for valuing the contribution received. These properties were recorded as unrestricted and the related depreciation taken was recorded as unrestricted. If no value is provided by donor, an estimated value is placed by the Agency.

Start-Up Costs
Certain costs related to the organization of a new entity, a new business line or product or location are expensed as incurred. This position is followed by the Agency and the funding source which governs the program for which such start up expenses were incurred.

Revenue Recognition
Support and revenue is recognized on a fee for service basis for service arrangements with various consumers and/or customers. Revenue is recognized contingent to services being rendered. The reimbursements received from certain funding sources are subject to reconciliations. The funding sources may request return of reimbursements for noncompliance.

Contributed Services
Time is donated to the Agency by various volunteers. The value of this time is deemed to be immaterial, and therefore has not been reflected in the accompanying consolidated financial statements.

Rent Expense
Rent expense is recognized based upon the obligations required by the leases as the funding sources fully reimbursed the Agency for rent expense for the year ended June 30, 2009. This is a departure from generally accepted accounting principles

which requires that rent expense be recognized on a straight-line basis over the term of the lease. The dollar value of this difference was deemed to be immaterial and no adjustment was made. Pursuant to the Agency's funding regulations, any amounts recorded result in additional income being recorded to offset the additional rental expense incurred. Rent expense for the year ended June 30, 2009 was $6,153,692.

Advertising
Advertising costs are expensed as incurred. Advertising expense totaled $2,687 for the year ended June 30, 2009, and is included in general expenses in the accompanying Consolidated Statement of Functional Expenses.

Functional Allocation of Expenses
The costs of providing for the programs are summarized on a functional basis in the statement of functional expenses. Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications using bases determined by management to be reasonable.

Implementation of New Accounting Pronouncements
Management has elected to defer the application of FAS FIN 48, *Accounting for Uncertain Tax Positions*, in accordance with FSP FIN 48-3. FSP FIN 48-3 defers the effective date for FIN 48 for certain private companies until fiscal years beginning after December 15, 2008. The Company will continue to follow FAS 5, *Accounting for Contingencies*, until it adopts FIN 48.

With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2005.

2. CASH AND CASH EQUIVALENTS:

The Agency considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are held in interest bearing checking and savings accounts at financial institutions. As of June 30, 2009, total cash and cash equivalents of $9,109,636 included restricted cash amounts comprised of the following:

Restricted cash		6/30/09
Temporarily restricted contributions	$	43,557
403(b) tax sheltered annuity plan		75,860
Health Reimbursement Accounts		2,441,185
	$	2,560,602

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3. INVESTMENTS:

For the year ended June 30, 2009, the Agency's investments (including gains and losses on investments bought, sold and held during the year) depreciated in value by $76,417 resulting in a fair market value of $2,342,145 as follows:

	6/30/09			
		Cost		Fair Value
Bank Certificates of Deposit:				
Bank of America	$	493,168	$	493,168
UBS Financial Services		105,191		108,322
Smith Barney		1,092,270		1,012,722
Chase		332,629		332,629
Total Bank Certificates of Deposit		2,023,258		1,946,841
Chase and HSBC Money Market Funds		395,304		395,304
	$	2,418,562	$	2,342,145

		6/30/09
Fair market value - beginning of year	$	2,068,734
Investment activity:		
Interest/dividends and fees		64,168
Reinvestments		95,304
Purchases		1,674,842
Sales (at cost)		(1,484,486)
		2,418,562
Net decrease in fair value of investments:		
Unrealized loss		(76,417)
Total net decrease in fair value of investments		(76,417)
Fair market value - end of year	$	2,342,145

4. FAIR VALUE MEASUREMENTS:

The following tables present by level, within the fair value hierarchy, the Agency's unrestricted investment assets at fair value, as of June 30, 2009. As required by fair value measurement accounting standards, investment assets are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement.

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The Agency did not have any investment assets at fair value classified within Level 1 or Level 3 as of June 30, 2009.

	Total	Quoted Market Prices in Active Market Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of Deposit	$ 1,946,841	$ -	$ 1,946,841	$ -
Money Market Funds	395,304	-	395,304	-
	$ 2,342,145	$ -	$ 2,342,145	$ -

Following is a description of the valuation methodologies used for assets as fair value:

Certificate of deposit: The market value of a certificate of deposit is estimated using a matrix based on interest rates.

Money market funds: Prices are received from various pricing services. Instances where pricing sources are not readily available, estimated prices may be generated by a matrix system or market-driven pricing model.

Management has done a review of securities for declines in value that are other than temporary. At June 30, 2009, any such declines did not materially affect the financial statements.

5. NOTE RECEIVABLE FROM RELATED PARTY:

The Agency is owed an amount of $140,203 from a related party, not-for-profit corporation. The Agency has a note receivable with interest computed at 9 percent per annum.

Additionally, there is an amount owed of $6,249 as of June 30, 2009 from this operation for expense and management fee reimbursement. The $6,249 is included in accounts receivable - net. The Agency uses space for certain program operations at one site which is owned by a different related party, not-for-profit corporation. The Agency is a related party in that certain staff members of the Agency are also Board members of this other not-for-profit corporation.

Management periodically reviews the related party accounts to determine if an allowance is necessary. Accounts receivable have been adjusted for all known uncollectible accounts. Management reviews the accounts receivable to determine if an allowance is necessary. For the year ended June 30, 2009 no allowance was

necessary because the related accounts receivable balance was determined to be fully collectable.

The Agency has a controlling interest in several other not-for-profit entities. The Agency provided start up funds to those entities to assist in the organization process. Although these transactions involve an economic interest in those entities, they were immaterial to the accompanying consolidated financial statements, and accordingly, have been omitted from them.

6. ASSETS RESTRICTED TO INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT:

As of June 30, 2009, the Agency had the following assets restricted to investment in property, plant and equipment:

Debt Service Reserve - MCFFA (DASNY)	$ 401,875
Debt Service Reserve/Escrow Balance - IDA - Bond 2002	859,917
Debt Service Reserve/Escrow Balance - IDA - Bond 2004	1,213,141
Debt Service Reserve/Escrow Balance - IDA - Bond 2008	795,471
Cash – Recoupment's Payable	4,984,499
	$ 8,254,903

The debt service reserve - MCFFA amount of $401,875 represents a portion of the loan proceeds retained by the New York State Medical Care Facilities Finance Agency (MCFFA) under the terms and conditions in the loan agreement.

The monies are designated to be applied to scheduled debt service payments in the future. In 1996, the debt service reserve amounts were transferred to the Dormitory Authority of the State of New York (DASNY).

The debt service reserve/escrow balance - IDA - Bond 2002 amount of $859,917 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 15 for more detail).

The debt service reserve/escrow balance - IDA - Bond 2004 amount of $1,213,141 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 15 for more detail).
The debt service reserve/escrow balance - IDA - Bond 2008 amount of $795,471 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 15 for more detail).

The cash amount of $4,984,499 represents various amounts received from funding sources that will be used to pay amounts included within recoupment's payable.

7. TEMPORARILY RESTRICTED NET ASSETS:

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2009, which are available for use in future years, were as follows:

	Balance 07/01/08	Additions	Expenditures	Balance 06/30/09
Program	$ 42,604	$ 6,045	$ (5,092)	$ 43,557

The funds released from restrictions were used towards operating expenses for one of the Agency's Intermediate Care Facility properties.

8. PROPERTY, PLANT AND EQUIPMENT:

As of June 30, 2009, detailed information is as follows:

	Cost	Estimated Useful Lives
Land	$ 4,509,267	-
Buildings and improvements	22,085,928	5-20 Years
Furniture and equipment	2,722,407	5 Years
Vehicles	584,100	4 Years
Leasehold improvements	8,150,805	10-20 Years
	38,052,507	
Less: accumulated depreciation and amortization	(16,499,341)	
Construction in progress	127,380	
	$ 21,680,546	

The above amounts include land and buildings which were donated to the Agency by OMRDD. The Agency is subject to adhering to certain terms, conditions and restrictions as to the use and ultimate disposition of these properties as further delineated in the disposition and subordination agreements entered into with the funding source.

Depreciation and amortization expense for the year ended June 30, 2009 is $2,232,418.

9. RECOUPMENTS PAYABLE:

The amount of $4,984,499 consists of amounts of reimbursement received from certain funding sources, which are in excess of amounts earned, and amounts for which the scheduled recoupment differs from the actual recoupment made through June 30, 2009. The funding sources are expected to recover these amounts in the future through the recoupment process.

10. DEFERRED INCOME:

Deferred income of $2,281,470 include amounts received from various funding sources over the years for various programmatic operations but not earned as revenue as of June 30, 2009. Some of these liabilities relate to the New York State Office of Mental Retardation and Developmental Disabilities (OMRDD). These liabilities do not bear interest and will be recognized as revenue periodically in the future as it is deemed to be earned.

11. DUE TO FUNDING SOURCES:

The due to funding sources amount of $243,684 includes an amount of $8,966, which represents various maximum potential contested liabilities for proposed contract adjustments with certain funding sources for prior periods.

The balance of $234,718 represents a liability due back to OMRDD as a result of certain "desk-audits" performed on certain programs by OMRDD. These "desk-audits" were the result of a statewide requirement by OMRDD and other governmental agencies, due to the clarification and revisions of certain policies and procedures set forth by OMRDD and these other governmental agencies.

12. MORTGAGES PAYABLE - DASNY:

Mortgages payable - DASNY amounting to $4,213,339 represent self-liquidating term notes owed to the Dormitory Authority of the State of New York (DASNY) which has as its agent OMRDD. Some of the notes were originally related to New York State Medical Care Facilities Finance Agency (MCFFA) improvement bonds loaned to the FDC. The DASNY is the successor to the MCFFA and in 1996 FDC projects were transferred to DASNY. In 1996, the MCFFA bonds were refunded by the issuance of DASNY Mental Health Services Facilities Improvement Revenue Bonds.

Periodic recoupments are expected to continue to be made by OMRDD from the Agency, for remittance to FDC to satisfy the debt service and administration fees. The payments are first applied to interest and then to principal. The Agency has and/or will receive additional amounts of reimbursement as an increase to its per diem rates to repay these recoupments. The notes are collateralized by (1) the real property located at each of the sites (2) all accounts receivable generated from billings related to the respective locations and (3) all personal property owned by the Agency located at each of the sites. The Agency is entitled to credits in an amount equal to the past accrued interest earned on the Debt Service Reserve Fund for some of the above-mentioned liabilities. When such credits are determined and applied to the corresponding mortgages, then those mortgage liabilities will be reduced accordingly.

Additional information for the mortgages payable - DASNY is reflected below:

Project Name	Maturity Date	Fixed Interest Rate	Total
Racal Court	2/15/13	7.37%	$ 156,500
South Ave.	8/15/15	7.68%	182,016
213-233 48th St. (Sunset I)	2/15/18	7.34%	791,785
87-21 121st St. (Queens)	2/15/18	6.41%	2,052,750
Jumel	8/15/18	6.41%	764,500
Esplanade	2/15/11	5.44%	69,200
208th St.	8/15/10	5.81%	88,539
94th St.	8/15/10	5.81%	108,049
Total Mortgages Payable – DASNY			$ 4,213,339

The Mortgage balances for 213-233 48th Street and 87-21 121st Street locations are for the Day Treatment and Day Habilitation Programs. Commencing with the fiscal year ended June 30, 2004, OMRDD allocates a portion of the bond (mortgage) payable to a separate Day Habilitation MMIS Provider number for debt recovery purposes. However, the total indebtedness does not change.

13. NOTES PAYBLE:

The Agency has a line of credit agreement with J.P. Morgan Chase for a maximum of $5,000,000 that is due March 15, 2010. The proceeds of the line of credit were to be used for operating expenses. Interest is charged to the line of credit at the bank's floating rate of prime plus 1% and is secured by a lien on Agency government receivables. These government receivables totaled $19,946,145 at June 30, 2009. There was no outstanding balance as of June 30, 2009.

Under the terms of a line of credit agreement with Bank of America on March 26, 2009, the Agency may borrow up to $5,000,000 at the bank's prime interest rate plus 0.5% through March 31, 2010, when the agreement expires. The Agency's property has been pledged as collateral against any advances on the line of credit. As of June 30, 2009, there was an outstanding balance of $5,153,123.

14. BOND PAYABLE-DASNY:

Bond payable DASNY amounting to $30,000 represent amounts owed relating to the DASNY New York State Rehabilitation Association (NYSRA) Pooled Loan Program No. 1 Insured Revenue Bonds, Series 2001A and 2001B (the "Bonds"). Please refer to the Bond Offering Statement dated April 1, 2001 for additional information.

The Agency used the bond proceeds to refinance $1,052,877 of indebtedness on three properties. The interest rate is 4.0 percent on the Series 2001A Bonds ($1,100,000), which was repaid during the fiscal year, and 6.75 percent on the Series 2001B Bonds ($45,000). The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2001. The cost of the bond issuance

amounted to $99,181 which was fully amortized as of June 30, 2009. The amount of $30,000 represents the bond principal due with an effective interest rate of 3.82%. The costs of issuance, the net premium, and the discount are being amortized over the term of the Bond obligation.

Payments of interest and principal under the Loan Agreement are to be made monthly on the 10th day of each month into the Debt Service Reserve Fund by the Agency. On July 1, 2009, the principal amount of $30,000 will be paid in full by the Agency, as well as all interest and fees associated with the payment, to the bondholders. The Agency satisfied these obligations during June 30, 2009 by virtue of periodic recoupments made by OMRDD from its rates of reimbursement for those programs that are operated at these sites. The principal payment of the consolidated debt owed to the bondholders is as follows:

Due Date July 1,	Principal Due
2009	$ 30,000

The assignment of the Assigned Medicaid Funds to the DASNY was put into effect during the fiscal year ended June 30, 2002. Once the DASNY receives the Assigned Medicaid Fund, the monies are sent to State Street Bank and Trust Company (the Trustee) and held there until each scheduled payment to the bondholders is made by the Bondmaster. The Agency expects that, periodically, OMRDD will adjust the IRA per diem rate to provide the Agency with the appropriate amount of reimbursement to repay the debt principal, related interest and fees.

The Series 2001 Bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and the DASNY's security interest in the Pledged Revenues, subject to Prior Pledges. Please refer to the Bond Offering Statement dated April 1, 2001 for additional information.

The bond payable DASNY requires the Agency to maintain certain financial covenants. At June 30, 2009, the Agency was determined to be in compliance with these covenants.

15. BONDS PAYABLE-IDA:

Bonds payable - IDA totaling $11,230,000 are made up of the following bonds payable at June 30, 2009:

Series	Due Date	Principal Due
2002 C-1	July 1, 2017	$ 2,725,000
2004 A-1 and B-1	July 1, 2023	3,955,000
2004 C-1	July 1, 2014	685,000
2008 A-1 and A-2	July 1, 2033	3,865,000
Total IDA Bonds Payable		$ 11,230,000

Bonds payable - IDA - 2002 amounting to $2,725,000 represent amounts owed

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relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2002 C-1.

The interest rate is based on a life average rate of 7.631763% on the Series 2002 C-1 Bond ($2,725,000). 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 $163,533 was amortized as of June 30, 2009. The costs of issuance are being amortized over the term of the bond obligations.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2009	$ 260,000
2010	265,000
2011	270,000
2012	270,000
2013	280,000
Thereafter	1,380,000
	$ 2,725,000

Bonds Payable - IDA - 2004 amounting to $4,640,000 represents amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2004 A-1 and B-1, and Series 2004 C-1.

The Agency used the Series A-1 and B-1 bond proceeds to refinance $4,112,273 of indebtedness on four properties. The interest rate is based on a life average rate of 8.890508% on the Series 2004 A-1 and B-1 ($3,955,000). The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2004. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2004.

The cost of the bond issuance amounted to $685,629 ($694,975 was incurred when the bond closed less $9,346 reimbursed after the bond closing), of which $180,429 was amortized as of June 30, 2009. The costs of issuance are being amortized over the term of the bond obligations.

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2009	$ 355,000
2010	355,000
2011	360,000
2012	360,000
2013	215,000
Thereafter	2,310,000
	$ 3,955,000

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 ($785,000). The interest is payable to the bondholders on a semi-annual basis commencing on January 1, 2005. The principal is payable to the bondholders on an annual basis commencing on July 1, 2005. The cost of the bond issuance amounted to $50,095, of which $16,685 was amortized as of June 30, 2009. The cost of bond discounts amounted to $41,281, of which $19,608 was amortized as of June 30, 2009. The costs of issuance and discounts are being amortized over the term of the Bond obligations.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2009	$ 100,000
2010	110,000
2011	110,000
2012	115,000
2013	120,000
Thereafter	130,000
	$ 685,000

Bonds payable - IDA - 2008 amounting to $3,865,000 represent amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2008 A. These bonds are segregated into Series 2008 A-1 and Series 2008 A-2 (taxable).

The interest rate is based on a life average rate and is disclosed in the bond agreement. The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2008. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2008. The cost of the bond issuance amounted to $265,634 of which $49,624 was amortized as of June 30, 2009. The costs of issuance are being amortized over the term of the bond obligations. Pursuant to the bond agreement, there is a first lien on the properties being mortgaged except for the facility located at 213 48th Street, Brooklyn which carries a second lien.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,		Principal Due
2009	$	390,000
2010		370,000
2011		265,000
2012		260,000
2013		260,000
Thereafter		2,320,000
	$	3,865,000

The Agency expects that, periodically, OMRDD will adjust the IRA per diem rate to provide the Agency with the appropriate amount of reimbursement to repay the debt principal, related interest and fees. The Series 2002 C-1, 2004 A-1, B-1, and C-1, as well as Series 2008 A-1 and A-2 bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and the IDA's security interest in the pledged revenues, subject to Prior Pledges. Please refer to the Bond Offering Statement dated January 10, 2003 for additional information on Series 2002 Bonds, the Bond Offering Statement dated February 27, 2004 for additional information on the 2004 Series A-1 and B-1 bonds, the Bond Offering Statement dated July 15, 2005 for additional information on the Series 2004 C-1 bonds, as well as the Bond Offering Statement dated January 30, 2008 for additional information on the Series 2008 A1 and A-2 bonds.

16. MATURITIES OF DEBT TO THIRD PARTIES:

Approximate maturities of short-term and long-term debt are as follows:

June 30,		
2010	$	7,280,457
2011		2,020,638
2012		1,693,725
2013		1,725,175
2014		1,591,275
Thereafter		13,824,845
	$	28,136,115

The short-term and long-term debt is comprised of the following:

Recoupments Payable	$	4,984,499
Deferred Income		2,281,470
Due to Funding Sources		243,684
Mortgages Payable – DASNY		4,213,339
Bonds Payable – DASNY		30,000
Bonds Payable – IDA		11,230,000
Notes Payable		5,153,123
	$	28,136,115

17. BOARD DESIGNATED FUND:

The board designated fund (the Fund) is used to account for certain assets of the Agency which are earmarked for future programmatic expansion purposes. The Fund is used to help alleviate the ongoing financial pressure due to the timing of the collection of government funding, the limitation of available government funding and to supplement fund raising activities. The Agency has minimal monthly cash needs of approximately $8,000,000 to finance its programmatic operations.

18. PRIOR PERIOD REVENUE:

The prior period revenue of $1,674,658 is comprised of typical retroactive rate adjustments attributable to various programs.

19. DEFINED BENEFIT PENSION PLAN:

The Agency has a defined benefit pension plan covering all of its eligible employees. The benefits are based on years of service and the employee's highest five years of compensation during the last ten years of employment. The Agency's funding policy is to contribute annually the required amount that should be deducted in accordance with federal income tax guidelines. The Agency's contributions for calendar year 2008 exceeded the minimum funding requirements of ERISA.

Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The employer contributions amounted to $1,123,026 and the benefits paid amounted to $416,601 during the fiscal year ended June 30, 2009. The Agency expects to contribute $1,120,000 to its pension plan in the fiscal year ended June 30, 2009.

Prior to June 30, 1993, the amount expensed in the employer's financial statements for a qualified defined benefit pension plan was generally equal to the amount contributed. Under new accounting standards, this is no longer true. IRS rules continue to govern the determination of the annual required employer contributions. These accounting standards, completely independent of IRS funding guidelines, now govern the determination of the amount that must be expensed each year. There is no connection between the two sets of requirements. Amounts expensed may be higher or lower than actual dollar contributions.

Under the accounting standards, a liability (underfunded pension obligation) is disclosed at fiscal year end. The underfunded pension obligation is a compilation of the excess of total past and future amounts expensed to date over past amounts contributed. Since amounts expensed each year were not consistent with the accounting standards' requirements, there is a cumulative amount totaling $8,604,294 of underfunded pension obligation as of June 30, 2009.

The following table sets forth the plan's funded status and amounts recognized in the Agency's statement of financial position at June 30, 2009:

Benefit obligation as of June 30, 2009	$	(24,266,039)
Plan assets at fair value at end of measurement period primarily listed stocks and U.S. bonds		15,661,745
Funded Status at June 30, 2009		(8,604,294)
Underfunded Pension Obligation	$	(8,604,294)

The accumulated benefit obligations for the year ended June 30, 2009 was $20,483,384.

Net pension cost for the fiscal year ended June 30, 2009 included the following components:

Service cost-benefits earned during the period	$	1,129,994
Interest cost on projected benefit obligation		1,645,028
Expected return on plan assets		(1,485,397)
Amortization of loss and prior service cost		419,906
Net periodic pension cost	$	1,709,531

Assumptions Weighted Average

Discount Rate	6.85%
Expected Return on Plan Assets	N/A
Rate of Compensation Increase	0.00%

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The pension plan asset allocations, along with respective dollar values and fair value measurements, at June 30, 2009, by asset category are as follows:

Asset Category	Percentage of Plan Assets	Dollar Amount	Fair Value Measurement
Equity securities	60%	$ 13,006,394	Level 1
Fixed income	35%	7,811,004	Level 2
Other	5%	1,187,997	Level 2
	100%	$ 22,005,395	

Expected Future Benefits

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

Fiscal Year Beginning		Pension Benefits
2009	$	502,497
2010		577,810
2011		643,732
2012		746,935
2013		882,485
Thereafter		6,709,466
	$	10,062,925

20. POSTRETIREMENT HEALTH CARE BENEFIT PLAN:

The Agency sponsors a defined benefit postretirement health care benefit plan.

Plan Provisions

Retired Prior to January 1, 2000

For certain long-service employees, the plan will pay the monthly premium for the participant (and eligible spouse) to continue coverage under the pre-2000 postretirement plan.

Retired January 1, 2001 and Later

For employees who retire on or after age 65 with at least 20 years of service, the Agency will enroll the retiree and eligible spouse in an AARP Medicare Supplement plan and contribute the following towards such coverage (for each retiree and eligible spouse):

-- 20 years of service	Plan E	--$130.25 per month
-- 25 years of service	Plan G	--$152.25 per month
-- 30 years of service	Plan I	--$259.00 per month

For employees who retire between ages 62 and 65, with the requisite years of

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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 FAS106 Expense for the Fiscal Year

July 1, 2008 through June 30, 2009:

(1)	Service Cost	$	179,714
(2)	Interest Cost		208,817
(3)	Amortization:		
	(a) Transition obligation		0
	(b) Prior service cost		63,914
	(c) (Gain)/Loss		0
	(d) Total amortization		63,914
(4)	FAS 106 Expense – July 1, 2008 - June 30, 2009	$	452,445

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2009:

(1)	Accumulated postretirement benefit obligation at June 30, 2009	(3,322,474)
(2)	Net amount recognized at June 30, 2009	(3,322,474)

Assumptions:

Discount Rates:	
Expense	6.85%
Disclosure	6.85%
Mortality:	1994 Group Annuity Mortality Table
Claim cost:	Monthly premium
Trend:	None

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

Fiscal Year Beginning		Postretirement Health Care
2009	$	52,165
2010		66,828
2011		80,008
2012		99,822
2013		119,667
Thereafter		999,672
	$	1,418,162

21. COMMITMENTS AND CONTINGENCIES:

General
Pursuant to the Agency's contractual relationships with certain funding sources, outside agencies have the right to examine the Agency's books and records which pertain to transactions relating to these contracts. The financial statements do not include a provision for possible disallowances and reimbursements. Management believes that any actual disallowances, if any would be immaterial. In addition, certain agreements provide that certain property, plant and equipment owned by or on loan to the Agency (see Note 8) be utilized by the Agency for its continued ownership, since the costs of such property and equipment were funded under these agreements.

There are certain amounts of real and personal property used by the Agency in its program operations which is owned by New York State and/or other governmental sources. The Agency uses some of these real and personal properties at no cost. The value of the benefit received for use of these real and personal properties is not readily measurable and is not recorded in the financial statements.

The Agency has a number of pending lawsuits against them for a variety of reasons. The alleged claims are being handled by legal counsel and/or by its insurance providers. In the opinion of the Agency's legal counsel, and in the opinion of management, there is no basis to establish a liability for any loss contingency due to lack of merit or insurance coverage exceeding expected settlement amounts.

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,		
2010	$	5,741,564
2011		5,214,721
2012		4,407,683
2013		3,619,803
2014		2,782,016
Thereafter		10,455,949
	$	32,221,736

A renewal option allows the Agency, at its sole option, the right to extend some of the leases for an additional five-year period with a predetermined rent base amount with annual rent percentage increases. Various leases have rent escalations in which various predetermined annual percentage increases exist throughout the lease periods. A clause exists whereby, in the event that real estate taxes increase during the term of some of the leases, the Agency shall pay any increases in real estate taxes over the base year.

22. 403(b) TAX – SHELTERED ANNUITY PLAN:

The Agency offers a 403(b) Tax-Sheltered annuity plan for all employees who are eligible and elect to participate. The plan is governed by IRS regulations setting the limits on the amount that employees may contribute and the conditions to withdraw monies from it. The employees each own their individual annuity plan and are responsible for deciding the amount of contributions they wish to make each year (up to the maximum stipulated by the IRS) and how the funds may be invested.

23. CONCENTRATION OF CREDIT RISK:

The Agency has maintained bank balances that often exceed the limit of the Federal Depository Insurance Corporation (FDIC) insurance coverage. The Agency verifies on a quarterly basis the equity strength and profitability of the banks it uses in order to minimize the risk.

The Agency earns its revenue and records related receivables primarily from service fees provided to individuals with developmental disabilities within the New York City area. Major sources of revenue arise from Medicaid and social security payments and state and local assistance payments.

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LIFESPIRE, INC. AND SUBSIDIARY
(A NOT-FOR-PROFIT ORGANIZATION)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lifespire, Inc. and Subsidiary

We have audited the accompanying consolidated statement of financial position of Lifespire, Inc., (a non-profit organization) and subsidiary as of June 30, 2008 and the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of Lifespire, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lifespire, Inc. and subsidiary as of June 30, 2008 and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ERE LLP

New York, NY
November 24, 2008

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30,		2008
Assets:		
Cash and cash equivalents	$	10,660,141
Investments		2,068,734
Accounts receivable - net of allowance for doubtful accounts of $19,106		876,544
Accrued income receivables		14,105,706
Note receivable from related party		140,203
Security deposits and prepaid expenses		2,108,458
Assets restricted to investment in property, plant and equipment		6,840,822
Property, plant and equipment - net of accumulated depreciation of $14,367,065		19,816,115
Deferred charges - net of accumulated amortization for bond issuance costs of $438,154		1,109,694
Total Assets	**$**	**57,726,417**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$	6,920,095
Accrued payroll		1,895,662
Accrued compensated absences		2,693,526
Recoupments payable		4,923,160
Deferred income		2,301,154
Due to funding sources		243,684
Mortgages payable - DASNY		4,662,764
Underfunded pension obligation		5,635,632
Underfunded health insurance obligation		3,077,661
Note payable		1,931,569
Bonds payable - DASNY		170,000
Bonds payable - IDA		12,200,000
Total Liabilities		46,654,907
Net Assets:		
Unrestricted - undesignated		5,816,224
Unrestricted - board designated		943,035
Unrestricted - property, plant and equipment		4,269,647
Total Unrestricted Net Assets		11,028,906
Temporarily restricted		42,604
Total Net Assets		11,071,510
Total Liabilities and Net Assets	**$**	**57,726,417**

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

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30,	2008
Support and revenue - program operations:	
Program service fees	$ 87,188,140
Participants' share of room and board	2,769,880
Subcontract	574,682
MCFAA and DASNY bond fees	781,746
Subtotal - support and revenue - program operations	91,314,448
Net assets released from restrictions	2,176
Total support and revenue - program operations	91,316,624
Expenses:	
Program services	87,610,646
Management and administration	5,799,676
Fundraising	295,858
Total expenses	93,706,180
Change in unrestricted net assets before other revenue and prior period revenue	(2,389,556)
Other revenue:	
Interest income	289,457
Contributions and fundraising	210,235
Unrealized gain on investments	30,830
Miscellaneous	13,836
Total other revenue	544,358
Changes in unrestricted net assets before prior period revenue	(1,845,198)
Prior period revenue	593,806
Decrease in unrestricted net assets	(1,251,392)
Changes in temporarily restricted net assets:	
Donors	2,200
Grants	-
Net assets released from restrictions	(2,176)
Change in temporarily restricted net assets	24
Decrease in net assets	(1,251,368)
Net assets - beginning of year	12,322,878
Net assets - end of year	**$ 11,071,510**

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

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30,	2008
Unrestricted net assets - beginning of the year	$ 12,280,298
Decrease in unrestricted net assets	(1,251,392)
Unrestricted net assets - end of year	**11,028,906**
Temporarily restricted net assets - beginning of the year	42,580
Increase in temporarily restricted net assets	24
Temporarily restricted net assets - end of year	**$ 42,604**

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2008	Program Services					Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
	Waiver Services	Vocational Services	Residential	Mental Health	Other Programs		Management and General	Fundraising		
Salaries	$ 15,627,670	$ 499,717	$ 17,259,888	$ 1,128,830	$ 3,012,534	$ 37,528,639	$ 2,586,604	$ 97,688	$ 2,684,292	$ 40,212,931
Payroll taxes and benefits	5,422,057	196,254	5,842,886	387,642	1,225,081	13,073,920	686,910	8,679	695,589	13,769,509
Total personnel costs	21,049,727	695,971	23,102,774	1,516,472	4,237,615	50,602,559	3,273,514	106,367	3,379,881	53,982,440
Professional fees and contracted services	530,712	38,711	914,537	2,741	2,962,118	4,448,819	692,370	99,752	792,122	5,240,941
General and professional liability insurance	898,032	89,807	405,138	133,339	122,059	1,648,375	239,612	-	239,612	1,887,987
Supplies and expenses:										
Food, household supplies and services	238,567	4,215	2,157,381	6,204	31,110	2,437,477	32,480	-	32,480	2,469,957
Rent and real estate taxes	2,669,711	195,472	2,248,212	356,280	281,616	5,751,291	477,988	-	477,988	6,229,279
Transportation	10,101,237	690,842	1,225,305	78,236	390,223	12,485,843	154,986	6,181	161,167	12,647,010
Utilities and telephone	778,113	48,726	856,581	113,072	81,314	1,877,806	157,204	1,296	158,500	2,036,306
Maintenance and repair	216,095	9,875	371,722	10,079	23,271	631,042	31,275	-	31,275	662,317
General	634,576	460,591	1,251,131	96,980	909,550	3,352,828	618,352	8,344	626,696	3,979,524
Bond related expense	10,320	126	122,976	-	443	133,865	1,306	-	1,306	135,171
Fund-raising - unrestricted	-	-	-	-	-	-	-	71,544	71,544	71,544
Fund-raising - restricted	-	-	-	-	-	-	-	2,176	2,176	2,176
Total expenses before interest, fees and bond expense, depreciation and amortization	37,127,090	2,234,336	32,655,757	2,313,403	9,039,319	83,369,905	5,679,087	295,660	5,974,747	89,344,652
Interest, fees and bond expense	670,077	7,632	1,578,914	-	31,155	2,287,778	23,430	-	23,430	2,311,208
Depreciation and amortization	685,080	15,180	1,127,697	11,835	113,171	1,952,963	97,159	198	97,357	2,050,320
Total Expenses	**$ 38,482,247**	**$ 2,257,148**	**$ 35,362,368**	**$ 2,325,238**	**$ 9,183,645**	**$ 87,610,646**	**$ 5,799,676**	**$ 295,858**	**$ 6,095,534**	**$ 93,706,180**

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30,		2008
Cash flows from operating activities:		
Decrease in net assets	$	(1,251,368)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		2,050,320
Amortization of bond issue costs		107,305
Unrealized gain on investments		(11,105)
Bad debt expense		(22)
Loss on disposal of asset		5,663
Changes in operating assets and liabilities:		
Increase in investments		(84,280)
Increase in accounts receivable		(174,260)
Decrease in accrued income receivables		3,762,384
Increase in notes receivable from related party		(70,000)
Increase in security deposits and prepaid expenses		(418,155)
Increase in deferred charges		(265,634)
Increase in accounts payable and accrued expenses		1,550,491
Increase in underfunded pension obligation		2,341,779
Increase in underfunded health insurance obligation		32,044
Increase in accrued payroll		320,204
Increase in accrued compensated absences		48,895
Increase in deferred income		19,684
Net cash provided by operating activities		7,963,945
Cash flows from investing activities:		
Purchase of investments		(1,130,000)
Proceeds from sale of investments		1,096,389
Purchase of property, plant and equipment		(2,572,365)
Reinvested and withdrawl investment activity		51,522
Increase in assets restricted to investment in property, plant and equipment		(354,317)
Net cash used in investing activities		(2,908,771)
Cash flows from financing activities:		
Decrease in recoupments payable		(13,752)
Repayments of mortgages payable - DASNY		(424,775)
Proceeds from notes payable		(1,455,465)
Repayments of bonds payable - DASNY		-
Repayments of bonds payable - IDA		2,950,000
Net cash provided by financing activities		1,056,008
Net increase in cash and cash equivalents		6,111,182
Cash and cash equivalents, at beginning of year		4,548,959
Cash and cash equivalents, at end of year	**$**	**10,660,141**

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:		
Interest	$	1,079,613
Income taxes	$	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

1. ORGANIZATION, TAX STATUS AND SIGNIFICANT ACCOUNTING POLICIES:

Organization
Lifespire, Inc. (the Agency) serves individuals with disabilities and their families through various programs which include, but are not limited to, residential, habilitation and day programs. The Agency is funded through government programs, consumer contributions and gifts. It is the Agency's aim to provide individuals with disabilities the assistance and support necessary to achieve a level of functional behaviors and cognitive skills to enable them to maintain themselves in their community in the most integrated and independent manner possible.

Principles of Consolidation
The consolidated financial statements include the accounts of the Agency and its wholly owned subsidiary, Manhattan Management Solutions, LLC (the Organization). Manhattan Management Solutions, LLC was established to provide consulting services to other not-for-profit organizations. The Organization is being consolidated since the Agency has both an economic interest in and control over the Organization through a majority voting interest in its governing board.

Tax Status
The Agency is organized under the not-for-profit corporation law of the State of New York. The Agency has been granted exemption from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and is deemed to be a public charity pursuant to the Internal Revenue Service.

Financial Statement Presentation
The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

The classification of an organization's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted - Net assets resulting from (a) contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Temporarily Restricted - Net assets resulting from (a) contributions and other inflows of assets the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal of actions of the organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets. However, if a restriction is fulfilled in the same time period in which the contributions are received, the Agency reports the support as unrestricted.

Unrestricted Net Assets - The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties
The Agency has a Pension Plan (the "Plan") that invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Statement of Financial Position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Agency considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents, except for those money market funds and short-term certificates of deposit which are included in investments.

Investments
The Agency carries its investments at fair value. In accordance with the Statement of Financial Accounting Standards No. 124, "*Accounting for Investments held by*

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

Not-For-Profit Organizations," investments have been measured at fair value determined by quoted market prices and realized and unrealized gains and losses are reported in the Statement of Activities. Income from investments is considered unrestricted net assets unless restricted by a donor. Management reviews 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, 2008. In addition, there exists a reserve for doubtful accounts of $19,106 as of June 30, 2008 for accounts receivable. The allowance for doubtful accounts is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts based on current economic conditions. Management uses 5% of subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts.

Accrued Income Receivables and Program Service Fees
The Agency receives a major portion of its program service fees from Medicaid in conjunction with the New York State Office of Mental Retardation and Developmental Disabilities (OMRDD). Program service fees are also received from the Social Security Administration and directly from OMRDD. Rates of reimbursement derived from cost based methodologies are established annually by OMRDD. Substantially all of the accrued income receivables of $14,105,706 are due from these governmental agencies.

Property, Plant and Equipment
Property and equipment is stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized in accordance with funding source guidelines. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease.

The Agency reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future discounted cash flows is less than the carrying amount of the assets, the Agency recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2008.

Deferred Income
The Agency records unearned advances to fee for service revenue as deferred revenue until it is expended for the purpose of the funding source, at which time it is recognized as revenue. The balance in deferred revenue as of June 30, 2008 represents amounts received for various programmatic operations that will be recognized as revenue in the future, as it is earned.

Bond Costs
Bond Costs which reflect bond premiums and discounts are amortized over the life of the bonds. Amortization expense of these costs for the year ended June 30, 2008 is $108,292. These costs are included in interest, fees and bond expense.

Contributions

Contributions - Contributions are considered to be available for unrestricted use unless specifically raised for special purposes or designated by the donor.

Restricted Contributions - The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the same statement of activities as net assets released from restrictions. If the restriction will be satisfied within one year, then the Agency would record the contribution as temporarily restricted net assets and reallocate to unrestricted net assets when the restriction is satisfied.

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In-Kind Contributions
In-kind contributions consist of property and services donated by state agencies and individuals. The value placed by the state agencies and individuals are used for valuing the contribution received. These properties were recorded as unrestricted and the related depreciation taken was recorded as unrestricted. If no value is provided by donor, an estimated value is placed by the Agency.

Start-Up Costs
The American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-5, "*Reporting on the Costs of Start-Up Activities*", in April 1998. The SOP requires that certain costs related to the organization of a new entity, a new business line or product or location be expensed as incurred. This SOP is followed by the Agency and the funding source which governs the program for which such start up expenses were incurred.

Revenue Recognition
Support and revenue is recognized on a fee for service basis for service arrangements with various consumers and/or customers. Revenue is recognized contingent to services being rendered. The reimbursements received from certain funding sources are subject to reconciliations. The funding sources may request return of reimbursements for noncompliance.

Contributed Services
Time is donated to the Agency by various volunteers. The value of this time is deemed to be immaterial, and therefore has not been reflected in the accompanying consolidated financial statements.

Rent Expense
Rent expense is recognized based upon the obligations required by the leases as the funding sources fully reimbursed the Agency for rent expense for the year ended June 30, 2008. This is a departure from generally accepted accounting principles which requires that rent expense be recognized on a straight-line basis over the term of the lease. Rent expense would increase by $121,933 based upon a calculation of deferred rent expense. Pursuant to the Agency's funding regulations, this amount was not recorded as it would result in additional income being recorded to offset the additional rental expense incurred. Rent expense for the year ended June 30, 2008 was $6,045,292.

Functional Allocation of Expenses
The costs of providing for the programs are summarized on a functional basis in the statement of functional expenses. Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications using bases determined by management to be reasonable.

2. CASH AND CASH EQUIVALENTS:

The Agency considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are held in interest bearing checking and savings accounts at financial institutions.

The Agency has restricted cash in the amount of $42,604 which represents the unspent amount received from temporarily restricted contributions. The Agency also has restricted cash in the amount of $75,860 which represents payments returned to the Agency by Aetna for the 403(b) tax sheltered annuity plan for employees who have not elected to participate.

In addition, the Agency has restricted cash in the amount of $1,266,533 which represents unspent monies received from OMRDD to be distributed to the Health Reimbursement Accounts for certain employees.

3. INVESTMENTS:

For the year ended June 30, 2008, the Agency's investments (including gains and losses on investments bought, sold, and held during the year) appreciated in value by $11,105 as follows:

	6/30/08 Cost	6/30/08 Fair Value
Bank Certificates of Deposit:		
Bank of America	$ 490,304	$ 490,304
UBS Financial Services	97,794	101,270
Smith Barney	944,985	952,614
Chase	327,544	327,544
Total Bank Certificates of Deposit	1,860,627	1,871,732
Chase and HSBC Money Market Funds	197,002	197,002
	$ 2,057,629	$ 2,068,734
Less: Securities at cost		(2,057,629)
Net cumulative unrealized gain		11,105
Add: Unrealized loss recognized in prior periods		(19,725)
Increase in unrealized gain for the year ended June 30, 2008		30,830
Net appreciation in fair value of investments for the year ended June 30, 2008		$ 30,830

At June 30, 2008, the fair market value of the Agency's investments (including gains and losses on investments bought, sold, and held during the year) was $2,068,734 as follows:

	6/30/08
Fair market value - beginning of year	$ 1,991,260
Investment activity:	
Interest/Dividends	86,664
Reinvestments, withdrawals and Fees	(53,906)
Purchases	1,130,000
Sales (at cost)	(1,096,389)
	2,057,629
Net increase in fair value of investments:	
Realized gains (losses)	
Unrealized gains (losses)	11,105
Total net increase in fair value of investments	11,105
Fair market value - end of year	$ 2,068,734

4. NOTE RECEIVABLE FROM RELATED PARTY:

The Agency is owed an amount of $140,203 from a related party, not-for-profit corporation. The Agency has a note receivable with interest computed at 9 percent per annum.

Additionally, there is an amount owed of $6,249 as of June 30, 2008 from this corporation for expense and management fee reimbursement. The $6,249 is included in accounts receivable - net. The Agency uses space for certain program operations at one site which is owned by a different related party, not-for-profit corporation. The Agency is a related party in that certain staff members of the Agency are also Board members of this other not-for-profit corporation.

Management periodically reviews the related party accounts to determine if an allowance is necessary. Accounts receivable have been adjusted for all known uncollectible accounts. Management reviews the accounts receivable to determine if an allowance is necessary. For the year ended June 30, 2008 no allowance was necessary because the related accounts receivable balance was determined to be fully collectable.

The Agency has a controlling interest in several other not-for-profit entities. The Agency provided start up funds to those entities to assist in the organization process. Although these transactions involve an economic interest in those entities, they were immaterial to the accompanying consolidated financial statements, and accordingly, have been omitted from them.

5. ASSETS RESTRICTED TO INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT:

As of June 30, 2008, the Agency had the following assets restricted to investment in property, plant and equipment:

Debt Service Reserve - MCFFA (DASNY)	$ 401,875
Debt Service Reserve/Escrow Balance - IDA - Bond 2002	540,205
Debt Service Reserve/Escrow Balance - IDA - Bond 2004	683,042
Debt Service Reserve/Escrow Balance - IDA - Bond 2008	292,540
Cash - Recoupment's Payable	4,923,160
	$ 6,840,822

The debt service reserve - MCFFA amount of $401,875 represents a portion of the loan proceeds retained by the New York State Medical Care Facilities Finance Agency (MCFFA) under the terms and conditions in the loan agreement.

The monies are designated to be applied to scheduled debt service payments in the future. In 1996, the debt service reserve amounts were transferred to the Dormitory Authority of the State of New York (DASNY).

The debt service reserve/escrow balance - IDA - Bond 2002 amount of $540,205 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New

York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 14 for more detail).

The debt service reserve/escrow balance - IDA - Bond 2004 amount of $683,042 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 14 for more detail).

The debt service reserve/escrow balance - IDA - Bond 2008 amount of $292,540 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 14 for more detail).

The cash amount of $4,923,160 represents various amounts received from funding sources that will be used to pay amounts included within recoupment's payable.

6. TEMPORARILY RESTRICTED NET ASSETS:

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2008, which are available for use in future years, were as follows:

	Balance 07/01/07	Additions	Expenditures	Balance 06/30/08
Program	$ 42,580	$ 2,200	$ (2,176)	$ 42,604

7. PROPERTY, PLANT AND EQUIPMENT:

As of June 30, 2008, detailed information is as follows:

	Cost	Estimated Useful Lives
Land	$ 4,509,267	-
Buildings and improvements	20,147,046	5-20 Years
Furniture and equipment	2,280,759	5 Years
Vehicles	598,266	4 Years
Leasehold improvements	5,372,981	10-20 Years
	32,908,319	
Less: accumulated depreciation and amortization	(14,367,065)	
Construction in progress	1,274,861	
	$ 19,816,115	

The above amounts include land and buildings which were donated to the Agency

by OMRDD. The Agency is subject to adhering to certain terms, conditions and restrictions as to the use and ultimate disposition of these properties as further delineated in the disposition and subordination agreements entered into with the funding source.

Depreciation and amortization expense for the year ended June 30, 2008 is $2,050,320.

8. RECOUPMENTS PAYABLE:

The amount of $4,923,160 consists of amounts of reimbursement received from certain funding sources, which are in excess of amounts earned, and amounts for which the scheduled recoupment differs from the actual recoupment made through June 30, 2008. The funding sources are expected to recover these amounts in the future through the recoupment process.

9. DEFERRED INCOME:

Deferred income of $2,301,154 include amounts received from various funding sources over the years for various programmatic operations but not earned as revenue as of June 30, 2008. Some of these liabilities relate to the New York State Office of Mental Retardation and Developmental Disabilities (OMRDD). These liabilities do not bear interest and will be recognized as revenue periodically in the future as it is deemed to be earned.

10. DUE TO FUNDING SOURCES:

The due to funding sources amount of $243,684 includes an amount of $8,966, which represents various maximum potential contested liabilities for proposed contract adjustments with certain funding sources for prior periods.

The balance of $234,718 represents a liability due back to OMRDD as a result of certain "desk-audits" performed on certain programs by OMRDD. These "desk-audits" were the result of a statewide requirement by OMRDD and other governmental agencies, due to the clarification and revisions of certain policies and procedures set forth by OMRDD and these other governmental agencies.

11. MORTGAGES PAYABLE - DASNY:

Mortgages payable - DASNY amounting to $4,662,764 represent self-liquidating term notes owed to the Dormitory Authority of the State of New York (DASNY) which has as its agent OMRDD. Some of the notes were originally related to New York State Medical Care Facilities Finance Agency (MCFFA) improvement bonds loaned to the FDC. The DASNY is the successor to the MCFFA and in 1996 FDC projects were transferred to DASNY. In 1996, the MCFFA bonds were refunded by the issuance of DASNY Mental Health Services Facilities Improvement Revenue Bonds.

Periodic recoupments are expected to continue to be made by OMRDD from the Agency, for remittance to FDC to satisfy the debt service and administration fees. The payments are first applied to interest and then to principal. The Agency has

and/or will receive additional amounts of reimbursement as an increase to its per diem rates to repay these recoupments. The notes are collateralized by (1) the real property located at each of the sites (2) all accounts receivable generated from billings related to the respective locations and (3) all personal property owned by the Agency located at each of the sites. The Agency is entitled to credits in an amount equal to the past accrued interest earned on the Debt Service Reserve Fund for some of the above-mentioned liabilities. When such credits are determined and applied to the corresponding mortgages, then those mortgage liabilities will be reduced accordingly.
Additional information for the mortgages payable - DASNY is reflected below:

Project Name	Maturity Date	Fixed Interest Rate	Total
Racal Court	2/15/13	7.37%	$ 183,250
South Ave.	8/15/15	7.68%	204,616
213-233 48th St. (Sunset I)	2/15/18	7.34%	855,610
87-21 121st St. (Queens)	2/15/18	6.41%	2,221,500
Jumel	8/15/18	6.41%	828,250
Esplanade	2/15/11	5.44%	89,200
208th St.	8/15/10	5.81%	132,289
94th St.	8/15/10	5.81%	148,049
Total Mortgages Payable – DASNY			$ 4,662,764

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The Mortgage balances for 213-233 48th Street and 87-21 121st Street locations are for the Day Treatment and Day Habilitation Programs. Commencing with the fiscal year ended June 30, 2004, OMRDD allocates a portion of the bond (mortgage) payable to a separate Day Habilitation MMIS Provider number for debt recovery purposes. However, the total indebtedness does not change.

12. NOTES PAYBLE:

The Agency has a line of credit agreement with J.P. Morgan Chase for a maximum of $5,000,000 that is due January 5, 2009. The proceeds of the line of credit were to be used for operating expenses. Interest is charged to the line of credit at the bank's floating rate of prime plus 1% and is secured by a lien on Agency government receivables. These government receivables totaled $14,105,706 at June 30, 2008. There was no outstanding balance as of June 30, 2008.

Under the terms of a line of credit agreement with Bank of America on July 14, 2008, the Agency may borrow up to $5,000,000 at the bank's prime interest rate plus 0.5% through March 31, 2009, when the agreement expires. The Agency's property has been pledged as collateral against any advances on the line of credit. As of June 30, 2008, there was an outstanding balance of $1,931,569.

13. BONDS PAYABLE-DASNY:

Bonds payable DASNY amounting to $170,000 represent amounts owed relating to the DASNY New York State Rehabilitation Association (NYSRA) Pooled Loan Program No. 1 Insured Revenue Bonds, Series 2001A and 2001B (the "Bonds"). Please refer to the Bond Offering Statement dated April 1, 2001 for additional information.

The Agency used the bond proceeds to refinance $1,052,877 of indebtedness on three properties. The interest rate is 4.0 percent on the Series 2001A Bonds ($1,100,000) and 6.75 percent on the Series 2001B Bonds ($45,000). The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2001. The cost of the bond issuance amounted to $99,181, of which $99,181 was amortized as of June 30, 2008. The amount of $170,000 represents the bond principal due with an effective interest rate of 3.82%. The costs of issuance, the net premium, and the discount are being amortized over the term of the Bond obligation.

Payments of interest and principal under the Loan Agreement are to be made monthly on the 10th day of each month into the Debt Service Reserve Fund by the Agency. As of June 30, 2008, the principal amount of $140,000 was paid in full by the Agency, as well as all interest and fees associated with the July 1, 2008 payment to the bondholders. The Agency satisfied these obligations during June 30, 2008 by virtue of periodic recoupments made by OMRDD from its rates of reimbursement for those programs that are operated at these sites. The principal payments of the consolidated debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2008	$ 140,000
2009	30,000
	$ 170,000

The assignment of the Assigned Medicaid Funds to the DASNY was put into effect during the fiscal year ended June 30, 2002. Once the DASNY receives the Assigned Medicaid Fund, the monies are sent to State Street Bank and Trust Company (the Trustee) and held there until each scheduled payment to the bondholders is made by the Bondmaster. The Agency expects that, periodically, OMRDD will adjust the IRA per diem rate to provide the Agency with the appropriate amount of reimbursement to repay the debt principal, related interest and fees.

The Series 2001 Bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and the DASNY's security interest in the Pledged Revenues, subject to Prior Pledges. Please refer to the Bond Offering Statement dated April 1, 2001 for additional information.

14. BONDS PAYABLE-IDA:

Bonds payable - IDA totaling $12,200,000 are made up of the following bonds payable at June 30, 2008:

Series	Due Date		Principal Due
2002 C-1	July 1, 2017	$	2,980,000
2004 A-1 and B-1	July 1, 2023		4,430,000
2004 C-1	July 1, 2014		785,000
2008 A-1 and A-2	July 1, 2033		4,005,000
Total IDA Bonds Payable		$	12,200,000

Bonds payable - IDA - 2002 amounting to $2,980,000 represent amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2002 C1.

The interest rate is based on a life average rate of 7.631763% on the Series 2002 C1 Bond ($2,980,000). 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 $138,047 was amortized as of June 30, 2008. The costs of issuance are being amortized over the term of the bond obligations.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 5 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,		Principal Due
2008	$	255,000
2009		260,000
2010		265,000
2011		270,000
2012		270,000
Thereafter		1,660,000
	$	2,980,000

Bonds Payable - IDA - 2004 amounting to $5,215,000 represents amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2004 A1 and B1, and Series 2004 C1.

The Agency used the Series A1 and B1 bond proceeds to refinance $4,112,273 of indebtedness on four properties. The interest rate is based on a life average rate of 8.890508% on the Series 2004 A1 and B1 ($4,430,000). The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2004. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2004.

The cost of the bond issuance amounted to $685,629 ($694,975 was incurred when the bond closed less $9,346 reimbursed after the bond closing), of which $144,343 was amortized as of June 30, 2008. The costs of issuance are being amortized over the term of the bond obligations.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's debt service reserve accounts (please see Note 5 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,		Principal Due
2008	$	475,000
2009		355,000
2010		355,000
2011		360,000
2012		360,000
Thereafter		2,525,000
	$	4,430,000

The Agency used the Series C1 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 C1 ($785,000). The interest is payable to the bondholders on a semi-annual basis commencing on January 1, 2005. The principal is payable to the bondholders on an annual basis commencing on July 1, 2005. The cost of the bond issuance amounted to $50,095, of which $13,453 was amortized as of June 30, 2008. The cost of bond discounts amounted to $41,281, of which $15,480 was amortized as of June 30, 2008. The costs of issuance and discounts are being amortized over the term of the Bond obligations.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 5 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2008	$ 100,000
2009	100,000
2010	110,000
2011	110,000
2012	115,000
Thereafter	250,000
	$ 785,000

Bonds payable - IDA - 2008 amounting to $4,005,000 represent amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2008 A. These bonds are segregated into Series 2008 A-1 and Series 2008 A-2 (taxable).

The interest rate is based on a life average rate and is disclosed in the bond agreement. The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2008. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2008. The cost of the bond issuance amounted to $265,634 of which $24,812 was amortized as of June 30, 2008. The costs of issuance are being amortized over the term of the bond obligations. Pursuant to the bond agreement, there is a first lien on the properties being mortgaged except for the facility located at 213 48th Street, Brooklyn which carries a second lien.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 5 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2008	$ 140,000
2009	390,000
2010	370,000
2011	265,000
2012	260,000
Thereafter	2,580,000
	$ 4,005,000

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The Agency expects that, periodically, OMRDD will adjust the IRA per diem rate to provide the Agency with the appropriate amount of reimbursement to repay the debt principal, related interest and fees. The Series 2002 C1, 2004 A1, B1, and C1, as well as Series 2008 A-1 and A-2 bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and the IDA's security interest in the pledged revenues, subject to Prior Pledges. Please refer to the Bond Offering Statement dated January 10, 2003 for additional information on Series 2002 Bonds, the Bond Offering Statement dated February 27, 2004 for additional information on the 2004 Series A1 and B1 bonds, the Bond Offering Statement dated July 15, 2005 for additional information on the Series 2004 C1 bonds, as well as the Bond Offering Statement dated January 30, 2008 for additional information on the Series 2008 A1 and A-2 bonds.

15. MATURITIES OF DEBT:

Approximate maturities of short-term and long-term debt are as follows:

June 30,	
2009	$ 5,317,543
2010	1,830,350
2011	1,848,650
2012	1,703,138
2013	1,691,725
Thereafter	14,040,928
	$ 26,432,334

The short-term and long-term debt is comprised of the following:

Recoupments Payable	$ 4,923,160
Deferred Income	2,301,154
Due to Funding Sources	243,684
Mortgages Payable – DASNY	4,662,764
Bonds Payable – DASNY	170,000
Bonds Payable – IDA	12,200,000
Notes Payable	1,931,569
	$ 26,432,331

16. BOARD DESIGNATED FUND:

The board designated fund (the Fund) is used to account for certain assets of the Agency which are earmarked for future programmatic expansion purposes. The Fund is used to help alleviate the ongoing financial pressure due to the timing of the collection of government funding, the limitation of available government funding and to supplement fund raising activities. The Agency has minimal monthly cash needs of approximately $7,800,000 to finance its programmatic operations.

17. PRIOR PERIOD REVENUE: The prior period revenue of $593,806 is comprised of typical retroactive rate adjustments attributable to various programs.

18. DEFINED BENEFIT PENSION PLAN: The Agency has a defined benefit pension plan covering all of its eligible employees. The benefits are based on years of service and the employee's highest five years of compensation during the last ten years of employment. The Agency's funding policy is to contribute annually the required amount that should be deducted in accordance with federal income tax guidelines. The Agency's contributions for calendar year 2007 exceeded the minimum funding requirements of ERISA.

Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The employer contributions amounted to $1,118,908 and the benefits paid amounted to $440,182 during the fiscal year ended June 30, 2008. The Agency expects to contribute $1,120,000 to its pension plan in the fiscal year ended June 30, 2008.

Prior to June 30, 1993, the amount expensed in the employer's financial statements for a qualified defined benefit pension plan was generally equal to the amount contributed. Under the Statement of Financial Accounting Standards Number 87 (SFAS) this is no longer true. IRS rules continue to govern the determination of the annual required employer contributions. SFAS number 87 rules, completely independent of IRS funding guidelines, now govern the determination of the amount that must be expensed each year. There is no connection between the two sets of requirements. Amounts expensed may be higher or lower than actual dollar contributions.

Under SFAS number 87, a liability (underfunded pension obligation) is disclosed at fiscal year end. The underfunded pension obligation is a compilation of the excess of total past and future amounts expensed to date over past amounts contributed. Since amounts expensed each year were not consistent with SFAS number 87 requirements, there is a cumulative amount totaling $5,635,632 of underfunded pension obligation as of June 30, 2008.

The following table sets forth the plan's funded status and amounts recognized in the Agency's statement of financial position at June 30, 2008:

Benefit obligation as of June 30, 2008	$	(23,898,391)
Plan assets at fair value at end of measurement period primarily listed stocks and U.S. bonds		18,262,759
Funded Status at June 30, 2008		(5,635,632)
Underfunded Pension Obligation	$	(5,635,632)

The accumulated benefit obligations for the year ended June 30, 2008 was $19,709,436.

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LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

Net pension cost for the fiscal year ended June 30, 2008 included the following components:

Service cost-benefits earned during the period	$	1,032,815
Interest cost on projected benefit obligation		1,465,142
Expected return on plan assets		(1,543,400)
Amortization of loss and prior service cost		212,092
Net periodic pension cost	$	1,166,649

Assumptions Weighted Average

Discount Rate	6.85%
Expected Return on Plan Assets	N/A
Rate of Compensation Increase	3.00%

The pension plan asset allocations at June 30, 2008, by asset category are as follows:

Asset Category	Percentage of Plan Assets
Equity securities	62%
Fixed income	32%
Other	6%
	100%

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

Fiscal Year Beginning		Pension Benefits
2008	$	548,753
2009		592,102
2010		686,729
2011		709,726
2012		865,002
Thereafter		6,653,394
	$	10,055,706

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 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 FAS106 Expense for the Fiscal Year

July 1, 2007 through June 30, 2008:

(1)	Service Cost	$ 184,451
(2)	Interest Cost	200,840
(3)	Amortization:	
	(a) Transition obligation	0
	(b) Prior service cost	63,914
	(c) (Gain)/Loss	0
	(d) Total amortization	63,914
(4)	FAS 106 Expense - July 1, 2007 - June 30, 2008	$ $449,205

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LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2008:

(1)	Accumulated postretirement benefit obligation at June 30, 2008	(3,077,661)
(2)	Net amount recognized at June 30, 2008 – included within accounts payable and accrued expenses	(3,077,661)

Assumptions:

Discount Rates:	
Expense	6.85%
Disclosure	6.85%
Mortality:	1994 Group Annuity Mortality Table
Claim cost:	Monthly premium
Trend:	None

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

Fiscal Year Beginning		Postretirement Health Care
2008	$	53,973
2009		57,877
2010		72,463
2011		85,557
2012		105,573
Thereafter		888,443
	$	1,263,886

20. COMMITMENTS AND CONTINGENCIES:

General
Pursuant to the Agency's contractual relationships with certain funding sources, outside agencies have the right to examine the Agency's books and records which pertain to transactions relating to these contracts. The financial statements do not include a provision for possible disallowances and reimbursements. Management believes that any actual disallowances, if any would be immaterial. In addition, certain agreements provide that certain property, plant and equipment owned by or on loan to the Agency (see Note 8) be utilized by the Agency for its continued ownership, since the costs of such property and equipment were funded under these agreements.

There are certain amounts of real and personal property used by the Agency in its program operations which is owned by New York State and/or other governmental sources. The Agency uses some of these real and personal properties at no cost. The value of the benefit received for use of these real and personal properties is not readily measurable and is not recorded in the financial statements.

The Agency has a number of pending lawsuits against them for a variety of reasons. The alleged claims are being handled by legal counsel and/or by its insurance providers. In the opinion of the Agency's legal counsel, and in the opinion of management, there is no basis to establish a liability for any loss contingency due to lack of merit or insurance coverage exceeding expected settlement amounts.

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,		
2009	$	5,522,494
2010		4,507,236
2011		4,146,795
2012		3,877,156
2013		3,089,844
Thereafter		13,219,961
	$	34,363,487

A renewal option allows the Agency, at its sole option, the right to extend some of the leases for an additional five-year period with a predetermined rent base amount with annual rent percentage increases. Various leases have rent escalations in which various predetermined annual percentage increases exist throughout the lease periods. A clause exists whereby, in the event that real estate taxes increase during the term of some of the leases, the Agency shall pay any increases in real estate taxes over the base year.

21. 403(b) TAX – SHELTERED ANNUITY PLAN:

The Agency offers a 403(b) Tax-Sheltered annuity plan for all employees who are eligible and elect to participate. The plan is governed by IRS regulations setting the limits on the amount that employees may contribute and the conditions to withdraw monies from it. The employees each own their individual annuity plan and are responsible for deciding the amount of contributions they wish to make each year (up to the maximum stipulated by the IRS) and how the funds may be invested.

22. CONCENTRATION OF CREDIT RISK:

The Agency has maintained bank balances that often exceed the limit of the Federal Depository Insurance Corporation (FDIC) insurance coverage. The Agency verifies on a quarterly basis the equity strength and profitability of the banks it uses in order to minimize the risk.

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LIFESPIRE, INC. AND SUBSIDIARY
(A NOT-FOR-PROFIT ORGANIZATION)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lifespire, Inc. and Subsidiary

We have audited the accompanying consolidated statement of financial position of Lifespire, Inc., (a non-profit organization) and subsidiary as of June 30, 2007 and the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of Lifespire, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lifespire, Inc. and subsidiary as of June 30, 2007 and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ERE LLP

New York, NY
December 3, 2007

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30,		2007
Assets:		
Cash and cash equivalents	$	4,548,959
Investments		1,991,260
Accounts receivable - net of allowance for doubtful accounts of $19,128		702,262
Accrued income receivables		17,868,090
Note receivable from related party		70,203
Security Deposits and prepaid expenses		1,690,303
Assets restricted to investment in property, plant and equipment		6,486,505
Property, plant and equipment - net of accumulated depreciation of $12,607,203		19,299,733
Deferred charges - net of accumulated amortization for bond issuance costs of $329,862		952,352
Total Assets	**$**	**53,609,667**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses		5,369,604
Accrued payroll		1,575,458
Accrued compensated absences		2,644,631
Recoupments payable		4,936,912
Deferred income		2,281,470
Due to funding sources		243,684
Mortgages payable - DASNY		5,087,539
Underfunded Pension Obligation		3,293,853
Underfunded health insurance obligation		3,045,617
Notes payable		3,387,034
Bonds payable DASNY - net of accumulated amortization for bond issuance costs of $6,071		170,987
Bonds payable - IDA		9,250,000
Total Liabilities		41,286,789
Net Assets:		
Unrestricted - undesignated		6,043,878
Unrestricted - board designated		1,827,301
Unrestricted - property, plant and equipment		4,409,119
Total Unrestricted Net Assets		12,280,298
Temporarily restricted		42,580
Total Net Assets		12,322,878
Total Liabilities and Net Assets	**$**	**53,609,667**

The accompanying notes are in integral part of these financial statements.

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LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30,	2007
Support and revenue - program operations:	
Program service fees	$ 84,868,847
Participants' share of room and board	2,714,512
Subcontract	528,147
MCFAA and DASNY bond fees	912,978
Subtotal - support and revenue - program operations	89,024,484
Net assets released from restrictions	8,159
Total support and revenue - program operations	89,032,643
Expenses:	
Program services	81,505,007
Management and administration	5,448,304
Fundraising	206,298
Total expenses	87,159,609
Change in unrestricted net assets before other revenue and prior period revenue	1,873,034
Other revenue:	
Interest income	377,335
Contributions and fundraising	144,612
Unrealized loss on investments	(19,725)
Miscellaneous	11,650
Total other revenue	513,872
Changes in unrestricted net assets before prior period revenue	2,386,906
Prior period revenue	541,967
Increase in unrestricted net assets	2,928,873
Changes in Temporarily Restricted Net assets:	
Donors	2,500
Grants	200
Net assets released from restrictions	(8,159)
Change in temporarily restricted net assets	(5,459)
Increase in net assets before change in accounting principle	2,923,414
Change in Accounting Principle SFAS 158 Adoption - Change in Funding Status	(5,617,549)
Decrease in net assets after change in accounting principle	(2,694,135)
Net assets beginning of year	15,017,013
Net assets end of year	**$ 12,322,878**

The accompanying notes are in integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30,	2007
Unrestricted net assets - beginning of the year	$ 14,968,974
Change in accounting principle SFAS 158 Adoption - Change in Funding Status	(5,617,549)
Increase in unrestricted net assets	2,928,873
Unrestricted net assets - end of year	**$ 12,280,298**
Temporarily restricted net assets - beginning of the year	$ 48,039
Decrease in temporarily restricted net assets	(5,459)
Temporarily restricted net assets - end of year	**$ 42,580**

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

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

	Program Services						Supporting Services			
Year ended June 30, 2007	Waiver Services	Vocational Services	Residential	Mental Health	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 15,092,646	$ 407,341	$ 16,000,642	$ 1,033,178	$ 2,882,624	$ 35,416,431	$ 2,279,402	$ 46,858	$ 2,326,260	$ 37,742,691
Payroll taxes and benefits	4,647,434	129,291	4,752,164	327,872	952,878	10,809,639	548,013	12,475	560,488	11,370,127
Total personnel costs	19,740,080	536,632	20,752,806	1,361,050	3,835,502	46,226,070	2,827,415	59,333	2,886,748	49,112,818
Professional fees and contracted services	421,787	61,421	980,293	6,082	3,087,054	4,556,637	824,016	36,233	860,249	5,416,886
General and professional liability insurance	901,568	79,069	431,967	134,821	94,633	1,642,058	230,959	-	230,959	1,873,017
Supplies and expenses:										
Food, household supplies and services	211,281	4,091	2,140,334	6,422	14,336	2,376,446	23,657	-	23,657	2,400,103
Rent and real estate taxes	2,373,851	113,489	2,077,669	198,784	187,430	4,951,203	444,612	-	444,612	5,395,815
Transportation	10,156,372	519,125	1,248,529	86,040	460,178	12,470,244	211,007	667	211,674	12,681,918
Utilities and telephone	708,602	48,352	746,717	104,796	81,665	1,690,132	153,389	-	153,389	1,843,521
Maintenance and repair	221,012	11,217	375,028	17,641	30,226	655,124	44,787	-	44,787	699,911
General	580,358	489,061	838,622	95,456	794,739	2,798,234	558,221	37,182	595,403	3,393,637
Fund-raising - unrestricted	-	-	-	-	-	-	-	70,200	70,200	70,200
Fund-raising - restricted	-	-	-	-	-	-	-	2,485	2,485	2,485
Total expenses before interest, fees and bond expense, depreciation and amortization	35,314,889	1,682,457	29,591,965	2,011,072	8,585,765	77,368,148	5,318,063	206,100	5,524,163	82,890,311
Interest, fees and bond expense	584,751	5,563	1,640,464	-	26,738	2,257,516	33,044	-	33,044	2,290,560
Depreciation and amortization	498,039	13,791	1,061,192	11,580	296,741	1,881,343	97,197	198	97,395	1,978,738
Total Expenses	$ 36,397,679	$ 1,881,811	$ 32,293,621	$ 2,022,652	$ 8,909,244	$ 81,505,007	$ 5,448,304	$ 206,298	$ 5,654,602	$ 87,159,609

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30,	2007
Cash flows from operating activities:	
Decrease in net assets	$ (2,694,135)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,978,736
Amortization of bond issue costs	84,802
Unrealized loss on investments	19,725
Bad debt expense	8,996
Changes in operating assets and liabilities:	
Increase in investments	(79,114)
Increase in accounts receivable	(512,003)
Increase in accrued income receivables	(5,588,657)
Increase in security deposits and prepaid expenses	(540,348)
Decrease in deferred expense - pension	1,716,736
Increase in accounts payable and accrued expenses	619,941
Increase in underfunded pension obligation	3,293,853
Increase in underfunded health insurance obligation	1,251,143
Decrease in accrued payroll	(1,376,888)
Increase in accrued compensated absences	220,240
Net cash used in operating activities	(1,597,971)
Cash flows from investing activities:	
Purchase of investments	(1,159,812)
Proceeds from sale of investments	1,398,958
Purchase of property, plant and equipment	(2,789,776)
Reinvested and withdrawl investment activity	41,025
Increase in assets restricted to investment in property, plant and equipment	(920,182)
Net cash used in investing activities	(3,429,587)
Cash flows from financing activities:	
Increase in recoupments payable	1,664,376
Repayments of mortgages payable - DASNY	(402,200)
Proceeds from notes payable	691,461
Repayments of bonds payable - DASNY	(125,000)
Repayments of bonds payable - IDA	(1,035,000)
Net cash provided by financing activities	793,637
Net decrease in cash and cash equivalents	(4,233,921)
Cash and cash equivalents, at beginning of year	8,782,880
Cash and cash equivalents, at end of year	**$ 4,548,959**

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:	
Interest	$ 1,241,842
Income taxes	$ -

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

1. ORGANIZATION, TAX STATUS AND SIGNIFICANT ACCOUNTING POLICIES:

Organization

Lifespire, Inc. (the Agency) serves individuals with disabilities and their families through various programs which include, but are not limited to, residential, habilitation and day programs. The Agency is funded through government programs, consumer contributions and gifts. It is the Agency's aim to provide individuals with disabilities the assistance and support necessary to achieve a level of functional behaviors and cognitive skills to enable them to maintain themselves in their community in the most integrated and independent manner possible.

Principles of Consolidation

The consolidated financial statements include the accounts of the Agency and its wholly owned subsidiary, Manhattan Management Solutions, LLC (the Organization). Manhattan Management Solutions, LLC was established to provide consulting services to other not-for-profit organizations. The Organization is being consolidated since the Agency has both an economic interest in and control over the Organization through a majority voting interest in its governing board.

Tax Status

The Agency is organized under the not-for-profit corporation law of the State of New York. The Agency has been granted exemption from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and is deemed to be a public charity pursuant to the Internal Revenue Service.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

The classification of an organization's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted - Net assets resulting from (a) contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Temporarily Restricted - Net assets resulting from (a) contributions and other inflows of assets the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal of actions of the organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets. However, if a restriction is fulfilled in the same time period in which the contributions are received, the Agency reports the support as unrestricted.

Unrestricted Net Assets - The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Agency considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents, except for those money market funds and short-term certificates of deposit which are included in investments.

Investments
The Agency carries its investments at fair value. In accordance with the Statement of Financial Accounting Standards No. 124, "*Accounting for Investments held by Not-For-Profit Organizations*," investments have been measured at fair value determined by quoted market prices and realized and unrealized gains and losses are reported in the Statement of Activities. Income from investments is considered unrestricted net assets unless restricted by a donor. Management reviews 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, 2007. In addition, there exists a reserve for doubtful accounts of $19,128 as of June 30, 2007 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%

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of subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts.

Accrued Income Receivables and Program Service Fees
The Agency receives a major portion of its program service fees from Medicaid in conjunction with the New York State Office of Mental Retardation and Developmental Disabilities (OMRDD). Program service fees are also received from the Social Security Administration and directly from OMRDD. Rates of reimbursement derived from cost based methodologies are established annually by OMRDD. Substantially all of the accrued income receivables of $17,868,090 are due from these governmental agencies.

Property, Plant and Equipment
Property and equipment is stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized in accordance with funding source guidelines. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease.

The Agency reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future discounted cash flows is less than the carrying amount of the assets, the Agency recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2007.

Deferred Income
The Agency records unearned advances to fee for service revenue as deferred revenue until it is expended for the purpose of the funding source, at which time it is recognized as revenue. The balance in deferred revenue as of June 30, 2007, represents amounts received for various programmatic operations that will be recognized as revenue in the future, as it is earned.

Bond Costs
Bond Costs which reflect bond premiums and discounts are amortized over the life of the bonds. Amortization expense of these costs for the year ended June 30, 2007 is $84,802. These costs are included in interest, fees and bond expense.

Contributions
Contributions - Contributions are considered to be available for unrestricted use unless specifically raised for special purposes or designated by the donor.

Restricted contributions - The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the same statement of activities as net assets released from restrictions. If the restriction will be satisfied within one year, then the Agency would record the contribution as temporarily restricted net assets and reallocate to unrestricted net assets when the restriction is satisfied.

In-Kind Contributions
In-kind contributions consist of property and services donated by state agencies and individuals. The value placed by the state agencies and individuals are used for valuing the contribution received. These properties were recorded as unrestricted and the related depreciation taken was recorded as unrestricted. If no value is provided by donor, an estimated value is placed by the Agency.

Start-Up Costs
The American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-5, "*Reporting on the Costs of Start-Up Activities*", in April 1998. The SOP requires that certain costs related to the organization of a new entity, a new business line or product or location be expensed as incurred. This SOP is followed by the Agency and the funding source which governs the program for which such start up expenses were incurred.

Revenue Recognition
Support and revenue is recognized on a fee for service basis for service arrangements with various consumers and/or customers. Revenue is recognized contingent to services being rendered. The reimbursements received from certain funding sources are subject to reconciliations. The funding sources may request return of reimbursements for noncompliance.

Contributed Services
Time is donated to the Agency by various volunteers. The value of this time is deemed to be immaterial, and therefore has not been reflected in the accompanying consolidated financial statements.

Rent Expense
Rent expense is recognized based upon the obligations required by the leases as the funding sources fully reimbursed the Agency for rent expense for the year ended June 30, 2007. This is a departure from generally accepted accounting principles which requires that rent expense be recognized on a straight-line basis over the term of the lease. Rent expense would increase by $178,834 based upon a calculation of deferred rent expense. Pursuant to the Agency's funding regulations, this amount was not recorded as it would result in additional income being recorded to offset the additional rental expense incurred. Rent expense for the year ended June 30, 2007 was $5,220,805.

Functional Allocation of Expenses
The costs of providing for the programs are summarized on a functional basis in the statement of functional expenses. Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly.

LIFESPIRE, INC. AND SUBSIDIARY
(a Not-for-Profit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007

Other expenses by function have been allocated among program and supporting services classifications using bases determined by management to be reasonable.

2. CASH AND CASH EQUIVALENTS:

The Agency considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are held in interest bearing checking and savings accounts at financial institutions.

The Agency has restricted cash in the amount of $42,580 which represents the unspent amount received from temporarily restricted contributions. The Agency also has restricted cash in the amount of $75,860 which represents payments returned to the Agency by Aetna for the 403(b) tax sheltered annuity plan for employees who have not elected to participate.

In addition, the Agency has restricted cash in the amount of $1,273,654 which represents unspent monies received from OMRDD to be distributed to the Health Reimbursement Accounts for certain employees.

3. INVESTMENTS:

For the year ended June 30, 2007, the Agency's investments (including gains and losses on investments bought, sold, and held during the year) appreciated in value by $19,725 as follows:

	6/30/07	
	Cost	Fair Value
Bank Certificates of Deposit:		
Bank of America	$ 485,505	$ 485,505
UBS Financial Services	95,788	95,788
Smith Barney	913,647	899,612
Chase	314,233	314,233
Total Bank Certificates of Deposit	1,809,173	1,795,138
Chase and HSBC Money Market Funds	201,812	196,122
	$2,010,985	$1,991,260
Less: Securities at cost		(2,010,985)
Net cumulative unrealized loss		(19,725)
Add: Unrealized loss recognized in prior periods		(16,028)
Increase in unrealized loss for the year ended June 30, 2007		(3,697)
Net depreciation in fair value of investments for the year ended June 30, 2007		$ (3,697)

At June 30, 2007, the fair market value of the Agency's investments (including gains and losses on investments bought, sold, and held during the year) was $1,991,260 as follows:

	6/30/07
Fair market value - beginning of year	$ 2,212,242
Investment activity:	
Interest/Dividends	79,114
Reinvestments, withdrawals and Fees	(41,025)
Purchases	1,159,612
Sales (at cost)	(1,398,958)
	$ 2,010,985
Net reduction in fair value of investments:	
Realized gains (losses)	-
Unrealized gains (losses)	(19,725)
Total net reduction in fair value of investments	(19,725)
Fair market value - end of year	$ 1,991,260

4. NOTE RECEIVABLE FROM RELATED PARTY:

The Agency is owed an amount of $70,203 from a related party, not-for-profit corporation. The Agency has a note receivable with interest computed at 9 percent per annum.

Additionally, there is an amount owed of $6,249 as of June 30, 2007 from this corporation for expense and management fee reimbursement. The $6,249 is included in accounts receivable - net. The Agency uses space for certain program operations at one site which is owned by a different related party, not-for-profit corporation. The Agency is a related party in that certain staff members of the Agency are also Board members of this other not-for-profit corporation.

Management periodically reviews the related party accounts to determine if an allowance is necessary. Accounts receivable have been adjusted for all known uncollectible accounts. Management reviews the accounts receivable to determine if an allowance is necessary. For the year ended June 30, 2007 no allowance was necessary because the related accounts receivable balance was determined to be fully collectable.

The Agency gained a controlling interest in several other not-for-profit entities. The Agency provided start up funds to those entities to assist in the organization process. Although these transactions involve an economic interest in those entities, they were immaterial to the accompanying consolidated financial statements, and accordingly, have been omitted from them.

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5. RECENT ACCOUNTING STANDARDS:

SFAS No. 158, "*Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*", requires an employer to recognize the overfunded or underfunded status of a defined benefit plan (other than multi employer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. For employers without publicly traded securities, the effective date for recognition of the funded status is as of the end of the fiscal year ending after June 15, 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending December 15, 2008. The cumulative effect of SFAS 158 on the Agency's books was a decrease in net assets in the amount of $5,617,549.

6. ASSETS RESTRICTED TO INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT:

As of June 30, 2007, the Agency had the following assets restricted to investment in property, plant and equipment:

Debt Service Reserve - MCFFA (DASNY)	$ 401,875
Debt Service Reserve/Escrow Balance - IDA - Bond 2002	501,435
Debt Service Reserve/Escrow Balance - IDA - Bond 2004	646,283
Cash - Recoupment's Payable	4,936,912
	$6,486,505

The debt service reserve - MCFFA amount of $401,875 represents a portion of the loan proceeds retained by the New York State Medical Care Facilities Finance Agency (MCFFA) under the terms and conditions in the loan agreement.

The monies are designated to be applied to scheduled debt service payments in the future. In 1996, the debt service reserve amounts were transferred to the Dormitory Authority of the State of New York (DASNY).

The debt service reserve/escrow balance - IDA - Bond 2002 amount of $501,435 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 15 for more detail).

The debt service reserve/escrow balance - IDA - Bond 2004 amount of $646,283 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts setup with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required pursuant to the agreement (refer to Note 15 for more detail).

The cash amount of $4,936,912 represents various amounts received from funding sources that will be used to pay amounts included within recoupment's payable.

7. TEMPORARILY RESTRICTED NET ASSETS:

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2007, which are available for use in future years, were as follows:

	Balance 07/01/06	Additions	Expenditures	Balance 06/30/07
Program	$ 48,039	$ 2,700	$ (8,159)	$ 42,580

8. PROPERTY, PLANT AND EQUIPMENT:

As of June 30, 2007, detailed information is as follows:

	Cost	Estimated Useful Lives
Land	$ 4,509,267	-
Construction in progress	460,739	-
Buildings and improvements	18,543,064	5-20 Years
Furniture and equipment	2,048,361	5 Years
Vehicles	655,108	4 Years
Leasehold improvements	5,690,397	10-20 Years
	31,906,936	
Less: accumulated depreciation and Amortization	12,607,203	
	$19,299,733	

The above amounts include land and buildings which were donated to the Agency by OMRDD. The Agency is subject to adhering to certain terms, conditions and restrictions as to the use and ultimate disposition of these properties as further delineated in the disposition and subordination agreements entered into with the funding source.

Depreciation expense for the year ended June 30, 2007 is $1,978,738.

9. RECOUPMENTS PAYABLE:

The amount of $4,936,912 consists of amounts of reimbursement received from certain funding sources, which are in excess of amounts earned, and amounts for which the scheduled recoupment differs from the actual recoupment made through June 30, 2007. The funding sources are expected to recover these amounts in the future through the recoupment process.

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10. DEFERRED INCOME:

Deferred income of $2,281,470, include amounts received from various funding sources over the years for various programmatic operations but not earned as revenue as of June 30, 2007. Some of these liabilities relate to the New York State Office of Mental Retardation and Developmental Disabilities (OMRDD). These liabilities do not bear interest and will be recognized as revenue periodically in the future as it is deemed to be earned.

11. DUE TO FUNDING SOURCES:

The due to funding sources amount of $243,684 includes an amount of $8,966, which represents various maximum potential contested liabilities for proposed contract adjustments with certain funding sources for prior periods.

The balance of $234,718 represents a liability due back to OMRDD as a result of certain "desk-audits" performed on certain programs by OMRDD. These "desk-audits" were the result of a statewide requirement by OMRDD and other governmental agencies, due to the clarification and revisions of certain policies and procedures set forth by OMRDD and these other governmental agencies.

12. MORTGAGES PAYABLE - DASNY:

Mortgages payable - DASNY amounting to $5,087,539 represent self-liquidating term notes owed to the Dormitory Authority of the State of New York (DASNY) which has as its agent OMRDD. Some of the notes were originally related to New York State Medical Care Facilities Finance Agency (MCFFA) improvement bonds loaned to the FDC. The DASNY is the successor to the MCFFA and in 1996 FDC projects were transferred to DASNY. In 1996, the MCFFA bonds were refunded by the issuance of DASNY Mental Health Services Facilities Improvement Revenue Bonds.

Periodic recoupments are expected to continue to be made by OMRDD from the Agency, for remittance to FDC to satisfy the debt service and administration fees. The payments are first applied to interest and then to principal. The Agency has and/or will receive additional amounts of reimbursement as an increase to its per diem rates to repay these recoupments. The notes are collateralized by (1) the real property located at each of the sites (2) all accounts receivable generated from billings related to the respective locations and (3) all personal property owned by the Agency located at each of the sites. The Agency is entitled to credits in an amount equal to the past accrued interest earned on the Debt Service Reserve Fund for some of the above-mentioned liabilities. When such credits are determined and applied to the corresponding mortgages, then those mortgage liabilities will be reduced accordingly.

Additional information for the mortgages payable - DASNY is reflected below:

Project Name	Maturity Date	Fixed Interest Rate		Total
Racal Court	2/15/13	7.37%	$	209,000
South Ave.	8/15/15	7.68%		225,516
213-233 48th St. (Sunset I)	2/15/18	7.34%		914,985
87-21 121st St. (Queens)	2/15/18	6.41%		2,380,250
Jumel	8/15/18	6.41%		888,250
Esplanade	2/15/11	5.44%		109,200
208th St.	8/15/10	5.81%		172,289
94th St.	8/15/10	5.81%		188,049
Total Mortgages Payable – DASNY			$	5,087,539

The Mortgage balances for 213-233 48th Street and 87-21 121st Street locations are for the Day Treatment and Day Habilitation Programs. Commencing with the fiscal year ended June 30, 2004, OMRDD allocates a portion of the bond (mortgage) payable to a separate Day Habilitation MMIS Provider number for debt recovery purposes. However, the total indebtedness does not change.

13. NOTES PAYBLE:

The Agency has a line of credit agreement with J.P. Morgan Chase for a maximum of $5,000,000 that is due January 5, 2008. The proceeds of the line of credit were to be used for operating expenses. Interest is charged to the line of credit at the bank's floating rate of prime plus 1% and is secured by a lien on Agency government receivables. These government receivables totaled $17,868,090 at June 30, 2007. There was no outstanding balance as of June 30, 2007.

Under the terms of a line of credit agreement with Bank of America on March 21, 2007, the Agency may borrow up to $4,400,000 at the bank's prime interest rate plus 0.5% through March 31, 2008, when the agreement expires. The Agency's property has been pledged as collateral against any advances on the line of credit. As of June 30, 2007, there was an outstanding balance of $3,387,034.

14. BONDS PAYABLE-DASNY- NET:

Bonds payable DASNY - net amounting to $170,987 represent amounts owed relating to the DASNY New York State Rehabilitation Association (NYSRA) Pooled Loan Program No. 1 Insured Revenue Bonds, Series 2001A and 2001B (the "Bonds"). Please refer to the Bond Offering Statement dated April 1, 2001 for additional information.

The Agency used the bond proceeds to refinance $1,052,877 of indebtedness on three properties. The interest rate is 4.0 percent on the Series 2001A Bonds ($1,100,000) and 6.75 percent on the Series 2001B Bonds ($45,000). The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2001. The cost of the bond issuance amounted to $99,181, of which $85,342 was

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amortized as of June 30, 2007. The amount of $170,987 represents the bond principal due of $170,000 plus the unamortized premium of $1,154 less the unamortized discount of $167 with the net premium having an effective interest rate of 3.82%. The costs of issuance, the net premium, and the discount are being amortized over the term of the Bond obligation.

Payments of interest and principal under the Loan Agreement are to be made monthly on the 10th day of each month into the Debt Service Reserve Fund by the Agency. As of June 30, 2007, the principal amount of $135,000 was paid in full by the Agency, as well as all interest and fees associated with the July 1, 2007 payment to the bondholders. The Agency satisfied these obligations during June 30, 2007 by virtue of periodic recoupment's made by OMRDD from its rates of reimbursement for those programs that are operated at these sites. The principal payments of the consolidated debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2007	$135,000
2008	140,000
2009	30,000
	$305,000

The assignment of the Assigned Medicaid Funds to the DASNY was put into effect during the fiscal year ended June 30, 2002. Once the DASNY receives the Assigned Medicaid Fund, the monies are sent to State Street Bank and Trust Company (the Trustee) and held there until each scheduled payment to the bondholders is made by the Bondmaster. The Agency expects that, periodically, OMRDD will adjust the IRA per diem rate to provide the Agency with the appropriate amount of reimbursement to repay the debt principal, related interest and fees.

The Series 2001 Bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and the DASNY's security interest in the Pledged Revenues, subject to Prior Pledges. Please refer to the Bond Offering Statement dated April 1, 2001 for additional information.

15. BONDS PAYABLE-IDA:

Bonds payable - IDA totaling $9,250,000 are made up of the following bonds payable at June 30, 2007:

Series	Due Date	Principal Due
2002 C-1	July 1, 2017	$3,420,000
2004 A1 and B1	July 1, 2023	4,950,000
2004 C1	July 1, 2014	880,000
Total 2002 and 2004 Bonds		$9,250,000

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Bonds payable - IDA - 2002 amounting to $3,420,000 represent amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2002 C-1.

The interest rate is based on a life average rate of 7.631763% on the Series 2002 C-1 Bond ($3,420,000). 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 $112,561 was amortized as of June 30, 2007. The costs of issuance are being amortized over the term of the bond obligations.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,	
2007	$ 440,000
2008	255,000
2009	260,000
2010	265,000
2011	270,000
2012	270,000
2013	280,000
2014	280,000
2015	280,000
2016	280,000
2017	540,000
	$3,420,000

Bonds Payable - IDA - 2004 amounting to $5,830,000 represents amounts owed relating to Industrial Development Agency Financing (Special Needs Facility Pooled Program) with the New York City Industrial Development Agency Series 2004 A1 and B1, and Series 2004 C1.

The Agency used the Series A1 and B1 bond proceeds to refinance $4,112,273 of indebtedness on four properties. The interest rate is based on a life average rate of 8.890508% on the Series 2004 A1 and B1 ($4,950,000).

The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2004. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2004.

The cost of the bond issuance amounted to $685,629 ($694,975 was incurred when the bond closed less $9,346 reimbursed after the bond closing), of which $108,257 was amortized as of June 30, 2007. The costs of issuance are being amortized over the term of the bond obligations.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's debt service reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,	
2007	$ 520,000
2008	475,000
2009	355,000
2010	355,000
2011	360,000
2012	360,000
2013	215,000
2014	220,000
2015	220,000
2016	220,000
2017	220,000
2018	220,000
2019	135,000
2020	135,000
2021	135,000
2022	135,000
2023	670,000
	$4,950,000

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 ($880,000). The interest is payable to the bondholders on a semi-annual basis commencing on January 1, 2005. The principal is payable to the bondholders on an annual basis commencing on July 1, 2005. The cost of the bond issuance amounted to $50,095, of which $10,221 was amortized as of June 30, 2007. The cost of bond discounts amounted to $41,281, of which $11,352 was amortized as of June 30, 2007. The costs of issuance and discounts are being amortized over the term of the Bond obligations.

Payments of interest and principal under the Loan Agreement are to be made monthly and deposited into one of the Agency's Debt Service Reserve accounts (please see Note 6 for more information) until it comes due to pay the bondholders for interest and/or principal.

The principal payments of consolidated debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2007	$ 95,000
2008	100,000
2009	100,000
2010	110,000
2011	110,000
2012	115,000
2013	120,000
2014	130,000
	$880,000

The Agency expects that, periodically, OMRDD will adjust the IRA per diem rate to provide the Agency with the appropriate amount of reimbursement to repay the debt principal, related interest and fees. The Series 2002 C1 as well as the 2004 A1, B1, and C1 bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and the IDA's security interest in the pledged revenues, subject to Prior Pledges. Please refer to the Bond Offering Statement dated January 10, 2003 for additional information on Series 2002 Bonds, the Bond Offering Statement dated February 27, 2004 for additional information on the 2004 Series A1 and B1 bonds, as well as the Bond Offering Statement dated July 15, 2005 for additional information on the Series 2004 C1 bonds.

16. MATURITIES OF DEBT: Approximate maturities of short-term and long-term debt are as follows:

June 30,	
2008	$ 5,494,803
2009	1,545,100
2010	1,434,400
2011	1,498,400
2012	250,000
Thereafter	15,134,923
	$25,357,626

The short-term and long-term debt is comprised of the following:

Recoupment's Payable	$ 4,936,912
Deferred Income	2,281,470
Due to Funding Sources	243,684
Mortgages Payable – DASNY	5,087,539
Bonds Payable – DASNY	170,987
Bonds Payable – IDA	9,250,000
Notes Payable	3,387,034
	$25,357,626

17. BOARD DESIGNATED FUND: The board designated fund (the Fund) is used to account for certain assets of the Agency which are earmarked for future programmatic expansion purposes. The Fund is used to help alleviate the ongoing financial pressure due to the timing of the collection of government funding, the limitation of available government funding and to supplement fund raising activities. The Agency has minimal monthly cash needs of approximately $7,300,000 to finance its programmatic operations.

18. PRIOR PERIOD REVENUE: The prior period revenue of $541,967 is comprised of typical retroactive rate adjustments attributable to various programs.

19. DEFINED BENEFIT PENSION PLAN: The Agency has a defined benefit pension plan covering all of its eligible employees. The benefits are based on years of service and the employee's highest five years of compensation during the last ten years of employment. The Agency's funding policy is to contribute annually the required amount that should be deducted in accordance with federal income tax guidelines. The Agency's contributions for calendar year 2006 exceeded the minimum funding requirements of ERISA.

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Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The employer contributions amounted to $1,099,892 and the benefits paid amounted to $422,576 during the fiscal year ended June 30, 2007. The Agency expects to contribute $1,100,000 to its pension plan in the fiscal year ended June 30, 2008.

Prior to June 30, 1993, the amount expensed in the employer's financial statements for a qualified defined benefit pension plan was generally equal to the amount contributed. Under the Statement of Financial Accounting Standards Number 87 (SFAS) this is no longer true. IRS rules continue to govern the determination of the annual required employer contributions. SFAS number 87 rules, completely independent of IRS funding rules, now govern the determination of the amount that must be expensed each year. There is no connection between the two sets of requirements. Amounts expensed may be higher or lower than actual dollar contributions.

Under SFAS number 87, a liability (underfunded pension obligation) is disclosed at fiscal year end. The underfunded pension obligation is a compilation of the excess of total past and future amounts expensed to date over past amounts contributed. Since amounts expensed each year were not consistent with SFAS number 87 requirements, there is a cumulative amount totaling $3,293,853 of underfunded pension obligation as of June 30, 2007.

The following table sets forth the plan's funded status and amounts recognized in the Agency's statement of financial position at June 30, 2007:

Benefit obligation as of June 30, 2007	$(22,305,899)
Plan assets at fair value at end of measurement period primarily listed stocks and U.S. bonds	19,012,046
Funded Status at June 30, 2007	(3,293,853)
Underfunded Pension Obligation	$ (3,293,853)

The accumulated benefit obligations for the year ended June 30, 2007 was $18,422,424.

Net pension cost for the fiscal year ended June 30, 2007 included the following components:

Service cost-benefits earned during the period	$ 1,002,201
Interest cost on projected benefit obligation	1,344,037
Expected return on plan assets	(1,318,586)
Amortization of loss and prior service cost	321,752
Net periodic pension cost	$ 1,349,404

Assumptions Weighted Average

Discount Rate	6.65%
Expected Return on Plan Assets	8.00%
Rate of Compensation Increase	3.00%

The pension plan asset allocations at June 30, 2007, by asset category are as follows:

Asset category	Percentage of plan assets
Equity securities	61%
Fixed income	32%
Other	7%
	100%

Expected Future Benefits

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

Fiscal Year Beginning	Pension Benefits
2007	$ 464,801
2008	570,170
2009	622,846
2010	715,166
2011	737,247
Thereafter	5,964,043
	$9,074,273

20. POSTRETIREMENT HEALTH CARE BENEFIT PLAN:

The Agency sponsors a defined benefit postretirement health care benefit plan.

Plan Provisions

Retired Prior to January 1, 2000

For certain long-service employees, the plan will pay the monthly premium for the participant (and eligible spouse) to continue coverage under the pre-2000 postretirement plan.

Retired January 1, 2001 and Later

For employees who retire on or after age 65 with at least 20 years of service, the Agency will enroll the retiree and eligible spouse in an AARP Medicare Supplement plan and contribute the following towards such coverage (for each retiree and eligible spouse):

-- 20 years of service	Plan E	--$130.25 per month
-- 25 years of service	Plan G	--$152.25 per month
-- 30 years of service	Plan I	--$259.00 per month

For employees who retire between ages 62 and 65, with the requisite years of service, the Agency will contribute, as per the above schedule, towards coverage under the current active employee's plan, until Medicare eligibility. At that time, the retiree will be treated in the same fashion as a post-65 retiree.

If an eligible spouse is not Medicare eligible, the Agency will contribute towards coverage under the current active employees' plan in an amount based on the retiree's service as described above.

Determination of the FAS106 Expense for the Fiscal Year July 1, 2006 – June 30, 2007:

(1)	Service Cost	$175,642
(2)	Interest Cost	187,857
(3)	Amortization:	
	(a) Transition obligation	-
	(b) Prior service cost	63,914
	(c) (Gain)/Loss	6,588
	(d) Total amortization	70,502
(4)	FAS 106 Expense - July 1, 2006 - June 30, 2007	$434,001

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2007:

(1)	Accumulated postretirement benefit obligation at June 30, 2007	(3,045,617)
(2)	Net amount recognized at June 30, 2007 – included within accounts payable and accrued expenses	(3,045,617)

Assumptions:

Discount Rates:	
Expense	6.65%
Disclosure	6.65%
Mortality:	1994 Group Annuity Mortality Table
Claim cost:	Monthly premium
Trend:	None

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Expected Future Benefit Payments:

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

Fiscal Year Beginning	Postretirement Health Care
2007	$ 47,004
2008	60,972
2009	62,119
2010	76,665
2011	90,049
Thereafter	803,786
	$1,140,595

21. COMMITMENTS AND CONTINGENCIES:

General

Pursuant to the Agency's contractual relationships with certain funding sources, outside agencies have the right to examine the Agency's books and records which pertain to transactions relating to these contracts. The financial statements do not include a provision for possible disallowances and reimbursements. Management believes that any actual disallowances, if any would be immaterial. In addition, certain agreements provide that certain property, plant and equipment owned by or on loan to the Agency (see Note 8) be utilized by the Agency for its continued ownership, since the costs of such property and equipment were funded under these agreements.

There are certain amounts of real and personal property used by the Agency in its program operations which is owned by New York State and/or other governmental sources. The Agency uses some of these real and personal properties at no cost. The value of the benefit received for use of these real and personal properties is not readily measurable and is not recorded in the financial statements.

The Agency has a number of pending lawsuits against them for a variety of reasons. The alleged claims are being handled by legal counsel and/or by its insurance providers. In the opinion of the Agency's legal counsel, and in the opinion of management, there is no basis to establish a liability for any loss contingency due to lack of merit or insurance coverage exceeding expected settlement amounts.

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,	
2008	$ 4,962,912
2009	4,650,743
2010	3,995,775
2011	4,011,914
2012	3,738,427
Thereafter	25,430,982
	$46,790,754

A renewal option allows the Agency, at its sole option, the right to extend some of the leases for an additional five-year period with a predetermined rent base amount with annual rent percentage increases. Various leases have rent escalations in which various predetermined annual percentage increases exist throughout the lease periods. A clause exists whereby, in the event that real estate taxes increase during the term of some of the leases, the Agency shall pay any increases in real estate taxes over the base year.

22. 403(b) TAX – SHELTERED ANNUITY PLAN: The Agency offers a 403(b) Tax-Sheltered annuity plan for all employees who are eligible and elect to participate. The plan is governed by IRS regulations setting the limits on the amount that employees may contribute and the conditions to withdraw monies from it. The employees each own their individual annuity plan and are responsible for deciding the amount of contributions they wish to make each year (up to the maximum stipulated by the IRS) and how the funds may be invested.

23. CONCENTRATION OF CREDIT RISK: The Agency has maintained bank balances that often exceed the limit of the Federal Depository Insurance Corporation (FDIC) insurance coverage. The Agency verifies on a quarterly basis the equity strength and profitability of the banks it uses in order to minimize the risk.

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APPENDIX B-IV

SCO FAMILY OF SERVICES

AUDITED FINANCIAL STATEMENTS

FISCAL YEARS 2009, 2008 AND 2007

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SCO FAMILY OF SERVICES

AUDITED FINANCIAL STATEMENTS
AND
OTHER INFORMATION

Years Ended June 30, 2009 and 2008

SCO FAMILY OF SERVICES

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FINANCIAL STATEMENTS

UHY LLP
Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
SCO Family of Services

We have audited the accompanying statements of financial position of SCO Family of Services as of June 30, 2009 and 2008, and the related statements of unrestricted activities, temporarily restricted activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of SCO Family of Services management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCO Family of Services as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

UHY LLP

New York, New York
November 30, 2009

SCO FAMILY OF SERVICES
STATEMENTS OF FINANCIAL POSITION

	June 30, 2009	June 30, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,841,051	$ 1,905,174
Investments in marketable securities (Note 2)	18,038,246	23,473,268
Program receivables (Note 4)	48,305,471	45,113,542
Prepaid expenses, pledges and other current assets	2,335,233	1,517,677
Custodial accounts	344,084	310,290
Total current assets	74,864,085	72,319,951
PROPERTY AND EQUIPMENT, Net (Note 5)	38,270,152	39,963,686
INVESTMENTS IN MARKETABLE SECURITIES HELD FOR RESTRICTED PURPOSES (Note 2)	3,112,322	3,285,483
OTHER ASSETS (Note 6)	1,939,470	2,025,049
	$ 118,186,029	$ 117,594,169
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit (Note 7)	$ 16,474,304	$ 16,500,000
Current portion of long-term debt (Note 8)	2,191,896	2,233,391
Accounts payable and accrued expenses	11,270,646	7,138,297
Accrued payroll and compensated absence liability	12,049,021	12,274,253
Accrued interest payable	455,129	479,183
Accrued foster care payments	1,128,822	1,062,158
Estimated liabilities due funding agencies (Note 9)	2,354,656	1,059,544
Custodial accounts	344,084	310,290
Total current liabilities	46,268,558	41,057,116
LONG-TERM DEBT (Note 8)	24,532,599	26,647,540
DEFERRED REVENUE (Note 1)	4,162,495	4,824,442
	74,963,652	72,529,098
COMMITMENTS AND CONTINGENCIES (Notes 8, 11 and 12)		
NET ASSETS		
Unrestricted - board designated:		
Collateral (Note 2)	3,112,322	3,285,483
Other purposes	12,328,498	15,221,252
Unrestricted - undesignated	17,493,905	16,443,100
Total unrestricted net assets	32,934,725	34,949,835
Temporarily restricted (Note 10)	10,287,652	10,115,236
	43,222,377	45,065,071
	$ 118,186,029	$ 117,594,169

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See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF UNRESTRICTED ACTIVITIES

	Years Ended June 30, 2009	2008
PROGRAM REVENUE AND SUPPORT		
Direct program revenues		
Contract programs	$ 65,819,385	$ 61,212,199
Contract programs - foundation grants	3,872,843	3,494,905
Foster boarding homes	39,682,404	36,427,658
Group homes	17,634,360	17,640,272
Medicaid programs	13,197,300	12,268,780
Residential treatment centers	12,802,614	13,467,742
Residential treatment facilities	10,829,878	10,842,557
Individual residential alternative	10,368,939	8,420,561
Schools	8,728,945	8,734,656
Intermediate care facilities	7,009,515	6,492,896
Shelter programs	2,225,706	1,939,148
	192,171,889	180,941,374
Prior years' cost reimbursement adjustments	(165,306)	(586,570)
Contributions and other income	1,253,395	2,318,488
Net assets released from restrictions	3,212,345	2,629,604
Total program revenue and support	196,472,323	185,302,896
PROGRAM EXPENSES AND OTHER EXPENSES		
Direct program expenses		
Contract programs	67,504,701	63,287,313
Foster boarding homes	37,844,561	34,120,795
Group homes	16,788,134	16,536,531
Residential treatment centers	12,711,492	12,730,617
Medicaid reimbursed services	12,477,752	11,287,819
Residential treatment facilities	10,288,402	10,161,867
Individual residential alternative	9,479,812	7,915,221
Schools	8,539,334	8,151,785
Intermediate care facilities	6,455,302	6,367,339
Shelters	2,083,285	1,889,552
	184,172,775	172,448,839
Management and general	10,812,144	11,596,381
Fund raising	456,692	433,504
Total program expenses and other expenses	195,441,611	184,478,724
CHANGE IN NET ASSETS FROM OPERATIONS	1,030,712	824,172
INVESTMENT INCOME (LOSS)		
Interest and dividend income	569,612	720,053
Realized and unrealized losses on marketable securities	(3,615,434)	(1,907,238)
Total investment loss	(3,045,822)	(1,187,185)
CHANGE IN UNRESTRICTED NET ASSETS	$ (2,015,110)	$ (363,013)

See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF TEMPORARILY RESTRICTED ACTIVITIES AND CHANGES IN NET ASSETS

	Years Ended June 30,					
	2009			2008		
	Unrestricted	Temporarily Restricted	**Total**	Unrestricted	Temporarily Restricted	Total
NET ASSETS, Beginning	$ 34,949,835	$ 10,115,236	**$ 45,065,071**	$ 35,312,848	$ 9,396,082	$ 44,708,930
Program revenue and support	192,006,583	-	**192,006,583**	180,354,804	-	180,354,804
Net assets released from restrictions	3,212,345	(3,212,345)	**-**	2,629,604	(2,629,604)	-
Contributions	1,253,395	3,384,761	**4,638,156**	2,318,488	3,348,758	5,667,246
Investment loss	(3,045,822)	-	**(3,045,822)**	(1,187,185)	-	(1,187,185)
Total	193,426,501	172,416	**193,598,917**	184,115,711	719,154	184,834,865
EXPENSES	195,441,611	-	**195,441,611**	184,478,724	-	184,478,724
CHANGE IN NET ASSETS	(2,015,110)	172,416	**(1,842,694)**	(363,013)	719,154	356,141
NET ASSETS, Ending	$ 32,934,725	$ 10,287,652	**$ 43,222,377**	$ 34,949,835	$ 10,115,236	$ 45,065,071

See notes to financial statements.

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SCO FAMILY OF SERVICES
STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2009	2008
OPERATING ACTIVITIES		
Change in net assets	$ (1,842,694)	$ 356,141
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,769,972	2,536,395
Amortization of deferred financing costs	154,582	154,578
Unrealized depreciation of marketable securities	3,546,480	1,851,909
Realized loss on sale of marketable securities	68,954	55,329
Gain on disposal of fixed assets	(13,512)	-
Change in operating assets and liabilities:		
Program receivables	(3,191,929)	(11,185,102)
Prepaid expenses, pledges and other current assets	(817,556)	1,896,377
Other assets	(69,003)	115,165
Accounts payable and accrued expenses	4,132,349	1,674,362
Accrued payroll and compensated absences	(225,232)	1,584,807
Accrued foster parent payroll	66,664	(53,098)
Accrued interest payable	(24,054)	(25,785)
Estimated liabilities due to funding agencies	1,295,112	(402,595)
Deferred revenue	(661,947)	446,113
Net cash provided by (used in) operating activities	5,188,186	(995,404)
INVESTING ACTIVITIES		
Purchases of marketable securities	(1,095,182)	(2,404,199)
Proceeds from sales of marketable securities	3,087,931	1,720,567
Proceeds from disposal of property and equipment	18,929	-
Purchases of property and equipment	(1,081,855)	(8,077,689)
Net cash provided by (used in) investing activities	929,823	(8,761,321)
FINANCING ACTIVITIES		
Payments of long-term liabilities	(2,156,436)	(9,031,303)
Proceeds from long-term debt	-	712,410
Line of credit (repayment) proceeds, net	(25,696)	16,500,000
Net cash (used in) provided by financing activities	(2,182,132)	8,181,107
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,935,877	(1,575,618)
CASH AND CASH EQUIVALENTS, Beginning	1,905,174	3,480,792
CASH AND CASH EQUIVALENTS, Ending	$ 5,841,051	$ 1,905,174
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 1,821,435	$ 1,578,145

See notes to financial statements.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SCO Family of Services (the "Corporation") is a not-for-profit corporation as described under Section 501(c)(3), and qualified as a tax-exempt organization under Section 501(a) of the Internal Revenue Code. Accordingly, the Corporation is not subject to Federal income taxes. It provides human care services to children, young adults and families in metropolitan New York. Each year, its programs reach more than 30,000 New Yorkers in need. Its core service areas include preventive services, foster care and adoption, youth development services, homelessness services, schools, school-based programs, mental health programs and services and homes for people with developmental disabilities.

Basis of Presentation

The financial statements of SCO Family of Services have been prepared on the accrual basis of accounting. Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant estimates by management are used in the computation of program receivables, and the estimated liabilities due to funding agencies.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less. The Corporation maintains cash balances in two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to current limits.

In October 2008, the limit on federal deposit insurance coverage increased from $100,000 to $250,000 per depositor until December 31, 2013. These financial institutions also participate in the Federal Deposit Insurance Corporation's ("FDIC") Transaction Account Guarantee Program. Under that program, through June 30, 2010, all noninterest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules.

At June 30, 2009, the Corporation's cash and cash equivalents balance was fully insured. The Corporation has not experienced any losses with respect to its cash and cash equivalents balances.

Investments in Marketable Securities

Investments in marketable securities are stated at fair value with changes in the fair value of investments recorded in the statement of activities. Realized gain (loss) on the sale of investment securities is the difference between sale proceeds and the specifically identified carrying value of the security sold.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

On July 1, 2008, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, for financial assets. SFAS No. 157 provides a framework for measuring fair value under generally accepted accounting principles. SFAS No. 157 also provides guidance regarding a fair value hierarchy, which prioritizes information used to measure fair value and the effects of fair value measurements on earnings and provides for enhanced disclosures determined by the level within the hierarchy of information used in the valuation.

SFAS No. 157 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. SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect on the Corporation's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

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Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. Examples of the assets carried at Level 1 fair value generally are equity securities listed in active markets and investments in publicly traded mutual funds with quoted market prices.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset of liability through correlation with market data at the measurement date and for the duration of the asset/liability's anticipated life.

Level 3 – Inputs are unobservable and cannot be corroborated by observable market data. Inputs generally reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the inputs of the model.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Corporation in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Financing Costs

Deferred financing costs, presented in "Other assets", are comprised of expenses incurred to obtain construction loans, and legal, professional and commitment fees paid in connection with the closing of long-term debt financings. These costs are amortized over the term of the related loans.

Custodial Accounts

Custodial accounts primarily represent Supplemental Social Security funds plus accrued interest on those funds which are held by SCO Family of Services on behalf of certain children in its care.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization, or at the fair market value of the donated assets at the date a gift is received. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the respective assets, which range from 3 to 40 years. Items of property and equipment, where title is held by the granting agency, are expended when purchased.

Net Assets

Revenue and support are classified based on the existence or absence of restrictions imposed by the donor or granting governmental agency. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets that are either not subject to restrictions imposed by the donor or grantor, or net assets that have been reclassified from temporarily restricted net assets because the basis for any restrictions has expired.

Board Designated Reserves: Unrestricted net assets whose use has been reserved by board action for certain specified purposes, designated by a revocable resolution of the Board of Directors.

Temporarily Restricted Net Assets: Net assets, subject to stipulations imposed by the donor or granting agency that have not been satisfied. When a stipulated time restriction ends or if a purpose restriction is met, generally by expenditures of funds, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Program Expenses and Revenue

Expenses are recorded in the period in which they are incurred. Program income is recorded as revenue as services are provided and costs incurred (contract revenue). Certain program revenues are recorded based on the number of care days rendered and expected reimbursement rates (rate based program).

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program Expenses and Revenue (Continued)

However, reimbursement rates are subject to change and retroactive adjustment subsequent to the fiscal year end, on the basis of audit by the governmental agencies responsible for such funding. Provisions for unfavorable settlements are accrued as estimated liabilities due funding agencies, in the period in which the related services are rendered. Revenues resulting from rate appeals are recorded in the period such appeals are determined to be collectible. Any subsequent adjustments thereto are included in revenue reimbursement adjustments in the year of such revision, audit or settlement.

Receipts under certain government-funded fee-for-services contract programs, which have not been spent, and are therefore available for application to future years' renewal contracts are classified as deferred revenue.

Contributions, Pledges and Grants

Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at estimated net realizable value in the year the promise is made. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. As of June 30, 2009 and 2008 there were no discounted pledges recorded. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Long-Lived Assets

In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, management reviews long-lived assets for impairment when circumstances indicate that the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the undiscounted cash flows, quoted market values or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. There were no impairment losses recognized for the years ended June 30, 2009 and 2008.

Subsequent Events

In May 2009, FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* ("SFAS No. 165"). SFAS No. 165 establishes the accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009. Subsequent events have been evaluated through November 30, 2009, the date the financial statements were available for issuance.

NOTE 2 - INVESTMENTS IN MARKETABLE SECURITIES

At June 30, investments in marketable securities were as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Equity securities	$ 11,627,839	$ 9,776,408	$ 10,359,474	$ 12,214,825
United States government obligations	8,012,963	8,261,838	11,169,851	11,258,443
Totals	$ 19,640,802	$ 18,038,246	$ 21,529,325	$ 23,473,268

Investments in debt and equity securities are carried at fair value based on quoted prices in active markets. In addition, SCO Family of Services maintains debt service reserves for long-term mortgage financings. At June 30, 2009 and 2008 marketable securities held for debt service reserves consisted as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
United States government obligations	$ 177,658	$ 182,923	$ 149,047	$ 154,290
Cash and cash equivalents	2,929,399	2,929,399	3,131,193	3,131,193
Totals	$ 3,107,057	$ 3,112,322	$ 3,280,240	$ 3,285,483

The following schedule summarizes the investment return in the statement of activities:

	2009	2008
Interest and dividend income	$ 569,612	$ 720,053
Net realized and unrealized gains (losses)	(3,615,434)	(1,907,238)
Total	$ (3,045,822)	$ (1,187,185)

NOTE 3 - FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2009 and 2008.

Cash equivalents: Valued at the closing price reported on the active market on which the individual securities are traded.

Equity and equity type investments: Common stocks, corporate bonds and U.S. government securities are valued at the closing price reported on the active market on which the individual securities are traded.

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents the fair value hierarchy for the Corporation's financial assets and liabilities measured at fair value on a recurring basis:

	Assets at Fair Value as of June 30, 2009			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 8,770,450	$ -	$ -	$ 8,770,450
Equity securities	9,776,408	-	-	9,776,408
United States government obligations	8,444,761	-	-	8,444,761
	$ 26,991,619	$ -	$ -	$ 26,991,619

NOTE 4 - PROGRAM RECEIVABLES

At June 30, 2009 and 2008, the Corporation's program receivables were comprised of the following:

	June 30,	
	2009	2008
Rate-Based Programs:		
City of New York Agency for Children's Services	$ 9,507,478	$ 8,350,722
Medicaid	4,140,788	2,738,761
New York State Office of Mental Health	3,641,871	3,200,023
New York State Office of Mental Retardation and Developmental Disabilities	5,456,627	4,681,242
New York City Department of Homeless Services	2,501,058	4,527,404
County and other	17,120,573	16,490,647
	42,368,395	39,988,799
Contract Programs	8,459,042	7,221,446
	50,827,437	47,210,245
Less - Estimated allowances for doubtful accounts	(2,521,966)	(2,096,703)
Totals	$ 48,305,471	$ 45,113,542

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	2009	2008
Land	$ 2,175,113	$ 2,175,113
Building and improvements	59,007,079	58,117,709
Furniture and equipment	8,089,302	7,901,617
Leasehold improvements	3,025,778	3,026,395
	72,297,272	71,220,834
Less accumulated depreciation and amortization	34,027,120	31,257,148
Totals	$ 38,270,152	$ 39,963,686

At June 30, 2009 and 2008, there were approximately $10,578,089 and $10,127,545, respectively, of fully depreciated assets included in gross property, plant and equipment, still in use by SCO Family of Services.

Depreciation and amortization expense of property and equipment for the years ended June 30, 2009 and 2008 were $2,769,972 and $2,536,395, respectively.

NOTE 6 - OTHER ASSETS

Other assets consisted of the following:

	June 30,	
	2009	2008
Deferred financing costs, net of accumulated amortization of $2,058,142 in 2009 and $1,903,560 in 2008	$ 1,629,225	$ 1,783,807
Other	310,245	241,242
Totals	$ 1,939,470	$ 2,025,049

Amortization expense was $154,582 and $154,578 for the years ended June 30, 2009 and 2008, respectively.

NOTE 7 - LINE OF CREDIT

At June 30, 2009 and 2008, the Corporation had two lines of credit with a commercial bank. One line had an outstanding balance of $5,500,000 at June 30, 2009 and 2008 and is secured by the Corporation's receivables. The other line had an outstanding balance of $10,974,304 and $11,000,000 at June 30, 2009 and 2008, respectively, under which borrowings are based on the market value of underlying investments, (95% of United States government obligations and 75% of equity securities) pledged as collateral. Interest, which is payable on demand, ranged from 1% to 6.50% per annum and was based on prime and LIBOR rates.

NOTE 8 - LONG TERM DEBT

The Corporation was indebted under long-term obligations as follows:

	June 30, 2009	June 30, 2008
Loans payable to the New York State Rehabilitation Association, Inc. through 2024 payable monthly plus accrued interest at rates ranging from 4% to 5% for Series A and through 2015 at 6.75% for Series B. (a)	$ 10,223,924	$ 10,900,392
Medical Care Facilities Finance Agency mortgages payable through 2019 at rates ranging from 6.12% to 7.58% (b)	6,547,029	7,074,242
Other loans payable, (c)	1,245,370	1,565,702
Loans payable to the New York State Rehabilitation Association, Inc. through 2023 payable monthly plus accrued interest at rates ranging from 3% to 5.125% for Series A and through 2013 at 5.38% for Series B. (d)	7,150,701	7,745,037
Loan payable to the New York State Rehabilitation Association, Inc. through 2031 payable monthly plus accrued interest at a rate of 5.047% (e).	1,557,471	1,595,558
Totals	26,724,495	28,880,931
Less current portion	2,191,896	2,233,391
Long-term debt	$ 24,532,599	$ 26,647,540

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Total interest expense amounted to $2,305,902 and $2,041,590 for the years ended June 30, 2009 and 2008, respectively.

(a) In January 2001, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 1, consisting of two issues, Series 2001A (non-taxable) and Series 2001B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling $16,060,000 (including $460,000 of the Series 2001B issue) is defined in a Loan Agreement with the Association dated June 2000. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein. This debt is net of discount in the amount of $336,075 and $359,608, respectively as of June 30, 2009 and 2008.

NOTE 8 - LONG TERM DEBT (Continued)

(b) Since fiscal 1993, the Corporation has been obligated under three mortgage agreements payable over a 25-year period, with the New York State Medical Care Facilities Finance Agency ("MCFFA") for acquisition of three Intermediate Care Facilities ("ICFs") located at Kew Gardens, Jamaica and Richmond Hill, New York. In fiscal 1994, a similar arrangement with MCFFA was negotiated for a residential treatment facility located in Jamaica, New York. The Corporation's reimbursement rates with the applicable state funding agency were adjusted to include debt service through the Facilities Development Corporation as trustee for MCFFA. Pursuant to the mortgage agreements, MCFFA financed the acquisition and renovation of these buildings through the issuance of its General and Series Bonds, which are secured by the mortgages with the Corporation. Under the mortgage agreements, title to the buildings rests with SCO Family of Services.

(c) Other mortgages and loans payable with interest rates ranging from 7.95% to 10.5% per annum were largely refinanced in fiscal 2001 with the proceeds from the Association loan. The remaining loans include a $132,266 balance on a financing of a sewer connection, payable monthly with interest at 5.5% ending in fiscal 2020 and three commercial loans for $120,210, $130,182 and $637,210 payable to a bank on demand with interest at 6% for the first two loans and 6.37% for the third. During 2005 SCO Family of Services assumed a $414,000 Dormitory Authority Bond with interest at 9.48% due to the purchase of a building with a pre-existing mortgage with a balance of $225,500 at June 30, 2009.

(d) In August 2003, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 2, consisting of two issues, Series 2003A (non-taxable) and Series 2003B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling $10,355,000 (including $355,000 of the Series 2003B issue) is defined in a Loan Agreement with the Association dated June 2003. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein.

The Series 2003A Bonds were issued to refinance a line of credit and to finance real property acquisitions. These debts are net of discounts of $289,299 and $309,963, respectively as of June 30, 2009 and 2008.

NOTE 8 - LONG TERM DEBT (Continued)

(e) In June 2007, the Corporation entered into two agreements with the Dormitory Authority of the State of New York (the "Authority") to borrow $1,554,500 for the purpose of refinancing the acquisition and construction of two facilities. The two loans in the amount of $1,135,400 and $419,000 are in the form of non-recourse mortgages secured by the real properties. The Authority has been granted a security interest in certain pledged revenues equivalent to annual debt service requirements.

The Funds for the mortgage were obtained by the Authority through the issuance of the Series 2007 Bonds. These debts are net of discounts and premiums of $71,125 and $74,287, respectively as of June 30, 2009 and 2008 and are recorded as part of the loans.

Scheduled debt service on long-term debt subsequent to June 30, 2009 is as follows:

Years Ending June 30,	Amount
2010	$ 2,191,896
2011	2,108,512
2012	2,198,582
2013	2,286,442
2014	2,327,829
Thereafter	15,611,234
	$ 26,724,495

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NOTE 9 - ESTIMATED RECEIVABLES/LIABILITIES DUE FROM/TO FUNDING AGENCIES

Receivables

At June 30, 2009 the Corporation estimates approximately $4,009,000 in receivables from a governmental agency that is pending rate appeals. It is at least reasonably possible that once there is an appeal verdict this receivable may be significantly reduced.

Liabilities

The Corporation has recorded estimated liabilities of $2,354,656 and $1,059,544 for 2009 and 2008, respectively, for future settlements with funding agencies, generally related to the Corporation's underspending of past years' contracts.

Audits have been completed by the Agency for Children Services ("ACS") through fiscal 2003. It is management's opinion that retroactive adjustments, if any, for years subsequent to fiscal 2003 will not have a material adverse impact on the financial position or net assets of SCO Family of Services.

NOTE 10 -TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets for the year ended June 30, 2009 were as follows:

Program/Purpose	Balances, June 30, 2008	Restricted Contributions	Net Assets Released from Restrictions	Balances, June 30, 2009
Contract programs	$ 6,764,375	$ 2,442,891	$ (2,870,912)	$ 6,336,354
Restricted capital grants	1,405,048	-	(82,342)	1,322,706
Other:		-		
Residential treatment centers	963,273	30,966	(155,475)	838,764
Group homes	41,255	4,440	(1,840)	43,855
Residential treatment facilities	19,344	5,963	(5,731)	19,576
Schools	85,738	193,329	(16,005)	263,062
Miscellaneous	836,203	707,172	(80,040)	1,463,335
	1,945,813	941,870	(259,091)	2,628,592
All programs	$ 10,115,236	$ 3,384,761	$ (3,212,345)	$ 10,287,652

Restricted capital grants are comprised of funds received from governmental sources relating to purchase and renovation costs incurred in opening new program facilities. These advances are amortized to unrestricted activities as the new program facility costs are depreciated to operations.

NOTE 11 -COMMITMENTS AND CONTINGENCIES

Operating Leases

As of June 30, 2009, minimum annual rental commitments for the remaining terms of SCO Family of Services operating leases relating to buildings for programs and equipment were as follows:

Years Ending June 30,	Amount
2010	$ 12,571,462
2011	11,631,154
2012	10,899,099
2013	10,640,048
2014	7,114,154
Thereafter	4,057,181
	$ 56,913,098

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

Certain leases require additional payments based upon property tax and maintenance expense escalations. Substantially all leases have a defunding clause, as defined, which provides that SCO Family of Services obligations under the lease would terminate if the applicable governmental funding agency were to eliminate or significantly reduce funding for the related program.

Aggregate rental expense for buildings and equipment for the years ended June 30, 2009 and 2008 amounted to approximately $14,450,842 and $13,838,300, respectively.

Other Matters

SCO participates in various Federal, State and City programs, all of which have strict requirements for participation, and accordingly, SCO is subject to government program reviews covering compliance with laws and regulations. In addition, the expenses of programs which have been reimbursed pursuant to Federal, State and Local government contracts and grants, are subject to audit by the respective granting agencies. Until such audits are completed and final settlements reached, there exists a contingency to refund any amount in excess of allowable costs. Management is of the opinion that no material liability would result from such audits.

SCO is involved with several cases in litigation as a defendant. A number of the cases are currently in pre-trial discovery. Management is unable to determine at this time the likelihood of the outcomes. Management believes that insurance coverage will be sufficient to cover any potential claims.

NOTE 12 -PENSION PLANS

SCO Family of Services makes contributions to the Brooklyn Diocese and Rockville Centre Diocese Pension Plans (the "Plans"); both are church plans, which have been approved by the Internal Revenue Service and are exempt from ERISA reporting requirements. Contributions are actuarially determined by the aggregate cost method using an assumed rate of return of 6.75 percent and other assumptions. The Brooklyn Diocese Pension Plan covered employees who have been employed for three years or more and have reached the age of 30. Effective September 1, 2008, the Brooklyn Diocese Pension Plan changed the coverage to employees who have been employed for one year or more and have reached the age of 25. The Rockville Centre Pension Plan covers employees who were covered under the plan while working for Madonna Heights Services prior to its merger with SCO Family of Services in 1996.

The Plans are multiemployer plans and contributions for all participating employers are pooled and held by an independent trustee for the purpose of providing retirement and other benefits for eligible employees. As of the beginning of the most recent plan years, each of the Plans has assets in excess of the actuarially computed value of the vested benefits for all participating employers.

SCO Family of Services has received no information from the administrators of the Plans, which would permit it to determine its share of unfunded vested benefits, if any. Contributions to the Plans amounted to $3,983,685 and $2,205,291 for the years ended June 30, 2009 and 2008, respectively.

NOTE 12 - PENSION PLANS (Continued)

In fiscal 2000, the Corporation adopted a supplemental pension plan through an insurance company. The plan is tax-qualified as a defined contribution arrangement under IRS Section 403(b). Funding is provided by employee withholding and annual employer matching contributions of either 1% of the employee's annual salary or 25% of the employee's contribution to the Plan, whichever is less. Contributions to this plan amounted to $248,812 and $232,594 for the years ended June 30, 2009 and 2008, respectively. Effective June 27, 2009 the annual employer matching contribution to the Plan was no longer provided.

NOTE 13 -SUBSEQUENT EVENTS

In July 2009, the Dormitory Authority of the State of New York ("the Authority") sold its Improvement Bonds issued under the Mental Health Services Facilities Improvement Revenue Bond Series 2008B for the purpose of the design, construction, acquisition, reconstruction, rehabilitation and improving or otherwise furnishing and equipping of a Chemical Dependence Treatment Program Facility. The Corporation's share of the bond proceeds, totaling $1,792,076 is defined in a Loan Agreement with the Authority and in exchange, the Corporation has granted a security interest in the treatment facility. The loan bears interest at the rate of 4.76% per annum on the unpaid principal balance and shall be payable to the Authority in 40 semi-annual installments due on February 15th and August 15th of each year.

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SCO FAMILY OF SERVICES
SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended June 30, 2009 (With Comparative Totals for Year Ended June 30, 2008)

	Contract Programs	Foster Boarding Homes	Group Homes	Medicaid Reimbursed Services	Residential Treatment Facilities	Residential Treatment Centers	Individual Residential Alternative	Schools	Intermediate Care Facilities	Shelter	Management and Other Costs	2009 Total Expenses	2008 Total Expenses
Salaries	$ 32,515,212	$ 13,050,676	$ 9,400,279	$ 7,220,569	$ 5,469,293	$ 7,670,002	$ 5,548,195	$ 5,504,044	$ 3,536,973	$ 1,237,078	$ 6,568,805	$ 98,121,126	90,643,149
Employee fringe	8,911,074	3,718,946	2,670,619	2,083,488	1,507,900	2,161,656	1,519,325	1,540,278	908,327	351,431	1,834,812	26,807,856	23,485,854
	41,426,286	16,769,622	12,070,898	9,304,057	6,977,193	9,831,658	7,067,520	7,044,322	4,445,300	1,588,509	8,403,617	124,928,982	114,129,003
Occupancy	11,255,451	569,769	633,750	61,417	10,581	27,467	319,423	13,259	78,958	-	41,003	13,301,177	12,723,924
Purchase of services	4,660,649	1,460,050	214,187	27,975	390,029	655,460	69,609	86,267	40,160	44,337	269,660	7,938,411	7,756,436
Utilities	1,267,519	241,742	414,476	42,218	306,160	400,377	171,307	175,704	101,125	72,680	142,623	3,335,931	3,196,556
Supplies and equipment	1,122,082	657,897	434,501	54,823	125,245	274,679	160,668	146,820	84,900	65,125	80,479	3,206,209	4,387,069
Depreciation and amortization	421,122	328,648	265,505	59,288	421,214	265,348	347,192	200,557	204,594	57,882	389,387	2,961,717	2,731,094
Transportation	600,086	1,081,510	380,878	15,622	38,204	131,177	22,621	1,433	6,258	2,520	65,362	2,631,669	2,167,050
Purchase of health services	260,502	-	-	1,482,252	170,055	-	106,679	291,556	287,827	-	-	2,607,870	2,953,374
Food	558,467	7,129	749,732	-	217,148	305,644	322,659	11,039	167,996	67,350	-	2,407,164	2,560,258
Interest	340,304	214,667	127,726	59,901	301,090	184,157	279,324	302,797	243,236	32,970	211,730	2,305,902	2,041,590
Supplies and equipment - medical	46,362	-	-	1,227,346	704,822	-	30,878	1,157	22,835	141	-	2,113,541	2,008,286
Professional fees	232,698	673,139	14,768	1,027	4,116	22,134	2,455	1,314	399	-	703,840	1,655,889	1,496,313
Insurance	474,767	222,562	207,055	27,165	81,846	117,053	118,464	57,308	64,616	37,183	99,829	1,548,699	1,631,825
Rent of furnishings and equipment	314,574	257,896	166,554	31,082	46,398	45,782	116,378	42,432	56,521	10,339	61,719	1,149,665	1,114,376
Repairs and maintenance	347,386	55,520	150,112	14,581	70,468	126,725	160,600	37,151	60,495	70,793	34,190	1,127,951	1,619,433
Allowance - parents	867,280	128,948	871	-	13	152	351	-	-	-	-	1,017,616	912,227
Office supplies	431,503	128,419	108,716	27,069	32,573	50,304	40,093	25,372	19,143	7,066	128,048	1,006,709	1,238,306
Telephone and telegraph	346,136	175,435	145,159	14,726	23,865	30,776	53,348	11,474	19,734	15,441	131,457	967,561	875,194
Activities -children	300,149	26,065	185,325	162	59,126	28,513	21,575	16,064	14,979	2,409	2,587	740,905	966,970
Administrative expense	22,168	14,042	23,424	7,303	5,946	2,898	535	1,328	450,786	918	211,726	751,085	673,771
Clothing	33,697	221	200,539	-	77,778	79,547	44,022	-	20,947	9	-	456,060	506,183
Real estate taxes	250,709	1,191	(565)	-	300	-	-	-	-	-	110,897	362,532	157,080
Staff development	145,248	17,982	6,660	5,807	12,544	26,514	10,038	8,474	4,092	907	61,318	303,462	429,659
Beddings and linen	80,965	-	26,955	-	96,405	4,939	12,590	52	19,767	183	-	249,659	263,236
Dues, licenses and permits	22,976	2,554	6,320	1,230	20,480	14,631	1,260	9,663	11,226	143	59,127	149,610	135,568
Postage	18,359	70,431	3,958	5,724	1,985	4,482	285	2,323	508	2,573	35,616	146,224	119,521
Other expenses	21,970	22,123	190	3,270	3,735	3,399	-	1,061	20,000	2,656	4,037	83,239	84,188
Tuition and related -children	30,381	2,609	6,022	-	-	113	-	10,588		43	-	49,756	39,922
Subscriptions and publications	29,129	1,711	1,904	2,899	245	105	256	800		1,196	3,536	41,781	36,610
Repairs and maintenance -vehicles	-	-	352	-	-	-	-	-	-	110	16,048	16,510	37,482
	24,983,538	6,362,011	4,676,052	3,173,695	3,311,209	2,876,308	2,412,292	1,406,012	2,010,002	494,778	2,865,219	54,859,164	54,887,069
Foster Care Payments	920,752	13,215,956	-	-	-	-	-	-	-	-	-	14,136,708	13,820,820
Clothing Replacement	125	970,516	-	-	-	-	-	-	-	-	-	970,643	923,263
Special Payments	174,000	526,454	41,184	-	-	4,476	-	-	-	-	-	746,114	718,543
	1,094,877	14,712,926	41,184	-	-	4,476	-	-	-	-	-	15,853,465	15,462,652
Total expenses	$ 67,504,701	$ 37,844,561	$ 16,788,134	$ 12,477,752	$ 10,288,402	$ 12,711,492	$ 9,479,812	$ 8,539,334	$ 6,455,302	$ 2,083,295	$ 11,268,836	$ 195,441,611	$ 184,478,724

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SCO FAMILY OF SERVICES

AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Years Ended June 30, 2008 and 2007

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SCO FAMILY OF SERVICES

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UHY LLP
Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
SCO Family of Services

We have audited the accompanying statements of financial position of SCO Family of Services as of June 30, 2008 and 2007, and the related statements of unrestricted activities, temporarily restricted activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of SCO Family of Services management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCO Family of Services as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of functional expenses is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

UHY LLP

New York, New York
November 14, 2008

FINANCIAL STATEMENTS

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SCO FAMILY OF SERVICES
STATEMENTS OF FINANCIAL POSITION

	June 30, 2008	June 30, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,722,658	$ 3,480,792
Investments in marketable securities (Note 2)	23,655,784	24,704,031
Program receivables (Note 3)	45,113,542	33,928,440
Prepaid expenses, pledges and other current assets	1,517,677	3,414,054
Custodial accounts	310,290	273,175
Total current assets	72,319,951	65,800,492
PROPERTY AND EQUIPMENT, Net (Note 4)	39,963,686	34,475,216
INVESTMENTS IN MARKETABLE SECURITIES HELD FOR RESTRICTED PURPOSES (Note 2)	3,285,483	3,222,997
OTHER ASSETS (Note 5)	2,025,049	2,294,792
	$ 117,594,169	$ 105,793,497
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit (Note 6)	$ 16,500,000	$ 6,995,150
Current portion of long-term debt (Note 7)	2,233,391	2,098,492
Accounts payable and accrued expenses	7,138,297	5,463,935
Accrued payroll and compensated absence liability	12,274,253	10,689,446
Accrued interest payable	479,183	504,968
Accrued foster care payments	1,062,158	1,115,256
Estimated liabilities due funding agencies (Note 8)	1,059,544	1,462,139
Custodial accounts	310,290	273,175
Total current liabilities	41,057,116	28,602,561
LONG-TERM DEBT (Note 7)	26,647,540	28,103,677
DEFERRED REVENUE (Note 1)	4,824,442	4,378,329
	72,529,098	61,084,567
COMMITMENTS AND CONTINGENCIES (Notes 7, 10 and 11)		
NET ASSETS		
Unrestricted - board designated:		
Collateral (Note 2)	3,285,483	3,222,997
Other purposes	15,221,252	16,514,134
Unrestricted - undesignated	16,443,100	15,575,717
Total unrestricted net assets	34,949,835	35,312,848
Temporarily restricted (Note 9)	10,115,236	9,396,082
	45,065,071	44,708,930
	$ 117,594,169	$ 105,793,497

See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF UNRESTRICTED ACTIVITIES

	Years Ended June 30, 2008	Years Ended June 30, 2007
REVENUE		
Current year program revenue	$ 180,941,374	$ 158,073,616
Prior years' cost reimbursement adjustments	(586,570)	292,311
Net assets released from restrictions	2,629,604	4,353,294
Total program revenue	182,984,408	162,719,221
SUPPORT AND OTHER		
Contributions and other income	2,318,488	1,601,480
Interest and dividend income, net	720,053	585,597
Realized and unrealized gains (losses) on marketable securities	(1,907,238)	2,684,146
Total support and revenue	184,115,711	167,590,444
DIRECT PROGRAM EXPENSES		
Contract programs	63,287,313	52,502,864
Foster boarding homes	34,120,795	28,939,017
Group homes	16,536,531	15,772,814
Residential treatment centers	12,730,617	10,561,597
Medicaid reimbursed services	11,287,819	10,538,479
Residential treatment facilities	10,161,867	9,986,286
Schools	8,151,785	8,536,529
Individual residential alternative	7,915,221	7,619,532
Intermediate care facilities	6,367,339	6,073,891
Shelters	1,889,552	1,832,990
Enhanced independent living	-	258,832
Total direct program expenses	172,448,839	152,622,831
MANAGEMENT AND OTHER INDIRECT EXPENSES		
Management and general	11,596,381	11,605,922
Fund raising	433,504	358,004
Total management and other indirect expenses	12,029,885	11,963,926
Total expenses	184,478,724	164,586,757
CHANGE IN UNRESTRICTED NET ASSETS	$ (363,013)	$ 3,003,687

See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF TEMPORARILY RESTRICTED ACTIVITIES AND CHANGES IN NET ASSETS

	Years Ended June 30,					
	2008			2007		
	Unrestricted	Temporarily Restricted	**Total**	Unrestricted	Temporarily Restricted	Total
NET ASSETS, Beginning	$ 35,312,848	$ 9,396,082	**$ 44,708,930**	$ 32,309,161	$ 8,931,858	$ 41,241,019
Program support and revenue	180,354,804	-	**180,354,804**	158,365,927	-	158,365,927
Net assets released from restrictions	2,629,604	(2,629,604)	**-**	4,353,294	(4,353,294)	-
Contributions	2,318,488	3,348,758	**5,667,246**	1,601,480	4,817,518	6,418,998
Investment income	(1,187,185)	-	**(1,187,185)**	3,269,743	-	3,269,743
Total	184,115,711	719,154	**184,834,865**	167,590,444	464,224	168,054,668
EXPENSES	184,478,724	-	**184,478,724**	164,586,757	-	164,586,757
CHANGE IN NET ASSETS	(363,013)	719,154	**356,141**	3,003,687	464,224	3,467,911
NET ASSETS, Ending	$ 34,949,835	$ 10,115,236	**$ 45,065,071**	$ 35,312,848	$ 9,396,082	$ 44,708,930

See notes to financial statements.

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SCO FAMILY OF SERVICES
STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2008	2007
OPERATING ACTIVITIES		
Change in net assets	$ 356,141	$ 3,467,911
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,536,395	2,410,178
Amortization of deferred financing costs	154,578	160,508
Unrealized (appreciation) depreciation of marketable securities	1,851,909	(2,368,010)
Realized (gain) loss on sale of marketable securities	55,329	(316,136)
Change in operating assets and liabilities:		
Program receivables	(11,185,102)	16,450
Prepaid expenses, pledges and other current assets	1,896,377	(813,576)
Other assets	115,165	(186,838)
Accounts payable and accrued expenses	1,674,362	(302,324)
Accrued payroll and compensated absences	1,584,807	2,403,869
Accrued foster parent payroll	(53,098)	104,005
Accrued interest payable	(25,785)	(25,419)
Estimated liabilities due to funding agencies	(402,595)	(1,080,009)
Deferred revenue	446,113	(1,432,565)
Net cash provided by (used in) operating activities	(995,404)	2,038,044
INVESTING ACTIVITIES		
Purchases of marketable securities	(2,586,715)	(1,132,676)
Proceeds from sales of marketable securities	1,720,567	2,715,372
Purchases of property and equipment, net	(8,077,689)	(6,805,176)
Net cash used in investing activities	(8,943,837)	(5,222,480)
FINANCING ACTIVITIES		
Payments of long-term liabilities	(9,031,303)	(436,426)
Proceeds from long-term debt	712,410	149,249
Line of credit proceeds	16,500,000	3,140,000
Net cash provided by financing activities	8,181,107	2,852,823
DECREASE IN CASH AND CASH EQUIVALENTS	(1,758,134)	(331,613)
CASH AND CASH EQUIVALENTS, Beginning	3,480,792	3,812,405
CASH AND CASH EQUIVALENTS, Ending	$ 1,722,658	$ 3,480,792
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of amounts capitalized	$ 1,578,145	$ 1,175,854

See notes to financial statements.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SCO Family of Services (the "Corporation") is a not-for-profit corporation as described under Section 501(c)(3), and qualified as a tax-exempt organization under Section 501(a) of the Internal Revenue Code. Accordingly, the Corporation is not subject to Federal income taxes. It provides human care services to children, young adults and families in metropolitan New York. Each year, its programs reach more than 30,000 New Yorkers in need. Its core service areas include preventive services, foster care and adoption, youth development services, homelessness services, schools, school-based programs, mental health programs and services and homes for people with developmental disabilities.

Basis of Presentation

The financial statements of SCO Family of Services have been prepared on the accrual basis of accounting. Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant estimates by management are used in the computation of program receivables, and the estimated liabilities due to funding agencies.

Cash and Cash Equivalents

The Corporation considers cash and cash equivalents to include all highly liquid investments with a maturity of three months or less, when purchased. Cash and cash equivalents are maintained at a level to meet anticipated operating cash needs, and are maintained in FDIC insured accounts at credit qualified financial institutions. At times, such amounts may exceed the FDIC insurance limits.

Investments in Marketable Securities

Investments in marketable securities are stated at fair value. Realized gain (loss) on the sale of investment securities is the difference between sale proceeds and the specifically identified carrying value of the security sold.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Financing Costs

Deferred financing costs, presented in "Other Assets", are comprised of expenses incurred to obtain construction loans, and legal, professional and commitment fees paid in connection with the closing of long-term debt financings. These costs are being amortized over the term of the related loans.

Custodial Accounts

Custodial accounts primarily represent Supplemental Social Security funds, plus accrued interest held by SCO Family of Services on behalf of certain children in its care.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization, or at the fair market value of the donated assets at the date a gift is received. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the respective assets, which range from 3 to 40 years. Items of property and equipment, where title is held by the granting agency, are expended when purchased.

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Net Assets

Revenue and support are classified based on the existence or absence of restrictions imposed by the donor or granting governmental agency. Accordingly, net assets and changes therein are classified and reported as follows:

> Unrestricted Net Assets: Net assets that are either not subject to restrictions imposed by the donor or grantor, or net assets that have been reclassified from temporarily restricted net assets because the basis for any restrictions has expired.
>
> Board Designated Reserves: Unrestricted net assets whose use has been reserved by board action for certain specified purposes, designated by a revocable resolution of the Board of Directors.
>
> Temporarily Restricted Net Assets: Net assets, subject to stipulations imposed by the donor or granting agency that have not been satisfied. When a stipulated time restriction ends or if a purpose restriction is met, generally by expenditures of funds, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Program Expenses and Revenue

Expenses are recorded in the period in which they are incurred. Program income is recorded as revenue as services are provided and costs incurred (contract revenue). Certain program revenues are recorded based on the number of care days rendered and expected reimbursement rates (rate based program).

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

However, reimbursement rates are subject to change and retroactive adjustment subsequent to the fiscal year end, on the basis of audit by the governmental agencies responsible for such funding. Provisions for unfavorable settlements are accrued as estimated liabilities due funding agencies, in the period in which the related services are rendered. Revenues resulting from rate appeals are recorded in the period such appeals are determined to be collectible. Any subsequent adjustments thereto are included in revenue reimbursement adjustments in the year of such revision, audit or settlement.

Receipts under certain government-funded fee-for-services contract programs, which have not been spent, and are therefore available for application to future years' renewal contracts are classified as deferred revenue.

Contributions and Grants

Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at estimated net realizable value in the year the promise is made. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Asset Impairment

The Corporation evaluates its long-lived assets for impairment on an annual basis or whenever events or changes in circumstances would indicate that the carrying value of assets may not be recoverable. Long-lived assets would be deemed to be impaired if the forecast of undiscounted future net cash flows is less than the carrying value of the assets. There were no impairment losses recognized at June 30, 2008 and 2007.

NOTE 2 - INVESTMENTS IN MARKETABLE SECURITRIES

At June 30, investments in marketable securities, partially pledged, were as follows:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Money market investments	$ 182,516	$ 182,516	$ 101,310	$ 101,310
Equity securities	10,359,474	12,214,825	12,080,041	16,091,094
United States government obligations	11,169,851	11,258,443	8,735,974	8,511,627
Totals	$ 21,711,841	$ 23,655,784	$ 20,917,325	$ 24,704,031

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NOTE 2 – INVESTMENTS IN MARKETABLE SECURITIES (Continued)

In addition, SCO Family of Services maintains debt service reserves for long-term mortgage financings. At June 30, 2008 and 2007 marketable securities held for debt service reserves under long-term capital leases totaled $3,285,483 ($3,222,997 in 2007) as follows:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
United States government obligations	$ 149,047	$ 154,290	$ 1,985,783	$ 2,000,172
Cash and cash equivalents	3,131,193	3,131,193	1,222,825	1,222,825
Totals	$ 3,280,240	$ 3,285,483	$ 3,208,608	$ 3,222,997

NOTE 3 - PROGRAM RECEIVABLES

At June 30, 2008 and 2007, the Corporation's program receivables were comprised of the following:

	June 30,	
	2008	2007
Rate-Based Programs:		
City of New York Agency for Children's Services	$ 8,350,722	$ 6,728,963
Medicaid	2,738,761	1,551,501
New York State Office of Mental Health	3,200,023	1,904,847
New York State Office of Mental Retardation and Developmental Disabilities	4,681,242	3,042,307
New York City Department of Homeless Services	4,527,404	2,100,537
County and other	16,490,647	12,939,016
	39,988,799	28,267,171
Contract Programs	7,221,446	7,757,972
	47,210,245	36,025,143
Less - Estimated allowances	(2,096,703)	(2,096,703)
Totals	$ 45,113,542	$ 33,928,440

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	2008	2007
Land	$ 2,175,113	$ 2,005,699
Building and improvements	58,117,709	50,735,561
Furniture and equipment	7,901,617	7,557,667
Leasehold improvements	3,026,395	2,886,586
	71,220,834	63,185,513
Less accumulated depreciation and amortization	31,257,148	28,710,297
Totals	$ 39,963,686	$ 34,475,216

At June 30, 2008 and 2007, there were approximately $10,127,545 and $9,283,973, respectively, of fully depreciated assets included in gross property, plant and equipment, still in use by SCO Family of Services.

Depreciation and amortization expense of property and equipment for the years ended June 30, 2008 and 2007 were $2,731,084 and $2,599,986, respectively.

NOTE 5 - OTHER ASSETS

Other assets consisted of the following:

	June 30,	
	2008	2007
Deferred financing costs, net of accumulated amortization of $1,903,560 in 2008 and $1,748,982 in 2007	$ 1,783,807	$ 1,938,386
Other	241,242	356,406
Totals	$ 2,025,049	$ 2,294,792

NOTE 6 - LINE OF CREDIT

At June 30, 2008 and 2007, the Corporation had a line of credit with commercial banks based on the market value of underlying investments, which are partially pledged as collateral. The Corporation had an outstanding balance at June 30, 2008 and 2007 of $16,500,000 and $6,995,150, respectively with interest ranging from 3% to 5% per annum, payable on demand.

NOTE 7 - LONG TERM DEBT

The Corporation was indebted under long-term obligations as follows:

	June 30,	
	2008	2007
Loan payable to the New York State Rehabilitation Association, Inc. through 2024 payable monthly plus accrued interest at rates ranging from 4% to 5% for Series A and through 2015 at 6.75% for Series B. (a)	$ 10,900,392	$ 11,551,859
Medical Care Facilities Finance Agency mortgages payable through 2019 at rates ranging from 6.12% to 7.58% (b)	7,074,242	7,567,960
Other loans payable, (c)	1,565,702	1,141,030
Loan payable to the New York State Rehabilitation Association, Inc. through 2023 payable monthly plus accrued interest at rates ranging from 3% to 5.125% for Series A and through 2013 at 5.38% for Series B. (d)	7,745,037	8,309,373
Loan payable to the New York State Rehabilitation Association, Inc. through 2031 payable monthly plus accrued interest at a rate of 5.047% (e).	1,595,558	1,631,947
Totals	28,880,931	30,202,169
Less current portion	2,233,391	2,098,492
Long-term debt	$ 26,647,540	$ 28,103,677

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SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 7 - LONG TERM DEBT (Continued)

(a) In January 2001, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 1, consisting of two issues, Series 2001A (non-taxable) and Series 2001B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling $16,060,000 (including $460,000 of the Series 2001B issue) is defined in a Loan Agreement with the Association dated June 2000. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein. This debt is net of discount in the amount of $359,608 and $383,141, respectively as of June 30, 2008 and 2007.

(b) Since fiscal 1993, the Corporation has been obligated under three mortgage agreements payable over a 25-year period, with the New York State Medical Care Facilities Finance Agency ("MCFFA") for acquisition of three Intermediate Care Facilities ("ICFs") located at Kew Gardens, Jamaica and Richmond Hill, New York. In fiscal 1994, a similar arrangement with MCFFA was negotiated for a residential treatment facility located in Jamaica, New York. The Corporation's reimbursement rates with the applicable state funding agency were adjusted to include debt service through the Facilities Development Corporation as trustee for MCFFA. Pursuant to the mortgage agreements, MCFFA financed the acquisition and renovation of these buildings through the issuance of its General and Series Bonds, which are secured by the mortgages with the Corporation. Under the mortgage agreements, title to the buildings rests with SCO Family of Services.

(c) Other mortgages and loans payable with interest rates ranging from 7.95% to 10.5% per annum were largely refinanced in fiscal 2001 with the proceeds from the Association loan. The remaining loans include a $145,066 balance on a financing of a sewer connection, payable monthly with interest at 5.5% ending in fiscal 2020 and three commercial loans for $234,924, $254,412 and $684,704 payable to a bank on demand with interest at 6% for the first two loans and 6.37% for the third. During 2005 SCO Family of Services assumed a $414,000 Dormitory Authority Bond with interest at 9.48% due to the purchase of a building with a pre-existing mortgage with a balance of $246,596 at June 30, 2008.

NOTE 7 - LONG TERM DEBT (Continued)

(d) In August 2003, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 2, consisting of two issues, Series 2003A (non-taxable) and Series 2003B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling $10,355,000 (including $355,000 of the Series 2003B issue) is defined in a Loan Agreement with the Association dated June 2003. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein.

The Series 2003A Bonds were issued to refinance a line of credit and to finance real property acquisitions. These debts are net of discounts of $309,963 and $330,627, respectively as of June 30, 2008 and 2007.

(e) In June 2007, the Corporation entered into two agreements with the Dormitory Authority of the State of New York (the "Authority") to borrow $1,554,500 for the purpose of refinancing the acquisition and construction of two facilities. The two loans in the amount of $1,135,400 and $419,000 are in the form of non-recourse mortgages secured by the real properties. The Authority has been granted a security interest in certain pledged revenues equivalent to annual debt service requirements.

The Funds for the mortgage were obtained by the Authority through the issuance of Bonds. Premiums and discounts on the bonds in the amounts of $74,287 and $77,447, respectively as of June 30, 2008 and 2007 were charged to the Corporation and are recorded as part of the loans.

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SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 7 - LONG TERM DEBT (Continued)

Scheduled debt service on long-term debt subsequent to June 30, 2008 is as follows:

Years Ending June 30,	Amount
2009	$ 18,643,390
2010	2,256,876
2011	2,108,512
2012	2,198,582
2013	2,286,442
Thereafter	17,887,129
	$ 45,380,931

NOTE 8 - ESTIMATED RECEIVABLES/LIABILITIES DUE FROM/TO FUNDNG AGENCIES

Liabilities

The Corporation has recorded estimated liabilities of $1,059,544 and $1,462,139 for 2008 and 2007, respectively, for future settlements with funding agencies, generally related to the Corporation's underspending of past years' contracts.

Audits have been completed by the Agency for Children Services ("ACS") through fiscal 1999. It is management's opinion that retroactive adjustments, if any, for years subsequent to fiscal 1999 will not have a material adverse impact on the financial position or net assets of SCO Family of Services.

Receivables

At June 30, 2008 the Corporation estimates approximately $7.2 million in receivables from a governmental agency that is pending rate appeals. It is at least reasonably possible that once there is an appeal verdict this receivable may be significantly reduced.

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NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets for the year ended June 30, 2008 were as follows:

Program/Purpose	Balances, June 30, 2007	Restricted Contributions	Net Assets Released from Restrictions	Balances, June 30, 2008
Contract programs	$ 5,734,079	$ 2,720,022	$ (2,297,622)	$ 6,156,479
Restricted capital grants	1,487,391	-	(82,343)	1,405,048
Other:				
Residential treatment centers	1,319,103	48,279	(165,937)	1,201,445
Group homes	41,295	800	(840)	41,255
Residential treatment facilities	47,917	26,514	(55,087)	19,344
Schools	36,358	10,169	(6,323)	40,204
Miscellaneous	729,939	542,974	(21,452)	1,251,461
	2,174,612	628,736	(249,639)	2,553,709
All programs	$ 9,396,082	$ 3,348,758	$ (2,629,604)	$ 10,115,236

Restricted capital grants are comprised of funds received from governmental sources relating to purchase and renovation costs incurred in opening new program facilities. These advances are amortized to unrestricted activities as the new program facility costs are depreciated to operations.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating Leases

As of June 30, 2008, minimum annual rental commitments for the remaining terms of SCO Family of Services operating leases relating to buildings for programs and equipment rental were as follows:

Years Ending June 30,	Amount
2009	$ 12,543,464
2010	12,046,874
2011	11,162,907
2012	10,506,939
2013	10,318,509
Thereafter	10,720,732
	$ 67,299,425

Certain leases require additional payments based upon property tax and maintenance expense escalations. Substantially all leases have a defunding clause, as defined, which provides that SCO Family of Services obligations under the lease would terminate if the applicable governmental funding agency were to eliminate or significantly reduce funding for the related program.

Aggregate rental expense for buildings and equipment for the years ended June 30, 2008 and 2007 amounted to approximately $13,838,300 and $9,923,947; respectively.

Other Matters

SCO participates in various Federal, State and City programs, all of which have strict requirements for participation, and accordingly, SCO is subject to government program reviews covering compliance with laws and regulations. In addition, the expenses of programs which have been reimbursed pursuant to Federal, State and Local government contracts and grants, are subject to audit by the respective granting agencies. Until such audits are completed and final settlements reached, there exists a contingency to refund any amount in excess of allowable costs. Management is of the opinion that no material liability would result from such audits.

SCO is involved with several cases in litigation as a defendant. A number of the cases are currently in pre-trial discovery. Management is unable to determine at this time the likelihood of the outcomes. Management believes that insurance coverage will be sufficient to cover any potential claims.

NOTE 11 - PENSION PLANS

SCO Family of Services makes contributions to the Brooklyn Diocese and Rockville Centre Diocese Pension Plans (the "Plans"); both are church plans, which have been approved by the Internal Revenue Service and are exempt from ERISA reporting requirements. Contributions are actuarially determined by the aggregate cost method using an assumed rate of return of 6.75 percent and other assumptions. The Brooklyn Diocese Pension Plan covers employees who have been employed for three years or more and have reached the age of 30. The Rockville Centre Pension Plan covers employees who were covered under the plan while working for Madonna Heights Services prior to its merger with SCO Family of Services in 1996.

The Plans are multiemployer plans and contributions for all participating employers are pooled and held by an independent trustee for the purpose of providing retirement and other benefits for eligible employees. As of the beginning of the most recent plan years, each of the Plans has assets in excess of the actuarially computed value of the vested benefits for all participating employers.

SCO Family of Services has received no information from the administrators of the Plans, which would permit it to determine its share of unfunded vested benefits, if any. Contributions to the Plans amounted to $2,205,291 and $2,062,538 for the years ended June 30, 2008 and 2007, respectively.

In fiscal 2000, the Corporation adopted a supplemental pension plan funded with an insurance company. The plan is tax-qualified as a defined contribution arrangement under IRS Section 403(b). Funding is provided by employee withholding and annual employer matching contributions of either 1% of the employee's annual salary or 25% of the employee's contribution to the Plan, which ever is less. Contributions to this plan amounted to $232,594 and $200,002 for the years ended June 30, 2008 and 2007, respectively.

SUPPLEMENTARY INFORMATION

SCO FAMILY OF SERVICES
SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended June 30, 2008 (With Comparative Totals for Year Ended June 30, 2007)

	Contract Programs	Foster Boarding Homes	Group Homes	Medicaid Reimbursed Services	Residential Treatment Facilities	Residential Treatment Centers
Salaries	$ 29,020,667	$ 11,738,803	$ 8,875,386	$ 6,494,274	$ 5,325,372	$ 7,685,873
Employee fringe	7,304,472	3,169,075	2,316,037	1,653,808	1,384,552	2,000,089
	36,325,139	14,867,878	11,191,423	8,148,082	6,709,924	9,685,762
Occupancy	10,664,002	545,206	796,075	44,783	5,473	67,911
Supplies and equipment	1,671,863	463,052	804,671	62,894	137,587	444,441
Purchase of services	6,121,189	694,337	297,057	24,542	369,392	623,612
Depreciation and amortization	392,800	313,496	240,333	67,978	423,045	252,677
Insurance	442,375	228,094	208,418	29,933	69,854	98,301
Food	733,674	8,532	734,622	-	201,035	328,172
Utilities	1,262,369	210,700	411,908	43,725	304,341	408,634
Interest	706,819	221,117	91,224	56,327	314,459	170,925
Supplies and equipment - medical	43,822	-	-	1,168,925	759,877	-
Purchase of health services	169,701	-	13,740	1,500,058	310,812	-
Transportation	1,033,040	556,481	322,502	10,892	47,201	93,769
Office supplies	520,727	150,858	129,684	21,713	23,096	68,444
Professional fees	275,522	604,143	52,234	2,307	4,060	29,030
Repairs and maintenance	701,267	80,723	212,258	39,071	88,101	178,400
Rent of furnishings and equipment	308,552	242,046	171,988	33,728	33,850	47,224
Activities - children	440,056	30,770	300,943	273	57,449	41,200
Telephone and telegraph	315,255	139,166	148,898	12,123	25,505	30,263
Allowance - parents	764,009	144,515	2,089	-	750	563
Administrative expense	29,730	10,884	7,787	3,062	5,924	1,526
Other expenses	9,671	1,400	-	7,077	49,893	10,142
Clothing	43,012	-	240,124	-	91,124	75,307
Staff development	215,976	19,865	12,189	10,624	17,767	35,916
Beddings and linen	128,182	-	38,632	104	95,761	27,884
Postage	20,447	47,552	4,147	4,464	1,989	4,444
Dues, licenses and permits	23,788	1,336	8,058	537	22,511	1,675
Real estate taxes	150,966	5,003	1,111	-	-	-
Subscriptions and publications	24,402	646	2,137	3,905	664	856
Tuition and related - children	22,544	3,134	8,138	-	-	67
Repairs and maintenance - vehicles	2,102	219	18	4	6	41
	25,833,637	4,941,295	5,295,926	3,139,737	3,451,943	3,041,544
Foster Care Payments	965,502	12,855,219	-	-	-	15
Clothing Replacement	-	923,034	249	-	-	-
Special Payments	162,945	503,369	40,933	-	-	3,296
	1,128,437	14,281,622	40,182	-	-	3,311
Total expenses	$ 63,287,213	$ 34,120,796	$ 16,536,951	$ 11,287,019	$ 10,161,657	$ 12,730,617

	Individual Residential Alternative	Schools	Intermediate Care Facilities	Shelter	Management and Other Costs	2008 Total Expenses	2007 Total Expenses
Salaries	$ 4,675,276	$ 5,348,475	$ 3,449,234	$ 1,141,590	$ 6,888,430	$ 90,643,149	81,346,530
Employee fringe	1,243,576	1,373,932	892,179	310,926	1,847,178	23,485,854	20,790,177
	5,918,852	6,722,407	4,341,413	1,452,516	8,735,608	114,129,003	102,136,707
Occupancy	276,850	219,325	41,012	601	61,396	12,720,924	9,917,213
Supplies and equipment	189,400	188,157	112,326	39,738	195,750	4,307,869	3,782,675
Purchase of services	60,040	66,678	51,736	48,008	228,569	7,750,439	5,739,806
Depreciation and amortization	227,145	90,433	204,037	57,483	462,862	2,731,084	2,598,966
Insurance	113,141	64,936	70,722	31,648	261,505	1,631,825	1,507,930
Food	289,278	14,171	179,945	70,931	-	2,560,258	2,277,229
Utilities	154,569	114,707	105,809	83,500	109,344	3,190,556	2,756,721
Interest	131,192	38,271	163,984	31,020	560,846	2,041,590	1,716,271
Supplies and equipment - medical	21,461	1,709	12,230	202	-	2,006,253	1,960,846
Purchase of health services	60,511	421,042	447,610	-	-	2,955,374	2,511,065
Transportation	22,030	1,637	8,980	2,597	69,079	2,137,066	1,812,056
Office supplies	44,392	26,408	34,548	5,228	143,392	1,230,366	1,169,956
Professional fees	16,555	8,802	18	168	502,304	1,495,313	1,369,394
Repairs and maintenance	152,331	22,809	60,414	28,072	55,817	1,619,433	1,001,062
Rent of furnishings and equipment	101,591	46,394	55,610	12,091	61,169	1,114,370	1,003,734
Activities - children	30,423	26,913	15,979	1,267	3,695	956,970	923,059
Telephone and telegraph	51,020	10,540	19,228	10,496	107,836	875,184	746,850
Allowance - parents	301	-	-	-	-	912,227	820,790
Administrative expense	2,153	9,331	356,336	2,042	242,103	873,771	707,082
Other expenses	-	4,649	-	1,157	-	84,188	841,749
Clothing	30,010	-	27,611	95	-	603,183	484,873
Staff development	9,182	33,123	6,717	1,649	84,651	429,659	431,777
Beddings and linen	8,740	-	3,233	840	-	293,236	240,144
Postage	461	2,112	244	2,078	31,583	119,671	153,543
Dues, licenses and permits	1,275	8,384	10,713	744	58,546	135,536	181,228
Real estate taxes	-	-	-	-	-	157,080	21,505
Subscriptions and publications	305	1,668	60	796	3,890	35,619	38,412
Tuition and related - children	-	7,839	-	-	-	50,822	46,419
Repairs and maintenance - vehicles	190	13	-	6	34,023	37,492	25,171
	1,996,309	1,429,378	2,025,926	437,037	3,204,277	54,867,069	47,201,542
Foster Care Payments	-	-	-	-	-	13,820,626	13,691,279
Clothing Replacement	-	-	-	-	-	923,283	933,133
Special Payments	-	-	-	-	-	710,543	619,096
	-	-	-	-	-	16,462,652	15,243,508
Total expenses	$ 7,915,221	$ 8,151,735	$ 6,307,339	$ 1,360,552	$ 12,029,886	$ 184,178,724	$ 164,539,757

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SCO FAMILY OF SERVICES

AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Years Ended June 30, 2007 and 2006

SCO FAMILY OF SERVICES

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UHY LLP
Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
SCO Family of Services

We have audited the accompanying statements of financial position of SCO Family of Services as of June 30, 2007 and 2006, and the related statements of unrestricted activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of SCO Family of Services management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCO Family of Services as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of functional expenses is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

UHY LLP

New York, New York
November 27, 2007

FINANCIAL STATEMENTS

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SCO FAMILY OF SERVICES
STATEMENTS OF FINANCIAL POSITION

	June 30, 2007	June 30, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,480,792	$ 3,812,405
Investments in marketable securities (Note 2)	24,704,031	22,680,116
Program receivables (Note 3)	33,928,440	33,944,890
Prepaid expenses, pledges and other current assets	3,414,054	2,600,478
Custodial accounts	273,175	258,848
Total current assets	65,800,492	63,296,737
PROPERTY AND EQUIPMENT, Net (Note 4)	34,475,216	30,923,887
INVESTMENTS IN MARKETABLE SECURITIES HELD FOR RESTRICTED PURPOSES (Note 2)	3,222,997	3,301,793
OTHER ASSETS (Note 5)	2,294,792	2,268,462
	$ 105,793,497	$ 99,790,879
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit (Note 6)	$ 6,995,150	$ 3,855,150
Current portion of long-term debt (Note 7)	2,098,492	1,997,168
Accounts payable and accrued expenses	5,463,935	5,766,259
Accrued payroll and compensated absence liability	10,689,446	8,285,577
Accrued interest payable	504,968	530,387
Accrued foster care payments	1,115,256	1,011,251
Estimated liabilities due funding agencies (Note 8)	1,462,139	2,542,148
Custodial accounts	273,175	258,848
Total current liabilities	28,602,561	24,246,788
LONG-TERM DEBT (Note 7)	28,103,677	28,492,178
DEFERRED REVENUE (Note 1)	4,378,329	5,810,894
	61,084,567	58,549,860
COMMITMENTS AND CONTINGENCIES (Notes 7, 10 and 11)		
NET ASSETS		
Unrestricted - board designated:		
Collateral (Note 2)	3,222,997	3,301,793
Other purposes	16,514,134	14,562,441
Unrestricted - undesignated	15,575,717	14,444,927
Total unrestricted net assets	35,312,848	32,309,161
Temporarily restricted (Note 9)	9,396,082	8,931,858
	44,708,930	41,241,019
	$ 105,793,497	$ 99,790,879

See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF UNRESTRICTED ACTIVITIES

	Years Ended June 30, 2007	2006
REVENUE		
Current year program revenue	$ 158,073,616	$ 141,087,161
Prior years' cost reimbursement adjustments	292,311	531,291
Net assets released from restrictions	4,353,294	4,163,895
Total program revenue	162,719,221	145,782,347
SUPPORT AND OTHER		
Contributions and other income	1,601,480	1,395,403
Interest and dividend income, net	585,597	620,984
Realized and unrealized gains on marketable securities	2,684,146	593,713
Total support and revenue	167,590,444	148,392,447
DIRECT PROGRAM EXPENSES		
Contract programs	52,502,864	45,707,425
Foster boarding homes	28,939,017	24,976,240
Group homes	15,772,814	13,407,051
Residential treatment centers	10,561,597	9,698,759
Medicaid reimbursed services	10,538,479	9,436,460
Residential treatment facilities	9,986,286	9,617,847
Schools	8,536,529	7,934,884
Individual residential alternative	7,619,532	7,325,997
Intermediate care facilities	6,073,891	5,912,551
Shelters	1,832,990	2,172,896
Enhanced independent living	258,832	1,046,872
Total direct program expenses	152,622,831	137,236,982
MANAGEMENT AND OTHER INDIRECT EXPENSES		
Management and general	11,605,922	10,306,381
Fund raising	358,004	278,741
Total management and other indirect expenses	11,963,926	10,585,122
Total expenses	164,586,757	147,822,104
CHANGE IN UNRESTRICTED NET ASSETS	$ 3,003,687	$ 570,343

See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF CHANGES IN NET ASSETS

	Years Ended June 30,					
	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
NET ASSETS, Beginning	$ 32,309,161	$ 8,931,858	$ 41,241,019	$ 31,738,818	$ 7,960,224	$ 39,699,042
Program support and revenue	158,365,927	-	158,365,927	141,618,452	-	141,618,452
Net assets released from restrictions	4,353,294	(4,353,294)	-	4,163,895	(4,163,895)	-
Contributions	1,601,480	4,817,518	6,418,998	1,395,403	5,135,529	6,530,932
Investment income	3,269,743	-	3,269,743	1,214,697	-	1,214,697
Total	167,590,444	464,224	168,054,668	148,392,447	971,634	149,364,081
EXPENSES	164,586,757	-	164,586,757	147,822,104	-	147,822,104
INCREASE IN NET ASSETS	3,003,687	464,224	3,467,911	570,343	971,634	1,541,977
NET ASSETS, Ending	$ 35,312,848	$ 9,396,082	$ 44,708,930	$ 32,309,161	$ 8,931,858	$ 41,241,019

See notes to financial statements.

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SCO FAMILY OF SERVICES
STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2007	2006
OPERATING ACTIVITIES		
Increase in net assets	$ 3,467,911	$ 1,541,977
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,410,178	2,212,396
Amortization of deferred financing costs	160,508	152,719
Unrealized appreciation of marketable securities	(2,368,010)	(633,140)
Realized (gain) loss on sale of marketable securities	(316,136)	39,427
Change in operating assets and liabilities:		
Program receivables	16,450	(7,014,251)
Prepaid expenses, pledges and other current assets	(813,576)	378,617
Other assets	(186,838)	(19,262)
Accounts payable and accrued expenses	(302,324)	(348,376)
Accrued payroll and compensated absences	2,403,869	389,918
Accrued foster parent payroll	104,005	(48,089)
Accrued interest payable	(25,419)	(40,078)
Estimated liabilities due to funding agencies	(1,080,009)	770,078
Deferred revenue	(1,432,565)	2,073,225
Net cash provided by (used in) operating activities	2,038,044	(544,839)
INVESTING ACTIVITIES		
Purchases of marketable securities	(1,132,676)	(93,917)
Proceeds from sales of marketable securities	2,715,372	385,409
Purchases of property and equipment, net	(6,805,176)	(3,054,904)
Net cash used in investing activities	(5,222,480)	(2,763,412)
FINANCING ACTIVITIES		
Payments of long-term liabilities	(436,426)	(2,196,333)
Proceeds from long-term debt	149,249	364,369
Line of credit proceeds	3,140,000	3,640,150
Net cash provided by financing activities	2,852,823	1,808,186
DECREASE IN CASH AND CASH EQUIVALENTS	(331,613)	(1,500,065)
CASH AND CASH EQUIVALENTS, Beginning	3,812,405	5,312,470
CASH AND CASH EQUIVALENTS, Ending	$ 3,480,792	$ 3,812,405
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of amounts capitalized	$ 1,175,654	$ 1,144,948

See notes to financial statements.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SCO Family of Services or (the "Corporation") is a not-for-profit corporation as described under Section 501(c)(3), and qualified as a tax-exempt organization under Section 501(a) of the Internal Revenue Code. Accordingly, the Corporation is not subject to Federal income taxes. It provides human care services to children, young adults and families in metropolitan New York. Each year, its programs reach more than 30,000 New Yorkers in need. Its core service areas include preventive services, foster care and adoption, youth development services, homelessness services, schools, school-based programs, mental health programs and services and homes for people with developmental disabilities.

Basis of Presentation

The financial statements of SCO Family of Services have been prepared on the accrual basis of accounting. Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant estimates by management are used in the computation of program receivables, and the estimated liabilities due to funding agencies.

Cash and Cash Equivalents

The Corporation considers cash and cash equivalents to include all highly liquid investments with a maturity of three months or less, when purchased. Cash and cash equivalents are maintained at a level to meet anticipated operating cash needs, and are maintained in FDIC insured accounts at credit qualified financial institutions. At times, such amounts may exceed the FDIC insurance limits.

Investments in Marketable Securities

Investments in marketable securities are stated at fair value. Realized gain (loss) on the sale of investment securities is the difference between sale proceeds and the specifically identified carrying value of the security sold.

Deferred Financing Costs

Deferred financing costs, presented in "Other Assets", are comprised of expenses incurred to obtain construction loans, and legal, professional and commitment fees paid in connection with the closing of long-term debt financings. These costs are being amortized over the life of the related loans.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Custodial Accounts

Custodial accounts primarily represent Supplemental Social Security funds, plus accrued interest held by SCO Family of Services on behalf of certain children in its care.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization, or at the fair market value of the donated assets at the date a gift is received. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the respective assets, which range from 3 to 40 years. Items of property and equipment, where title is held by the granting agency, are expended when purchased.

Net Assets

Revenue and support are classified based on the existence or absence of restrictions imposed by the donor or granting governmental agency. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets that are either not subject to restrictions imposed by the donor or grantor, or net assets that have been reclassified from temporarily restricted net assets because the basis for any restrictions has expired.

Board Designated Reserves: Unrestricted net assets whose use has been reserved by board action for certain specified purposes, designated by a revocable resolution of the Board of Directors.

Temporarily Restricted Net Assets: Net assets, subject to stipulations imposed by the donor or granting agency that have not been satisfied. When a stipulated time restriction ends or if a purpose restriction is met, generally by expenditures of funds, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Program Expenses and Revenue

Expenses are recorded in the period in which they are incurred. Program income is recorded as revenue as services are provided and costs incurred (contract revenue). Certain program revenues are recorded based on the number of care days rendered and expected reimbursement rates (rate based program).

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NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

However, reimbursement rates are subject to change and retroactive adjustment subsequent to the fiscal year end, on the basis of audit by the governmental agencies responsible for such funding. Provisions for unfavorable settlements are accrued as estimated liabilities due funding agencies, in the period in which the related services are rendered. Revenues resulting from rate appeals are recorded in the period such appeals are determined to be collectible. Any subsequent adjustments thereto are included in revenue reimbursement adjustments in the year of such revision, audit or settlement.

Receipts under certain government-funded fee-for-services contract programs, which have not been spent, and are therefore available for application to future years' renewal contracts are classified as deferred revenue.

Contributions and Grants

Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at estimated net realizable value in the year the promise is made. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Asset Impairment

The Corporation evaluates its long-lived assets for impairment on an annual basis or whenever events or changes in circumstances would indicate that the carrying value of assets may not be recoverable. Long-lived assets would be deemed to be impaired if the forecast of undiscounted future net cash flows is less than the carrying value of the assets. There were no impairment losses recognized at June 30, 2007 and 2006.

NOTE 2 - INVESTMENTS IN MARKETABLE SECURITRIES

At June 30, investments in marketable securities, partially pledged, were as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Money market investments	$ 101,310	$ 101,310	$ 2,979	$ 2,979
Equity securities	12,080,041	16,091,094	12,792,568	14,525,402
United States government obligations	8,735,974	8,511,627	8,456,920	8,151,735
Totals	$ 20,917,325	$ 24,704,031	$ 21,252,467	$ 22,680,116

NOTE 2 – INVESTMENTS IN MARKETABLE SECURITIES (Continued)

In addition, SCO Family of Services maintains debt service reserves for long-term mortgage financings. At June 30, 2007 and 2006 marketable securities held for debt service reserves under long-term capital leases totaled $3,222,997 ($3,301,793 in 2006) as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
United States government obligations	$ 1,985,783	$ 2,000,172	$ 119,278	$ 124,717
Cash and cash equivalents	1,222,825	1,222,825	3,177,076	3,177,076
Totals	$ 3,208,608	$ 3,222,997	$ 3,296,354	$ 3,301,793

NOTE 3 - PROGRAM RECEIVABLES

At June 30, 2007 and 2006, the Corporation's program receivables were comprised of the following:

	June 30,	
	2007	2006
Rate-Based Programs:		
City of New York Agency for Children's Services	$ 6,728,963	$ 5,289,217
Medicaid	1,551,501	1,627,421
New York State Office of Mental Health	1,904,847	2,895,858
New York State Office of Mental Retardation and Developmental Disabilities	3,042,307	5,307,747
County and other	15,039,553	13,405,199
	28,267,171	28,525,442
Contract Programs	7,757,972	7,428,537
	36,025,143	35,953,979
Less - Estimated allowances	(2,096,703)	(2,009,089)
Totals	$ 33,928,440	$ 33,944,890

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NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	2007	2006
Land	$ 2,005,699	$ 1,551,302
Building and improvements	50,735,561	45,626,518
Furniture and equipment	7,557,667	7,248,785
Leasehold improvements	2,886,586	2,799,571
	63,185,513	57,226,176
Less accumulated depreciation and amortization	28,710,297	26,302,289
Totals	$ 34,475,216	$ 30,923,887

At June 30, 2007 and 2006, there were approximately $9,283,973 and $8,841,603, respectively, of fully depreciated assets included in gross property, plant and equipment, still in use by SCO Family of Services.

Depreciation and amortization expense of property and equipment for the years ended June 30, 2007 and 2006 were $2,410,178 and $2,212,396, respectively.

NOTE 5 - OTHER ASSETS

Other assets consisted of the following:

	June 30,	
	2007	2006
Deferred financing costs, net of accumulated amortization of $1,748,982 and $1,596,257	$ 1,938,386	$ 2,045,509
Other	356,406	222,953
Totals	$ 2,294,792	$ 2,268,462

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NOTE 6 - LINE OF CREDIT

At June 30, 2007 and 2006, the Corporation had a line of credit with commercial banks based on the market value of underlying investments, which are partially pledged as collateral. The Corporation had an outstanding balance at June 30, 2007 and 2006 of $6,995,150 and $3,855,150, respectively with interest ranging from 3% to 5% per annum, payable on demand.

NOTE 7 - LONG TERM DEBT

The Corporation was indebted under long-term obligations as follows:

	June 30, 2007	June 30, 2006
Loan payable to the New York State Rehabilitation Association, Inc. through 2024 payable monthly plus accrued interest at rates ranging from 4% to 5% for Series A and through 2015 at 6.75% for Series B. (a)	$ 11,551,859	$ 12,188,327
Medical Care Facilities Finance Agency mortgages payable through 2019 at rates ranging from 6.12% to 7.58% (b)	7,567,960	8,030,299
Other loans payable, (c)	1,141,030	1,402,011
Loan payable to the New York State Rehabilitation Association, Inc. through 2023 payable monthly plus accrued interest at rates ranging from 3% to 5.125% for Series A and through 2013 at 5.38% for Series B. (d)	8,309,373	8,868,709
Loan payable to the New York State Rehabilitation Association, Inc. through 2031 payable monthly plus accrued interest at a rate of 5.047% (e).	1,631,947	-
Totals	30,202,169	30,489,346
Less current portion	2,098,492	1,997,168
Long-term debt	$ 28,103,677	$ 28,492,178

NOTE 7 - LONG TERM DEBT (Continued)

(a) In January 2001, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 1, consisting of two issues, Series 2001A (non-taxable) and Series 2001B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling $16,060,000 (including $460,000 of the Series 2001B issue) is defined in a Loan Agreement with the Association dated June 2000. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein. This debt is net of discount in the amount of $383,141 and $406,674, respectively as of June 30, 2007 and 2006.

(b) Since fiscal 1993, the Corporation has been obligated under three mortgage agreements payable over a 25-year period, with the New York State Medical Care Facilities Finance Agency ("MCFFA") for acquisition of three Intermediate Care Facilities ("ICFs") located at Kew Gardens, Jamaica and Richmond Hill, New York. In fiscal 1994, a similar arrangement with MCFFA was negotiated for a residential treatment facility located in Jamaica, New York. The Corporation's reimbursement rates with the applicable state funding agency were adjusted to include debt service through the Facilities Development Corporation as trustee for MCFFA. Pursuant to the mortgage agreements, MCFFA financed the acquisition and renovation of these buildings through the issuance of its General and Series Bonds, which are secured by the mortgages with the Corporation. Under the mortgage agreements, title to the buildings rests with SCO Family of Services.

(c) Other mortgages and loans payable with interest rates ranging from 7.95% to 10.5% per annum were largely refinanced in fiscal 2001 with the proceeds from the Association loan. The remaining loans include a $157,866 balance on a financing of a sewer connection, payable monthly with interest at 5.5% ending in fiscal 2020 and two commercial loans for $344,384 and $372,952 payable to a bank on demand with interest at 6%. During 2005 SCO Family of Services assumed a $414,000 Dormitory Authority Bond with interest at 9.48% due to the purchase of a building with a pre-existing mortgage with a balance of $265,829 at June 30, 2007.

NOTE 7 - LONG TERM DEBT (Continued)

(d) In August 2003, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 2, consisting of two issues, Series 2003A (non-taxable) and Series 2003B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling $10,355,000 (including $355,000 of the Series 2003B issue) is defined in a Loan Agreement with the Association dated June 2003. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein.

The Series 2003A Bonds were issued to refinance the line of credit and to finance real property acquisitions. These debts are net of discount of $330,627 and $351,291, respectively as of June 30, 2007 and 2006.

(e) In June 2007, the Corporation entered into two agreements with the Dormitory Authority of the State of New York (the "Authority") to borrow $1,554,500 for the purpose of refinancing the acquisition and construction of two facilities. The two loans in the amount of $1,135,400 and $419,000 are in the form of non-recourse mortgages secured by the real properties. The Authority has been granted a security interest in certain pledged revenues equivalent to annual debt service requirements.

The Funds for the mortgage were obtained by the Authority through the issuance of Bonds. Premiums and discounts on the bonds in the amount of $77,447 were charged to the Corporation and are recorded as part of the loans.

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NOTE 7 - LONG TERM DEBT (Continued)

Scheduled debt service on long-term debt subsequent to June 30, 2007 is as follows:

Years Ending June 30,	Amount
2008	$ 2,098,492
2009	2,095,997
2010	2,209,382
2011	2,061,018
2012	2,151,088
Thereafter	19,586,192
	$ 30,202,169

NOTE 8 - ESTIMATED LIABILITIES DUE FUNDNG AGENCIES

The Corporation has recorded estimated liabilities of $1,462,139 and $2,542,148 for 2007 and 2006, respectively, for future settlements with funding agencies, generally related to the Corporation's underspending of past years' contracts.

Audits have been completed by the Agency for Children Services ("ACS") through fiscal 1999. It is management's opinion that retroactive adjustments, if any, for years subsequent to fiscal 1999 will not have a material adverse impact on the financial position or net assets of SCO Family of Services.

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NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets for the year ended June 30, 2007 were as follows:

Program/Purpose	Balances, June 30, 2006	Restricted Contributions	Net Assets Released from Restrictions	Balances, June 30, 2007
Contract programs	$ 5,004,482	$ 4,190,531	$ (3,460,934)	$ 5,734,079
Restricted capital grants	1,555,081	1,552	(69,242)	1,487,391
Other:				
Residential treatment centers	1,425,314	44,379	(150,590)	1,319,103
Group homes	41,904	584	(1,193)	41,295
Residential treatment facilities	5,592	44,300	(1,975)	47,917
Schools	33,184	9,474	(6,300)	36,358
Miscellaneous	866,301	526,698	(663,060)	729,939
	2,372,295	625,435	(823,118)	2,174,612
All programs	$ 8,931,858	$ 4,817,518	$ (4,353,294)	$ 9,396,082

Restricted capital grants are comprised of funds received from governmental sources relating to purchase and renovation costs incurred in opening new program facilities. These advances are amortized to unrestricted activities as the new program facility costs are depreciated to operations.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating Leases

As of June 30, 2007, minimum annual rental commitments for the remaining terms of SCO Family of Services operating leases relating to office space and equipment rental were as follows:

Years Ending June 30,	Amount
2008	$ 8,955,798
2009	7,998,904
2010	7,413,428
2011	7,133,690
2012	7,038,073
Thereafter	10,813,720
	$ 49,353,613

Certain leases require additional payments based upon property tax and maintenance expense escalations. Substantially all leases have a defunding clause, as defined, which provides that SCO Family of Services obligations under the lease would terminate if the applicable governmental funding agency were to eliminate or significantly reduce funding for the related program.

Aggregate rental expense for office space and equipment for the years ended June 30, 2007 and 2006 amounted to approximately $9,923,947 and $9,583,700, respectively.

Other Matters

SCO participates in various Federal, State and City programs, all of which have strict requirements for participation, and accordingly, SCO is subject to government program reviews covering compliance with laws and regulations. In addition, the expenses of programs which have been reimbursed pursuant to Federal, State and Local government contracts and grants, are subject to audit by the respective granting agencies. Until such audits are completed and final settlements reached, there exists a contingency to refund any amount in excess of allowable costs. Management is of the opinion that no material liability would result from such audits.

SCO is involved with several cases in litigation as a defendant. A number of the cases are currently in pre-trial discovery. Management is unable to determine at this time the likelihood of an unfavorable outcome. Management believes that insurance coverage will be sufficient to cover any potential claims.

NOTE 11 - PENSION PLANS

SCO Family of Services makes contributions to the Brooklyn Diocese and Rockville Centre Diocese Pension Plans (the "Plans"); both are church plans, which have been approved by the Internal Revenue Service and are exempt from ERISA reporting requirements. Contributions are actuarially determined by the aggregate cost method using an assumed rate of return of 6.75 percent and other assumptions. The Brooklyn Diocese Pension Plan covers employees who have been employed for three years or more and have reached the age of 30. The Rockville Centre Pension Plan covers employees who were covered under the plan while working for Madonna Heights Services prior to its merger with SCO Family of Services in 1996.

The Plans are multiemployer plans and contributions for all participating employers are pooled and held by an independent trustee for the purpose of providing retirement and other benefits for eligible employees. As of the beginning of the most recent plan years, each of the Plans has assets in excess of the actuarially computed value of the vested benefits for all participating employers.

SCO Family of Services has received no information from the administrators of the Plans, which would permit it to determine its share of unfunded vested benefits, if any. Contributions to the Plans amounted to $2,062,538 and $2,165,496 for the years ended June 30, 2007 and 2006, respectively.

In fiscal 2000, the Corporation adopted a supplemental pension plan funded with an insurance company. The plan is tax-qualified as a defined contribution arrangement under IRS Section 403(b). Funding is provided by employee withholding and annual employer matching contributions of either 1% of the employee's annual salary or 25% of the employee's contribution to the Plan, which ever is less. Contributions to this plan amounted to $200,002 and $185,805 for the years ended June 30, 2007 and 2006, respectively.

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APPENDIX B-V

SERVICES FOR THE UNDERSERVED, INC. AND RELATED ORGANIZATIONS

AUDITED FINANCIAL STATEMENTS

FISCAL YEARS 2009, 2008 AND 2007

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Services for the Underserved
and Related Organizations

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Combined Financial Statements
and Supplemental Material
Year Ended June 30, 2009

Services for the Underserved
and Related Organizations

Combined Financial Statements
and Supplemental Material
Year Ended June 30, 2009

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Services for the Underserved and Related Organizations

Contents

BDO Seidman, LLP
Accountants and Consultants

100 Park Avenue
New York, New York 10017
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Independent Auditors' Report

To the Board of Directors
Services for the Underserved
and Related Organizations

We have audited the accompanying combined statement of financial position of Services for the Underserved and related organizations ("SUS") as of June 30, 2009, 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, 2008 is presented for comparative purposes only and was extracted from the financial statements of the Company for the year, on which we expressed an unqualified opinion, dated February 16, 2009.

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 related organizations as of June 30, 2009, 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 Seidman, LLP

February 5, 2010

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Services for the Underserved and Related Organizations

Combined Statement of Financial Position (with comparative totals for 2008)

June 30,	2009	2008
Assets		
Cash and cash equivalents (Note 2)	**$11,595,476**	$ 3,954,858
Accounts receivable, net of allowance for doubtful accounts of $2,749,776 and $3,467,330 for 2009 and 2008, respectively (Note 2)	**10,903,386**	13,552,908
Prepaid expenses and other assets (Note 3)	**1,462,935**	1,371,056
Bond escrow fund (Note 4)	**684,785**	684,785
Due from affiliates, net (Note 10)	**2,156,600**	2,512,183
Debt service reserve (Note 4)	**1,666,854**	1,653,284
Deferred bond financing costs (Note 9)	**1,264,667**	1,360,998
Fixed assets, net (Notes 2, 5, 8 and 10)	**36,295,289**	39,438,499
	$66,029,992	$64,528,571
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 2,350,989**	$ 2,526,892
Accrued compensation and related taxes	**5,420,028**	4,753,770
Due to affiliates (Note 10)	**1,097,484**	882,321
Due to clients	**612,942**	36,820
Other liabilities	**1,867**	1,867
Deferred revenue (Notes 10 and 12)	**10,702,486**	10,974,126
Due to governmental agencies (Note 6)	**1,387,816**	1,112,526
Line of credit (Note 7)	**3,009,474**	2,187,968
Mortgages and loans payable (Note 8)	**10,928,295**	11,618,266
Bonds payable (Note 9)	**12,973,602**	14,105,637
Total liabilities	**48,484,983**	48,200,193
Commitments and contingencies (Notes 5, 7, 11, 13 and 15)		
Net assets:		
Unrestricted	**14,366,259**	12,946,362
Temporarily restricted (Note 14)	**3,178,750**	3,382,016
Total net assets	**17,545,009**	16,328,378
	$66,029,992	$64,528,571

See accompanying notes to combined financial statements.

Services for the Underserved and Related Organizations

Combined Statement of Activities (with comparative totals for 2008)

Year ended June 30.	Unrestricted	Temporarily restricted	Totals 2009	Totals 2008
Public support and revenue:				
Medicaid income	$51,460,216	$ -	**$51,460,216**	$50,477,567
Contract revenue	23,914,308	-	**23,914,308**	22,822,188
Participant fees	5,748,884	-	**5,748,884**	5,386,762
Contributions	588,761	-	**588,761**	297,449
Management fees	330,097	-	**330,097**	9,122
Other	624,105	-	**624,105**	165,671
Net assets released from restriction (Note 14)	203,266	(203,266)	**-**	-
Total public support and revenue	82,869,637	(203,266)	**82,666,371**	79,158,759
Expenses:				
Program services:				
SUS – Mental Health Programs, Inc.	21,056,388	-	**21,056,388**	19,554,298
SUS – Developmental Disabilities Services, Inc.	27,308,774	-	**27,308,774**	24,793,759
SUS – AIDS Services, Inc.	6,835,265	-	**6,835,265**	6,564,247
SUS – Home Attendant Program, Inc.	18,671,451	-	**18,671,451**	20,512,210
SUS – Home Care Services	39,237	-	**39,237**	96,624
Total program services	73,911,115	-	**73,911,115**	71,521,138
Supporting services:				
Fundraising	236,800	-	**236,800**	62,834
Management and general	7,301,825	-	**7,301,825**	5,958,527
Total expenses	81,449,740	-	**81,449,740**	77,542,499
Excess (deficiency) of public support and revenue over expenses before transfer to funding source	1,419,897	(203,266)	**1,216,631**	1,616,260
Transfer to funding source (Note 16)	-	-	**-**	(1,232,840)
Change in net assets	1,419,897	(203,266)	**1,216,631**	383,420
Net assets, beginning of year	12,946,362	3,382,016	**16,328,378**	15,944,958
Net assets, end of year	**$14,366,259**	**$3,178,750**	**$17,545,009**	$16,328,378

See accompanying notes to combined financial statements.

Combined Statement of Functional Expenses
(with comparative totals for 2008)

Year ended June 30.

	Program services						Supporting services		Totals	
	SUS – Mental Health Programs, Inc	SUS – Developmental Disabilities Services, Inc.	SUS – AIDS Services, Inc	SUS -- Home Attendant Program, Inc.	SUS – Home Care Services	Total program services	Fundraising	Management and general	**2009**	2008
Salaries and related expenses:										
Salaries	$ 7,453,231	$14,101,115	$2,019,985	$14,426,576	$24,925	$38,025,832	$ -	$2,970,763	**$40,996,595**	$39,021,612
Fringe benefits	1,871,703	4,217,501	531,589	3,788,612	2,926	10,412,331	-	658,169	**11,070,500**	12,377,484
Total salaries and related expenses	9,324,934	18,318,616	2,551,574	18,215,188	27,851	48,438,163	-	3,628,932	**52,067,095**	51,399,096
Other expenses:										
Food	567,713	592,910	5,622	-	-	1,166,245	-	11	**1,166,256**	1,054,533
Rent	4,184,473	469,122	2,757,143	-	-	7,410,738	-	294,266	**7,705,004**	7,179,184
Facility tax	-	304,177	-	-	-	304,177	-	-	**304,177**	564,144
Telephone and utilities	1,205,274	559,963	358,027	-	-	2,123,264	-	150,063	**2,273,327**	2,219,314
Transportation	109,394	1,197,243	44,670	-	146	1,351,453	-	80,522	**1,431,975**	1,371,666
Office supplies and postage	61,170	92,726	37,411	-	8,560	199,867	-	202,724	**402,591**	401,072
Lease equipment	161,858	285,224	39,224	-	-	486,306	-	133,342	**619,648**	511,741
Repairs and maintenance	722,601	402,316	121,813	-	710	1,247,440	-	176,946	**1,424,386**	1,325,030
Professional and consultant fees	395,311	408,669	74,293	-	1,665	879,938	-	632,395	**1,512,333**	1,316,217
Household supplies	231,236	568,689	72,635	-	-	872,560	-	3,570	**876,130**	851,371
Medical exams	-	-	-	-	-	-	-	54,380	**54,380**	52,365
Furniture and equipment expense	485,170	297,114	118,637	-	305	901,226	-	190,182	**1,091,408**	984,918
Insurance	291,041	245,340	61,733	-	-	598,114	-	67,954	**666,068**	593,602
Community outreach and recruitment	84,851	79,689	1,362	-	-	165,902	-	196,317	**362,219**	353,877
Client incidentals	294,401	172,812	14,020	-	-	481,233	-	-	**481,233**	482,060
Staff training	28,596	113,940	7,311	-	-	149,847	-	35,621	**185,468**	169,863
Interest expense	589,520	562,212	-	-	-	1,151,732	-	245,389	**1,397,121**	1,546,572
Temporary labor	957,238	1,189,133	167,090	-	-	2,313,461	-	92,279	**2,405,740**	1,548,887
Real estate taxes	2,220	7,088	1,635	-	-	10,943	-	-	**10,943**	17,505
Miscellaneous	41,635	45,020	2,514	-	-	89,169	-	326,403	**415,572**	141,510
Start-up cost	33,545	190,204	2,975	-	-	226,724	-	-	**226,724**	101,182
Sheltered workshop		33,908	-	-	-	33,908	-	-	**33,908**	64,257
Broker and bond administrative fees	5,574	307	1,434	-	-	7,315	-	52,039	**59,354**	71,684
Fundraising expense	-	-	-	-	-	-	236,800	-	**236,800**	62,834
Contribution expense	-	-	-	-	-	-	-	-	-	125,000
Bad debt expense	-	249,983	327,220	456,263	-	1,033,466	-	500,000	**1,533,466**	648,728
Total expenses before depreciation and amortization	19,777,755	26,386,405	6,768,343	18,671,451	39,237	71,643,191	236,800	7,063,335	**78,943,326**	75,158,512
Depreciation and amortization	1,278,633	922,369	66,922	-	-	2,267,924	-	238,490	**2,506,414**	2,383,987
Total expenses	$21,056,388	$27,308,774	$6,835,265	$18,671,451	$39,237	$73,911,115	$236,800	$7,301,825	**$81,449,740**	$77,542,499

See accompanying notes to combined financial statements.

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Combined Statement of Cash Flows
(with comparative totals for 2008)

Year ended June 30,	2009	2008
Cash flows from operating activities:		
Change in net assets	**$ 1,216,631**	$ 383,420
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**2,506,414**	2,383,987
Provisions for bad debt	**1,533,466**	648,728
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Bond escrow fund	**-**	(372,677)
Accounts receivable	**1,116,056**	1,893,032
Prepaid expenses and other assets	**(91,879)**	923,151
Due from affiliates	**545,583**	(685,825)
Debt service reserve fund	**(13,570)**	(323,715)
Increase (decrease) in:		
Accounts payable and accrued expenses	**(175,903)**	317,331
Accrued compensation and related taxes	**666,258**	383,789
Due to affiliates	**25,163**	202,974
Due to clients	**576,122**	36,820
Other liabilities	**-**	(51,390)
Deferred revenue	**3,203,475**	1,569,155
Due to governmental agencies	**275,290**	(674,224)
Net cash provided by operating activities	**11,383,106**	6,634,556
Cash flows from investing activities:		
Purchase of fixed assets	**(2,745,239)**	(5,158,612)
Cash flows from financing activities:		
Payments of bond acquisition costs	**-**	(366,210)
Payments of bond principal	**(1,128,784)**	(952,584)
Payments of line of credit	**(6,506,358)**	(6,877,126)
Payments of mortgages payable	**(689,970)**	(657,421)
Payments of loans payable	**-**	(57,641)
Proceeds from bond payable	**-**	3,695,000
Proceeds from line of credit	**7,327,863**	4,477,807
Net cash used in financing activities	**(997,249)**	(738,175)
Net increase in cash and cash equivalents	**7,640,618**	737,769
Cash and cash equivalents, beginning of year	**3,954,858**	3,217,089
Cash and cash equivalents, end of year	**$11,595,476**	$ 3,954,858
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 1,397,121**	$ 1,546,528

See accompanying notes to combined financial statements.

Notes to Combined Financial Statements

1. Nature of Organizations

Services for the Underserved ("SUS") was established in 1978 and currently serves approximately 2,000 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 related 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).

Services for the Underserved Foundation, Inc. (fundraising - no activity for the year ended June 30, 2009).

Services for the Underserved - Mental Health Programs, Inc.

Services for the Underserved – Developmental Disabilities Services, Inc.

Services for the Underserved - AIDS Services, Inc.

Services for the Underserved - Home Attendant Program, Inc.

Services for the Underserved – Home Care Services, Inc.

(b) *Basis of Presentation*

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

(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 related 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 related organizations.

(ii) **Temporarily Restricted** – Net assets resulting from contributions and other inflows of assets whose use by SUS and related 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 related 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.

Services for the Underserved
and Related Organizations

Notes to Combined Financial Statements

(h) *Income Taxes*

SUS and related 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 2009.

In addition, SUS has not taken an unsubstantiated tax position that would require provision of a liability under Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). See Note 1(n).

(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. 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, 2008 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 amounts in the 2008 combined financial statements have been reclassified to conform to the 2009 presentation. The reclassifications have no effect on net assets or the operating results of the prior year.

(m) *Fair Value Measurements*

On July 1, 2008, SUS adopted FASB Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. The adoption did not impact the amounts reported in the combined financial statements. SFAS No. 157 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. SFAS No. 157 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 SFAS No. 157 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.

(n) *Accounting for Uncertainty in Income Taxes*

SUS adopted the provisions of FIN 48 on July 1, 2007. Under FIN 48, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. The implementation of FIN 48 had no impact on SUS's financial statements. SUS does not believe there are any material uncertain tax positions and, accordingly, it will not recognize 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 tax returns, as required, and all other applicable returns in jurisdictions where it is required. No interest or penalties were accrued as of July 1, 2008 as a result of the adoption of FIN 48. For the year ended June 30, 2009, there was no interest or penalties recorded or included in the combined statement of activities.

3. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consists of the following:

June 30, 2009	
Security deposits	$ 773,516
Prepaid expenses	344,827
Dormitory Authority of the State of New York surplus funds	326,379
Other assets	18,213
	$1,462,935

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4. Debt Service Reserve and Bond Escrow Fund

Debt service reserve represents funds held by New York State Office of Mental Retardation and Developmental Disabilities ("OMRDD"), 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, 2009, the Trustee has $1,666,854 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, 2009, the Trustee has $684,785 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 SFAS No. 157. See Note 2 (m) 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, 2009:

	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, 2009
Assets				
Investments in securities:				
Money market funds	$ 868,700	$ -	$ -	$ 868,700
U.S. Treasury bills and U.S. Treasury notes	1,074,218	-	-	1,074,218
U.S. government-sponsored agency securities	-	408,721	-	408,721
Total investments in securities	$1,942,918	$408,721	$ -	$2,351,639

5. Fixed Assets, Net

Major classes of fixed assets, net consist of the following:

June 30, 2009	
Land	$ 2,044,297
Building and building improvements	50,523,108
Construction-in-progress	620,423
Leasehold improvements	861,125
Furniture and equipment	5,330,539
Vehicles	505,552
Total fixed assets	59,885,044
Less: Accumulated depreciation and amortization	(23,589,755)
Fixed assets, net	$ 36,295,289

For the year ended June 30, 2009, depreciation and amortization expense was $2,506,414.

6. Due to Governmental Agencies

Due to governmental agencies consists of the following:

June 30, 2009	
Other advances due to OMH and New York City to be recouped	$ 821,447
Other advances due to Medicaid to be recouped	222,358
Other advances due to HRA to be recouped	344,011
	$1,387,816

7. Line of Credit

SUS and its affiliated organizations have an $8,000,000 working capital line of credit with Bank of America. This line of credit matures on June 30, 2010 and bears interest at the rate equal to the prime rate plus 0.50%. There is also a quarterly fee on the unused available line of credit amount of 0.50%. The loan is guaranteed by SUS and all of its affiliates collectively and individually and is collateralized by a first-priority perfected security interest in SUS and its affiliated organizations' accounts receivable and personal property and fixtures. The total amount outstanding as of June 30,

2009 was $272,890. SUS incurred and paid $16,433 in interest expense during the year ended June 30, 2009.

SUS also has a $6,000,000 acquisition line of credit with the Bank of America. This line of credit is available through June 30, 2010, and bears interest at the rate of ¼ in excess of the prime rate. The loan is guaranteed by a negative pledge on the related residences and related leased locations. The total amount outstanding as of June 30, 2009 was $2,736,584, and there was $72,599 of related interest expense during the year ended June 30, 2009.

8. Mortgages and Loans Payable

Mortgages and loans payable consist of the following:

June 30, 2009	
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	$ 412,066
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	826,091
Mortgage payable to DASNY - OMH, due June 1, 2019, payable in semiannual payments of $59,310, including interest at 6.20% per annum, secured by real estate located on Patchen Avenue, Brooklyn, New York	698,434

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June 30, 2009	
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	$ 2,420,958
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	646,542
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	5,075,629
Mortgage payable to Facilities Development Corporation ("FDC"), due August 15, 2011, payable in semiannual debt service and administrative fee payments of approximately $30,000, including interest at 5.98% per annum, secured by real estate located on Crescent Street, Astoria, New York.	107,075
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.	321,500
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.	420,000
	$10,928,295

Services for the Underserved
and Related Organizations

Notes to Combined Financial Statements

Mortgages and loans payable mature as follows:

Year ended June 30,	
2010	$ 736,409
2011	779,977
2012	832,296
2013	819,394
2014	883,407
Thereafter	6,876,812
	$10,928,295

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, 2009 was $6,270,537.

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(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, 2009 was $1,850,000.

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, 2009 was $1,568,065.

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, 2009 was $3,285,000.

In addition to the construction cost of the projects, bond proceeds were used to pay bond issuance costs of $425,787 for DASNY and $867,173 for IDA, respectively, which are being amortized over the lives of the bonds. At June 30, 2009, $96,331 of amortized bond costs is included in depreciation and amortization.

Future minimum debt service payments are as follows:

Year ending June 30,	
2010	$ 1,140,000
2011	1,050,000
2012	1,080,000
2013	1,005,000
2014	985,000
Thereafter	7,713,602
	$12,973,602

10. Transaction 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. 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"). The sole member of the HDFC is SUS. The limited partner of New Life Homes, Limited Partnership 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, 2009. At June 30, 2009, SUS had a payable and a receivable of $1,071,876 and $419,191, respectively, to HDFC.

SUS engages in related party transactions with Child Development Center of the Hamptons, Inc. ("CDCH Preschool"), Child Development Center of the Hamptons Charter School, Inc.

("CDCH Charter School") and Child Development Center of the Hamptons Foundation ("CDCH Foundation"). CDCH Charter School and CDCH Foundation are related to SUS through common management. CDCH Preschool is affiliated with SUS. SUS received management fees of $128,956 and $167,314 from the CDCH Charter School and CDCH Preschool, respectively, for the year ended June 30, 2009. SUS is also entitled to be reimbursed for costs incurred related to CDCH Preschool, CDCH Charter School and CDCH Foundation. The amount due from CDCH Preschool and CDCH Charter School was $1,539,520, which is net of a $500,000 reserve at June 30, 2009. Amount due from CDCH Foundation was $6,434 at June 30, 2009.

SUS 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. In addition, SUS received a developer's fee of $150,000 for the year ended June 30, 2009 for managing the construction phases of the project. SUS had a payable to Macombs HLP for $71,454 as of June 30, 2009.

Services for the Underserved
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Notes to Combined Financial Statements

In fiscal year 2009, the construction project for Macombs Supportive Housing Program was completed and the program became operational. The construction cost of approximately $6,740,000 related to this project was funded by OMH and the limited partner. SUS reflected the activity during the project development phase by recording construction-in-progress and a corresponding liability to OMH. At the completion of this construction project in fiscal year 2009, SUS transferred this property to Macombs HLP. As a result, the following assets and liabilities were transferred to Macombs HDFC:

Assets	
Land	$ 605,000
Building	6,030,000
Furniture and equipment	105,000
Total assets	$6,740,000
Liabilities	
Deferred revenue	$6,740,000

SUS 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. In addition, SUS received a developer's fee for managing the construction phase of the project. SUS had a receivable from Mother Gaston HLP for $191,454 as of June 30, 2009.

During fiscal year 2009, DD transferred $190,000 of a working capital line of credit to SUS.

11. Pension Plans

SUS sponsors a 401(k) & Profit Sharing Plan (the "Plan"). The Plan was established on January 1, 2006 as a defined contribution plan covering all eligible employees of SUS. Employees are eligible to participate in the Plan if the employee has completed one month of service and is 18 years or older. Employees are eligible to receive profit sharing contributions after one year of service. SUS's profit sharing contributions to the Plan are discretionary and may vary from year to year. There were no profit sharing contributions to the Plan for the year ended June 30, 2009.

Effective December 31, 2008, SUS terminated the Plan and adopted a 403(b) plan covering all eligible employees. 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, 2009.

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. There was no employer contribution to the SEPP for the year ended June 30, 2009.

SUS adopted a deferred compensation retirement plan (the "457 Plan") under Section 457(b) of the Internal Revenue Code. The 457 Plan is intended to provide deferred compensation for a select group of management employees. SUS's contribution to the 457 Plan was $58,380 for the year ended June 30, 2009.

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Services for the Underserved and Related Organizations

Notes to Combined Financial Statements

12. Deferred Revenue

Deferred revenue consists of the following:

June 30, 2009	
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 the Company will take title to the land and building after 20 years of meeting operational requirements.	$ 5,774,029
Various Mental Health Program contract advances for fiscal year 2009.	3,960,119
Additional OMH funding received for capital improvements for various Mental Health Program facilities.	257,888
Various AIDS services contract advances for fiscal year 2009	315,264
Surplus income generated from Home Attendant Program	275,587
Other deferred revenue	119,599
	$10,702,486

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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 $7,705,004 for the year ended June 30, 2009. The minimum future annual rental payments are as follows:

Year ended June 30,	
2010	$ 5,610,529
2011	2,598,843
2012	1,035,688
2013	1,008,380
2014	860,250
Thereafter	4,592,052
Total	$15,705,742

14. Temporarily Restricted Net Assets and Net Assets Released from Restriction

Temporarily restricted net assets at June 30, 2009 were $3,178,750 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 $203,266 for the Hotel Majestic property as of June 30, 2009.

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.

Services for the Underserved
and Related Organizations

Notes to Combined Financial Statements

16. Transfer to Funding Source

The funding agency for Services for the Underserved – Home Attendant Program, Inc., Human Resources Administration ("HRA"), limits the amount of net assets resulting from HRA operations to approximately six estimated payrolls. As part of its standard closeout procedures for fiscal year 2003, HRA requested the recoupment of $1,232,840. The recoupment funds were transferred to HRA during fiscal year 2008. There were no recoupments during fiscal year 2009.

17. Subsequent Events

SUS has evaluated subsequent events through February 5, 2010, which is the date these financial statements were available to be issued. No events arose during the period which will require 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 made 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 for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

BDO Seidman, LLP

Certified Public Accountants

New York, New York

February 5, 2010

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Combining Statement of Financial Position
(with comparative totals for 2008)

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 2009	Total 2008
Assets									
Cash and cash equivalents	$ 7,639,703	$ 2,125,358	$ 22,595	$ 5,294	$1,609,596	$192,930	$ -	$11,595,476	$ 3,954,858
Accounts receivable, net	243,826	1,803,442	4,305,099	1,878,454	2,668,831	3,734	-	10,903,386	13,552,908
Prepaid expenses and other assets	301,896	717,835	143,899	277,162	22,143	-	-	1,462,935	1,371,056
Bond escrow fund	-	-	684,785	-	-	-	-	684,785	684,785
Due from affiliates, net	1,637,179	8,166,594	-	-	-	-	(7,647,173)	2,156,600	2,512,183
Debt service reserve	471,376	-	1,195,478	-	-	-	-	1,666,854	1,653,284
Deferred bond financing costs	410,322	-	854,345	-	-	-	-	1,264,667	1,360,998
Fixed assets, net	3,171,581	18,870,424	14,100,281	153,003	-	-	-	36,295,289	39,438,499
	$13,875,883	$31,683,653	$21,306,482	$2,313,913	$4,300,570	$196,664	$(7,647,173)	$66,029,992	$64,528,571
Liabilities and Net Assets (Deficit)									
Liabilities:									
Accounts payable and accrued expenses	$ 389,771	$ 556,608	$ 1,039,656	$ 96,564	$ 245,176	$ 23,214	$ -	$ 2,350,989	$ 2,526,892
Accrued compensation and related taxes	350,153	1,280,145	2,176,965	298,823	1,313,942	-	-	5,420,028	4,753,770
Due to affiliates	5,317,408	776,553	1,786,462	564,863	54,552	244,819	(7,647,173)	1,097,484	882,321
Due to clients	-	224,361	388,581	-	-	-	-	612,942	36,820
Other liabilities	-	1,867	-	-	-	-	-	1,867	1,867
Deferred revenue	-	9,992,036	119,599	315,264	275,587	-	-	10,702,486	10,974,126
Due to government agencies	-	821,447	222,358	-	344,011	-	-	1,387,816	1,112,526
Line of credit	272,890	-	2,736,584	-	-	-	-	3,009,474	2,187,968
Mortgages and loans payable	-	10,079,720	848,575	-	-	-	-	10,928,295	11,618,266
Bonds payable	4,483,892	-	8,489,710	-	-	-	-	12,973,602	14,105,637
Total liabilities	10,814,114	23,732,737	17,808,490	1,275,514	2,233,268	268,033	(7,647,173)	48,484,983	48,200,193
Commitments and contingencies									
Net assets (deficit):									
Unrestricted	3,061,769	4,772,166	3,497,992	1,038,399	2,067,302	(71,369)	-	14,366,259	12,946,362
Temporarily restricted	-	3,178,750	-	-	-	-	-	3,178,750	3,382,016
Total net assets (deficit)	3,061,769	7,950,916	3,497,992	1,038,399	2,067,302	(71,369)	-	17,545,009	16,328,378
	$13,875,883	$31,683,653	$21,306,482	$2,313,913	$4,300,570	$196,664	$(7,647,173)	$66,029,992	$64,528,571

Combining Statement of Activities
(with comparative totals for 2008)

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 Program, Inc.	SUS – Home Care Services, Inc.	Eliminations	Total 2009	Total 2008
Public support and revenue:									
Medicaid income	$ -	$ 2,627,695	$28,360,473	$ -	$20,445,032	$ 27,016	$ -	$51,460,216	$50,477,567
Contract revenue	-	17,242,994	-	6,671,314	-	-	-	23,914,308	22,822,188
Rental income	639,349	-	-	-	-	-	(639,349)	-	-
Participant fees	-	3,466,578	1,806,023	476,283	-	-	-	5,748,884	5,386,762
Contributions	588,761	-	-	-	-	-	-	588,761	297,449
Management fees	4,198,288	-	-	-	-	-	(3,868,191)	330,097	9,122
Other	84,676	34,634	416,523	51,290	36,982	-	-	624,105	165,671
Total public support and revenue	5,511,074	23,371,901	30,583,019	7,198,887	20,482,014	27,016	(4,507,540)	82,666,371	79,158,759
Expenses:									
Program services:									
Mental Health Programs, Inc.	-	21,313,905	-	-	-	-	(257,517)	21,056,388	19,554,298
Developmental Disabilities Services, Inc.	-	-	27,646,206	-	-	-	(337,432)	27,308,774	24,793,759
AIDS Services, Inc.	-	-	-	6,879,665	-	-	(44,400)	6,835,265	6,564,247
Home Attendant Program, Inc.	-	-	-	-	18,671,451	-		18,671,451	20,512,210
Home Care Services	-	-	-	-	-	39,237	-	39,237	96,624
Total program services	-	21,313,905	27,646,206	6,879,665	18,671,451	39,237	(639,349)	73,911,115	71,521,138
Supporting services:									
Fundraising	236,800	-	-	-	-	-	-	236,800	62,834
Management and general	5,491,261	1,341,137	2,149,456	377,599	1,810,563	-	(3,868,191)	7,301,825	5,958,527
Total expenses	5,728,061	22,655,042	29,795,662	7,257,264	20,482,014	39,237	(4,507,540)	81,449,740	77,542,499
(Deficiency) excess of public support and revenue over expenses before transfer to funding source	(216,987)	716,859	787,357	(58,377)	-	(12,221)	-	1,216,631	1,616,260
Transfer to funding source	-	-	-	-	-	-	-	-	(1,232,840)
Change in net assets	(216,987)	716,859	787,357	(58,377)	-	(12,221)	-	1,216,631	383,420
Net assets, beginning of year	3,278,756	7,234,057	2,710,635	1,096,776	2,067,302	(59,148)	-	16,328,378	15,944,958
Net assets (deficit), end of year	$3,061,769	$ 7,950,916	$ 3,497,992	$1,038,399	$ 2,067,302	$(71,369)	$ -	$17,545,009	$16,328,378

Services for the Underserved and Related Organizations

Combined Financial Statements
and Supplemental Material
Year Ended June 30, 2008

Services for the Underserved and Related Organizations

Combined Financial Statements
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Year Ended June 30, 2008

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Services for the Underserved and Related Organizations

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BDO Seidman, LLP
Accountants and Consultants

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Independent Auditors' Report

To the Board of Directors
Services for the Underserved
and Related Organizations

We have audited the accompanying combined statement of financial position of Services for the Underserved and related organizations ("SUS") as of June 30, 2008, 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.

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 related organizations as of June 30, 2008, 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.

Information for the year ended June 30, 2007 is presented for comparative purposes only and was extracted from the financial statements of the Company for the year, on which we expressed an unqualified opinion, dated March 18, 2008.

BDO Seidman, LLP

February 16, 2009

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Services for the Underserved and Related Organizations

Combined Statement of Financial Position (with comparative totals for 2007)

June 30,	**2008**	2007
Assets		
Cash and cash equivalents (Note 2)	**$ 3,954,858**	$ 3,217,089
Accounts receivable, net of allowance for doubtful accounts of $3,467,330 and $3,030,661 for 2008 and 2007, respectively (Note 2)	**13,552,908**	16,094,668
Prepaid expenses and other assets (Note 3)	**1,371,056**	2,294,207
Bond escrow fund (Note 9)	**684,785**	312,108
Due from affiliates (Note 10)	**2,512,183**	1,826,358
Debt service reserve (Note 4)	**1,653,284**	1,329,569
Deferred bond financing costs (Note 9)	**1,360,998**	1,090,450
Fixed assets, net (Notes 2, 5 and 8)	**39,438,499**	36,568,212
	$64,528,571	$62,732,661
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 2,526,892**	$ 2,209,561
Accrued compensation and related taxes	**4,753,770**	4,369,981
Due to affiliates (Note 10)	**882,321**	679,347
Other liabilities	**38,687**	53,257
Deferred revenue (Note 12)	**10,538,294**	9,404,971
Due to governmental agencies (Note 6)	**1,548,358**	1,786,750
Line of credit (Note 7)	**2,187,968**	4,587,287
Mortgages and loans payable (Note 8)	**11,618,266**	12,333,328
Bonds payable (Note 9)	**14,105,637**	11,363,221
Total liabilities	**48,200,193**	46,787,703
Commitments and contingencies (Notes 5, 7, 11, 13 and 15)		
Net assets:		
Unrestricted	**12,946,362**	12,532,680
Temporarily restricted (Note 14)	**3,382,016**	3,412,278
Total net assets	**16,328,378**	15,944,958
	$64,528,571	$62,732,661

See accompanying notes to combined financial statements.

Services for the Underserved and Related Organizations

Combined Statement of Activities (with comparative totals for 2007)

Year ended June 30,	Unrestricted	Temporarily restricted	Totals **2008**	Totals 2007
Public support and revenue:				
Medicaid income	$50,477,567	$ -	**$50,477,567**	$48,528,705
Contract revenue	22,822,188	-	**22,822,188**	21,554,318
Participant fees	5,386,762	-	**5,386,762**	4,929,897
Contributions	297,449	-	**297,449**	293,889
Management fees	9,122	-	**9,122**	170,609
Other	165,671	-	**165,671**	1,828,575
Net assets released from restriction (Note 14)	202,842	(202,842)	**-**	-
Total public support and revenue	79,361,601	(202,842)	**79,158,759**	77,305,993
Expenses:				
Program services:				
SUS – Mental Health Programs, Inc.	19,554,298	-	**19,554,298**	18,280,869
SUS – Developmental Disabilities Services, Inc.	24,793,759	-	**24,793,759**	24,685,958
SUS – AIDS Services, Inc.	6,564,247	-	**6,564,247**	6,330,281
SUS – Home Attendant Program, Inc.	20,512,210	-	**20,512,210**	19,532,407
SUS – Home Care Services	96,624	-	**96,624**	113,152
Total program services	71,521,138	-	**71,521,138**	68,942,667
Supporting services:				
Fundraising	62,834	-	**62,834**	55,890
Management and general	5,958,527	-	**5,958,527**	5,795,990
Total expenses	77,542,499	-	**77,542,499**	74,794,547
Excess (deficiency) of public support and revenue over expenses before transfer to funding source	1,819,102	(202,842)	**1,616,260**	2,511,446
Transfer to funding source (Note 16)	(1,232,840)	-	**(1,232,840)**	-
Change in net assets	586,262	(202,842)	**383,420**	2,511,446
Net assets, beginning of year	12,360,100	3,584,858	**15,944,958**	13,433,512
Net assets, end of year	**$12,946,362**	**$3,382,016**	**$16,328,378**	$15,944,958

See accompanying notes to combined financial statements.

Combined Statement of Functional Expenses
(with comparative totals for 2007)

Year ended June 30,

	Program services						Supporting services		Totals	
	SUS – Mental Health Programs, Inc	SUS – Developmental Disabilities Services, Inc.	SUS – AIDS Services, Inc	SUS – Home Attendant Program, Inc.	SUS – Home Care Services	Total program services	Fundraising	Management and general	**2008**	2007
Salaries and related expenses:										
Salaries	$ 7,379,627	$12,884,089	$2,056,263	$14,162,742	$75,688	$36,558,409	$ -	$2,463,203	**$39,021,612**	$37,874,672
Fringe benefits	1,686,786	3,630,036	521,478	6,100,557	9,091	11,947,948	-	429,536	**12,377,484**	11,736,941
Total salaries and related expenses	9,066,413	16,514,125	2,577,741	20,263,299	84,779	48,506,357	-	2,892,739	**51,399,096**	49,611,613
Other expenses:										
Food	511,400	535,198	7,935	-	-	1,054,533	-	-	**1,054,533**	1,056,740
Rent	3,819,602	433,665	2,651,204	-	-	6,904,471	-	274,713	**7,179,184**	6,813,685
Facility tax	-	564,144	-	-	-	564,144	-	-	**564,144**	750,125
Telephone and utilities	1,159,815	501,725	358,179	-	-	2,019,719	-	199,595	**2,219,314**	2,030,887
Transportation	125,865	1,128,205	45,024	-	389	1,299,483	-	72,183	**1,371,666**	1,342,553
Office supplies and postage	76,420	92,511	44,176	-	8,273	221,380	-	179,692	**401,072**	371,660
Lease equipment	156,916	244,301	39,317	-	242	440,776	-	70,965	**511,741**	524,602
Repairs and maintenance	628,014	394,722	130,234	-	-	1,152,970	-	172,060	**1,325,030**	1,418,494
Professional and consultant fees	223,136	376,115	43,201	-	1,377	643,829	-	672,388	**1,316,217**	1,354,431
Household supplies	234,709	480,415	133,467	-	474	849,065	-	2,306	**851,371**	819,382
Medical exams	-	-	-	-	-	-	-	52,365	**52,365**	57,875
Furniture and equipment expense	419,558	261,472	138,052	-	-	819,082	-	165,836	**984,918**	1,038,935
Insurance	219,053	198,254	76,577	-	205	494,089	-	99,513	**593,602**	660,430
Community outreach and recruitment	116,770	71,893	15,644	-	390	204,697	-	149,180	**353,877**	225,878
Client incidentals	286,608	176,710	18,742	-	-	482,060	-	-	**482,060**	543,767
Staff training	32,862	107,992	5,688	-	495	147,037	-	22,826	**169,863**	148,015
Interest expense	623,461	528,768	44	-	-	1,152,273	-	394,299	**1,546,572**	1,670,210
Temporary labor	550,792	822,725	116,434	-	-	1,489,951	-	58,936	**1,548,887**	831,408
Real estate taxes	-	17,505	-	-	-	17,505	-	-	**17,505**	9,026
Miscellaneous	15,202	41,766	1,800	-	-	58,768	-	82,742	**141,510**	167,640
Start-up cost	-	101,482	-	-	-	101,482	-	-	**101,482**	120,104
Sheltered workshop		64,257	-	-	-	64,257	-	-	**64,257**	110,203
Broker and bond administrative fees	12,782	25,060	-	-	-	37,842	-	33,842	**71,684**	64,198
Fundraising expense	-	-	-	-	-	-	62,834	-	**62,834**	55,890
Contribution expense	-	-	-	-	-		-	125,000	**125,000**	-
Bad debt expense	-	304,817	95,000	248,911	-	648,728	-	-	**648,728**	739,145
Total expenses before depreciation and amortization	18,279,378	23,987,827	6,498,459	20,512,210	96,624	69,374,498	62,834	5,721,180	**75,158,512**	72,536,896
Depreciation and amortization	1,274,920	805,932	65,788	-	-	2,146,640	-	237,347	**2,383,987**	2,257,651
Total expenses	**$19,554,298**	**$24,793,759**	**$6,564,247**	**$20,512,210**	**$96,624**	**$71,521,138**	**$62,834**	**$5,958,527**	**$77,542,499**	**$74,794,547**

See accompanying notes to combined financial statements.

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Combined Statement of Cash Flows
(with comparative totals for 2007)

Year ended June 30,	2008	2007
Cash flows from operating activities:		
Change in net assets	**$ 383,420**	$ 2,511,446
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**2,383,987**	2,257,651
Provisions for bad debt	**648,728**	739,145
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Bond escrow fund	**(372,677)**	128,903
Accounts receivable	**1,893,032**	(2,760,716)
Prepaid expenses and other assets	**923,151**	219,731
Due from affiliates	**(685,825)**	(1,657,572)
Debt service reserve fund	**(323,715)**	-
Increase (decrease) in:		
Accounts payable and accrued expenses	**317,331**	237,237
Accrued compensation and related taxes	**383,789**	(707,630)
Due to affiliates	**202,974**	603,069
Other liabilities	**(14,570)**	(102,422)
Deferred revenue	**1,133,323**	(147,082)
Due to governmental agencies	**(238,392)**	256,594
Net cash provided by operating activities	**6,634,556**	1,578,354
Cash flows from investing activities:		
Purchase of fixed assets	**(5,158,612)**	(2,798,263)
Cash flows from financing activities:		
Payments of bond acquisition costs	**(366,210)**	-
Payments of bond principal	**(952,584)**	(795,000)
Payments of line of credit	**(6,877,126)**	(3,500,000)
Payments of mortgages payable	**(657,421)**	(611,664)
Payments of loans payable	**(57,641)**	(48,095)
Proceeds from bond payable	**3,695,000**	-
Proceeds from line of credit	**4,477,807**	5,214,748
Net cash (used in) provided by financing activities	**(738,175)**	259,989
Net increase (decrease) in cash and cash equivalents	**737,769**	(959,920)
Cash and cash equivalents, beginning of year	**3,217,089**	4,177,009
Cash and cash equivalents, end of year	**$ 3,954,858**	$ 3,217,089
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 1,546,528**	$ 1,670,210

See accompanying notes to combined financial statements.

Notes to Combined Financial Statements

1. Nature of Organizations

Services for the Underserved ("SUS") was established in 1978 and currently serves approximately 2,000 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 related 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).

Services for the Underserved Foundation, Inc. (fundraising - no activity for the year ended June 30, 2008).

Services for the Underserved - Mental Health Programs, Inc.

Services for the Underserved – Developmental Disabilities Services, Inc.

Services for the Underserved - AIDS Services, Inc.

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Services for the Underserved - Home Attendant Program, Inc.

Services for the Underserved – Home Care Services, Inc.

(b) *Basis of Presentation*

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

(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 related 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 related organizations.

(ii) **Temporarily Restricted** – Net assets resulting from contributions and other inflows of assets whose use by SUS and related 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 related 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) *Income Taxes*

SUS and related 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 2008.

In addition, SUS has not taken an unsubstantiated tax position that would require provision of a liability under Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). See Note 1(n).

(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. With respect to the statement of activities, the prior year information is presented in total, not be net asset 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, 2007 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 amounts in the 2007 combined financial statements have been reclassified to conform to the 2008 presentation. The reclassifications have no effect on net assets or the operating results of the prior year.

(m) *Fair Value Measurements*

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements". This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of June 30, 2008, the Company does not believe the adoption of SFAS No. 157 will impact the amounts reported in the financial statements. However, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of activities for a fiscal period.

(n) *Accounting for Uncertainty in Income Taxes*

SUS adopted the provisions of FIN 48 on July 1, 2007. Under FIN 48, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. The implementation of FIN 48 had no impact on SUS's financial statements. SUS does not believe there are any material uncertain tax positions and, accordingly, it will not recognize 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 tax returns, as required, and all other applicable returns in jurisdictions where it is required. No interest or penalties were accrued as of July 1, 2007 as a result of the adoption of FIN 48. For the year ended June 30, 2008, there was no interest or penalties recorded or included in the combined statement of activities.

3. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consists of the following:

June 30, 2008	
Security deposits	$687,171
Escrow	30,684
Dormitory Authority of the State of New York surplus funds	326,379
Other assets	326,822
	$1,371,056

4. Debt Service Reserve Fund

Debt service reserve fund represents funds held by New York State Office of Mental Retardation and Developmental Disabilities ("OMRDD"), Deutsche Bank Trust Company Americas, Bank of New York and Bank of America. 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"). This reserve will earn interest which will be used to offset SUS's obligations.

5. Fixed Assets, Net

Major classes of fixed assets, net consist of the following:

June 30, 2008	
Land	$ 2,649,297
Building and building improvements	48,477,639
Construction-in-progress	2,898,272
Leasehold improvements	840,370
Furniture and equipment	5,248,664
Vehicles	503,747
Total fixed assets	60,617,989
Less: Accumulated depreciation and amortization	(21,179,490)
Fixed assets, net	$ 39,438,499

For the year ended June 30, 2008, depreciation and amortization expense was $2,383,987.

6. Due to Governmental Agencies

Due to governmental agencies consists of the following:

June 30, 2008	
Other advances due to OMH and New York City to be recouped	$1,257,279
Other advances due to Medicaid to be recouped	291,079
	$1,548,358

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7. Line of Credit

SUS and its affiliated organizations have an $8,000,000 working capital line of credit with Bank of America. This line of credit matures on March 29, 2009 and bears interest at the rate equal to the prime rate. The loan is guaranteed by SUS and all of its affiliates collectively and individually and is collateralized by a first-priority perfected security interest in SUS and its affiliated organizations' accounts receivable and personal property and fixtures. SUS is required to pay an annual renewal fee in the amount of $8,000. The total amount outstanding as of June 30, 2008 was $1,016,358. SUS incurred and paid $162,454 in interest expense during the year ended June 30, 2008.

SUS also has a $6,000,000 acquisition line of credit with the Bank of America. This line of credit is available through March 29, 2009, and bears interest at the rate of ¼ in excess of the prime rate. The loan is guaranteed by a negative pledge on the related residences and related leased locations. The total amount outstanding as of June 30, 2008 was $1,171,610, and there was $69,552 of related interest expense during the year ended June 30, 2008.

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8. Mortgages and Loans Payable

Mortgages and loans payable consist of the following:

June 30, 2008	
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	$ 460,017
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	884,226
Mortgage payable to DASNY - OMH, due June 1, 2019, payable in semiannual payments of $59,310, including interest at 6.20% per annum, secured by real estate located on Patchen Avenue, Brooklyn, New York	747,600
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	2,567,794
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	676,814
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	5,341,940

June 30, 2008	
Mortgage payable to DASNY, due August 15, 2011, payable in semiannual debt service and administrative fee payments of approximately $20,000, including interest at 5.98% per annum, secured by real estate located on Crescent Street, Astoria, New York.	$ 138,375
Mortgage payable to Facilities Development Corporation ("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.	351,500
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.	450,000
	$11,618,266

Mortgages and loans payable mature as follows:

Year ended June 30,	
2009	$ 689,965
2010	736,409
2011	779,977
2012	832,296
2013	829,694
Thereafter	7,749,925
	$11,618,266

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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 (the "Trustee"), 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, 2008 was $6,845,537.

(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 the Bank of New York (the "Trustee'), 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, 2008 was $2,065,000.

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 America (the "Trustee"), 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, 2008 was $1,625,100.

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 (the "Trustee"), 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, 2008 was $3,570,000.

In addition to the construction cost of the projects, bond proceeds were used to pay bond issuance costs of $425,787 for DASNY and $867,173 for IDA, respectively, which are being amortized over the lives of the bonds. At June 30, 2008, $95,681 of amortized bond costs is included in depreciation and amortization.

These bonds are considered conduit debt securities under FASB Staff Position No. 126-1, "Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities". SUS is considered an obligor to the conduit debt securities, which are traded on the public market.

At June 30, 2008, the Trustees have $684,785 in bond escrow funds.

Future minimum debt service payments are as follows:

Year ending June 30,	
2009	$ 1,120,000
2010	1,130,000
2011	1,055,000
2012	1,070,000
2013	1,000,000
Thereafter	8,730,637
	$14,105,637

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10. Transaction 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. 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"). The sole member of the HDFC is SUS. The limited partner of New Life Homes, Limited Partnership 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, 2008. At June 30, 2008, SUS had a payable and a receivable of $868,692 and $329,348, respectively, to HDFC.

SUS engages in related party transactions with Child Development Center of the Hamptons, Inc. ("CDCH Preschool"), Child Development Center of the Hamptons Charter School, Inc. ("CDCH Charter School") and Child Development Center of the Hamptons Foundation ("CDCH Foundation"). CDCH Charter School and CDCH Foundation are related to SUS through common management. CDCH Preschool is affiliated with SUS.

SUS made a contribution of $125,000 to CDCH Preschool for the year ended June 30, 2008. SUS received management fees of $75,570 and $30,000 from the CDCH Charter School and CDCH Preschool, respectively, for the year ended June 30, 2008. SUS is also entitled to be reimbursed for costs incurred related to CDCH Preschool, CDCH Charter School and CDCH Foundation. Amounts due from CDCH Preschool and CDCH Charter School were $835,342 and $1,341,389, respectively, at June 30, 2008. Amount due from CDCH Foundation was $6,103 at June 30, 2008.

11. Pension Plans

SUS sponsors a 401(k) & Profit Sharing Plan (the "Plan"). The Plan was established on January 1, 2006 as a defined contribution plan covering all eligible employees of SUS. Employees are eligible to participate in the Plan if the employee has completed one month of service and is 18 years or older. Employees are eligible to receive profit sharing contributions after one year of service. SUS's profit sharing contributions to the Plan are discretionary and may vary from year to year. There were no profit sharing contributions to the Plan for the year ended June 30, 2008.

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. There was no employer contribution to the SEPP for the year ended June 30, 2008.

Effective December 31, 2008, SUS terminated the Plan and adopted a 403(b) plan covering all eligible employees. Employer contributions to the 403(b) plan are discretionary and may vary from year to year.

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SUS adopted a deferred compensation retirement plan (the "457 Plan") under Section 457(b) of the Internal Revenue Code. The 457 Plan is intended to provide deferred compensation for a select group of management employees. SUS's contribution to the 457 Plan was $68,627 for the year ended June 30, 2008.

12. Deferred Revenue Deferred revenue consists of the following:

June 30, 2008	
Construction and acquisition costs for the Montrose, McCombs, Marcy Avenue Mother Gaston, Safe Haven and Briarwood facilities which were financed by grants from the State of New York, Office of Mental Health ("OMH"), which stipulated that the Company will take title to the land and building after 20 years of meeting operational requirements.	$ 9,656,914
Additional OMH funding received for capital improvements for various mental health program facilities.	294,204
Various AIDS services contract advances for fiscal year 2008	364,660
Surplus income generated in the current year from Home Attendant Program	97,170
Other deferred revenue	125,346
	$10,538,294

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 $7,179,184 for the year ended June 30, 2008. The minimum future annual rental payments are as follows:

Year ended June 30,	
2009	$ 4,598,189
2010	2,286,646
2011	988,200
2012	905,338
2013	879,281
Thereafter	3,043,374
Total	$12,701,028

14. Temporarily Restricted Net Assets and Net Assets Released from Restriction

Temporarily restricted net assets at June 30, 2008 were $3,382,016 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 $202,842 for the Hotel Majestic property as of June 30, 2008.

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

The funding agency for Services for the Underserved – Home Attendant Program, Inc., Human Resources Administration ("HRA"), limits the amount of net assets resulting from HRA operations to approximately six estimated payrolls. As part of its standard closeout procedures for fiscal year 2003, HRA requested the recoupment of $1,232,840. The recoupment funds were transferred to HRA during fiscal year 2008.

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Independent Auditors' Report on Supplemental Material

Our audit of the basic combined financial statements included in the preceding section of this report was made 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 for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

BDO Seidman, LLP

Certified Public Accountants

New York, New York

February 16, 2009

Combining Statement of Financial Position (with comparative totals for 2007)

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 2008	Total 2007
Assets									
Cash and cash equivalents	$ -	$ 1,360,747	$ 19,315	$ 403,116	$ 2,023,509	$148,171	$ -	**$ 3,954,858**	$ 3,217,089
Accounts receivable, net	145,880	3,664,878	4,953,594	2,517,370	2,279,195	20,161	(28,170)	**13,552,908**	16,094,668
Prepaid expenses and other assets	316,650	680,578	85,993	265,528	22,307	-	-	**1,371,056**	2,294,207
Bond escrow fund	-	-	684,785	-	-	-	-	**684,785**	312,108
Due from affiliates	5,456,276	1,971,887	-	-	-	-	(4,915,980)	**2,512,183**	1,826,358
Debt service reserve	457,806	-	1,195,478	-	-	-	-	**1,653,284**	1,329,569
Deferred bond financing costs	439,693	-	921,305	-	-	-	-	**1,360,998**	1,090,450
Fixed assets, net	3,373,285	23,487,869	12,362,913	214,432	-	-	-	**39,438,499**	36,568,212
	$10,189,590	**$31,165,959**	**$20,223,383**	**$3,400,446**	**$4,325,011**	**$168,332**	**$(4,944,150)**	**$64,528,571**	$62,732,661
Liabilities and Net Assets (Deficit)									
Liabilities:									
Accounts payable and accrued expenses	$ 738,756	$ 682,866	$ 658,151	$ 26,330	$ 394,226	$ 26,563	$ -	**$ 2,526,892**	$ 2,209,161
Accrued compensation and related taxes	294,595	808,782	1,694,825	244,752	1,710,816	-	-	**4,753,770**	4,370,381
Due to affiliates	353,914	514,779	3,033,436	1,667,928	55,497	200,917	(4,944,150)	**882,321**	679,347
Other liabilities	-	38,687	-	-	-	-	-	**38,687**	53,257
Deferred revenue	1,284	9,951,118	124,062	364,660	97,170	-	-	**10,538,294**	9,404,971
Due to government agencies	-	1,257,279	291,079	-	-	-	-	**1,548,358**	1,786,750
Line of credit	826,358	-	1,361,610	-	-	-	-	**2,187,968**	4,587,287
Mortgages and loans payable	-	10,678,391	939,875	-	-	-	-	**11,618,266**	12,333,328
Bonds payable	4,695,927	-	9,409,710	-	-	-	-	**14,105,637**	11,363,221
Total liabilities	6,910,834	23,931,902	17,512,748	2,303,670	2,257,709	227,480	(4,944,150)	**48,200,193**	46,787,703
Commitments and contingencies									
Net assets (deficit):									
Unrestricted	3,278,756	3,852,041	2,710,635	1,096,776	2,067,302	(59,148)	-	**12,946,362**	12,532,680
Temporarily restricted	-	3,382,016	-	-	-	-	-	**3,382,016**	3,412,278
Total net assets (deficit)	3,278,756	7,234,057	2,710,635	1,096,776	2,067,302	(59,148)	-	**16,328,378**	15,944,958
	$10,189,590	**$31,165,959**	**$20,223,383**	**$3,400,446**	**$4,325,011**	**$168,332**	**$(4,944,150)**	**$64,528,571**	$62,732,661

Combining Statement of Activities (with comparative totals for 2007)

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 Program, Inc.	SUS – Home Care Services, Inc.	Eliminations	Total 2008	Total 2007
Public support and revenue:									
Medicaid income	$ -	$ 2,145,522	$26,251,939	$ -	$ 22,045,331	$ 34,775	$ -	**$50,477,567**	$48,528,705
Contract revenue	-	16,179,654	-	6,642,534	-	-	-	**22,822,188**	21,554,318
Rental income	658,803	-	-	-	-	-	(658,803)	**-**	-
Participant fees	-	3,229,354	1,451,512	705,896	-	-	-	**5,386,762**	4,929,897
Contributions	497,449	-	-	-	-	-	(200,000)	**297,449**	293,889
Management fees	3,681,082	-	-	-	-	-	(3,671,960)	**9,122**	170,609
Other	22,951	18,875	55,797	2,700	65,348	-	-	**165,671**	1,828,575
Total public support and revenue	4,860,285	21,573,405	27,759,248	7,351,130	22,110,679	34,775	(4,530,763)	**79,158,759**	77,305,993
Expenses:									
Program services:					-				
Mental Health Programs, Inc.	-	19,819,649	-	-	-	-	(265,351)	**19,554,298**	18,280,869
Developmental Disabilities Services, Inc.	-	-	25,141,461	-	-	-	(347,702)	**24,793,759**	24,685,958
AIDS Services, Inc.	-	-	-	6,609,997	-	-	(45,750)	**6,564,247**	6,330,281
Home Attendant Program, Inc.	-	-	-	-	20,512,210	-		**20,512,210**	19,532,407
Home Care Services	-	-	-	-	-	96,624	-	**96,624**	113,152
Total program services	-	19,819,649	25,141,461	6,609,997	20,512,210	96,624	(658,803)	**71,521,138**	68,942,667
Supporting services:									
Fundraising	62,834	-	-	-	-	-	-	**62,834**	55,890
Management and general	4,387,385	1,267,608	1,991,309	585,716	1,598,469	-	(3,871,960)	**5,958,527**	5,795,990
Total expenses	4,450,219	21,087,257	27,132,770	7,195,713	22,110,679	96,624	(4,530,763)	**77,542,499**	74,794,547
Excess (deficiency) of public support and revenue over expenses before transfer to funding source	410,066	486,148	626,478	155,417	-	(61,849)	-	**1,616,260**	2,511,446
Transfer to funding source	-	-	-	-	(1,232,840)	-		**(1,232,840)**	-
Change in net assets	410,066	486,148	626,478	155,417	(1,232,840)	(61,849)	-	**383,420**	2,511,446
Net assets, beginning of year	2,868,690	6,747,909	2,084,157	941,359	3,300,142	2,701		**15,944,958**	13,433,512
Net assets (deficit), end of year	**$3,278,756**	**$ 7,234,057**	**$ 2,710,635**	**$1,096,776**	**$ 2,067,302**	**$(59,148)**	**$ -**	**$16,328,378**	$15,944,958

Services for the Underserved and Related Organizations

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Combined Financial Statements and Supplemental Material

Year Ended June 30, 2007

Services for the Underserved and Related Organizations

Combined Financial Statements and Supplemental Material

Year Ended June 30, 2007

Services for the Underserved and Related Organizations

Contents

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BDO Seidman, LLP
Accountants and Consultants

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Independent Auditors' Report

To the Board of Directors
Services for the Underserved
and Related Organizations

We have audited the accompanying combined statement of financial position of Services for the Underserved and related organizations ("SUS") as of June 30, 2007, 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.

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 related organizations as of June 30, 2007, 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.

Information for the year ended June 30, 2006 is presented for comparative purposes only and was extracted from the financial statements of the Company for the year, on which we expressed an unqualified opinion, dated September 29, 2006.

BDO Seidman, LLP

March 18, 2008

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Services for the Underserved and Related Organizations

Combined Statement of Financial Position (with comparative totals for 2006)

June 30,	**2007**	2006
Assets		
Cash and cash equivalents (Note 2)	**$ 3,217,089**	$ 4,177,009
Accounts receivable, net of allowance for doubtful accounts of $3,030,661 and $1,685,814 for 2007 and 2006, respectively (Note 2)	**16,094,668**	14,073,097
Prepaid expenses and other assets (Note 3)	**2,294,207**	2,513,938
Bond escrow fund (Note 9)	**312,108**	441,011
Due from affiliates (Note 10)	**1,810,238**	480,477
Debt service reserve (Note 4)	**1,329,569**	1,329,569
Deferred bond financing costs (Note 9)	**1,090,450**	1,083,731
Fixed assets, net (Notes 2, 5 and 8)	**36,568,212**	35,953,025
	$62,716,541	$60,051,857
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 2,511,601**	$ 2,274,364
Accrued compensation and related taxes	**4,067,941**	4,775,571
Other liabilities (Note 10)	**716,484**	543,648
Deferred revenue (Note 12)	**9,404,971**	9,552,053
Due to governmental agencies (Note 6)	**1,786,750**	1,530,156
Line of credit (Note 7)	**4,587,287**	2,872,819
Mortgages and loans payable (Note 8)	**12,333,328**	12,992,805
Bonds payable (Note 9)	**11,363,221**	12,076,929
Total liabilities	**46,771,583**	46,618,345
Commitments and contingencies (Notes 5, 7, 11, 14 and 17)		
Net assets:		
Unrestricted	**12,532,680**	9,848,654
Temporarily restricted (Note 15)	**3,412,278**	3,584,858
Total net assets	**15,944,958**	13,433,512
	$62,716,541	$60,051,857

See accompanying notes to combined financial statements.

Services for the Underserved and Related Organizations

Combined Statement of Activities (with comparative totals for 2006)

Year ended June 30,	Unrestricted	Temporarily restricted	Totals 2007	Totals 2006
Public support and revenue:				
Medicaid income	$27,260,931	$ -	**$27,260,931**	$25,526,110
Net patient service revenue	21,267,774	-	**21,267,774**	19,945,969
Contract revenue	21,449,387	104,931	**21,554,318**	19,497,316
Participant fees	4,929,897	-	**4,929,897**	4,700,729
Contributions	293,889	-	**293,889**	262,220
Management fees (Note 10)	170,609	-	**170,609**	64,583
Other (Note 13)	1,828,575	-	**1,828,575**	608,646
Net assets released from restriction (Note 15)	277,511	(277,511)	-	-
Total public support and revenue	77,478,573	(172,580)	77,305,993	70,605,573
Expenses:				
Program services:				
SUS – Mental Health Programs, Inc.	18,280,869	-	**18,280,869**	17,325,689
SUS – Developmental Disabilities Services, Inc.	24,685,958	-	**24,685,958**	22,874,431
SUS – AIDS Services, Inc.	6,330,281	-	**6,330,281**	5,666,187
SUS – Home Attendant Program, Inc.	19,532,407	-	**19,532,407**	18,263,824
SUS – Home Care Services	113,152	-	**113,152**	130,196
Total program services	68,942,667	-	**68,942,667**	64,260,327
Supporting services:				
Fundraising	55,890	-	**55,890**	84,068
Management and general	5,795,990	-	**5,795,990**	5,251,062
Total expenses	74,794,547	-	74,794,547	69,595,457
Excess (deficiency) of public support and revenue over expenses	2,684,026	(172,580)	**2,511,446**	1,010,116
Other changes in net assets:				
Prior year expense	-	-	-	(338,949)
Change in net assets	2,684,026	(172,580)	**2,511,446**	671,167
Net assets, beginning of year (Note 16)	9,848,654	3,584,858	**13,433,512**	12,762,345
Net assets, end of year	**$12,532,680**	**$3,412,278**	**$15,944,958**	$13,433,512

See accompanying notes to combined financial statements.

Combined Statement of Functional Expenses
(with comparative totals for 2006)

Year ended June 30,

	Program services						Supporting services		Totals	
	SUS – Mental Health Programs, Inc	SUS – Developmental Disabilities Services, Inc.	SUS – AIDS Services, Inc	SUS – Home Attendant Program, Inc.	SUS – Home Care Services	Total program services	Fundraising	Management and general	2007	2006
Salaries and related expenses:										
Salaries	$ 6,857,019	$12,379,611	$2,016,578	$14,105,131	$ 78,284	$35,436,623	$ -	$2,438,049	$37,874,672	$37,411,998
Fringe benefits	1,664,962	3,749,859	480,814	5,185,972	24,537	11,106,144	-	630,797	11,736,941	8,862,351
Total salaries and related expenses	8,521,981	16,129,470	2,497,392	19,291,103	102,821	46,542,767	-	3,068,846	49,611,613	46,274,349
Other expenses:										
Food	557,685	495,894	2,782	-	-	1,056,361	-	379	1,056,740	1,020,843
Rent	3,372,305	551,067	2,602,421	-	63	6,525,856	-	287,829	6,813,685	6,285,293
Facility tax	-	750,125	-	-	-	750,125	-	-	750,125	766,695
Telephone and utilities	1,037,046	534,906	304,686	-	-	1,876,638	-	154,249	2,030,887	2,014,403
Transportation	113,310	1,066,243	38,552	3,370	10	1,221,485	-	121,068	1,342,553	1,240,673
Office supplies and postage	62,548	93,343	43,115	-	6,876	205,882	-	165,778	371,660	309,620
Lease equipment	174,743	254,411	42,586	-	-	471,740	-	52,862	524,602	599,022
Repairs and maintenance	605,997	451,549	156,034	-	-	1,213,580	-	204,914	1,418,494	1,110,682
Professional and consultant fees	413,408	466,927	168,344	-	813	1,049,492	-	634,923	1,684,415	1,599,855
Household supplies	203,556	420,136	132,369	57,875	425	814,361	-	5,021	819,382	785,025
Furniture and equipment expense	542,587	233,637	147,082	-	-	923,306	-	115,629	1,038,935	751,199
Insurance	299,858	203,361	86,794	-	19	590,032	-	70,398	660,430	674,638
Community outreach and recruitment	77,503	64,794	1,409	-	300	144,006	-	81,872	225,878	304,309
Client incidentals	263,956	255,276	24,455	-	-	543,687	-	80	543,767	607,386
Staff training	34,475	87,691	7,315	-	1,808	131,289	-	16,726	148,015	177,481
Interest expense	663,911	518,248	-	-	-	1,182,159	-	488,051	1,670,210	1,413,789
Temporary help	-	526,522	-	-	-	526,522	-	32,777	559,299	485,724
Real estate taxes	3,322	5,704	-	-	-	9,026	-	-	9,026	21,587
Miscellaneous	45,254	76,515	2,046	11,902	17	135,734	-	31,906	167,640	73,515
Start-up cost	-	120,104	-	-	-	120,104	-	-	120,104	123,990
Sheltered workshop	-	110,203	-	-	-	110,203	-	-	110,203	121,707
Broker and bond administrative fees	21,042	19,221	-	-	-	40,263	-	23,935	64,198	26,835
Fundraising expense	-	-	-	-	-	-	55,890	-	55,890	79,361
Bad debt expense	-	570,988	-	168,157	-	739,145	-	-	739,145	531,206
Total expenses before depreciation and amortization	17,014,487	24,006,335	6,257,382	19,532,407	113,152	66,923,763	55,890	5,557,243	72,536,896	67,399,187
Depreciation and amortization	1,266,382	679,623	72,899	-	-	2,018,904	-	238,747	2,257,651	2,196,270
Total expenses	$18,280,869	$24,685,958	$6,330,281	$19,532,407	$113,152	$68,942,667	$55,890	$5,795,990	$74,794,547	$69,595,457

See accompanying notes to combined financial statements.

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Combined Statement of Cash Flows
(with comparative totals for 2006)

Year ended June 30,	2007	2006
Cash flows from operating activities:		
Change in net assets	$ 2,511,446	$ 671,167
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,257,651	2,196,270
Provisions for bad debt	739,145	531,206
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Bond escrow fund	128,903	368,392
Accounts receivable	(2,760,716)	(2,293,723)
Prepaid expenses and other assets	219,731	(595,180)
Due from affiliates	(1,329,761)	(480,477)
Debt service reserve fund	-	(113,593)
Increase (decrease) in:		
Accounts payable and accrued expenses	237,237	(119,349)
Accrued compensation and related taxes	(707,630)	487,790
Other liabilities	172,836	(16,073)
Due to affiliates	-	(65,443)
Deferred revenue	(147,082)	969,676
Due to governmental agencies	256,594	372,258
Net cash provided by operating activities	1,578,354	1,912,921
Cash flows from investing activities:		
Purchase of fixed assets	(2,798,263)	(3,845,254)
Cash flows from financing activities:		
Payments of bond acquisition costs	-	(188,373)
Payments of bond principal	(795,000)	(727,083)
Payments of line of credit	(3,500,000)	(3,859,465)
Payments of mortgages payable	(611,664)	(592,631)
Payments of loans payable	(48,095)	(67,678)
Proceeds from bond payable	-	1,679,077
Proceeds from line of credit	5,214,748	5,692,284
Net cash provided by financing activities	259,989	1,936,131
Net increase (decrease) in cash and cash equivalents	(959,920)	3,798
Cash and cash equivalents, beginning of year	4,177,009	4,173,211
Cash and cash equivalents, end of year	$ 3,217,089	$ 4,177,009
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,670,210	$ 1,413,789

See accompanying notes to combined financial statements.

Notes to Combined Financial Statements

1. Nature of Organizations

Services for the Underserved ("SUS") was established in 1978 and currently serves approximately 2,000 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 related 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).

Services for the Underserved Foundation, Inc. (fundraising - no activity for the year ended June 30, 2007).

Services for the Underserved - Mental Health Programs, Inc.

Services for the Underserved – Developmental Disabilities Services, Inc.

Services for the Underserved - AIDS Services, Inc.

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Services for the Underserved - Home Attendant Program, Inc.

Services for the Underserved – Home Care Services, Inc.

(b) *Basis of Presentation*

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

(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 related 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 related organizations.

(ii) **Temporarily Restricted** – Net assets resulting from contributions and other inflows of assets whose use by SUS and related 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 related 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.

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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 related 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. 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 2007.

(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. With respect to the statement of activities, the prior year information is presented in total, not be net asset 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, 2006 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 amounts in the 2006 combined financial statements have been reclassified to conform to the 2007 presentation. The reclassifications have no effect on net assets or the operating results of the prior year.

(m) Fair Value Measurements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements". This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of June 30, 2007, the Company does not believe the adoption of SFAS No. 157 will impact the amounts reported in the financial statements. However, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of activities for a fiscal period.

3. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consists of the following:

June 30, 2007	
Security deposits	$ 674,603
Escrow	936,082
Dormitory Authority of the State of New York surplus funds	326,379
Other assets	357,143
	$2,294,207

4. Debt Service Reserve Fund

Debt service reserve fund represents funds held by New York State Office of Mental Retardation and Developmental Disabilities ("OMRDD"), Deutsche Bank Trust Company Americas, Bank of New York and Bank of America. These funds will be applied to the last payment required on the mortgages with the Facilities Development Corporation ("FDC") and bonds due the Dormitory Authority of the State of New York Office of Mental Health ("DASNY"). This reserve will earn interest which will be used to offset SUS's obligations.

5. Fixed Assets, Net

Major classes of fixed assets, net consist of the following:

June 30, 2007	
Land	$ 2,654,297
Building and building improvements	45,098,171
Construction-in-progress	1,158,539
Leasehold improvements	899,002
Furniture and equipment	5,173,911
Vehicles	452,578
Start-up and closing costs	23,132
Total fixed assets	55,459,630
Less: Accumulated depreciation and amortization	(18,891,418)
Fixed assets, net	$ 36,568,212

For the year ended June 30, 2007, depreciation and amortization expense related to fixed assets was $2,257,651.

6. **Due to Governmental Agencies**

Due to governmental agencies consists of the following:

June 30, 2007	
Other advances due to OMH and New York City to be recouped	$1,598,661
Other advances due to Medicaid to be recouped	174,913
Construction retainage payable	13,176
	$1,786,750

7. **Line of Credit**

SUS and its affiliated organizations have an $8,000,000 working capital line of credit with Bank of America. This line of credit matures on March 29, 2008 and bears interest at the rate equal to the prime rate. The loan is guaranteed by SUS and all of its affiliates collectively and individually and is collateralized by a first-priority perfected security interest in SUS and its affiliated organizations' accounts receivable and personal property and fixtures. SUS is required to pay an annual renewal fee in the amount of $10,000. The total amount outstanding as of June 30, 2007 was $2,384,297. SUS incurred and paid $228,543 in interest during the year ended June 30, 2007.

SUS also has a $6,000,000 acquisition line of credit with the Bank of America. This line of credit is available through March 29, 2008, and bears interest at the rate of ¼ in excess of the prime rate. The loan is guaranteed by a negative pledge on the related residences and related leased locations. The total amount outstanding as of June 30, 2007 was $2,202,990, and there was $148,570 of related interest during the year ended June 30, 2007.

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8. **Mortgages and Loans Payable**

Mortgages and loans payable consist of the following:

June 30, 2007	
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	$ 504,543
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	938,632
Mortgage payable to DASNY - OMH, due June 1, 2019, payable in semiannual payments of $59,310, including interest at 6.20% per annum, secured by real estate located on Patchen Avenue, Brooklyn, New York	793,853
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	2,706,770
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	705,514
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	5,594,747

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June 30, 2007	
Loan payable to Fleet for the renovation of a building located on Metropolitan Avenue, Brooklyn, New York. The loan is secured by real estate on Metropolitan Avenue, Brooklyn, New York and bears interest at 5.05%, paid monthly. The loan matures March 1, 2008.	$ 13,819
Loan payable to Fleet for the renovation of a building located on Bushwick Avenue, Brooklyn, New York. The loan is secured by real estate on Bushwick Avenue, Brooklyn, New York and bears interest at 5.05%, paid monthly. The loan matures March 1, 2008.	41,252
Mortgage payable to DASNY, due August 15, 2011, payable in semiannual debt service and administrative fee payments of approximately $20,000, including interest at 5.98% per annum, secured by real estate located on Crescent Street, Astoria, New York.	172,700
Mortgage payable to Facilities Development Corporation ("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.	381,500
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.	479,998
	$12,333,328

Mortgages payable mature as follows:

Year ended June 30,	
2008	$ 703,844
2009	699,519
2010	736,409
2011	779,977
2012	832,296
Thereafter	8,581,283
	$12,333,328

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 (the "Trustee"), 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. At June 30, 2007, the Trustee has $312,108 in a bond escrow fund.

(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 in 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 the Bank of New York (the "Trustee'), which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year.

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 $1,679,077 in 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 America (the "Trustee"), which maintains a debt service reserve fund account and makes semiannual installments January 1 and July 1 of each year.

In addition to the construction cost of the projects, bond proceeds were used to pay bond issuance costs of $425,787 for DASNY and $535,304 for IDA, respectively, which are being amortized over the lives of the bonds. At June 30, 2007, $71,653 of amortized bond costs is included in depreciation and amortization.

Services for the Underserved
and Related Organizations

Notes to Combined Financial Statements

Future minimum debt service payments are as follows:

Year ending June 30,	
2008	$ 825,000
2009	845,000
2010	855,000
2011	760,000
2012	785,000
Thereafter	7,293,221
	$11,363,221

10. Transaction 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. 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"). The sole member of the HDFC is SUS. The limited partner of New Life Homes, Limited Partnership 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 $62,041 from New Life Homes for the year ended June 30, 2007. At June 30, 2007, SUS had a net payable to HDFC for $439,366.

SUS engages in related party transactions with Child Development Center of the Hamptons, Inc. Preschool ("Preschool"), Child Development Center of the Hamptons, Inc. Charter School ("Charter School") and Child Development Center of the Hamptons Foundation ("CDCH Foundation"). The Preschool, Charter School and CDCH Foundation are related to SUS through common management. SUS received management fees of $60,115 and $48,453 from the Charter School and Preschool, respectively, for the year ended June 30, 2007. SUS is also entitled to be reimbursed for costs incurred related to Preschool, Charter School and CDCH Foundation. Amounts due from Preschool and Charter School were $985,918 and $839,391, respectively, at June 30, 2007. Amount due to CDCH Foundation was $2,802 at June 30, 2007.

11. Pension Plans

SUS sponsors a 401(k) & Profit Sharing Plan (the "Plan"). The Plan was established on January 1, 2006 as a defined contribution plan covering all eligible employees of SUS. Employees are eligible to participate in the Plan if the employee has completed one month of service and is 18 years or older. Employees are eligible to receive profit sharing contributions after one year of service. SUS's profit sharing contributions to the Plan are discretionary and may vary from year to year. Profit sharing contributions were $692,426 for the year ended June 30, 2007.

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. There was no employer contribution to the SEPP for the year ended June 30, 2007.

SUS adopted a deferred compensation retirement plan (the "457 Plan") under Section 457(b) of the Internal Revenue Code. The 457 Plan is intended to provide deferred compensation for a select group of management employees. SUS's contribution to the 457 Plan was $68,627 for the year ended June 30, 2007.

12. Deferred Revenue

Deferred revenue consists of the following:

June 30, 2007	
Construction and acquisition costs for the Montrose, McCombs, Marcy Avenue and Briarwood facilities which were financed by grants from the State of New York, Office of Mental Health ("OMH"), which stipulated that the Company will take title to the land and building after 20 years of meeting operational requirements.	$8,485,170
Additional OMH funding received for capital improvements for various mental health program facilities.	271,825
Various AIDS services contract advances for fiscal year 2007.	468,933
Other deferred revenue	179,043
	$9,404,971

13. Other Revenue

Included in other revenue is $1,449,221 for the sale of air rights of the Duffield Street residence to a local developer.

14. 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 $6,813,685 and $6,285,293 for the years ended June 30, 2007 and 2006, respectively. The minimum future annual rental payments are as follows:

Year ended June 30,	
2008	$ 2,979,068
2009	1,560,756
2010	1,042,842
2011	871,178
2012	698,180
Thereafter	4,751,473
Total	$11,903,497

15. Temporarily Restricted Net Assets and Net Assets Released from Restriction

Temporarily restricted net assets at June 30, 2007 were $3,412,278 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 $200,061 for the Hotel Majestic property and $77,450 for capital expenditures as of June 30, 2007.

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16. Reconciliation of Beginning Net Assets

The net assets of SUS as of June 30, 2006 were reclassified to reflect funds received for capital expenditures to temporarily restricted as follows:

	Unrestricted	Temporarily restricted	Total
Net assets at June 30, 2006, as previously reported	$10,232,312	$3,201,200	$13,433,512
Reclassification of net assets	(383,658)	383,658	-
Net assets at June 30, 2006, as reclassified	$ 9,848,654	$3,584,858	$13,433,512

17. 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.

18. Subsequent Event

The funding agency for Services for the Underserved – Home Attendant Program, Inc., Human Resources Administration ("HRA"), limits the amount of net assets resulting from HRA operations to approximately six estimated payrolls. As part of its standard closeout procedures for fiscal year 2003, HRA requested the recoupment of $1,232,840. The recoupment funds were transferred to HRA during fiscal year 2008.

Independent Auditors' Report on Supplemental Material

Our audit of the basic combined financial statements included in the preceding section of this report was made 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 for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

BDO Seidman, LLP

Certified Public Accountants

New York, New York

March 18, 2008

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Combining Statement of Financial Position
(with comparative totals for 2006)

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 2007	Total 2006
Assets									
Cash and cash equivalents	$ 526,327	$ 930,224	$ 18,015	$ 97,664	$1,568,780	$ 76,079	$ -	$ 3,217,089	$ 4,177,009
Accounts receivable, net	176,060	4,445,916	5,646,572	2,291,898	3,464,292	69,930	-	16,094,668	14,073,097
Prepaid expenses and other assets	350,753	1,566,311	87,434	267,638	22,071	-	-	2,294,207	2,513,938
Bond escrow fund	-	-	312,108	-	-	-	-	312,108	441,011
Due from affiliates	5,444,783	1,247,714	-	-	-	-	(4,882,259)	1,810,238	480,477
Debt service reserve	457,806	-	871,763	-	-	-	-	1,329,569	1,329,569
Deferred bond financing costs	469,065	-	621,385	-	-	-	-	1,090,450	1,083,731
Fixed assets, net	3,549,615	21,859,227	10,901,914	257,456	-	-	-	36,568,212	35,953,025
	$10,974,409	$30,049,392	$18,459,191	$2,914,656	$5,055,143	$146,009	$(4,882,259)	$62,716,541	$60,051,857
Liabilities and Net Assets									
Liabilities:									
Accounts payable and accrued expenses	$ 641,775	$ 513,719	$ 674,421	$ 84,067	$ 568,376	$ 29,243	$ -	$ 2,511,601	$ 2,274,364
Accrued compensation	-	836,991	1,788,062	284,433	1,158,455	-	-	4,067,941	4,775,571
Other liabilities	378,602	337,882	-	-	-	-	-	716,484	543,648
Due to affiliates	-	-	3,631,076	1,108,948	28,170	114,065	(4,882,259)	-	-
Deferred revenue	-	8,756,995	152,127	495,849	-	-	-	9,404,971	9,552,053
Due to government agencies	-	1,611,837	174,913	-	-	-	-	1,786,750	1,530,156
Line of credit	2,194,297	-	2,392,990	-	-	-	-	4,587,287	2,872,819
Mortgages and loans payable	-	11,244,059	1,089,269	-	-	-	-	12,333,328	12,992,805
Bonds payable	4,891,045	-	6,472,176	-	-	-	-	11,363,221	12,076,929
Total liabilities	8,105,719	23,301,483	16,375,034	1,973,297	1,755,001	143,308	(4,882,259)	46,771,583	46,618,345
Commitments and contingencies									
Net assets:									
Unrestricted	2,868,690	3,335,631	2,084,157	941,359	3,300,142	2,701	-	12,532,680	9,848,654
Temporarily restricted	-	3,412,278	-	-	-	-	-	3,412,278	3,584,858
Total net assets	2,868,690	6,747,909	2,084,157	941,359	3,300,142	2,701	-	15,944,958	13,433,512
	$10,974,409	$30,049,392	$18,459,191	$2,914,656	$5,055,143	$146,009	$(4,882,259)	$62,716,541	$60,051,857

Services for the Underserved
and Related Organizations

Combining Statement of Activities
(with comparative totals for 2006)

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 Program, Inc.	SUS - Home Care Services, Inc.	Eliminations	Total 2007	Total 2006
Public support and revenue:									
Medicaid income	$ -	$ 1,559,037	$25,701,894	$ -	$ -	$ -	$ -	$27,260,931	$25,526,110
Net patient service revenue	-	-	-	-	21,162,512	105,262	-	21,267,774	19,945,969
Contract revenue	78,252	14,929,032	-	6,547,034	-	-	-	21,554,318	19,497,316
Rental income	590,815	-	-	-	-	-	(590,815)	-	-
Participant fees	-	3,258,102	1,142,641	529,154	-	-	-	4,929,897	4,700,729
Contributions	493,889	-	-	-	-	-	(200,000)	293,889	262,220
Management fees	3,746,134	-	-	-	-	-	(3,575,525)	170,609	64,583
Other	100,471	1,504,084	84,327	2,331	137,362	-	-	1,828,575	608,646
Total public support and revenue	5,009,561	21,250,255	26,928,862	7,078,519	21,299,874	105,262	(4,366,340)	77,305,993	70,605,573
Expenses:									
Program services:									
Mental Health Programs, Inc.	-	18,517,688	-	-	-	-	(236,819)	18,280,869	17,325,689
Developmental Disabilities Services, Inc.	-	-	24,999,237	-	-	-	(313,279)	24,685,958	22,874,431
AIDS Services, Inc.	-	-	-	6,370,998	-	-	(40,717)	6,330,281	5,666,187
Home Attendant Program, Inc.	-	-	-	-	19,532,407	-	-	19,532,407	18,263,824
Home Care Services	-	-	-	-	-	113,152	-	113,152	130,196
Total program services	-	18,517,688	24,999,237	6,370,998	19,532,407	113,152	(590,815)	68,942,667	64,260,327
Supporting services:									
Fundraising	55,890	-	-	-	-	-	-	55,890	84,068
Management and general	4,304,021	1,263,911	1,805,024	669,096	1,520,139	9,324	(3,775,525)	5,795,990	5,251,062
Total expenses	4,359,911	19,781,599	26,804,261	7,040,094	21,052,546	122,476	(4,366,340)	74,794,547	69,595,457
Excess (deficiency) of public support and revenue over expenses	649,650	1,468,656	124,601	38,425	247,328	(17,214)	-	2,511,446	1,010,116
Other changes in net assets:									
Prior year expense	-	-	-	-	-	-	-	-	(338,949)
Change in net assets	649,650	1,468,656	124,601	38,425	247,328	(17,214)	-	2,511,446	671,167
Net assets, beginning of year	2,219,040	5,279,253	1,959,556	902,934	3,052,814	19,915	-	13,433,512	12,762,345
Net assets, end of year	$2,868,690	$ 6,747,909	$ 2,084,157	$ 941,359	$ 3,300,142	$ 2,701	$ -	$15,944,958	$13,433,512

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APPENDIX B-VI

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

AUDITED FINANCIAL STATEMENTS

FISCAL YEARS 2009, 2008 AND 2007

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HOLTZ
RUBENSTEIN
REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

REPORT ON AUDITS OF COMBINED FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

HOLTZ
RUBENSTEIN
REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

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RUBENSTEIN
REMINICK
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Independent Auditors' Report

Board of Directors
United Cerebral Palsy of
New York City, Inc.
New York, New York

We have audited the accompanying combined statements of financial position of United Cerebral Palsy of New York City, Inc. (the "Agency"), as of June 30, 2009 and 2008, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These combined financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of United Cerebral Palsy of New York City, Inc. as of June 30, 2009 and 2008, and the combined changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Holtz Rubenstein Reminick LLP

New York, New York
November 11, 2009

HOLTZ RUBENSTEIN REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statements of Financial Position

June 30,	2009	2008
Assets		
Cash and Cash Equivalents	$ 12,119,000	$ 13,858,000
Investments (Notes 2 and 3)	6,569,000	7,813,000
Grants and Fees Receivable from Governmental Agencies	12,240,000	10,696,000
Other Assets	1,652,000	1,525,000
Fixed Assets (Note 5)	29,197,000	29,148,000
Assets Limited as to Use (Note 8)	2,722,000	2,844,000
Total Assets	$ 64,499,000	$ 65,884,000
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 7,832,000	$ 8,544,000
Accrued payroll and related liabilities	4,657,000	4,915,000
Lines of credit payable (Note 6)	4,202,000	1,820,000
Loans and capital leases payable (Note 7)	209,000	335,000
Mortgages payable (Note 8)	16,303,000	17,049,000
Accrued pension liability (Note 9)	14,363,000	8,509,000
Accrued reimbursement adjustments (Note 10)	1,874,000	1,951,000
Other liabilities	5,928,000	5,487,000
Total Liabilities	55,368,000	48,610,000
Commitments and Contingencies (Note 11)		
Net Assets:		
Unrestricted	8,253,000	16,224,000
Temporarily restricted (Note 1)	878,000	1,050,000
Total Net Assets	9,131,000	17,274,000
Total Liabilities and Net Assets	$ 64,499,000	$ 65,884,000

HOLTZ RUBENSTEIN REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statement of Activities and Changes in Net Assets

Year Ended June 30, 2009 (with summarized comparative totals for 2008)

	Unrestricted	Temporarily Restricted	Total 2009	Total 2008
Support, Revenue and Reclassifications				
Support from the Public:				
Contributions	$ 276,000	$ 276,000	$ 552,000	$ 495,000
Special events	734,000	-	734,000	763,000
Legacies and bequests	57,000	-	57,000	47,000
Total Support from the Public	1,067,000	276,000	1,343,000	1,305,000
Direct Expenses of Special Events	(399,000)	-	(399,000)	(297,000)
Net Support from the Public	668,000	276,000	944,000	1,008,000
Contracts, Grants and Fees Applicable to Program and Community Services:				
Contracts and grants	2,589,000	-	2,589,000	2,471,000
Fees for services	93,027,000	-	93,027,000	89,853,000
Total Contracts, Grants and Fees	95,616,000		95,616,000	92,324,000
Other Revenue:				
Rental income	957,000	-	957,000	910,000
Other income	124,000	-	124,000	79,000
Investment income:				
Interest and dividends	374,000	-	374,000	704,000
Realized and unrealized losses on investments	(1,690,000)	-	(1,690,000)	(914,000)
Total Other Revenue	(235,000)	-	(235,000)	779,000
Net Assets Released from Restrictions (Note 1)	448,000	(448,000)	-	-
Total Support, Revenue and Reclassifications	96,497,000	(172,000)	96,325,000	94,111,000
Expenses				
Program Services:				
Educational programs	18,816,000	-	18,816,000	16,798,000
Adult day programs	36,314,000	-	36,314,000	36,222,000
Residential programs	31,420,000	-	31,420,000	29,615,000
Family support services programs	3,099,000	-	3,099,000	3,123,000
Total Program Services	89,649,000	-	89,649,000	85,758,000
Supporting Services:				
Management and general	6,577,000	-	6,577,000	6,782,000
Public relations and fund-raising	525,000	-	525,000	331,000
Total Supporting Services	7,102,000	-	7,102,000	7,113,000
Total Program and Supporting Services	96,751,000	-	96,751,000	92,871,000
Payments to Affiliated Organizations:				
National program of research, education and service	50,000	-	50,000	50,000
State program of education and service	45,000	-	45,000	37,000
Total Payments to Affiliated Organizations	95,000	-	95,000	87,000
Total Expenses	96,846,000	-	96,846,000	92,958,000
Changes in Net Assets Before Pension Related Changes	(349,000)	(172,000)	(521,000)	1,153,000
Pension Related Changes Other Than Net Periodic Pension Cost (Note 9)	(7,622,000)	-	(7,622,000)	(2,891,000)
Changes in Net Assets	(7,971,000)	(172,000)	(8,143,000)	(1,738,000)
Net Assets, beginning of year	16,224,000	1,050,000	17,274,000	19,012,000
Net Assets, end of year	$ 8,253,000	$ 878,000	$ 9,131,000	$ 17,274,000

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statement of Activities and Changes in Net Assets

Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Total 2008
Support, Revenue and Reclassifications			
Support from the Public:			
Contributions	$ 246,000	$ 249,000	$ 495,000
Special events	763,000	-	763,000
Legacies and bequests	47,000	-	47,000
Total Support from the Public	1,056,000	249,000	1,305,000
Direct Expenses of Special Events	(297,000)	-	(297,000)
Net Support from the Public	759,000	249,000	1,008,000
Contracts, Grants and Fees Applicable to Program and Community Services:			
Contracts and grants	2,471,000	-	2,471,000
Fees for services	89,853,000		89,853,000
Total Contracts, Grants and Fees	92,324,000		92,324,000
Other Revenue:			
Rental income	910,000	-	910,000
Other income	79,000	-	79,000
Investment income:			
Interest and dividends	704,000	-	704,000
Realized and unrealized losses on investments	(914,000)	-	(914,000)
Total Other Revenue	779,000	-	779,000
Net Assets Released from Restrictions (Note 1)	286,000	(286,000)	-
Total Support, Revenue and Reclassifications	94,148,000	(37,000)	94,111,000
Expenses			
Program Services:			
Educational programs	16,798,000		16,798,000
Adult day programs	36,222,000	-	36,222,000
Residential programs	29,615,000	-	29,615,000
Family support services programs	3,123,000	-	3,123,000
Total Program Services	85,758,000	-	85,758,000
Supporting Services:			
Management and general	6,782,000	-	6,782,000
Public relations and fund-raising	331,000	-	331,000
Total Supporting Services	7,113,000	-	7,113,000
Total Program and Supporting Services	92,871,000		92,871,000
Payments to Affiliated Organizations:			
National program of research, education and service	50,000	-	50,000
State program of education and service	37,000	-	37,000
Total Payments to Affiliated Organizations	87,000	-	87,000
Total Expenses	92,958,000	-	92,958,000
Changes in Net Assets Before Pension Related Changes	1,190,000	(37,000)	1,153,000
Pension Related Changes Other Than Net Periodic Pension Cost (Note 9)	(2,891,000)	-	(2,891,000)
Changes in Net Assets	(1,701,000)	(37,000)	(1,738,000)
Net Assets, beginning of year	17,925,000	1,087,000	19,012,000
Net Assets, end of year	$ 16,224,000	$ 1,050,000	$ 17,274,000

See notes to combined financial statements.

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statement of Functional Expenses

Year Ended June 30, 2009 (with summarized comparative totals for 2008)

	Program Services: Educational Programs	Adult Day Programs	Residential Programs	Family Support Services Programs	Total Program Services	Support Services: Management and General	Public Relations and Fund-Raising	Total Supporting Services	Direct Expenses of Special Events	Payments to Affiliated Organizations	2009 Grand Total	2008 Grand Total
Salaries	$ 8,314,000	$ 13,202,000	$ [illegible]	$ 1,577,000	$ 40,154,000	$ [illegible]	$ 256,000	$ [illegible]	$ -	$ -	$ 43,556,000	$ [illegible]
Payroll Taxes and Employee Benefits	2,584,000	3,510,000	[illegible]	[illegible]	12,738,000	874,000	70,000	944,000	-		13,683,000	[illegible]
[illegible] and Professional Fees	4,535,000	3,009,000	[illegible]	[illegible]	[illegible]	876,000	17,000	893,000	-		12,536,000	[illegible]
Vehicle Rental and Maintenance	14,000	164,000	208,000	9,000	400,000	1,000	-	1,000			401,000	369,000
Occupancy, principally rent, utilities and building supplies	[illegible]	3,081,000	[illegible]	[illegible]	[illegible]	[illegible]	86,000	[illegible]		-	7,507,000	[illegible]
Insurance	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4,000	43,000	-		1,331,000	[illegible]
Telephone	69,000	[illegible]	268,000	15,000	[illegible]	[illegible]	[illegible]	72,000			691,000	[illegible]
Office Supplies	14,000	103,000	[illegible]	21,000	[illegible]	80,000	4,000	84,000		-	745,000	313,000
Medical Supplies	41,000	155,000	[illegible]	-	411,000	-		-	-	-	411,000	[illegible]
Operating Supplies	[illegible]	218,000	191,000	[illegible]	1,134,000		-		-		1,134,000	[illegible]
Household Supplies			525,000		[illegible]		-			-	925,000	[illegible]
Food	-		[illegible]	-	[illegible]	-		-		-	729,000	652,000
Publications, Postage and Shipping	[illegible]	28,000	[illegible]	15,000	84,000	[illegible]	6,000	[illegible]	-	-	364,000	[illegible]
Conferences, Conventions and Meetings	84,000	107,000	137,000	40,000	364,000	95,000	4,000	99,000	-		463,000	[illegible]
Equipment Rental, Repairs and Maintenance	49,000	[illegible]	101,000	15,000	[illegible]	130,000	4,000	134,000		-	451,000	406,000
Expensed Equipment	153,000	25,000	[illegible]	13,000	[illegible]	[illegible]	-	21,000	-	-	330,000	453,000
Program Transportation		7,696,000	25,000	-	7,721,000		-		-		7,721,000	[illegible]
Purchased Services		-		-		-		-	399,000	-	399,000	297,000
Interest (Notes 5, 7 and 8)	407,000	[illegible]	[illegible]	5,000	[illegible]	[illegible]	7,000	84,000	-	-	1,073,000	1,071,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	[illegible]	35,228,000	30,356,000	[illegible]	86,750,000	[illegible]	[illegible]	6,756,000	399,000		93,875,000	[illegible]
Payments to Affiliated Organizations			-		-			-		95,000	95,000	87,000
Depreciation and Amortization	814,000	986,000	1,054,000	65,000	3,029,000	[illegible]	32,000	[illegible]	-	-	3,275,000	3,109,000
Total Expenses	[illegible]	36,214,000	[illegible]	[illegible]	89,84[illegible]	6,57[illegible]	[illegible]	[illegible]	399,000	95,000	97,245,000	[illegible]
Less Direct Expenses of Special Events	-		-		-		-		(399,000)		(399,000)	(297,000)
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ [illegible]	$ 36,214,000	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ -	$ 95,000	$ 96,846,000	$ [illegible]

See notes to combined financial statements.

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HOLTZ RUBENSTEIN REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statement of Functional Expenses

Year Ended June 30, 2008

	Educational Programs	Adult Day Programs	Residential Programs	Family Support Services Programs	Total Program Services	Management and General	Public Relations and Fund-Raising	Total Supporting Services	Direct Expenses of Special Events	Payments to Affiliated Organizations	2008 Combined Total
Salaries	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Payroll Taxes and Employee Benefits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Clinical Consultants and Professional Fees	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Vehicle Rental and Maintenance	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Occupancy, principally rent, utilities and building supplies	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Insurance	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Telephone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Office Supplies	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Medical Supplies	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Operating Supplies	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Household Supplies	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Food	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Publications, Postage and Shipping	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conferences, Conventions and Meetings	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Equipment Rental, Repairs and Maintenance	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Expensed Equipment	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Purchased Services	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Payments to Affiliated Organizations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Depreciation and Amortization	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Expenses	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Less Direct Expenses of Special Events	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Expenses per Combined Statement of Activities and Changes in Net Assets	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

HOLTZ RUBENSTEIN REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statements of Cash Flows

Years Ended June 30,	2009	2008
Cash Flows from Operating Activities:		
Changes in net assets before pension related changes	$ (521,000)	$ 1,153,000
Adjustments to reconcile changes in net assets before pension related changes to net cash provided by operating activities:		
Depreciation and amortization	3,275,000	3,409,000
Provision for reimbursement adjustments	225,000	30,000
Realized and unrealized losses on investments	1,690,000	914,000
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Grants and fees receivable from governmental agencies	(1,769,000)	181,000
Other assets	(127,000)	(180,000)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(712,000)	2,140,000
Accrued payroll and related liabilities	(2,026,000)	(1,553,000)
Accrued reimbursement adjustments	(77,000)	(315,000)
Other liabilities	441,000	1,114,000
Net Cash Provided by Operating Activities	399,000	6,893,000
Cash Flows from Investing Activities:		
Purchases of fixed assets	(3,324,000)	(2,125,000)
Purchases of investments	(1,138,000)	(534,000)
Redemption of investments	692,000	233,000
Net decrease (increase) in assets limited as to use	122,000	(42,000)
Net Cash Used in Investing Activities	(3,648,000)	(2,468,000)
Cash Flows from Financing Activities:		
Principal payments on capital lease obligations	(126,000)	(354,000)
Principal payments on mortgages payable	(746,000)	(692,000)
Proceeds of draw down on lines of credit	2,690,000	700,000
Repayments of draw down on lines of credit	(308,000)	(95,000)
Net Cash Provided by (Used in) Financing Activities	1,510,000	(441,000)
Net (Decrease) Increase in Cash and Cash Equivalents	(1,739,000)	3,984,000
Cash and Cash Equivalents, beginning of year	13,858,000	9,874,000
Cash and Cash Equivalents, end of year	$ 12,119,000	$ 13,858,000
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$ 1,056,000	$ 1,055,000
Non-cash investing and financing activities:		
Assets acquired under capital lease	$ 92,000	$ 86,000

1. Description of Organization and Summary of Significant Accounting Policies

Nature of organization - United Cerebral Palsy of New York City, Inc. (the "Agency") is a not-for-profit organization, formed under the Not-for-Profit Corporation Law of the State of New York, founded in 1946 by parents of children with disabilities. The mission of the Agency is to provide opportunities in education, training, rehabilitation, employment and housing for persons with disabilities as well as to ensure and protect their rights for equal treatment and opportunities under the law.

Currently, approximately 14,000 individuals receive services annually from the Agency. These services include preschool and school-age programs, residential programs, day programs, vocational programs and medical and support services.

The accompanying combined financial statements include the accounts of the Agency, United Cerebral Palsy of New York City Community Mental Retardation Services Company, Inc. and the United Cerebral Palsy Housing Development Fund Corporation, Inc. ("Housing") (together the "Companies"). These three corporations are all under common Board of Directors' control. All intercompany transactions have been eliminated.

Currently, approximately 55% of the Agency's employees are covered under collective bargaining arrangements with the United Federation of Teachers which are due to expire in December 2009.

Basis of accounting - The combined financial statements of the Agency and its related corporations have been prepared on the accrual basis of accounting.

Revenue recognition - Revenues are recorded when earned as services are provided through residential, educational, adult day program, family support services and outpatient clinical facilities. Substantially all programs are funded through New York State reimbursement and Medicaid funding. Revenues from the aforementioned sources are subject to audit and possible adjustment by third-party payors.

Housing receives rent supplement assistance payments for tenants, pursuant to Section 8 of the National Housing Act, from the United States Department of Housing and Urban Development ("HUD").

Donor-imposed restrictions - The Agency reports gifts of cash and other assets as restricted assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions. At June 30, 2009 and 2008, approximately $878,000 and $1,050,000, respectively, have been restricted for specific purposes.

During the years ended June 30, 2009 and 2008, temporarily restricted net assets of approximately $448,000 and $286,000, respectively, were expended satisfying the restriction stipulated by the donors and, accordingly, were released from restrictions.

Cash and cash equivalents - Cash and cash equivalents include cash and highly liquid financial instruments with original maturity dates of three months or less from the date purchased, other than those held as part of the investment portfolio or assets limited as to use.

At June 30, 2009 and 2008, the Companies had cash balances in financial institutions that exceeded federal depository insurance limits. Approximately 73% and 75% of the Companies' cash and cash equivalents are on deposit in various accounts with one financial institution at June 30, 2009 and 2008, respectively. Management believes that credit risk related to these deposits is minimal.

Investments - Investments in marketable equity securities with readily determinable fair values and all debt securities are stated at quoted market prices. Donated marketable securities are recorded at fair value at the date of donation. Realized and unrealized gains or losses on investments are reported in the combined statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or by law.

Allowance for doubtful accounts - Periodically, the accounts receivable balances are reviewed and evaluated as to their collectibility. An allowance is then set up based on these evaluations.

Assets limited as to use - Assets limited as to use consist principally of cash and cash equivalents and are on deposit with two financial institutions. Assets limited as to use are stated at fair value which approximates their cost.

Fixed assets, net - Fixed assets are carried at cost, net of accumulated depreciation and amortization. The carrying amounts of fixed assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of, and any resulting gain or loss is recorded in the combined statements of activities and changes in net assets. The Agency's policy is to capitalize all purchases in excess of $1,000. Depreciation of fixed assets is recorded using the straight-line method over the estimated useful lives of the assets; and amortization on leasehold improvements is calculated using the straight-line method over the shorter of the asset's useful life or lease term. The useful lives of the fixed assets are as follows: buildings and improvements - 15 to 40 years; furniture and fixtures - 10 to 15 years; computer equipment and software - 5 years; and heating, ventilation and air conditioning equipment - 25 years. Depreciation and amortization of fixed assets also includes amortization of assets under capital leases.

Statements of functional expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on various allocation factors.

Donated services - No amounts have been included in the accompanying combined financial statements for donated services since no objective basis is available to measure the value of such services and these services would not otherwise be purchased.

Tax status - The Agency and its related corporations whose accounts are included in the accompanying combined financial statements are Section 501(c)(3) not-for-profit organizations exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code"). They are classified as publicly supported charitable organizations under Section 509(a)(1) of the Code and qualify for the maximum charitable deduction by donors. They are also exempt from state and local income taxes.

Use of estimates - The preparation of combined 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 combined 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 and transactions that occurred between July 1, 2009 and November 11, 2009, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements. No events or transactions were identified during this period that required disclosure or recognition.

2. Investments

The cost and fair value of investments are as follows:

June 30,	2009 Cost	2009 Fair Value	2008 Cost	2008 Fair Value
Cash and Cash Equivalents	$ **350,000**	$ **350,000**	$ 350,000	$ 350,000
Equity Securities	**5,684,000**	**4,857,000**	4,883,000	5,736,000
Bonds	**1,339,000**	**1,362,000**	1,711,000	1,727,000
Total Investments	$ **7,373,000**	$ **6,569,000**	$ 6,944,000	$ 7,813,000

3. Fair Value Measurements

The Agency adopted Statement of Financial Accounting Standards No. 157, *"Fair Value Measurements"* ("SFAS 157") during fiscal 2009. SFAS 157 provides guidance for using fair value to measure assets and liabilities. Under SFAS 157, 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. Under SFAS 157, the Agency 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.

The following table represents the fair value hierarchy for the Agency's financial assets measured at fair value on a recurring basis:

June 30, 2009	**Total Fair Value**	Quoted Prices in Active Markets For Identical Assets (Level 1)
Equity Securities	$ **4,857,000**	$ 4,857,000
Bonds	**1,362,000**	1,362,000
Certificate of Deposits	**350,000**	350,000
Total Investments	$ **6,569,000**	$ 6,569,000

4. Uncertain Tax Positions

The Agency has elected to defer the application of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of FASB Statement No. 109, *Accounting for Income Taxes* (SFAS 109), as permitted by FASB Staff Position FIN 48-3 (FSP FIN 48-3).

In accordance with the guidance in FSP FIN 48-3, The Agency is not required to implement the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, the Agency has not implemented those provisions in its June 30, 2009 combined financial statements.

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax positions, the Agency continues to utilize its prior policy of accounting for these positions, following the guidance in FASB Statement No. 5, *Accounting for Contingencies* (SFAS 5). In accordance with SFAS 5, disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. Following that guidance, as of June 30, 2009, the Agency does not believe it has any uncertain tax positions that would qualify for either recognition or disclosure in the accompanying combined financial statements.

5. Fixed Assets, net

Fixed assets, net, consists of the following:

June 30,	**2009**	2008
Land	$ **5,515,000**	$ 5,515,000
Buildings	**35,836,000**	35,836,000
Building Improvements	**7,524,000**	5,852,000
Furniture and Fixtures	**14,679,000**	13,709,000
Leasehold Improvements	**7,097,000**	6,327,000
Construction in Progress	**226,000**	314,000
	70,877,000	67,553,000
Less Accumulated Depreciation and Amortization	**41,680,000**	38,405,000
	$ **29,197,000**	$ 29,148,000

6. Lines of Credit Payable

The Agency has a $6,000,000 revolving line of credit with JPMorgan Chase for the purpose of funding the purchase and renovation of residential properties under the New York State Cares initiative. The revolving line of credit expires on July 1, 2010. At June 30, 2009 and 2008, the Agency had drawn down approximately $2.4 million and $1.1 million, respectively, under this line of credit. Interest on outstanding amounts under this agreement is at the prime rate (3.25% and 5.00% at June 30, 2009 and 2008, respectively) plus 1%. The line of credit agreement contains covenants requiring, among other restrictions, that the Agency maintain certain financial ratios. The Agency was in compliance with these covenants at June 30, 2009 and 2008. The line of credit is unsecured. Interest expense on the line of credit for the years ended June 30, 2009 and 2008 approximated $112,000 and $95,000, respectively.

The Agency also has a working capital line of credit with JPMorgan Chase in the amount of $4,000,000. Short-term loans may be made under this line of credit from time to time at the discretion of JPMorgan Chase. Draws under the line bear interest at an agreed-upon rate of 1.75% and 4.34% as of June 30, 2009 and 2008, respectively. As of June 30, 2009 and 2008, the Agency had drawn down approximately $1,800,000 and $700,000, respectively, under this line of credit. This line of credit expires on July 1, 2010. Interest expense on this line of credit for the years ended June 30, 2009 and 2008 approximated $22,000 and $11,000, respectively.

7. Loans and Capital Leases Payable

Fixed asset acquisition agreement - In February 1999, the Agency entered into an agreement with the Dormitory Authority of the State of New York (the "Dormitory Authority") for certain heating and air-conditioning equipment to be acquired for the Agency's 122 East 23rd Street facility. Under the terms of the agreement, proceeds of approximately $1,800,000 were provided to the Agency in February 1999 to enable the Agency to acquire the items as specified. In June 2001, this agreement was amended. The amendment provided for additional proceeds of approximately $1,100,000 to enable the Agency to acquire items as specified. Approximately $0 and $200,000 is included in loans and capital leases payable in the accompanying combined statements of financial position at June 30, 2009 and 2008, respectively.

Other capital leases - The Agency owns certain motor vehicles under capital leases. These leases have terms of 60 months and contain bargain purchase options.

As of June 30, 2009 and 2008, the costs of the fixed assets recorded under the capital leases were approximately $1,208,000 and $1,116,000, respectively. The net book values were approximately $197,000 and $183,000 as of June 30, 2009 and 2008, respectively.

Future minimum payments under the lease agreements, by year and in the aggregate, consisted approximately of the following:

Years Ending June 30,	
2010	$ 88,000
2011	61,000
2012	43,000
2013	37,000
2014	15,000
Total Minimum Lease Payments	244,000
Less Amounts Representing Interest	35,000
Net Minimum Lease Payments	209,000
Less Current Portion	73,000
Long-Term Portion of Capital Leases Included in Loans and Capital Leases Payable	$ 136,000

Interest expense on the capital leases for the years ended June 30, 2009 and 2008 was approximately $16,000 and $30,000, respectively.

8. Mortgages Payable

A summary of mortgages payable is as follows:

June 30,	2009	2008
Insured mortgage with the Dormitory Authority on the Hearst Building in Brooklyn, New York, and the Staten Island Rehabilitation Center, payable in annual installments ranging from approximately $814,000 to $941,000 through June 30, 2024, including interest at 5.5% per annum at June 30, 2009 and 2008. (a)	$ **9,110,000**	$ 9,490,000
Insured mortgage with the Dormitory Authority on various individual residential alternatives properties payable in annual installments ranging from approximately $114,000 to $242,000 through June 30, 2021, including interest at rates 5.1% per annum at June 30, 2009. Includes bond premium of approximately $20,000 and $21,000 at June 30, 2009 and 2008, respectively. (b)	**1,154,000**	1,211,000
Mortgage on the Joseph Belsky Apartment House, 140 Lawrence Avenue, Brooklyn, New York, payable in full on February 1, 2032, including interest at 1.0% per annum. (c)	**2,760,000**	2,760,000
Mortgage with Office of Mental Retardation and Developmental Disabilities ("OMRDD") on Lake Street Intermediate Care Facility, Brooklyn, New York, scheduled payments in semi-annual installments of approximately $120,000 through February 15, 2019, including interest at 6.4% per annum. (d)	**1,614,000**	1,734,000
Mortgage with the New York State Housing Finance Agency on the Brooklyn Educational Center, 175 Lawrence Avenue, Brooklyn, New York, payable in monthly installments of approximately $27,000 through October 1, 2016, including interest at 7.0% per annum.	**1,665,000**	1,854,000
	$ **16,303,000**	$ 17,049,000

Land, buildings and improvements with an aggregate net book value of approximately $13,899,000 and $14,451,000 at June 30, 2009 and 2008, respectively, are subject to the above mortgages.

(a) In December 1994, the Agency entered into a mortgage agreement with the Dormitory Authority to refinance a building and term loan, totaling $9,404,000 at June 30, 1994, which had been borrowed in 1985 to provide financing for the construction of the Hearst Building and the Staten Island Rehabilitation Center (the "Project"). The funds were provided by the Dormitory Authority from the sale of United Cerebral Palsy of New York City, Inc. Revenue Bonds, 1994 Issue ("1994 Bonds").

In September 1996, the Agency issued tax-exempt Series 1996 revenue bonds ("Series 1996 Revenue Bonds") through the Dormitory Authority in the amount of $12,210,000. Proceeds from the Series 1996 Revenue Bond issuance were used to refund the 1994 Bonds, to fund the costs of issuance of the Series 1996 Revenue Bonds, and to make a deposit to the Debt Service Reserve Fund. Repayment of the Series 1996 Revenue Bonds is insured under the provisions of the Dormitory Authority's Master Insured Revenue Bond Resolution.

The Series 1996 Revenue Bonds are secured by certain property, plant and equipment and the gross receipts of the Agency in an amount equal in each Bond Year to the greatest amount required in any Bond Year to pay the interest on the Outstanding Bonds payable during such year and the principal and Sinking Fund Installments of Outstanding Bonds payable on July 1 of such Bond Year.

As a condition of this borrowing, the Agency is required to make monthly deposits into a debt service fund. The fund accumulates amounts necessary to make principal and interest payments semi-annually. Payments are made on January 1 and July 1. At June 30, 2009 and 2008, approximately $647,000 and $705,000, respectively, was on deposit in the fund and has been included in assets limited as to use in the accompanying combined statements of financial position.

As another condition of the borrowing, two reserve funds have been established. The Debt Service Reserve Fund is to be maintained at an amount equal to the lesser of (i) the greatest amount required in the current or any future calendar year to pay the principal and sinking fund installments of and interest on outstanding Series 1996 Revenue Bonds payable during such calendar year or (ii) approximately

10% of the net proceeds from the sale of the Series 1996 Revenue Bonds. At June 30, 2009 and 2008, approximately $949,000 and $951,000, respectively, was on deposit in the Debt Service Reserve Fund and has been included in assets limited as to use in the accompanying combined statements of financial position. The second required fund, the Building and Equipment Reserve Fund, is available to pay debt service on the Series 1996 Revenue Bonds to the extent funds are on deposit therein. Subject to the foregoing, funds in the Building and Equipment Reserve Fund may be used to pay the costs, other than ordinary maintenance and repair, of renewing, repairing, replacing, renovating and improving the Project. Whenever funds are withdrawn to pay debt service, the Agency is to pay the amount of the deficiency in the fund to the Trustee within five days after receiving notice of such deficiency. Funds withdrawn, other than for debt service, are to be repaid by the Agency in equal semi-annual payments commencing on the first June 10th or December 10th following the date of such withdrawal. The amounts on deposit in the Building and Equipment Reserve Fund as of June 30, 2009 and 2008 were approximately $397,000 and $378,000, respectively, which have been included in assets limited as to use in the accompanying combined statements of financial position. An Equipment Collateral Fund is maintained as well. The balance in this fund was approximately $42,000 and $41,000 as of June 30, 2009 and 2008, respectively, and has been included in assets limited as to use in the accompanying combined statements of financial position.

(b) In April 2002, the Agency became a participant in the Dormitory Authority's New York United Cerebral Palsy Affiliates Pooled Loan Program No. 1 Insured Revenue Bonds, consisting of Series 2002A and Series 2002B ("Pooled Bonds"). The aggregate amount of this issue was $16,520,000, of which $1,430,000 benefits the Agency. Proceeds were used to pay down monies previously borrowed from a revolving line of credit (see Note 6), to fund the cost of issuance of these bonds, and to make a deposit into the Debt Service Reserve Fund. Repayment of the Pooled Bonds is insured under the provisions of the Dormitory Authority's Master Insured Revenue Bond Resolution. At June 30, 2009 and 2008, approximately $126,000 and $129,000, respectively, was on deposit in the Debt Service Reserve Fund and has been included in assets limited as to use in the accompanying combined statements of financial position.

As a condition of this borrowing, the Agency is required to make monthly deposits into a debt service fund. The fund accumulates amounts necessary to make annual principal and semi-annual interest payments. Payments are made on January 1 and July 1. At June 30, 2009 and 2008, approximately $87,000 and $92,000, respectively, was on deposit in the debt service fund and has been included in assets limited as to use in the accompanying combined statements of financial position. The debt agreement for the Pooled Bonds contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2009.

The Pooled Bonds are secured by the gross receipts of the Agency in an amount equal in each Bond Year to the greatest amount required in any Bond Year to pay the interest on the Outstanding Bonds payable during such year and the principal and Sinking Fund Installments of Outstanding Bonds payable on July 1 of such Bond Year.

(c) In January 2002, the Joseph Belsky Apartment House mortgage was restructured under the Mark-to-Market Program of the Office of Multifamily Housing Assistance Restructuring. The property is secured by two mortgage loans. The balance of principal and interest is due at the Maturity Date of February 1, 2032 (the "Maturity Date"). The first mortgage is a Restructuring Loan for approximately $996,000. This mortgage requires annual payments of interest in the amount of 1% of the outstanding principal balance. Principal and interest payments are based upon a calculation of cash on hand. The second mortgage, which is subordinate to the first, is a Contingent Repayment Note (the "Note") for approximately $1,764,000. No payments are due on the Note until the Maturity Date. This Note bears interest at the rate of 1% per annum.

In accordance with the terms of the Joseph Belsky Apartment House mortgage, amounts equal to a fixed percentage of the original mortgage balance are restricted each year for replacement of the related building and improvements. Such amounts aggregated approximately $290,000 and $363,000 as of June 30, 2009 and 2008, respectively. These amounts are included in assets limited as to use in the accompanying combined statements of financial position. The mortgage is collateralized by the Joseph Belsky Apartment House building and improvements and is insured by HUD.

(d) During fiscal 1994, the Agency entered into mortgage agreement with OMRDD to provide long-term financing for the Lake Street Intermediate Care Facility. The funds were provided to OMRDD by the New York State Medical Care Facilities Finance Agency from the sale of Facilities Improvement Revenue Bonds, 1991 Series D and 1992 Series F. During fiscal 1998, the mortgage loan agreement was amended to increase the principal balance due to OMRDD based upon an advance to the Agency of approximately $113,000 for the Lake Street Intermediate Care Facility. In addition to the Lake Street Intermediate Care Facility, this mortgage loan is collateralized by all accounts receivable and proceeds thereof, including any amounts paid or payable by the State of New York to the Agency with respect to the properties. As a condition of this borrowing, the Agency is required to maintain debt service reserve funds aggregating approximately $183,000 as of June 30, 2009 and 2008. These funds have been included in assets limited as to use in the accompanying combined statements of financial position at June 30, 2009 and 2008.

Reduction of the principal as well as payment of interest and financing costs related to the mortgaged property is achieved through an agreement with OMRDD whereby reimbursement of future program expenditures is reduced based upon OMRDD mortgage repayment schedules. Such schedules do not correspond with the repayment schedules found in the original mortgage agreements. The cumulative principal and interest liability to OMRDD at both June 30, 2009 and 2008 is approximately $49,000 greater than what the principal and interest liability would have been had OMRDD deducted principal and interest payments in accordance with the terms of the repayment schedules found in the original mortgage agreements.

Interest expense on the mortgages payable for the years ended June 30, 2009 and 2008 approximated $828,000 and $873,000, respectively.

Scheduled future principal payments on mortgages payable are approximately as follows:

Years Ending June 30,	
2010	$ 774,000
2011	794,000
2012	824,000
2013	856,000
2014	979,000
Thereafter	12,076,000
	$ 16,303,000

9. Pension Plans

Defined benefit plan - The Agency sponsors a qualified noncontributory Pension Trust Plan (the "Plan") covering employees 21 years and older who have been employed by the Agency for at least one year. Plan benefits are paid directly from Plan assets. The Agency's policy is to satisfy annual minimum funding requirements as set forth by the Employee Retirement Income Security Act of 1974. The Plan's actuary performed the computations required for financial statement disclosure as of June 30, 2009 and 2008. Employee data as of July 1, 2008 and 2007 was projected forward to the June 30, 2009 and 2008 measurement dates, respectively. The following table presents the Plan's related disclosures under the

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provisions of Statement of Financial Accounting Standards No. 132, *Employers' Disclosures About Pensions and Other Postretirement Benefits*, as accounted for under Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions*. Additional disclosures are also included as required by Statement of Financial Accounting Standards 132(R), *Employers' Disclosures About Pensions and Other Postretirement Benefits*. Effective June 30, 2007, the Plan has been frozen. The following sets forth the Plan's funded status and amounts recognized in the combined financial statements:

June 30,	2009	2008
Reconciliation of Projected Benefit Obligation:		
Projected benefit obligation at beginning of year	$ 39,022,000	$ 40,395,000
Service cost	79,000	83,000
Interest cost	2,486,000	2,299,000
Change due to assumption changes	(1,655,000)	(2,893,000)
Actuarial loss	1,343,000	96,000
Expense charges	(39,000)	(42,000)
Benefits disbursed	(1,085,000)	(916,000)
Projected Benefit Obligation at end of year	40,151,000	39,022,000
Funded Status:		
Fair value of Plan assets, consisting principally of stocks and bonds, at beginning of year	30,513,000	32,224,000
Actual negative return on Plan assets	(5,201,000)	(2,753,000)
Employer contributions	1,600,000	2,000,000
Benefits disbursed from Plan assets (including expense charges)	(1,124,000)	(958,000)
Fair Value of Plan Assets at end of year	25,788,000	30,513,000
Projected Benefit Obligation in Excess of Plan Assets	(14,363,000)	(8,509,000)
Accrued Pension Cost in the Accompanying Combined Statements of Financial Position	$ (14,363,000)	$ (8,509,000)
Accumulated Benefit Obligation	$ 40,151,000	$ 39,022,000

Weighted-average assumptions used to measure benefit obligations are as follows:

June 30,	2009	2008
Discount Rate	6.25%	6.25%
Average Rate of Salary Increase	5.00%	5.00%

Weighted-average assumptions used to measure net periodic pension cost are as follows:

Years Ended June 30,	2009	2008
Discount Rate	6.25%	5.75%
Expected Long-term Rate of Return on Plan Assets	9.00%	9.00%
Average Rate of Salary Increase	5.00%	5.00%

The Agency's investment policy is to invest approximately 70% and 30% of Plan assets in equity and fixed income instruments, respectively. Plan assets consist primarily of mutual funds managed by the Plan's trustee that are invested in equities and debt obligation instruments. The expected long-term rate of return on Plan assets assumption of 9.0% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 - *Selection of Economic Assumptions for Measuring Pension Obligations*. Based on the Agency's investment policy for the Plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of

inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at the best estimate range of 8.20% to 10.06%. A rate of 9.0%, which is near the midpoint of the best estimate range, was selected.

Net periodic pension cost includes the following:

Years Ended June 30,	2009	2008
Service Cost - benefits earned during the year	$ 79,000	$ 83,000
Interest Cost on Projected Benefit Obligation	2,486,000	2,299,000
Actual Negative Return on Plan Assets	5,201,000	2,753,000
Net Amortization and Deferral of Asset Loss	(7,934,000)	(5,688,000)
Net Periodic Pension Cost	$ (168,000)	$ (553,000)

The percentages of fair value of total Plan assets by asset category are as follows:

June 30,	2009	2008
Equity	70.0%	70.1%
Fixed Income	24.0	25.5
Guaranteed Investment Contract	6.0	4.4
	100.0%	100.0%

The following benefits, which reflect expected future service, have been valued using the same assumptions adopted for valuing the projected benefit obligation and are expected to be paid as follows:

Years Ending June 30,	
2010	$ 1,470,000
2011	1,551,000
2012	1,659,000
2013	1,887,000
2014	2,045,000
2015 – 2019	12,983,000

The Agency expects to contribute approximately $1,000,000 to the Plan during the year ending June 30, 2010.

Defined contribution pension plan - Effective July 1, 2007, the Agency established a defined contribution plan for all employees, with the exception of hourly and contracted employees, who have worked one year, worked at least 1,000 hours and have attained the age of 21. Annual base contributions to the plan are based on 5% of each eligible participant's compensation, plus an additional contribution as determined by a fixed percentage depending upon the years of service and the description of the title of the employee, subject to approval by the Board of Directors. Pension expense for the years ended June 30, 2009 and 2008 approximated $1,939,000 and $1,865,000, respectively.

Tax-deferred annuity plan - The Agency maintains a tax-deferred annuity plan as defined under Section 403(b) of the Internal Revenue Code. Investments are self-directed by employees and are maintained by a major insurance company.

10. Reimbursement of Expenditures

Contracts, grants and fees applicable to program and community services are reported in the year earned at net realizable amounts for services rendered under contracts and reimbursement agreements. Certain contracts and grants provide for reimbursement rates that are subject to potential changes based on periodic reviews by the funding agencies. Such rates are either adjusted prospectively through future reimbursement rates or are adjusted retroactively. Prospective rate adjustments are generally insignificant and are reflected in the revenues of the future periods based on when the adjusted reimbursement rates are determined. Retroactive rate adjustments are recorded as adjustments to revenues in the period that the amounts are determinable and are reasonably measurable.

Some of the Agency's contracts and grants do not provide for rate adjustments although they may be subject to audits. It has been the experience of the Agency that adjustments as a result of audits have been insignificant. Management of the Agency is not aware of any potential material liabilities at June 30, 2009 resulting from any audits.

The Agency operates two education programs: one for school-age children (5 years of age to 21 years of age) and the other for preschoolers (3 years of age to 5 years of age). The Agency receives funding for the programs under contracts with the New York City Department of Education ("DOE"). Tuition rates for these programs are established by the New York State Education Department ("SED"). Payments are made at promulgated rates for these programs and are subject to retroactive changes based on final reconciled rates. The rate setting methodology is based on costs reported annually to SED in the Agency's Consolidated Fiscal Report and results in the calculation of the final reconciled tuition rate for a given year.

The DOE performs reconciliations that include adjustments for finalization of enrollment data and the difference between the paid rate and the final reconciled rate for that year. If the final reconciled rate is not yet available for the year that is being reconciled, the latest final reconciled rate is used for reconciliation purposes and will be further reconciled when that year's final reconciled rate is promulgated.

For the preschool program, there is a liability related to the aforementioned reconciliations of approximately $513,000 and $439,000 as of June 30, 2009 and 2008, respectively, which is included in accrued reimbursement adjustments in the accompanying combined statements of financial position.

For the preschool integrated program, there is a liability related to the aforementioned reconciliations of approximately $205,000 and $0 as of June 30, 2009 and 2008, respectively, which is included in accrued reimbursement adjustments in the accompanying combined statements of financial position.

For the school age program, there is a liability related to the aforementioned reconciliations of approximately $1,156,000 and $1,512,000 as of June 30, 2009 and 2008, respectively, which is included in accrued reimbursement adjustments in the accompanying combined statements of financial position.

Medicaid and other programs in which the Agency participates are based on a set of complex laws and regulations. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, fines, penalties and exclusion from such programs. Management of the Agency is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying combined financial statements and believes the Agency is in compliance with all applicable laws and regulations.

Management has established specific reserves against revenues ($635,000 and $1,000,000 at June 30, 2009 and 2008, respectively), for potential denied claims for reimbursement. Denied claims arise principally due to unresolved participant eligibility issues. It is the opinion of management that denied claims, if any, in excess of the reserve for reimbursement adjustments would not have a material adverse effect on the combined financial position of the Agency.

11. Commitments and Contingencies

Operating leases - In July 2000, the Agency entered into a noncancelable lease agreement for ten years and three months for office space in New York City. The lease calls for escalation charges throughout the lease term and includes a three-month rent-free period. In September 2000, the Agency entered into a ten-year lease at a new facility. This ten-year lease calls for escalation charges throughout the lease term. In addition, the Agency has noncancelable operating leases with remaining terms of one year or more. Future minimum payments under these operating leases are approximately as follows:

Years Ending June 30,	
2010	$ 3,683,000
2011	2,527,000
2012	775,000
2013	506,000
2014	477,000
Thereafter	2,022,000
	$ 9,990,000

Rent expense on real property was approximately $4,519,000 and $4,285,000 for the years ended June 30, 2009 and 2008, respectively. Rent expense on equipment for the years ended June 30, 2009 and 2008 was approximately $232,000 and $235,000, respectively.

Litigation - There are various lawsuits and claims pending against the Agency which arose in the ordinary course of business. In the opinion of the Agency's management, these lawsuits are either without merit, or are covered by insurance, and will not result in any material adverse effect on the Agency's combined financial position or changes in net assets.

HOLTZ
RUBENSTEIN
REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

REPORT ON AUDITS OF COMBINED FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

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REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

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Independent Auditors' Report

Board of Directors
United Cerebral Palsy of
New York City, Inc.
New York, New York

We have audited the accompanying combined statements of financial position of United Cerebral Palsy of New York City, Inc. (the "Agency"), as of June 30, 2008 and 2007, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These combined financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of United Cerebral Palsy of New York City, Inc. as of June 30, 2008 and 2007, and the combined changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Holtz Rubenstein Reminick LLP

New York, New York
November 20, 2008

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statements of Financial Position

June 30,	2008	2007
Assets		
Cash and Cash Equivalents	$ 13,858,000	$ 9,874,000
Investments (Note 2)	7,813,000	8,426,000
Grants and Fees Receivable from Governmental Agencies	10,696,000	10,907,000
Other Assets	1,525,000	1,345,000
Fixed Assets (Note 3)	29,148,000	30,346,000
Assets Limited as to Use (Notes 5 and 6)	2,844,000	2,802,000
Total Assets	$ 65,884,000	$ 63,700,000
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 8,544,000	$ 6,404,000
Accrued payroll and related liabilities	4,915,000	3,915,000
Lines of credit payable (Note 4)	1,820,000	1,215,000
Loans and capital leases payable (Note 5)	335,000	603,000
Mortgages payable (Note 6)	17,049,000	17,741,000
Accrued pension liability (Note 7)	8,509,000	8,171,000
Accrued reimbursement adjustments (Note 8)	1,951,000	2,266,000
Other liabilities	5,487,000	4,373,000
Total Liabilities	48,610,000	44,688,000
Commitments and Contingencies (Note 9)		
Net Assets:		
Unrestricted	16,224,000	17,925,000
Temporarily restricted (Note 1)	1,050,000	1,087,000
Total Net Assets	17,274,000	19,012,000
Total Liabilities and Net Assets	$ 65,884,000	$ 63,700,000

See notes to combined financial statements.

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statement of Activities and Changes in Net Assets

Year Ended June 30, 2008 (with summarized comparative totals for 2007)

	Unrestricted	Temporarily Restricted	Total 2008	Total 2007
Support, Revenue and Reclassifications				
Support from the Public:				
Contributions	$ 246,000	$ 249,000	$ 495,000	$ 541,000
Special events	763,000	-	763,000	972,000
Legacies and bequests	47,000	-	47,000	436,000
Total Support from the Public	1,056,000	249,000	1,305,000	1,949,000
Direct Expenses of Special Events	(297,000)	-	(297,000)	(323,000)
Net Support from the Public	759,000	249,000	1,008,000	1,626,000
Contracts, Grants and Fees Applicable to Program and Community Services:				
Contracts and grants	2,471,000	-	2,471,000	2,461,000
Fees for services	89,853,000	-	89,853,000	85,828,000
Total Contracts, Grants and Fees	92,324,000	-	92,324,000	88,289,000
Other Revenue:				
Rental income	910,000	-	910,000	891,000
Amortization of state repayment obligation	-	-	-	21,000
Other income	79,000	-	79,000	144,000
Investment income:				
Interest and dividends	704,000	-	704,000	721,000
Realized and unrealized (losses) gains on investments	(914,000)	-	(914,000)	993,000
Total Other Revenue	779,000	-	779,000	2,770,000
Net Assets Released from Restrictions (Note 1)	286,000	(286,000)	-	-
Total Support, Revenue and Reclassifications	94,148,000	(37,000)	94,111,000	92,685,000
Expenses				
Program Services:				
Educational programs	16,798,000	-	16,798,000	17,621,000
Adult day programs	36,222,000	-	36,222,000	34,984,000
Residential programs	29,615,000	-	29,615,000	28,639,000
Family support services programs	3,123,000	-	3,123,000	2,379,000
Total Program Services	85,758,000	-	85,758,000	83,623,000
Supporting Services:				
Management and general	6,782,000	-	6,782,000	7,261,000
Public relations and fund-raising	331,000	-	331,000	307,000
Total Supporting Services	7,113,000	-	7,113,000	7,568,000
Total Program and Supporting Services	92,871,000	-	92,871,000	91,191,000
Payments to Affiliated Organizations:				
National program of research, education and service	50,000	-	50,000	50,000
State program of education and service	37,000	-	37,000	34,000
Total Payments to Affiliated Organizations	87,000	-	87,000	84,000
Total Expenses	92,958,000	-	92,958,000	91,275,000
Changes in Net Assets Before Pension Related Changes	1,190,000	(37,000)	1,153,000	1,410,000
Pension Related Changes Other Than Net Periodic Pension Cost (Note 7)	(2,891,000)	-	(2,891,000)	-
Curtailment Gain on Pension Plan (Note 7)	-	-	-	625,000
Changes in Net Assets	(1,701,000)	(37,000)	(1,738,000)	2,035,000
Net Assets, beginning of year	17,925,000	1,087,000	19,012,000	16,977,000
Net Assets, end of year	$ 16,224,000	$ 1,050,000	$ 17,274,000	$ 19,012,000

See notes to combined financial statements.

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statement of Activities and Changes in Net Assets

Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Total 2007
Support, Revenue and Reclassifications			
Support from the Public:			
Contributions	$ 287,000	$ 254,000	$ 541,000
Special events	972,000	-	972,000
Legacies and bequests	436,000	-	436,000
Total Support from the Public	1,695,000	254,000	1,949,000
Direct Expenses of Special Events	(323,000)	-	(323,000)
Net Support from the Public	1,372,000	254,000	1,626,000
Contracts, Grants and Fees Applicable to Program and Community Services:			
Contracts and grants	2,461,000	-	2,461,000
Fees for services	85,828,000	-	85,828,000
Total Contracts, Grants and Fees	88,289,000	-	88,289,000
Other Revenue:			
Rental income	891,000	-	891,000
Amortization of state repayment obligation	21,000	-	21,000
Other income	144,000	-	144,000
Investment income:			
Interest and dividends	721,000	-	721,000
Realized and unrealized gains on investments	993,000	-	993,000
Total Other Revenue	2,770,000	-	2,770,000
Net Assets Released from Restrictions (Note 1)	114,000	(114,000)	-
Total Support, Revenue and Reclassifications	92,545,000	140,000	92,685,000
Expenses			
Program Services:			
Educational programs	17,621,000	-	17,621,000
Adult day programs	34,984,000	-	34,984,000
Residential programs	28,639,000	-	28,639,000
Family support services programs	2,379,000	-	2,379,000
Total Program Services	83,623,000	-	83,623,000
Supporting Services:			
Management and general	7,261,000	-	7,261,000
Public relations and fund-raising	307,000	-	307,000
Total Supporting Services	7,568,000	-	7,568,000
Total Program and Supporting Services	91,191,000	-	91,191,000
Payments to Affiliated Organizations:			
National program of research, education and service	50,000	-	50,000
State program of education and service	34,000	-	34,000
Total Payments to Affiliated Organizations	84,000	-	84,000
Total Expenses	91,275,000	-	91,275,000
Changes in Net Assets Before Curtailment Gain on Pension Plan	1,270,000	140,000	1,410,000
Curtailment Gain on Pension Plan (Note 7)	625,000	-	625,000
Changes in Net Assets	1,895,000	140,000	2,035,000
Net Assets, beginning of year	16,030,000	947,000	16,977,000
Net Assets, end of year	$ 17,925,000	$ 1,087,000	$ 19,012,000

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statement of Functional Expenses

Year Ended June 30, 2008 (with summarized comparative totals for 2007)

	Program Services					Support Services						
	Educational Programs	Adult Day Programs	Residential Programs	Family Support Services Programs	Total Program Services	Management and General	Public Relations and Fund-Raising	Total Supporting Services	Direct Expenses of Special Events	Payments to Affiliated Organizations	2008 Grand Total	2007 Grand Total
Salaries	$ 7,632,000	$ 12,574,000	$ 15,298,000	$ 1,631,000	$ [illegible]	$ 3,354,000	$ 49,000	$ 3,403,000	$ -	$ -	$ 41,538,000	$ 40,575,000
Payroll Taxes and Employee Benefits	[illegible]	[illegible]	4,992,000	417,000	11,277,000	865,000	51,000	916,000			12,187,000	[illegible]
Clinical Consultants and Professional Fees	3,958,000	5,102,000	1,712,000	45,000	11,140,000	981,000	9,000	990,000	-	-	12,137,000	12,012,000
Vehicle Rental and Maintenance	23,000	302,000	165,000	7,000	397,000	2,000		2,000	-		399,000	362,000
Occupancy, principally rent, utilities and building supplies	698,000	2,559,000	2,2[illegible]7,000	4[illegible]7,000	[illegible]	680,000	14,000	753,000	-		7,104,000	6,895,000
Insurance	[illegible]	635,000	904,000	27,000	1,341,000	45,000	7,000	52,000		-	1,393,000	[illegible]
Telephone	101,000	162,000	167,000	14,000	464,000	45,000	5,000	50,000	-	-	514,000	483,000
Office Supplies	[illegible]	100,000	82,000	15,000	242,000	68,000	3,000	71,000	-	-	313,000	3[illegible]
Medical Supplies	36,000	182,000	184,000	-	402,000	-	-	-	-	-	402,000	382,000
Operating Supplies	345,000	265,000	150,000	290,000	1,078,000						1,078,000	762,000
Household Supplies			265,000	-	365,000	-	-	-	-	-	369,000	805,000
Food	-	-	662,000		662,000						662,000	635,000
Publications, Postage and Shipping	54,000	20,000	4,000	5,000	82,000	152,000	5,000	157,000	-	-	239,000	2[illegible]7,000
Conferences, Conventions and Meetings	46,000	92,000	120,000	45,000	311,000	75,000	3,000	78,000	-		389,000	312,000
Equipment Rental, Repairs and Maintenance	45,000	14[illegible],000	98,000	11,000	296,000	196,000	4,000	200,000	-	-	496,000	530,000
Expensed Equipment	242,000	59,000	95,000	17,000	412,000	21,000		21,000			433,000	379,000
Program Transportation	-	5,213,000	22,000	-	5,235,000	-	-	-	-	-	5,235,000	7,355,000
Purchased Services	-	-		-	-				297,000		297,000	323,000
Interest (Notes 4, 5 and 6)	416,000	288,000	[illegible]	10,000	1,036,000	31,000	[illegible]	35,000	-	-	1,074,000	1,192,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	[illegible]	[illegible]	[illegible]	2,356,000	82,707,000	6,458,000	[illegible]	[illegible]	297,000	-	89,759,000	[illegible]
Payments to Affiliated Organizations		-		-	-	-		-	-	87,000	87,000	84,000
Depreciation and Amortization	946,000	[illegible]	985,000	67,000	3,051,000	224,000	34,000	358,000	-	-	3,409,000	3,278,000
Total Expenses	16,798,000	56,222,000	29,615,000	2,123,000	85,758,000	6,782,000	231,000	7,113,000	257,000	87,000	93,255,000	[illegible]
Less Direct Expenses of Special Events	-	-							(257,000)		(297,000)	(335,000)
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ 16,798,000	$ 56,222,000	$ 29,615,000	$ 3,129,000	$ 85,758,000	$ 6,782,000	$ 331,000	$ 7,113,000	$ -	$ 87,000	$ 93,958,000	$ 91,275,000

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HOLTZ RUBENSTEIN REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statement of Functional Expenses

Year Ended June 30, 2007

	Program Services: Educational Programs	Program Services: Adult Day Programs	Program Services: Residential Programs	Program Services: Family Support Services Programs	Program Services: Total Program Services	Support Services: Management and General	Support Services: Public Relations and Fund Raising	Support Services: Total Supporting Services	Direct Expenses of Special Events	Payments to Affiliated Organizations	2007 Grand Total
Salaries	$ 8,015,000	$ [illegible]	$ 5,589,000	$ 1,165,000	$ 36,731,000	$ 3,735,000	$ 57,000	$ 3,852,000	$	$	$ [illegible]
Payroll Taxes and Employee Benefits	2,431,000	4,937,000	5,969,000	573,000	12,510,000	852,000	23,000	903,000	-	-	13,215,000
Clinical Consultants and Professional Fees	4,210,000	5,210,000	1,325,000	66,000	1,011,000	995,000	9,000	1,001,000	-	-	12,012,000
Vehicle Rental and Maintenance	20,000	177,000	143,000	6,000	348,000	4,000		14,000	-	-	362,000
Occupancy, principally rent, utilities and building supplies	689,000	2,856,000	2,181,000	368,000	[illegible]	656,000	113,000	769,000	-	-	6,893,000
Insurance	529,000	420,000	410,000	37,000	1,416,000	47,000	7,000	54,000			1,470,000
Telephone	82,000	171,000	155,000	9,000	127,000	30,000	6,000	56,000			483,000
Office Supplies	56,000	125,000	72,000	10,000	373,000	55,000	4,000	59,000	-	-	392,000
Medical Supplies	96,000	201,000	135,000		432,000				-	-	389,000
Operating Supplies	107,000	265,000	157,000	143,000	732,000						762,000
Household Supplies	-	1,000	804,000	-	805,000	-	-	-			805,000
Food			655,000	-	655,000	-	-	-	-	-	655,000
Publications, Postage and Shipping	30,000	21,000	6,000	11,000	68,000	148,000	1,000	149,000	-	-	217,000
Conferences, Conventions and Meetings	45,000	77,000	98,000	21,000	241,000	65,000	6,000	71,000	-	-	312,000
Equipment Rental, Repairs and Maintenance	50,000	[illegible]	88,000	8,000	309,000	216,000	5,000	221,000			530,000
Expensed Equipment	176,000	46,000	77,000	66,000	362,000	17,000	-	7,000	-	-	369,000
Program Transportation		7,110,000	216,000	-	7,356,000	-		-	-	-	7,356,000
Purchased Services	-	-	-						523,000		523,000
Interest (Notes 4, 5 and 6)	422,000	418,000	379,000	10,000	1,129,000	56,000	7,000	63,000	-	-	1,192,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	16,796,000	33,796,000	27,771,000	2,315,000	80,682,000	6,959,000	272,000	7,231,000	523,000	-	88,236,000
Payments to Affiliated Organizations	-	-	-	-			-	-		84,000	84,000
Depreciation and Amortization	825,000	1,188,000	868,000	60,000	2,941,000	302,000	35,000	337,000	-		3,278,000
Total Expenses	17,621,000	34,984,000	28,639,000	2,379,000	83,623,000	7,261,000	307,000	7,568,000	523,000	84,000	91,558,000
Less Direct Expenses of Special Events				-	-	-	-	-	(523,000)	-	(523,000)
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ 17,621,000	$ 34,984,000	$ 28,639,000	$ 2,379,000	$ 83,523,000	$ 7,261,000	$ 307,000	$ 7,568,000	$ -	$ 84,000	$ 91,035,000

HOLTZ RUBENSTEIN REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statements of Cash Flows

Years Ended June 30,	2008	2007
Cash Flows from Operating Activities:		
Changes in net assets before pension related changes	$ **1,153,000**	$ 1,410,000
Adjustments to reconcile changes in net assets before pension related changes to net cash provided by operating activities:		
Depreciation and amortization	**3,409,000**	3,278,000
Change in provision for allowance for doubtful accounts	**(600,000)**	(1,500,000)
Pension related changes other than net periodic pension cost	**(2,891,000)**	-
Curtailment gain on pension plan	**-**	625,000
Amortization of state repayment obligation	**-**	(21,000)
Provision for reimbursement adjustments	**30,000**	(613,000)
Realized and unrealized losses (gains) on investments	**914,000**	(993,000)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Grants and fees receivable from governmental agencies	**781,000**	4,395,000
Other assets	**(180,000)**	109,000
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	**2,140,000**	(426,000)
Accrued payroll and related liabilities	**1,338,000**	(15,000)
Accrued reimbursement adjustments	**(315,000)**	(849,000)
Other liabilities	**1,114,000**	784,000
Net Cash Provided by Operating Activities	**6,893,000**	6,184,000
Cash Flows from Investing Activities:		
Purchases of fixed assets	**(2,125,000)**	(1,832,000)
Purchases of investments	**(301,000)**	(112,000)
Net increase in assets limited as to use	**(42,000)**	(57,000)
Net Cash Used in Investing Activities	**(2,468,000)**	(2,001,000)
Cash Flows from Financing Activities:		
Principal payments on capital lease obligations	**(354,000)**	(343,000)
Principal payments on mortgages payable	**(692,000)**	(702,000)
Proceeds of draw down on lines of credit	**700,000**	275,000
Repayments of draw down on lines of credit	**(95,000)**	(900,000)
Net Cash Used in Financing Activities	**(441,000)**	(1,670,000)
Net Increase in Cash and Cash Equivalents	**3,984,000**	2,513,000
Cash and Cash Equivalents, beginning of year	**9,874,000**	7,361,000
Cash and Cash Equivalents, end of year	$ **13,858,000**	$ 9,874,000
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$ **1,055,000**	$ 1,167,000
Non-cash investing and financing activities:		
Assets acquired under capital lease	$ **86,000**	$ 33,000

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1. Description of Organization and Summary of Significant Accounting Policies

Nature of organization - United Cerebral Palsy of New York City, Inc. (the "Agency") is a not-for-profit organization, formed under the Not-for-Profit Corporation Law of the State of New York, founded in 1946 by parents of children with disabilities. The mission of the Agency is to provide opportunities in education, training, rehabilitation, employment and housing for persons with disabilities as well as to ensure and protect their rights for equal treatment and opportunities under the law.

Currently, approximately 14,000 individuals receive services annually from the Agency. These services include preschool and school-age programs, residential programs, day programs, vocational programs and medical and support services.

The accompanying combined financial statements include the accounts of the Agency, United Cerebral Palsy of New York City Community Mental Retardation Services Company, Inc. and the United Cerebral Palsy Housing Development Fund Corporation, Inc. ("Housing"). These three corporations are all under common Board of Directors' control. All intercompany transactions have been eliminated.

Currently, approximately 55% of the Agency's employees are covered under collective bargaining arrangements with the United Federation of Teachers which are due to expire in December 2009.

Basis of accounting - The combined financial statements of the Agency and its related corporations have been prepared on the accrual basis of accounting.

Revenue recognition - Revenues are recorded when earned as services are provided through residential, educational, adult day program, family support services and outpatient clinical facilities. Substantially all programs are funded through New York State reimbursement and Medicaid funding. Revenues from the aforementioned sources are subject to audit and possible adjustment by third-party payors.

Housing receives rent supplement assistance payments for tenants, pursuant to Section 8 of the National Housing Act, from the United States Department of Housing and Urban Development ("HUD").

Donor-imposed restrictions - The Agency reports gifts of cash and other assets as restricted assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions. At June 30, 2008 and 2007, approximately $1,050,000 and $1,087,000, respectively, have been restricted for specific purposes.

During the years ended June 30, 2008 and 2007, temporarily restricted net assets of approximately $286,000 and $114,000, respectively, were expended satisfying the restriction stipulated by the donors and, accordingly, were released from restrictions.

Cash and cash equivalents - Cash and cash equivalents include cash and highly liquid financial instruments with original maturity dates of three months or less from the date purchased, other than those held as part of the investment portfolio or assets limited as to use.

At June 30, 2008 and 2007, the Companies had cash balances in financial institutions that exceeded federal depository insurance limits. Approximately 75% and 99% of the Companies' cash and cash equivalents are on deposit in various accounts with one financial institution at June 30, 2008 and 2007, respectively. Management believes that credit risk related to these deposits is minimal.

Investments - Investments in marketable equity securities with readily determinable fair values and all debt securities are stated at quoted market prices. Donated marketable securities are recorded at fair value at the date of donation. Realized and unrealized gains or losses on investments are reported in the combined statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or by law.

Allowance for doubtful accounts - Periodically, the accounts receivable balances are reviewed and evaluated as to their collectibility. An allowance is then set up based on these evaluations.

Assets limited as to use - Assets limited as to use consist principally of cash and cash equivalents and are on deposit with two financial institutions. Assets limited as to use are stated at fair value which approximates their cost.

Fixed assets, net - Fixed assets are carried at cost, net of accumulated depreciation and amortization. The carrying amounts of fixed assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of, and any resulting gain or loss is recorded in the combined statements of activities and changes in net assets. The Agency's policy is to capitalize all purchases in excess of $1,000. Depreciation of fixed assets is recorded using the straight-line method over the estimated useful lives of the assets; and amortization on leasehold improvements is calculated using the straight-line method over the shorter of the asset's useful life or lease term. The useful lives of the fixed assets are as follows: buildings and improvements - 15 to 40 years; furniture and fixtures - 10 to 15 years; computer equipment and software - 5 years; and heating, ventilation and air conditioning equipment - 25 years. Depreciation and amortization of fixed assets also includes amortization of assets under capital leases.

Statements of functional expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on various allocation factors.

Donated services - No amounts have been included in the accompanying combined financial statements for donated services since no objective basis is available to measure the value of such services and these services would not otherwise be purchased.

Tax status - The Agency and its related corporations whose accounts are included in the accompanying combined financial statements are Section 501(c)(3) not-for-profit organizations exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code"). They are classified as publicly supported charitable organizations under Section 509(a)(1) of the Code and qualify for the maximum charitable deduction by donors. They are also exempt from state and local income taxes.

Use of estimates - The preparation of combined 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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2. Investments

The cost and market value of investments are as follows:

June 30,	2008		2007	
	Cost	Market Value	Cost	Market Value
Cash and Cash Equivalents	$ 350,000	$ 350,000	$ 350,000	$ 350,000
Equity Securities	4,883,000	5,736,000	4,441,000	6,265,000
Bonds	1,705,000	1,721,000	1,848,000	1,805,000
Other	6,000	6,000	6,000	6,000
Total Investments	$ 6,944,000	$ 7,813,000	$ 6,645,000	$ 8,426,000

3. Fixed Assets, net

Fixed assets, net, consists of the following:

June 30,	2008	2007
Land	$ 5,515,000	$ 5,515,000
Buildings	35,836,000	35,829,000
Building Improvements	5,852,000	4,844,000
Furniture and Fixtures	13,709,000	12,926,000
Leasehold Improvements	6,327,000	6,170,000
Construction in Process	314,000	58,000
	67,553,000	65,342,000
Less Accumulated Depreciation and Amortization	38,405,000	34,996,000
	$ 29,148,000	$ 30,346,000

4. Lines of Credit Payable

The Agency has a $6,000,000 revolving line of credit with JPMorgan Chase for the purpose of funding the purchase and renovation of residential properties under the New York State Cares initiative. The revolving line of credit expires on June 30, 2009. At June 30, 2008 and 2007, the Agency had drawn down approximately $1.1 million and $1.2 million, respectively, under this line of credit. Interest on outstanding amounts under this agreement is at the prime rate (5.00% and 8.25% at June 30, 2008 and 2007, respectively) plus 1%. The line of credit agreement contains covenants requiring, among other restrictions, that the Agency maintain certain financial ratios. The Agency was in compliance with these covenants at June 30, 2008 and 2007. The line of credit is unsecured. Interest expense on the line of credit for the years ended June 30, 2008 and 2007 approximated $95,000 and $156,000, respectively.

The Agency also had a working capital line of credit with JPMorgan Chase in the amount of $6,000,000. Effective July 1, 2008, this credit line was revised to $4,000,000. Short-term loans may be made under this line of credit from time to time at the discretion of JPMorgan Chase. Draws under the line bear interest at an agreed upon rate of 4.34% at June 30, 2008. As of June 30, 2008, the Agency had drawn down approximately $700,000. As of June 30, 2007, there were no outstanding borrowings under this line of credit. This line of credit expires on June 30, 2009. Interest expense on this line of credit for the year ended June 30, 2008 approximated $11,000.

5. Loans and Capital Leases Payable

Fixed asset acquisition agreement - In February 1999, the Agency entered into an agreement with the Dormitory Authority for certain heating and air-conditioning equipment to be acquired for the Agency's 122 East 23rd Street facility. Under the terms of the agreement, proceeds of approximately $1,800,000 were provided to the Agency in February 1999 to enable the Agency to acquire the items as specified. In June 2001, this agreement was amended. The amendment provided for additional proceeds of approximately $1,100,000 to enable the Agency to acquire items as specified. Future minimum payments under the agreement are to be made in accordance with the schedule specified in the agreement. Approximately $200,000 and $400,000 is included in loans and capital leases payable in the accompanying combined statements of financial position at June 30, 2008 and 2007, respectively.

Other capital leases - The Agency owns certain motor vehicles under capital leases. These leases have terms of 60 months and contain bargain purchase options.

As of June 30, 2008 and 2007, the costs of the fixed assets recorded under the capital leases were approximately $1,116,000 and $1,030,000, respectively. The net book values were approximately $183,000 and $234,000 as of June 30, 2008 and 2007, respectively.

Future minimum payments under the lease agreements, by year and in the aggregate, consisted approximately of the following:

Years Ending June 30,	
2009	$ 230,000
2010	61,000
2011	35,000
2012	19,000
2013	15,000
Total Minimum Lease Payments	360,000
Less Amounts Representing Interest	25,000
Net Minimum Lease Payments	335,000
Less Current Portion	209,000
Long-Term Portion of Capital Leases Included in Loans and Capital Leases Payable	$ 126,000

Interest expense on the capital leases for the years ended June 30, 2008 and 2007 was approximately $30,000 and $52,000, respectively.

6. Mortgages Payable

A summary of mortgages payable is as follows:

June 30,	2008	2007
Insured mortgage with the Dormitory Authority of the State of New York (the "Dormitory Authority") on the Hearst Building in Brooklyn, New York, and the Staten Island Rehabilitation Center, payable in annual installments ranging from approximately $814,000 to $941,000 through June 30, 2024, including interest at 5.5% per annum at June 30, 2008 and 2007. (a)	$ 9,490,000	$ 9,770,000
Insured mortgage with the Dormitory Authority on various individual residential alternatives properties payable in annual installments ranging from approximately $114,000 to $242,000 through June 30, 2021, including interest at rates 5.1% per annum at June 30, 2008. Includes bond premium of approximately $21,000 and $23,000 at June 30, 2008 and 2007, respectively. (b)	1,211,000	1,262,000
Mortgage on the Joseph Belsky Apartment House, 140 Lawrence Avenue, Brooklyn, New York, payable in full on February 1, 2032, including interest at 1.0% per annum. (c)	2,760,000	2,760,000
Mortgage with the State of New York Office of Mental Retardation and Developmental Disabilities ("OMRDD") on community residences and individual residential alternatives, scheduled payments in semi-annual installments of approximately $56,000 through February 15, 2008, including interest at 7.0% per annum. (d)	-	71,000
Mortgage with OMRDD on Lake Street Intermediate Care Facility, Brooklyn, New York, scheduled payments in semi-annual installments of approximately $120,000 through February 15, 2019, including interest at 6.4% per annum. (d)	1,734,000	1,844,000
Mortgage with the New York State Housing Finance Agency on the Brooklyn Educational Center, 175 Lawrence Avenue, Brooklyn, New York, payable in monthly installments of approximately $27,000 through October 1, 2016, including interest at 7.0% per annum.	1,854,000	2,034,000
	$ 17,049,000	$ 17,741,000

Land, buildings and improvements with an aggregate net book value of approximately $14,451,000 and $15,442,000 at June 30, 2008 and 2007, respectively, are subject to the above mortgages.

(a) In December 1994, the Agency entered into a mortgage agreement with the Dormitory Authority to refinance a building and term loan, totaling $9,404,000 at June 30, 1994, which had been borrowed in 1985 to provide financing for the construction of the Hearst Building and the Staten Island Rehabilitation Center (the "Project"). The funds were provided by the Dormitory Authority from the sale of United Cerebral Palsy of New York City, Inc. Revenue Bonds, 1994 Issue ("1994 Bonds").

In September 1996, the Agency issued tax-exempt Series 1996 revenue bonds ("Series 1996 Revenue Bonds") through the Dormitory Authority in the amount of $12,210,000. Proceeds from the Series 1996 Revenue Bond issuance were used to refund the 1994 Bonds, to fund the costs of issuance of the Series 1996 Revenue Bonds, and to make a deposit to the Debt Service Reserve Fund. Repayment of the Series 1996 Revenue Bonds is insured under the provisions of the Dormitory Authority's Master Insured Revenue Bond Resolution.

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Notes to Combined Financial Statements

Years Ended June 30, 2008 and 2007

The Series 1996 Revenue Bonds are secured by certain property, plant and equipment and the gross receipts of the Agency in an amount equal in each Bond Year to the greatest amount required in any Bond Year to pay the interest on the Outstanding Bonds payable during such year and the principal and Sinking Fund Installments of Outstanding Bonds payable on July 1 of such Bond Year.

As a condition of this borrowing, the Agency is required to make monthly deposits into a debt service fund. The fund accumulates amounts necessary to make principal and interest payments semi-annually. Payments are made on January 1 and July 1. At June 30, 2008 and 2007, approximately $705,000 and $637,000, respectively, was on deposit in the fund and has been included in assets limited as to use in the accompanying combined statements of financial position.

As another condition of the borrowing, two reserve funds have been established. The Debt Service Reserve Fund is to be maintained at an amount equal to the lesser of (i) the greatest amount required in the current or any future calendar year to pay the principal and sinking fund installments of and interest on outstanding Series 1996 Revenue Bonds payable during such calendar year or (ii) approximately 10% of the net proceeds from the sale of the Series 1996 Revenue Bonds. At June 30, 2008 and 2007, approximately $951,000 and $949,000, respectively, was on deposit in the Debt Service Reserve Fund and has been included in assets limited as to use in the accompanying combined statements of financial position. The second required fund, the Building and Equipment Reserve Fund, is available to pay debt service on the Series 1996 Revenue Bonds to the extent funds are on deposit therein. Subject to the foregoing, funds in the Building and Equipment Reserve Fund may be used to pay the costs, other than ordinary maintenance and repair, of renewing, repairing, replacing, renovating and improving the Project. Whenever funds are withdrawn to pay debt service, the Agency is to pay the amount of the deficiency in the fund to the Trustee within five days after receiving notice of such deficiency. Funds withdrawn, other than for debt service, are to be repaid by the Agency in equal semi-annual payments commencing on the first June 10th or December 10th following the date of such withdrawal. The amounts on deposit in the Building and Equipment Reserve Fund as of June 30, 2008 and 2007 were approximately $378,000 and $442,000, respectively, which have been included in assets limited as to use in the accompanying combined statements of financial position. An Equipment Collateral Fund is maintained as well. The balance in this fund was approximately $41,000 and $39,000 as of June 30, 2008 and 2007, respectively, and has been included in assets limited as to use in the accompanying combined statements of financial position.

(b) In April 2002, the Agency became a participant in the Dormitory Authority's New York United Cerebral Palsy Affiliates Pooled Loan Program No. 1 Insured Revenue Bonds, consisting of Series 2002A and Series 2002B ("Pooled Bonds"). The aggregate amount of this issue was $16,520,000, of which $1,430,000 benefits the Agency. Proceeds were used to pay down monies previously borrowed from a revolving line of credit (see Note 4), to fund the cost of issuance of these bonds, and to make a deposit into the Debt Service Reserve Fund. Repayment of the Pooled Bonds is insured under the provisions of the Dormitory Authority's Master Insured Revenue Bond Resolution. At June 30, 2008 and 2007, approximately $129,000 and $128,000, respectively, was on deposit in the Debt Service Reserve Fund and has been included in assets limited as to use in the accompanying combined statements of financial position.

As a condition of this borrowing, the Agency is required to make monthly deposits into a debt service fund. The fund accumulates amounts necessary to make annual principal and semi-annual interest payments. Payments are made on January 1 and July 1. At June 30, 2008 and 2007, approximately $92,000 and $87,000, respectively, was on deposit in the debt service fund and has been included in assets limited as to use in the accompanying combined statements of financial position. The debt agreement for the Pooled Bonds contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2008.

The Pooled Bonds are secured by the gross receipts of the Agency in an amount equal in each Bond Year to the greatest amount required in any Bond Year to pay the interest on the Outstanding Bonds payable during such year and the principal and Sinking Fund Installments of Outstanding Bonds payable on July 1 of such Bond Year.

(c) In January 2002, the Joseph Belsky Apartment House mortgage was restructured under the Mark-to-Market Program of the Office of Multifamily Housing Assistance Restructuring. The property is secured by two mortgage loans. The balance of principal and interest is due at the Maturity Date of February 1, 2032 (the "Maturity Date"). The first mortgage is a Restructuring Loan for approximately $996,000. This mortgage requires annual payments of interest in the amount of 1% of the outstanding principal balance. Principal and interest payments are based upon a calculation of cash on hand. The second mortgage, which is subordinate to the first, is a Contingent Repayment Note (the "Note") for approximately $1,764,000. No payments are due on the Note until the Maturity Date. This Note bears interest at the rate of 1% per annum.

In accordance with the terms of the Joseph Belsky Apartment House mortgage, amounts equal to a fixed percentage of the original mortgage balance are restricted each year for replacement of the related building and improvements. Such amounts aggregated approximately $363,000 and $337,000 as of June 30, 2008 and 2007, respectively. These amounts are included in assets limited as to use in the accompanying combined statements of financial position. The mortgage is collateralized by the Joseph Belsky Apartment House building and improvements and is insured by HUD.

(d) During fiscal 1994, the Agency entered into mortgage agreements with OMRDD to purchase apartments to be utilized as community residences and to provide long-term financing for the Lake Street Intermediate Care Facility. The funds were provided to OMRDD by the New York State Medical Care Facilities Finance Agency from the sale of Facilities Improvement Revenue Bonds, 1991 Series D and 1992 Series F. During fiscal 1998, the mortgage loan agreement was amended to increase the principal balance due to OMRDD based upon an advance to the Agency of approximately $113,000 for the Lake Street Intermediate Care Facility. In addition to the apartments purchased and the Lake Street Intermediate Care Facility, these mortgage loans are collateralized by all accounts receivable and proceeds thereof, including any amounts paid or payable by the State of New York to the Agency with respect to the properties. As a condition of these borrowings, the Agency is required to maintain debt service reserve funds aggregating approximately $183,000 as of June 30, 2008 and 2007. These funds have been included in assets limited as to use in the accompanying combined statements of financial position at June 30, 2008 and 2007.

Reduction of the principal as well as payment of interest and financing costs related to the mortgaged properties are achieved through an agreement with OMRDD whereby reimbursement of future program expenditures is reduced based upon OMRDD mortgage repayment schedules. Such schedules do not correspond with the repayment schedules found in the original mortgage agreements. The cumulative principal and interest liability to OMRDD at both June 30, 2008 and 2007 is approximately $49,000 greater than what the principal and interest liability would have been had OMRDD deducted principal and interest payments in accordance with the terms of the repayment schedules found in the original mortgage agreements.

Interest expense on the mortgages payable for the years ended June 30, 2008 and 2007 approximated $873,000 and $916,000, respectively.

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Scheduled future principal payments on mortgages payable are approximately as follows:

Years Ending June 30,	
2009	$ 750,000
2010	774,000
2011	794,000
2012	824,000
2013	856,000
Thereafter	13,051,000
	$ 17,049,000

7. Pension Plan

Defined benefit plan - The Agency sponsors a qualified noncontributory Pension Trust Plan (the "Plan") covering employees 21 years and older who have been employed by the Agency for at least one year. Plan benefits are paid directly from Plan assets. The Agency's policy is to satisfy annual minimum funding requirements as set forth by the Employee Retirement Income Security Act of 1974. The Plan's actuary performed the computations required for financial statement disclosure as of June 30, 2008 and 2007. Employee data as of July 1, 2007 and 2006 was projected forward to the June 30, 2008 and 2007 measurement dates, respectively. The following table presents the Plan's related disclosures under the provisions of Statement of Financial Accounting Standards No. 132, *Employers' Disclosures About Pensions and Other Postretirement Benefits*, as accounted for under Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions*. Additional disclosures are also included as required by Statement of Financial Accounting Standards 132(R), *Employers' Disclosures About Pensions and Other Postretirement Benefits*. Effective June 30, 2007, the Plan has been frozen. The following sets forth the Plan's funded status and amounts recognized in the combined financial statements:

June 30,	**2008**	2007
Reconciliation of Projected Benefit Obligation:		
Projected benefit obligation at beginning of year	**$ 40,395,000**	$ 40,277,000
Service cost	**83,000**	2,125,000
Interest cost	**2,299,000**	2,686,000
Change due to assumption changes (primarily change in discount rate)	**(2,893,000)**	3,702,000
Actuarial loss	**96,000**	1,087,000
Expense charges	**(42,000)**	(81,000)
Benefits disbursed	**(916,000)**	(771,000)
Effects of curtailment	**-**	(8,630,000)
Projected Benefit Obligation at end of year	**39,022,000**	40,395,000
Funded Status:		
Fair value of Plan assets, consisting principally of stocks and bonds, at beginning of year	**32,224,000**	26,282,000
Actual return on Plan assets	**(2,753,000)**	4,294,000
Employer contributions	**2,000,000**	2,500,000
Benefits disbursed from Plan assets (including expense charges)	**(958,000)**	(852,000)
Fair Value of Plan Assets at end of year	**30,513,000**	32,224,000
Projected Benefit Obligation in Excess of Plan Assets	**(8,509,000)**	(8,171,000)
Accrued Pension Cost in the Accompanying Combined Statements of Financial Position	**$ (8,509,000)**	$ (8,171,000)
Accumulated Benefit Obligation	**$ 39,022,000**	$ 40,395,000

Weighted-average assumptions used to measure benefit obligations are as follows:

June 30,	**2008**	2007
Discount Rate	**6.25%**	5.75%
Average Rate of Salary Increase	**5.00%**	5.00%

Weighted-average assumptions used to measure net periodic pension cost are as follows:

Years Ended June 30,	**2008**	2007
Discount Rate	**5.75%**	6.25%
Expected Long-term Rate of Return on Plan Assets	**9.00%**	9.00%
Average Rate of Salary Increase	**5.00%**	5.00%

The Agency's investment policy is to invest approximately 70% and 30% of Plan assets in equity and fixed income instruments, respectively. Plan assets consist primarily of mutual funds managed by the Plan's trustee that are invested in equities and debt obligation instruments. The expected long-term rate of return on Plan assets assumption of 9.0% was selected using the "'building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 - *Selection of Economic Assumptions for Measuring Pension Obligations.* Based on the Agency's investment policy for the Plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at the best estimate range of 8.19% to 10.11%. A rate of 9.0%, which is near the midpoint of the best estimate range, was selected.

Net periodic pension cost includes the following:

Years Ended June 30,	**2008**	2007
Service Cost - benefits earned during the year	**$ 83,000**	$ 2,125,000
Interest Cost on Projected Benefit Obligation	**2,299,000**	2,686,000
Actual Return on Plan Assets	**2,753,000**	(4,294,000)
Net Amortization and Deferral	**(5,688,000)**	2,147,000
Net Periodic Pension Cost	**$ (553,000)**	$ 2,664,000

The percentages of fair value of total Plan assets by asset category are as follows:

June 30,	**2008**	2007
Equity	**70.1%**	69.6%
Fixed Income	**25.5**	30.3
Guaranteed Investment Contract	**4.4**	0.1
	100.0%	100.0%

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement 158, "*Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans*", an amendment of FASB Statements No. 87, 88, 106 and 132(R) which is effective for fiscal years ending after June 15, 2007. The statement requires employers to recognize the over funded or under funded asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through the unrestricted net assets of a not-for-profit organization. The statement also requires an employer to measure the funded status of the plan as of the date of its year end. The Agency has adopted this change for the year ended June 30, 2007.

The following is additional information showing the effect of the transition to FASB 158:

	Before FASB 158	Effect of FASB 158	After FASB 158
Accrued Pension Cost	$ (8,509,000)	$ -	$ (8,509,000)
FASB 158 Transition Adjustment	-	-	-

The following benefits, which reflect expected future service, have been valued using the same assumptions adopted for valuing the projected benefit obligation and are expected to be paid as follows:

Years Ending June 30,	
2009	$ 1,378,000
2010	1,452,000
2011	1,539,000
2012	1,643,000
2013	1,862,000
2014 - 2018	12,052,000

The Agency expects to contribute approximately $1,000,000 to the Plan during the year ending June 30, 2009.

Defined contribution pension plan - Effective July 1, 2007, the Agency has established a defined contribution plan for all employees, with the exception of hourly and contracted employees, who have worked one year, worked at least 1,000 hours and have attained the age of 21. Annual base contributions to the plan are based on 5% of each eligible participant's compensation, plus an additional contribution as determined by a fixed percentage depending upon the years of service and the description of the title of the employee, subject to approval by the Board of Directors. Pension expense for the year ended June 30, 2008 approximated $1,865,000.

Tax-deferred annuity plan - The Agency maintains a tax-deferred annuity plan as defined under Section 403(b) of the Internal Revenue Code. Investments are self-directed by employees and are maintained by a major insurance company.

8. Reimbursement of Expenditures

Contracts, grants and fees applicable to program and community services are reported in the year earned at net realizable amounts for services rendered under contracts and reimbursement agreements. Certain contracts and grants provide for reimbursement rates that are subject to potential changes based on periodic reviews by the funding agencies. Such rates are either adjusted prospectively through future reimbursement rates or are adjusted retroactively. Prospective rate adjustments are generally insignificant and are reflected in the revenues of the future periods based on when the adjusted reimbursement rates are determined. Retroactive rate adjustments are recorded as adjustments to revenues in the period that the amounts are determinable and are reasonably measurable.

Some of the Agency's contracts and grants do not provide for rate adjustments although they may be subject to audits. It has been the experience of the Agency that adjustments as a result of audits have been insignificant. Management of the Agency is not aware of any potential material liabilities at June 30, 2008 resulting from any audits.

The Agency operates two education programs: one for school-age children (5 years of age to 21 years of age) and the other for preschoolers (3 years of age to 5 years of age). The Agency receives funding for the programs under contracts with the New York City Department of Education ("DOE"). Tuition rates for these programs are established by the New York State Education Department ("SED"). Payments are made at promulgated rates for these programs and are subject to retroactive changes based on final reconciled rates. The rate setting methodology is based on costs reported annually to SED in the Agency's Consolidated Fiscal Report and results in the calculation of the final reconciled tuition rate for a given year.

The DOE performs reconciliations that include adjustments for finalization of enrollment data and the difference between the paid rate and the final reconciled rate for that year. If the final reconciled rate is not yet available for the year that is being reconciled, the latest final reconciled rate is used for reconciliation purposes and will be further reconciled when that year's final reconciled rate is promulgated.

For the preschool program, there is a liability related to the aforementioned reconciliations of approximately $439,000 and $358,000 as of June 30, 2008 and 2007, respectively, which is included in accrued reimbursement adjustments.

For the school age program, there is a liability related to the aforementioned reconciliations of approximately $1,512,000 and $1,908,000 as of June 30, 2008 and 2007, respectively, which is included in accrued reimbursement adjustments.

Medicaid and other programs in which the Agency participates are based on a set of complex laws and regulations. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, fines, penalties and exclusion from such programs. Management of the Agency is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying combined financial statements and believes the Agency is in compliance with all applicable laws and regulations.

Management has established specific reserves against revenues ($1,000,000 and $1,600,000 at June 30, 2008 and 2007, respectively), for potential denied claims for reimbursement. Denied claims arise principally due to unresolved participant eligibility issues. It is the opinion of management that denied claims, if any, in excess of the reserve for reimbursement adjustments would not have a material adverse effect on the combined financial position of the Agency.

9. Commitments and Contingencies

Operating leases - In July 2000, the Agency entered into a noncancelable lease agreement for ten years and three months for office space in New York City. The lease calls for escalation charges throughout the lease term and includes a three-month rent-free period. In September 2000, the Agency entered into a ten-year lease at a new facility. This ten-year lease calls for escalation charges throughout the lease term. In addition, the Agency has noncancelable operating leases with remaining terms of one year or more. Future minimum payments under these operating leases are approximately as follows:

Years Ending June 30,	
2009	$ 3,999,000
2010	3,643,000
2011	2,565,000
2012	752,000
2013	482,000
Thereafter	2,482,000
	$ 13,923,000

Rent expense on real property was approximately $4,285,000 and $4,059,000 for the years ended June 30, 2008 and 2007, respectively. Rent expense on equipment for the years ended June 30, 2008 and 2007 was approximately $235,000 and $231,000, respectively.

Litigation - There are various lawsuits and claims pending against the Agency which arose in the ordinary course of business. In the opinion of the Agency's management, these lawsuits are either without merit, or are covered by insurance, and will not result in any material adverse effect on the Agency's combined financial position or changes in net assets.

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

REPORT ON AUDITS OF COMBINED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

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Independent Auditors' Report

Board of Directors
United Cerebral Palsy of
New York City, Inc.
New York, New York

We have audited the accompanying combined statements of financial position of United Cerebral Palsy of New York City, Inc. (the "Agency"), as of June 30, 2007 and 2006, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These combined financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of United Cerebral Palsy of New York City, Inc. as of June 30, 2007 and 2006, and the combined changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Holtz Rubenstein Reminick LLP

New York, New York
December 26, 2007

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statements of Financial Position

June 30,	2007	2006
Assets		
Cash and Cash Equivalents	$ 9,874,000	$ 7,361,000
Investments (Note 2)	8,426,000	7,321,000
Grants and Fees Receivable from Governmental Agencies	10,907,000	13,189,000
Other Assets	1,345,000	1,454,000
Fixed Assets (Note 3)	30,346,000	31,792,000
Assets Limited as to Use (Notes 5 and 6)	2,802,000	2,745,000
Total Assets	$ 63,700,000	$ 63,862,000
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 6,404,000	$ 6,830,000
Accrued payroll and related liabilities	3,915,000	3,468,000
Line of credit payable (Note 4)	1,215,000	1,840,000
Loans and capital leases payable (Note 5)	603,000	946,000
Mortgages payable (Note 6)	17,741,000	18,443,000
Accrued pension liability (Note 7)	8,171,000	8,633,000
Accrued reimbursement adjustments (Note 8)	2,266,000	3,115,000
State repayment obligation	-	21,000
Other liabilities	4,373,000	3,589,000
Total Liabilities	44,688,000	46,885,000
Commitments and Contingencies (Note 9)		
Net Assets:		
Unrestricted	17,925,000	16,030,000
Temporarily restricted (Note 1)	1,087,000	947,000
Total Net Assets	19,012,000	16,977,000
Total Liabilities and Net Assets	$ 63,700,000	$ 63,862,000

See notes to combined financial statements.

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statement of Activities and Changes in Net Assets

Year Ended June 30, 2007 (with summarized comparative totals for 2006)

	Unrestricted	Temporarily Restricted	Total 2007	Total 2006
Support, Revenue and Reclassifications				
Support from the Public:				
Contributions	$ 287,000	$ 254,000	$ 541,000	$ 548,000
Special events	972,000	-	972,000	905,000
Legacies and bequests	436,000	-	436,000	268,000
Total Support from the Public	1,695,000	254,000	1,949,000	1,721,000
Direct Expenses of Special Events	(323,000)	-	(323,000)	(474,000)
Net Support from the Public	1,372,000	254,000	1,626,000	1,247,000
Contracts, Grants and Fees Applicable to Program and Community Services:				
Contracts and grants	2,461,000	-	2,461,000	2,350,000
Fees for services	85,828,000	-	85,828,000	80,715,000
Total Contracts, Grants and Fees	88,289,000	-	88,289,000	83,065,000
Other Revenue:				
Rental income	891,000	-	891,000	831,000
Amortization of state repayment obligation	21,000	-	21,000	89,000
Other income	144,000	-	144,000	55,000
Investment income:				
Interest and dividends	721,000	-	721,000	408,000
Realized and unrealized gains on investments	993,000	-	993,000	241,000
Total Other Revenue	2,770,000	-	2,770,000	1,624,000
Net Assets Released from Restrictions (Note 1)	114,000	(114,000)	-	-
Total Support, Revenue and Reclassifications	92,545,000	140,000	92,685,000	85,936,000
Expenses				
Program Services:				
Educational programs	17,621,000	-	17,621,000	16,834,000
Adult day programs	34,984,000	-	34,984,000	32,556,000
Residential programs	28,639,000	-	28,639,000	26,634,000
Family support services programs	2,379,000	-	2,379,000	2,204,000
Total Program Services	83,623,000	-	83,623,000	78,228,000
Supporting Services:				
Management and general	7,261,000	-	7,261,000	6,419,000
Public relations and fund-raising	307,000	-	307,000	460,000
Total Supporting Services	7,568,000	-	7,568,000	6,879,000
Total Program and Supporting Services	91,191,000	-	91,191,000	85,107,000
Payments to Affiliated Organizations:				
National program of research, education and service	50,000	-	50,000	46,000
State program of education and service	34,000	-	34,000	33,000
Total Payments to Affiliated Organizations	84,000	-	84,000	79,000
Total Expenses	91,275,000	-	91,275,000	85,186,000
Changes in Net Assets Before Curtailment Gain on Pension Plan	1,270,000	140,000	1,410,000	750,000
Curtailment Gain on Pension Plan (Note 7)	625,000	-	625,000	-
Changes in Net Assets	1,895,000	140,000	2,035,000	750,000
Net Assets, beginning of year	16,030,000	947,000	16,977,000	16,227,000
Net Assets, end of year	$ 17,925,000	$ 1,087,000	$ 19,012,000	$ 16,977,000

See notes to combined financial statements.

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statement of Activities and Changes in Net Assets

Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Total 2006
Support, Revenue and Reclassifications			
Support from the Public:			
Contributions	$ 275,000	$ 273,000	$ 548,000
Special events	905,000	-	905,000
Legacies and bequests	268,000	-	268,000
Total Support from the Public	1,448,000	273,000	1,721,000
Direct Expenses of Special Events	(474,000)	-	(474,000)
Net Support from the Public	974,000	273,000	1,247,000
Contracts, Grants and Fees Applicable to Program and Community Services:			
Contracts and grants	2,350,000	-	2,350,000
Fees for services	80,715,000	-	80,715,000
Total Contracts, Grants and Fees	83,065,000	-	83,065,000
Other Revenue:			
Rental income	831,000	-	831,000
Amortization of state repayment obligation	89,000	-	89,000
Other income	55,000	-	55,000
Investment income:			
Interest and dividends	408,000	-	408,000
Realized and unrealized gains on investments	241,000	-	241,000
Total Other Revenue	1,624,000	-	1,624,000
Net Assets Released from Restrictions (Note 1)	223,000	(223,000)	-
Total Support, Revenue and Reclassifications	85,886,000	50,000	85,936,000
Expenses			
Program Services:			
Educational programs	16,834,000	-	16,834,000
Adult day programs	32,556,000	-	32,556,000
Residential programs	26,634,000	-	26,634,000
Family support services programs	2,204,000	-	2,204,000
Total Program Services	78,228,000	-	78,228,000
Supporting Services:			
Management and general	6,419,000	-	6,419,000
Public relations and fund-raising	460,000	-	460,000
Total Supporting Services	6,879,000	-	6,879,000
Total Program and Supporting Services	85,107,000	-	85,107,000
Payments to Affiliated Organizations:			
National program of research, education and service	46,000	-	46,000
State program of education and service	33,000	-	33,000
Total Payments to Affiliated Organizations	79,000	-	79,000
Total Expenses	85,186,000	-	85,186,000
Changes in Net Assets	700,000	50,000	750,000
Net Assets, beginning of year	15,330,000	897,000	16,227,000
Net Assets, end of year	$ 16,030,000	$ 947,000	$ 16,977,000

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statement of Functional Expenses

Year Ended June 30, 2007 (with summarized comparative totals for 2006)

	Program Services					Support Services						
	Educational Programs	Adult Day Programs	Residential Programs	Family Support Services Programs	Total Program Services	Management and General	Public Relations and Fund-Raising	Total Supporting Services	Direct Cost of Special Events	Payments to Affiliated Organizations	2007 Grand Total	2006 Grand Total
Salaries	$ 8,018,000	$ 12,773,000	$ 15,389,000	$ 1,165,000	$ 36,704,000	$ 3,755,000	$ 57,000	$ 3,812,000	$ -	$	$ 40,556,000	$ 38,413,000
Payroll Taxes and Employee Benefits	2,432,000	4,332,000	5,259,000	272,000	12,310,000	882,000	23,000	905,000	-	-	13,215,000	12,119,000
Clinical Consultants and Professional Fees	4,310,000	5,310,000	1,325,000	66,000	11,011,000	998,000	1,000	1,001,000		-	12,012,000	11,577,000
Vehicle Rental and Maintenance	20,000	177,000	145,000	6,000	348,000	14,000	-	14,000		-	362,000	317,000
Occupancy, principally rent, utilities and building supplies	585,000	2,356,000	2,181,000	398,000	6,121,000	656,000	113,000	769,000		-	6,893,000	6,545,000
Insurance	309,000	650,000	410,000	37,000	1,406,000	17,000	7,000	24,000	-	-	1,470,000	1,298,000
Telephone	83,000	171,000	160,000	9,000	427,000	33,000	6,000	39,000	-	-	483,000	570,000
Office Supplies	66,000	125,000	72,000	10,000	273,000	55,000	4,000	59,000	-	-	332,000	319,000
Medical Supplies	46,000	201,000	135,000		382,000	-	-		-		382,000	366,000
Operating Supplies	197,000	265,000	137,000	145,000	762,000	-			-		762,000	727,000
Household Supplies	-	1,000	804,000	-	805,000	-	-		-		805,000	751,000
Food		-	655,000	-	655,000	-	-		-		655,000	761,000
Publications, Postage and Shipping	50,000	21,000	5,000	11,000	68,000	148,000	1,000	149,000		-	317,000	240,000
Conferences, Conventions and Meetings	45,000	77,000	98,000	31,000	251,000	65,000	6,000	71,000		-	312,000	262,000
Equipment Rental, Repairs and Maintenance	32,000	161,000	85,000	8,000	309,000	216,000	5,000	221,000		-	530,000	477,000
Expensed Equipment	179,000	46,000	77,000	60,000	362,000	17,000		17,000	-	-	379,000	279,000
Program Transportation	-	7,140,000	216,000		7,356,000	-		-	-	-	7,356,000	5,180,000
Purchased Services	-	-	-	-		-	-		373,000		373,000	474,000
Other		-	-	-			-		-		-	4,000
Interest (Notes 4, 5 and 6)	222,000	518,000	379,000	10,000	1,129,000	56,000	7,000	63,000	-	-	1,192,000	1,171,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	16,796,000	33,796,000	27,771,000	2,319,000	80,682,000	6,539,000	672,000	7,211,000	323,000	-	88,216,000	82,551,000
Payments to Affiliated Organizations	-	-			-	-		-	-	84,000	84,000	79,000
Depreciation and Amortization	835,000	1,188,000	868,000	60,000	2,951,000	302,000	35,000	337,000	-	-	3,278,000	3,036,000
Total Expenses	17,631,000	34,984,000	28,639,000	2,379,000	83,633,000	7,261,000	307,000	7,568,000	373,000	84,000	91,578,000	85,660,000
Less Direct Expenses of Special Events	-	-	-	-	-	-	-	-	(373,000)		(373,000)	(474,000)
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ 17,631,000	$ 34,984,000	$ 28,639,000	$ 2,379,000	$ 83,633,000	$ 7,261,000	$ 307,000	$ 7,568,000	$ -	$ 84,000	$ 91,205,000	$ 85,186,000

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Combined Statement of Functional Expenses

Year Ended June 30, 2006

	Program Services					Support Services					
	Educational Programs	Adult Day Programs	Residential Programs	Family Support Services Programs	Total Program Services	Management and General	Public Relations and Fund Raising	Total Supporting Services	Direct Cost of Special Events	Payments to Affiliated Organizations	2006 Grand Total
Salaries	$ 7,474,000	$ 11,950,000	$ 14,181,000	$ 1,451,000	$ 35,056,000	$ 3,172,000	$ 182,000	$ 3,354,000	$ -	$ -	$ 38,415,000
Payroll Taxes and Employee Benefits	5,322,000	1,885,000	4,298,000	278,000	11,284,000	784,000	51,000	835,000	-	-	12,119,000
Clinical Consultants and Professional Fees	3,099,000	4,982,000	1,479,000	53,000	10,493,000	1,081,000	3,000	1,084,000	-	-	11,577,000
Vehicle Rental and Maintenance	13,000	142,000	147,000	3,000	305,000	11,000	-	11,000	-		316,000
Occupancy, principally rent, utilities and building supplies	725,000	2,718,000	1,970,000	396,000	5,809,000	610,000	126,000	736,000	-		6,545,000
Insurance	350,000	727,000	426,000	30,000	1,533,000	46,000	9,000	55,000	-		1,588,000
Telephone	109,000	203,000	174,000	5,000	491,000	67,000	12,000	79,000		-	570,000
Office Supplies	61,000	107,000	75,000	9,000	256,000	56,000	7,000	63,000		-	319,000
Medical Supplies	37,000	181,000	118,000	-	366,000	-	-	-	-	-	366,000
Operating Supplies	317,000	11,000	124,000	74,000	726,000	-	1,000	1,000	-	-	727,000
Household Supplies		1,000	759,000	1,000	761,000		-		-	-	761,000
Food		-	763,000		754,000		-		-	-	754,000
Publications, Postage and Shipping	27,000	23,000	7,000	1,000	64,000	165,000	11,000	176,000	-	-	240,000
Conferences, Conventions and Meetings	38,000	68,000	88,000	14,000	208,000	45,000	9,000	54,000	-		262,000
Equipment Rental, Repairs and Maintenance	54,000	181,000	105,000	14,000	362,000	106,000	9,000	115,000	-		477,000
Expensed Equipment	174,000	26,000	62,000	1,000	263,000	15,000	1,000	16,000		-	279,000
Program Transportation	2,000	5,364,000	14,000	-	5,380,000	-		-		-	5,380,000
Purchased Services		-	-		-		-	-	474,000	-	474,000
Other	-		-		-		4,000	4,000	-	-	4,000
Interest (Notes 4, 5 and 6)	454,000	334,000	375,000	2,000	1,165,000	9,000	6,000	15,000	-	-	1,171,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	16,026,000	31,427,000	25,881,000	2,145,000	75,479,000	6,170,000	428,000	6,598,000	474,000		82,551,000
Payments to Affiliated Organizations	-	-		-		-		-		79,000	79,000
Depreciation and Amortization	808,000	1,129,000	753,000	59,000	2,749,000	249,000	32,000	281,000		-	3,030,000
Total Expenses	16,834,000	32,556,000	26,634,000	2,204,000	78,228,000	6,419,000	460,000	6,879,000	474,000	79,000	85,660,000
Less Direct Expenses of Special Events	-		-		-		-		(474,000)	-	(474,000)
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ 16,834,000	$ 32,556,000	$ 26,634,000	$ 2,204,000	$ 78,228,000	$ 6,419,000	$ 460,000	$ 6,879,000	$ -	$ 79,000	$ 85,186,000

Combined Statements of Cash Flows

Years Ended June 30,	2007	2006
Cash Flows from Operating Activities:		
Changes in net assets	$ 2,035,000	$ 750,000
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	3,278,000	3,029,000
Amortization of state repayment obligation	(21,000)	(90,000)
Provision for reimbursements adjustments	(613,000)	2,566,000
Realized and unrealized gains on investments	(993,000)	(241,000)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Grants and fees receivable from governmental agencies	2,895,000	902,000
Other assets	109,000	(150,000)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(426,000)	917,000
Accrued payroll and related liabilities	(15,000)	1,984,000
Accrued reimbursement adjustments	(849,000)	(880,000)
Other liabilities	784,000	(3,023,000)
Net Cash Provided by Operating Activities	6,184,000	5,764,000
Cash Flows from Investing Activities:		
Purchases of fixed assets	(1,832,000)	(3,689,000)
Purchases of investments	(112,000)	(171,000)
Net increase in assets limited as to use	(57,000)	(97,000)
Net Cash Used in Investing Activities	(2,001,000)	(3,957,000)
Cash Flows from Financing Activities:		
Principal payments on capital lease obligations	(343,000)	(611,000)
Principal payments on mortgages payable	(702,000)	(675,000)
Proceeds of draw down on lines of credit	275,000	2,740,000
Repayments of draw down on lines of credit	(900,000)	(1,255,000)
Net Cash (Used in) Provided by Financing Activities	(1,670,000)	199,000
Net Increase in Cash and Cash Equivalents	2,513,000	2,006,000
Cash and Cash Equivalents, beginning of year	7,361,000	5,355,000
Cash and Cash Equivalents, end of year	$ 9,874,000	$ 7,361,000
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$ 1,167,000	$ 1,158,000
Non-cash investing and financing activities:		
Assets acquired under capital lease	$ 33,000	$ 95,000

1. **Description of Organization and Summary of Significant Accounting Policies**

Nature of organization - United Cerebral Palsy of New York City, Inc. (the "Agency") is a not-for-profit organization, formed under the Not-for-Profit Corporation Law of the State of New York, founded in 1946 by parents of children with disabilities. The mission of the Agency is to provide opportunities in education, training, rehabilitation, employment and housing for persons with disabilities as well as to ensure and protect their rights for equal treatment and opportunities under the law.

Currently, approximately 14,000 individuals receive services annually from the Agency. These services include preschool and school-age programs, residential programs, day programs, vocational programs and medical and support services.

The accompanying combined financial statements include the accounts of the Agency, United Cerebral Palsy of New York City Community Mental Retardation Services Company, Inc. and the United Cerebral Palsy Housing Development Fund Corporation, Inc. ("Housing"). These three corporations are all under common Board of Directors' control. All intercompany transactions have been eliminated.

Currently, approximately 55% of the Agency's employees are covered under collective bargaining arrangements with the United Federation of Teachers which is due to expire in December 2009.

Basis of accounting - The combined financial statements of the Agency and its related corporations have been prepared on the accrual basis of accounting.

Revenue Recognition - Revenues are recorded when earned as services are provided through residential, educational, adult day program, family support services and outpatient clinical facilities. Substantially all programs are funded through New York State reimbursement and Medicaid funding. Revenues from the aforementioned sources are subject to audit and possible adjustment by third-party payors.

Housing receives rent supplement assistance payments for tenants, pursuant to Section 8 of the National Housing Act, from the United States Department of Housing and Urban Development ("HUD").

Donor - imposed restrictions - The Agency reports gifts of cash and other assets as restricted assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions. At June 30, 2007 and 2006, approximately $1,087,000 and $947,000, respectively, have been restricted for specific purposes.

During the years ended June 30, 2007 and 2006, temporarily restricted net assets of approximately $114,000 and $223,000, respectively, were expended satisfying the restriction stipulated by the donor and, accordingly, were released from restrictions.

Cash and cash equivalents - Cash and cash equivalents include cash and highly liquid financial instruments with original maturity dates of three months or less from the date purchased, other than those held as part of the investment portfolio or assets limited as to use.

At June 30, 2007 and 2006, the Companies had cash balances in financial institutions that exceeded federal depository insurance limits. Approximately 99% of the Companies' cash and cash equivalents are on deposit in various accounts with one financial institution at June 30, 2007 and 2006. Management believes that credit risk related to these deposits is minimal.

Investments - Investments in marketable equity securities with readily determinable fair values and all debt securities are stated at quoted market prices. Donated marketable securities are recorded at fair value at date of donation. Realized and unrealized gains or losses on investments are reported in the combined statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or by law.

Allowance for doubtful accounts - Periodically, the accounts receivable balances are reviewed and evaluated as to their collectibility. An allowance is then set up based on these evaluations.

Assets limited as to use - Assets limited as to use consist principally of cash and cash equivalents and are on deposit with two financial institutions. Assets limited as to use are stated at fair value which approximates their cost.

Fixed assets, net - Fixed assets are carried at cost, net of accumulated depreciation and amortization. The carrying amounts of fixed assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of, and any resulting gain or loss is recorded in the combined statements of activities and changes in net assets. The Agency's policy is to capitalize all purchases in excess of $1,000. Depreciation of fixed assets is recorded using the straight-line method over the estimated useful lives of the assets; and amortization on leasehold improvements is calculated using the straight-line method over the shorter of the asset's useful life or lease term. The useful lives of the fixed assets are as follows: buildings and improvements - 15 to 40 years; furniture and fixtures - 10 to 15 years; computer equipment and software - 5 years; and heating, ventilation and air conditioning equipment - 25 years. Depreciation and amortization of fixed assets also includes amortization of assets under capital leases.

Statements of functional expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on various allocation factors.

Donated services - No amounts have been included in the accompanying combined financial statements for donated services since no objective basis is available to measure the value of such services and these services would not otherwise be purchased.

Tax status - The Agency and its related corporations whose accounts are included in the accompanying combined financial statements are Section 501(c)(3) not-for-profit organizations exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code"). They are classified as publicly supported charitable organizations under Section 509(a)(l) of the Code and qualify for the maximum charitable deduction by donors. They are also exempt from state and local income taxes.

Use of estimates - The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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2. Investments

The cost and market value of investments are as follows:

June 30,	2007		2006	
	Cost	Market Value	Cost	Market Value
Cash and Cash Equivalents	$ 350,000	$ 350,000	$ 673,000	$ 673,000
Equity Securities	4,441,000	6,265,000	4,469,000	5,341,000
Bonds	1,848,000	1,805,000	1,354,000	1,301,000
Other	6,000	6,000	6,000	6,000
Total Investments	$ 6,645,000	$ 8,426,000	$ 6,502,000	$ 7,321,000

3. Fixed Assets, net

Fixed assets, net, consists of the following:

June 30,	2007	2006
Land	$ 5,515,000	$ 5,515,000
Buildings	35,829,000	33,372,000
Building Improvements	4,844,000	4,304,000
Furniture and Fixtures	12,926,000	12,087,000
Leasehold Improvements	6,170,000	5,947,000
Construction in Process	58,000	2,285,000
	65,342,000	63,510,000
Less Accumulated Depreciation and Amortization	34,996,000	31,718,000
	$ 30,346,000	$ 31,792,000

4. Line of Credit Payable

The Agency has a $6,000,000 revolving line of credit with JPMorgan Chase for the purpose of funding the purchase and renovation of residential properties under the New York State Cares initiative. The revolving line of credit expires on June 30, 2008. At June 30, 2007 and 2006, the Agency had drawn approximately $1.2 million and $1.8 million, respectively, under this line of credit. Interest on outstanding amounts under this agreement is at the prime rate (8.25% at June 30, 2007 and 2006) plus 1%. The line of credit agreement contains covenants requiring, among other restrictions, that the Agency maintain certain financial ratios. The Agency was in compliance with these covenants at June 30, 2007. The line of credit is unsecured. Interest expense on the line of credit for the years ended June 30, 2007 and 2006 approximated $156,000 and $100,000, respectively.

The Agency also has a working capital line of credit with JPMorgan Chase in the amount of $6,000,000. Short-term loans may be made under this line of credit from time to time at the discretion of JPMorgan Chase. Draws under the line bear interest at prime or, for draws greater than $500,000, the Agency may request an interest rate based on LIBOR plus 150 basis points. As of June 30, 2007 and 2006, there were no outstanding borrowings under this line of credit. This line of credit expires on June 30, 2008.

5. Loans and Capital Leases Payable

Fixed asset acquisition agreement - In February 1999, the Agency entered into an agreement with the Dormitory Authority for certain heating and air-conditioning equipment to be acquired for the Agency's 122 East 23rd Street facility. Under the terms of the agreement, proceeds of approximately $1,800,000 were provided to the Agency in February 1999 to enable the Agency to acquire the items as specified. In June 2001, this agreement was amended. The amendment provided for additional proceeds of approximately $1,100,000 to enable the Agency to acquire items as specified. Future minimum payments under the agreement are to be made in accordance with the schedule specified in the agreement. Approximately $400,000 and $600,000 is included in loans and capital leases payable in the accompanying combined statements of financial position at June 30, 2007 and 2006, respectively.

Other capital leases - The Agency owns certain motor vehicles under capital leases. These leases have terms of 60 months and contain bargain purchase options.

As of June 30, 2007 and 2006, the costs of the fixed assets recorded under the capital leases were approximately $1,030,000 and $997,000, respectively. The net book values were approximately $234,000 and $368,000 as of June 30, 2007 and 2006, respectively.

Future minimum payments, by year and in the aggregate, under the lease agreements consisted approximately of the following:

Year Ending June 30,	
2008	$ 410,000
2009	208,000
2010	19,000
2011	3,000
Total Minimum Lease Payments	640,000
Less Amounts Representing Interest	37,000
Net Minimum Lease Payments	603,000
Less Current Portion	381,000
Long-Term Portion of Capital Leases Included in Loans and Capital Leases Payable	$ 222,000

The interest expense on the capital leases for the years ended June 30, 2007 and 2006 was approximately $52,000 and $70,000, respectively.

6. Mortgages Payable

A summary of mortgages payable is as follows:

June 30,	2007	2006
Insured mortgage with the Dormitory Authority of the State of New York (the "Dormitory Authority") on the Hearst Building in Brooklyn, NY, and the Staten Island Rehabilitation Center, payable in annual installments ranging from approximately $814,000 to $941,000 through June 30, 2024, including interest at 5.5% per annum at June 30, 2007.	$ 9,770,000	$ 10,050,000

Insured mortgage with the Dormitory Authority on various individual residential alternatives properties payable in annual installments ranging from approximately $114,000 to $242,000 through June 30, 2021, including interest at rates 5.1% per annum at June 30, 2007. Includes bond premium of approximately $23,000 and $24,000 at June 30, 2007 and 2006, respectively.	**1,262,000**	1,314,000
Mortgage with the New York State Housing Finance Agency on the Brooklyn Educational Center, 175 Lawrence Avenue, Brooklyn, NY, payable in monthly installments of approximately $27,000 through October 1, 2016, including interest at 7.0% per annum.	**2,034,000**	2,201,000
Mortgage on the Joseph Belsky Apartment House, 140 Lawrence Avenue, Brooklyn, NY, payable in full on February 1, 2032, including interest at 1.0% per annum.	**2,760,000**	2,760,000
Mortgage with the State of New York Office of Mental Retardation and Developmental Disabilities ("OMRDD") on community residences and individual residential alternatives, scheduled payments in semi-annual installments of approximately $56,000 through February 15, 2008, including interest at 7.0% per annum.	**71,000**	169,000
Mortgage with OMRDD on Lake Street Intermediate Care Facility, Brooklyn, NY, scheduled payments in semi-annual installments of approximately $120,000 through February 15, 2019, including interest at 6.4% per annum.	**1,844,000**	1,949,000
	$ 17,741,000	$ 18,443,000

Land, buildings and improvements with an aggregate net book value of approximately $15,442,000 and $16,110,000 at June 30, 2007 and 2006, respectively, are subject to the above mortgages.

In December 1994, the Agency entered into a mortgage agreement with the Dormitory Authority to refinance a building and term loan, totaling $9,404,000 at June 30, 1994, which had been borrowed in 1985 to provide financing for the construction of the Hearst Building and the Staten Island Rehabilitation Center (the "Project"). The funds were provided by the Dormitory Authority from the sale of United Cerebral Palsy of New York City, Inc. Revenue Bonds, 1994 Issue ("1994 Bonds").

In September 1996, the Agency issued tax-exempt Series 1996 revenue bonds ("Series 1996 Revenue Bonds") through the Dormitory Authority in the amount of $12,210,000. Proceeds from the Series 1996 Revenue Bond issuance were used to refund the 1994 Bonds, to fund the costs of issuance of the Series 1996 Revenue Bonds, and to make a deposit to the Debt Service Reserve Fund. Repayment of the Series 1996 Revenue Bonds is insured under the provisions of the Dormitory Authority's Master Insured Revenue Bond Resolution.

The Series 1996 Revenue Bonds are secured by certain property, plant and equipment and the gross receipts of the Agency in an amount equal in each Bond Year to the greatest amount required in any Bond Year to pay the interest on the Outstanding Bonds payable during such year and the principal and Sinking Fund Installments of Outstanding Bonds payable on July 1 of such Bond Year.

HOLTZ RUBENSTEIN REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Notes to Combined Financial Statements
Years Ended June 30, 2007 and 2006

As a condition of this borrowing, the Agency is required to make monthly deposits into a debt service fund. The fund accumulates amounts necessary to make principal and interest payments semi-annually. Payments are made on January 1 and July 1. At June 30, 2007 and 2006, approximately $637,000 and $602,000, respectively, was on deposit in the fund and has been included in assets limited as to use in the accompanying combined statements of financial position.

As another condition of the borrowing, two reserve funds have been established. The Debt Service Reserve Fund is to be maintained at an amount equal to the lesser of (i) the greatest amount required in the current or any future calendar year to pay the principal and sinking fund installments of and interest on outstanding Series 1996 Revenue Bonds payable during such calendar year or (ii) approximately 10% of the net proceeds from the sale of the Series 1996 Revenue Bonds. At June 30, 2007 and 2006, approximately $949,000 and $958,000, respectively, was on deposit in the Debt Service Reserve Fund and has been included in assets limited as to use in the accompanying combined statements of financial position. The second required fund, the Building and Equipment Reserve Fund, is available to pay debt service on the Series 1996 Revenue Bonds to the extent funds are on deposit therein. Subject to the foregoing, funds in the Building and Equipment Reserve Fund may be used to pay the costs, other than ordinary maintenance and repair, of renewing, repairing, replacing, renovating and improving the Project. Whenever funds are withdrawn to pay debt service, the Agency is to pay the amount of the deficiency in the fund to the Trustee within five days after receiving notice of such deficiency. Funds withdrawn, other than for debt service, are to be repaid by the Agency in equal semi-annual payments commencing on the first June 10th or December 10th following the date of such withdrawal. The amounts on deposit in the Building and Equipment Reserve Fund as of June 30, 2007 and 2006 were approximately $442,000 and $451,000, respectively, which have been included in assets limited as to use in the accompanying combined statements of financial position. An Equipment Collateral Fund is maintained as well. The balance in this fund was approximately $39,000 and $38,000 as of June 30, 2007 and 2006, respectively, and has been included in assets limited as to use in the accompanying combined statements of financial position.

In April 2002, the Agency became a participant in the Dormitory Authority's New York United Cerebral Palsy Affiliates Pooled Loan Program No. 1 Insured Revenue Bonds, consisting of Series 2002A and Series 2002B ("Pooled Bonds"). The aggregate amount of this issue was $16,520,000, of which $1,430,000 benefits the Agency. Proceeds were used to pay down monies previously borrowed from a revolving line of credit (see Note 4), to fund the cost of issuance of these bonds, and to make a deposit into the Debt Service Reserve Fund. Repayment of the Pooled Bonds is insured under the provisions of the Dormitory Authority's Master Insured Revenue Bond Resolution. At June 30, 2007 and 2006, approximately $128,000 and $129,000, respectively, was on deposit in the Debt Service Reserve Fund and has been included in assets limited as to use in the accompanying combined statements of financial position.

As a condition of this borrowing, the Agency is required to make monthly deposits into a debt service fund. The fund accumulates amounts necessary to make annual principal and semi-annual interest payments. Payments are made on January 1 and July 1. At June 30, 2007 and 2006, approximately $87,000 was on deposit in the debt service fund and has been included in assets limited as to use in the accompanying combined statements of financial position. The debt agreement for the Pooled Bonds contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2007.

The Pooled Bonds are secured by the gross receipts of the Agency in an amount equal in each Bond Year to the greatest amount required in any Bond Year to pay the interest on the Outstanding Bonds payable during such year and the principal and Sinking Fund Installments of Outstanding Bonds payable on July 1 of such Bond Year.

In January 2002, the Joseph Belsky Apartment House mortgage was restructured under the Mark-to-Market Program of the Office of Multifamily Housing Assistance Restructuring. The property is secured by two mortgage loans. The balance of principal and interest is due at the Maturity Date of February 1, 2032 (the "Maturity Date"). The first mortgage is a Restructuring Loan for approximately $996,000. This mortgage requires annual payments of interest in the amount of 1% of the outstanding principal balance. Principal and interest payments are based upon a calculation of cash on hand. The second mortgage, which is subordinate to the first, is a Contingent Repayment Note (the "Note") for approximately $1,764,000. No payments are due on the Note until the Maturity Date. This Note bears interest at the rate of 1% per annum.

In accordance with the terms of the Joseph Belsky Apartment House mortgage, amounts equal to a fixed percentage of the original mortgage balance are restricted each year for replacement of the related building and improvements. Such amounts aggregated approximately $337,000 and $297,000 as of June 30, 2007 and 2006, respectively. These amounts are included in assets limited as to use in the accompanying combined statements of financial position. The mortgage is collateralized by the Joseph Belsky Apartment House building and improvements and is insured by HUD.

During fiscal 1994, the Agency entered into mortgage agreements with OMRDD to purchase apartments to be utilized as community residences and to provide long-term financing for the Lake Street Intermediate Care Facility. The funds were provided to OMRDD by the New York State Medical Care Facilities Finance Agency from the sale of Facilities Improvement Revenue Bonds, 1991 Series D and 1992 Series F. During fiscal 1998, the mortgage loan agreement was amended to increase the principal balance due to OMRDD based upon an advance to the Agency of approximately $113,000 for the Lake Street Intermediate Care Facility. In addition to the apartments purchased and the Lake Street Intermediate Care Facility, these mortgage loans are collateralized by all accounts receivable and proceeds thereof, including any amounts paid or payable by the State of New York to the Agency with respect to the properties. As a condition of these borrowings, the Agency is required to maintain debt service reserve funds aggregating approximately $183,000 as of June 30, 2007 and 2006. These funds have been included in assets limited as to use in the accompanying combined statements of financial position at June 30, 2007 and 2006.

Reduction of the principal as well as payment of interest and financing costs related to the mortgaged properties are achieved through an agreement with OMRDD whereby reimbursement of future program expenditures is reduced based upon OMRDD mortgage repayment schedules. Such schedules do not correspond with the repayment schedules found in the original mortgage agreements. The cumulative principal and interest liability to OMRDD at both June 30, 2007 and 2006 is approximately $49,000 greater than what the principal and interest liability would have been had OMRDD deducted principal and interest payments in accordance with the terms of the repayment schedules found in the original mortgage agreements.

Interest expense on the mortgages payable for the years ended June 30, 2007 and 2006 approximated $916,000 and $957,000, respectively.

Scheduled future principal payments on mortgages payable are approximately as follows:

Year Ending June 30,	
2008	$ 698,000
2009	750,000
2010	774,000
2011	794,000
2012	824,000
Thereafter	13,901,000
	$ 17,741,000

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7. Pension Plan

Defined benefit plan - The Agency sponsors a qualified noncontributory Pension Trust Plan (the "Plan") covering employees 21 years and older who have been employed by the Agency for at least one year. Plan benefits are paid directly from Plan assets. The Agency's policy is to satisfy annual minimum funding requirements as set forth by the Employee Retirement Income Security Act of 1974. The Plan's actuary performed the computations required for financial statement disclosure as of June 30, 2007 and 2006. Employee data as of July 1, 2006 and 2005 was projected forward to the June 30, 2007 and 2006 measurement dates, respectively. The following table presents the Plan's related disclosures under the provisions of Statement of Financial Accounting Standards No. 132, *Employers' Disclosures About Pensions and Other Postretirement Benefits*, as accounted for under Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions*. Additional disclosures are also included as required by Statement of Financial Accounting Standards 132(R), *Employers' Disclosures About Pensions and Other Postretirement Benefits*. The following sets forth the Plan's funded status and amounts recognized in the combined financial statements at:

Effective June 30, 2007, the Plan has been frozen. This has resulted in a curtailment gain of $625,000 which is reflected in the combined statements of activities and changes in the net assets. Effective July 1, 2007, the Agency has established a defined contribution plan.

June 30,	**2007**	2006
Reconciliation of Projected Benefit Obligation:		
Projected benefit obligation at beginning of year	**$ 40,277,000**	$ 38,541,000
Service cost	**2,125,000**	2,191,000
Interest cost	**2,686,000**	2,389,000
Change due to assumption changes (primarily change in discount rate)	**3,702,000**	(3,378,000)
Actuarial loss	**1,087,000**	1,215,000
Expense charges	**(81,000)**	(82,000)
Benefits disbursed	**(771,000)**	(599,000)
Effects of curtailment	**(8,630,000)**	-
Projected Benefit Obligation at end of year	**40,395,000**	40,277,000
Funded Status:		
Fair value of Plan assets, consisting principally of stocks and bonds, at beginning of year	**26,282,000**	24,331,000
Actual return on Plan assets	**4,294,000**	1,395,000
Employer contributions	**2,500,000**	1,237,000
Benefits disbursed from Plan assets (including expense charges)	**(852,000)**	(681,000)
Fair Value of Plan Assets at end of year	**32,224,000**	26,282,000
Projected Benefit Obligation in Excess of Plan Assets	**(8,171,000)**	(13,995,000)
Unrecognized Net Loss	**-**	5,362,000
Accrued Pension Cost in the Accompanying Combined Statements of Financial Position	**$ (8,171,000)**	$ (8,633,000)
Accumulated Benefit Obligation	**$ 40,395,000**	$ 33,076,000

Weighted-average assumptions used to measure benefit obligations are as follows:

June 30,	2007	2006
Discount Rate	5.75%	6.25%
Average Rate of Salary Increase	5.00%	5.00%

Weighted-average assumptions used to measure net periodic pension cost are as follows:

Years Ended June 30,	2007	2006
Discount Rate	6.25%	5.75%
Expected Long-term Rate of Return on Plan Assets	9.00%	9.00%
Average Rate of Salary Increase	5.00%	5.00%

The Agency's investment policy is to invest approximately 70% and 30% of Plan assets in equity and fixed income instruments, respectively. Plan assets consist primarily of mutual funds managed by the Plan's trustee that are invested in equities and debt obligation instruments. The expected long-term rate of return on Plan assets assumption of 9.0% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27-Selection of Economic Assumptions for Measuring Pension Obligations. Based on the Agency's investment policy for the Plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at the best estimate range of 8.19% to 10.06%. A rate of 9.0%, which is near the midpoint of the best estimate range, was selected.

Net periodic pension cost includes the following:

Years Ended June 30,	2007	2006
Service Cost - benefits earned during the year	$ 2,125,000	$ 2,191,000
Interest Cost on Projected Benefit Obligation	2,686,000	2,389,000
Actual Return on Plan Assets	(4,294,000)	(1,395,000)
Net Amortization and Deferral	2,147,000	(257,000)
Net Periodic Pension Cost	$ 2,664,000	$ 2,928,000

The percentages of fair value of total Plan assets by asset category are as follows:

June 30,	2007	2006
Equity	69.6%	70.1%
Fixed Income	30.3	29.8
Guaranteed Investment Contract	0.1	0.1
	100.0%	100.0%

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement 158, *"Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans"*, an amendment of FASB Statements No. 87, 88, 106 and 132(R) which is effective for fiscal years ending after June 15, 2007. The statement requires employers to recognize the over funded or under funded asset or liability in its

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statement of financial position and to recognize changes in that funded status in the year in which the changes occur through the unrestricted net assets of a not-for-profit organization. The statement also requires an employer to measure the funded status of the plan as of the date of its year end. The Agency has adopted this change for the year ended June 30, 2007.

The following is an additional information showing the effect of the transition to FASB 158:

	Before FASB 158	Effect of FASB 158	After FASB 158
Accrued Pension Cost	$ (8,171,000)	$ -	$ (8,171,000)
FASB 158 Transition Adjustment	-	-	-

The following benefits, which reflect expected future service, have been valued using the same assumptions adopted for valuing the projected benefit obligation and are expected to be paid as follows:

Year Ending June 30,	
2008	$ 1,111,000
2009	1,284,000
2010	1,416,000
2011	1,545,000
2012	1,717,000
2013 – 2017	13,550,000

The Agency expects to contribute approximately $2,000,000 to the Plan during the year ending June 30, 2008.

8. Reimbursement of Expenditures

Contracts, grants and fees applicable to program and community services are reported in the year earned at net realizable amounts for services rendered under contracts and reimbursement agreements. Certain contracts and grants provide for reimbursement rates that are subject to potential changes based on periodic reviews by the funding agencies. Such rates are either adjusted prospectively through future reimbursement rates or are adjusted retroactively. Prospective rate adjustments are generally insignificant and are reflected in the revenues of the future periods based on when the adjusted reimbursement rates are determined. Retroactive rate adjustments are recorded as adjustments to revenues in the period that the amounts are determinable and are reasonably measurable.

Some of the Agency's contracts and grants do not provide for rate adjustments although they may be subject to audits. It has been the experience of the Agency that adjustments as a result of audits have been insignificant. Management of the Agency is not aware of any potential material liabilities at June 30, 2007 resulting from any audits.

The Agency operates two education programs: one for school-age children (5 years of age to 21 years of age) and the other for preschoolers (3 years of age to 5 years of age). The Agency receives funding for the programs under contracts with the New York City Department of Education ("DOE"). Tuition rates for these programs are established by the New York State Education Department ("SED"). Payments are made at promulgated rates for these programs and are subject to retroactive changes based on final reconciled rates. The rate setting methodology is based on costs reported annually to SED in the Agency's Consolidated Fiscal Report and results in the calculation of the final reconciled tuition rate for a given year.

The DOE performs reconciliations that include adjustments for finalization of enrollment data and the difference between the paid rate and the final reconciled rate for that year. If the final reconciled rate is not yet available for the year that is being reconciled, the latest final reconciled rate is used for reconciliation purposes and will be further reconciled when that year's final reconciled rate is promulgated.

For the preschool program, there is a liability related to the aforementioned reconciliations of approximately $358,000 and $790,000 as of June 30, 2007 and 2006, respectively, which is included in accrued reimbursement adjustments.

For the school age program, there is a liability related to the aforementioned reconciliations of approximately $1,908,000 and $2,325,000 as of June 30, 2007 and 2006, respectively, which is included in accrued reimbursement adjustment.

Medicaid and other programs in which the Agency participates are based on a set of complex laws and regulations. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, fines, penalties and exclusion from such programs. Management of the Agency is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying combined financial statements and believes the Agency is in compliance with all applicable laws and regulations.

Management has established specific reserves against revenues ($1,600,000 and $3,100,000 at June 30, 2007 and 2006, respectively), for potential denied claims for reimbursement. Denied claims arise principally due to unresolved participant eligibility issues. It is the opinion of management that denied claims, if any, in excess of the reserve for reimbursement adjustments would not have a material adverse effect on the combined financial position of the Agency.

9. Commitments and Contingencies

Operating leases - In July 2000, the Agency entered into a noncancelable lease agreement for ten years and three months for office space in New York City. The lease calls for escalation charges throughout the lease term and includes a three-month rent-free period. In September 2000, the Agency entered into a ten-year lease at a new facility. This ten-year lease calls for escalation charges throughout the lease term. In addition, the Agency has noncancelable operating leases with remaining terms of one year or more. Future minimum payments under these operating leases are approximately as follows:

Year Ending June 30,	
2008	$ 3,959,000
2009	3,540,000
2010	3,395,000
2011	2,354,000
2012	581,000
Thereafter	616,000
	$ 14,445,000

Rent expense on real property was approximately $4,059,000 and $3,908,000 for the years ended June 30, 2007 and 2006, respectively. Rent expense on equipment for the years ended June 30, 2007 and 2006 was approximately $231,000 and $220,000, respectively.

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Litigation - There are various lawsuits and claims pending against the Agency which arose in the ordinary course of business. In the opinion of the Agency's management, these lawsuits are either without merit, or are covered by insurance, and will not result in any material adverse effect on the combined financial position or changes in net assets.

APPENDIX B-VII

WILDWOOD PROGRAMS, INC.

AUDITED FINANCIAL STATEMENTS

FISCAL YEARS 2009, 2008 AND 2007

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Wildwood Programs, Inc.
June 30, 2009

Contents

B&G
BRYANS & GRAMUGLIA
CPAs, LLC

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, 2009, 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.

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 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, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bryans & Gramuglia CPAs, LLC
Albany, New York
November 4, 2009

PINE WEST PLAZA, BUILDING 1
WASHINGTON AVENUE EXTENSION • ALBANY, NEW YORK 12205
518-452-8055 • FAX 518-452-9055

Wildwood Programs, Inc.
Statement of Financial Position
June 30, 2009

ASSETS	
Current Assets	
Cash and cash equivalents	$ 3,405,102
Investments	437,237
Accounts receivable	3,010,051
Due from The Wildwood Foundation	43,936
Prepaid expense	165,453
Total Current Assets	7,061,779
Property, Plant and Equipment	
Land and improvements	2,234,751
Building and improvements	20,676,699
Furniture, fixtures and equipment	2,833,087
Total	25,744,537
Less accumulated depreciation	9,987,998
Net Property, Plant and Equipment	15,756,539
Other Assets	
Debt service reserves and restricted deposits	772,413
Escrow	17,657
Security deposits	60,347
Deferred financing costs, net of accumulated amortization of $398,413	839,021
Interest in net assets of related party	4,853,016
Total Other Assets	6,542,454
TOTAL ASSETS	$ 29,360,772
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	$ 134,425
Lines of credit	602,701
Accrued expenses and payroll withholdings	2,686,160
Deferred revenue	1,013,565
Due to funding sources	456,697
Current installments of long-term debt	1,206,805
Total Current Liabilities	6,100,353
Long-Term Liabilities	
Long-term debt, net of current installments	11,730,795
Fair value of swap agreement	893,898
Retirement health benefit obligation	279,300
Total Long-Term Liabilities	12,903,993
Total Liabilities	19,004,346
Net Assets	
Unrestricted	5,503,410
Temporarily restricted	4,177,481
Permanently restricted	675,535
Total Net Assets	10,356,426
TOTAL LIABILITIES AND NET ASSETS	$ 29,360,772

See accompanying notes to financial statements.

Wildwood Programs, ncJ
Statement of Activities
For the Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program Support and Revenue				
Government agencies	$ 26,327,256	$ -	$ -	$ 26,327,256
Program fees from clients	1,806,289	-	-	1,806,289
Restricted operating grants	631,876	-	-	631,876
Total Program Support and Revenue	28,765,421	-	-	28,765,421
Nonprogram Support and Revenue				
Contributions	1,394,888	-	-	1,394,888
Investment income	5,240	-	-	5,240
Consulting fees and conferences	3,216	-	-	3,216
Other income	75,441	-	-	75,441
Total Nonprogram Support and Revenue	1,478,785	-	-	1,478,785
Total Revenue	30,244,206	-	-	30,244,206
Expenses and Losses				
Wildwood Programs	27,443,914	-	-	27,443,914
Management and general	1,966,701	-	-	1,966,701
Total Expenses and Losses	29,410,615	-	-	29,410,615
Change in Net Assets Before Change in Interest of Net Assets of Related Party	833,591	-	-	833,591
Change in Interest in Net Assets of Related Party	-	(1,018,850)	-	(1,018,850)
Change in Net Assets Before Change in Fair Value of Swap Contract and Before Change in Retirement Health Benefit Obligation	833,591	(1,018,850)	-	(185,259)
Change in Fair Value of Swap Contract	(343,431)	-	-	(343,431)
Change in Retirement Health Benefit Obligation	207,673	-	-	207,673
Change in Net Assets	697,833	(1,018,850)	-	(321,017)
Net Assets, Beginning of Year as Previously Reported	4,805,577	5,657,662	214,204	10,677,443
Prior Period Adjustment	-	(461,331)	461,331	-
Net Assets, Beginning of Year as Restated	4,805,577	5,196,331	675,535	10,677,443
Net Assets, End of Year	$ 5,503,410	$ 4,177,481	$ 675,535	$ 10,356,426

See accompanying notes to financial statements.

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Cash Flows From Operating Activities	
Change in Net Assets	$ (321,017)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	1,280,067
Bad debts	48,923
Realized/unrealized (gain) loss on investments	22,580
Change in fair value of swap contract	343,431
Change in interest in net assets of related party	1,018,850
Change in Retirement Health Benefit Obligation	(207,673)
(Increase)/decrease in assets	
Accounts receivable	173,821
Prepaid expense	49,085
Security deposits	(26,525)
Increase/(decrease) in liabilities	
Accounts payable	(149,819)
Accrued expenses and payroll withholdings	995,558
Deferred revenue	290,503
Due to funding sources	456,697
Net Cash Provided by Operating Activities	3,974,481
Cash Flows From Investing Activities	
Net proceeds (purchases) of investments	25,003
Purchases of property, plant and equipment	(1,150,147)
(Increase) decrease in debt service reserve	(177,351)
Net change in due from/to The Wildwood Foundation	(94,235)
Net Cash Used by Investing Activities	(1,396,730)
Cash Flows From Financing Activities	
Net change in deferred financing costs	(5,246)
Net advances (repayment) on lines of credit	254,621
Repayment of long-term debt	(2,469,807)
Change in escrow	(7,565)
Net Cash Used by Financing Activities	(2,227,997)
Net Increase in Cash and Cash Equivalents	349,754
Cash and Cash Equivalents, Beginning of Year	3,055,348
Cash and Cash Equivalents, End of Year	$ 3,405,102
Supplemental Disclosure of Cash Flow Information	
Cash paid for interest	$ 760,056
Noncash Investing Transactions	
Net realized/unrealized gain (loss) on investments	$ (22,580)

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, New York State Office of Mental Retardation and Developmental Disabilities (OMRDD) and New York State Education Department (SED) reimbursements, contract sales and participant fees. The majority of the revenues and receivables are from Medicaid. The Agency extends credit to school districts and other governmental entities within New York State for services provided.

Revenue Recognition

Revenue from Medicaid, OMRDD 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 restrictions. 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.

Financial Statement Presentation

The net assets of the Agency are reported in the 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 represent donor stipulations to maintain donated amounts in perpetuity.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Wildwood uses the direct write-off method of accounting for bad debts. Bad debt expense was $48,923 for the year ended June 30, 2009.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at acquisition cost or at their estimated fair values at 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 expensed currently. 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 $58,463 for the year ended June 30, 2009. Amortization expense is expected to be approximately $58,000 in each of the next five years.

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 any remaining amounts will be recouped by funding sources.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Income Tax Status

The Agency is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Agency qualifies for charitable contribution deductions and has been classified as an organization other than a private foundation.

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 statement 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 disclosures of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

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, 2009:

	Cost	Fair Value
Equities	$ 107,415	$ 92,642
U.S. Government Obligations	306,617	344,595
Total Investments	$ 414,032	$ 437,237

2. INVESTMENTS

The following schedule summarizes the investment income in the statement of activities for the year ended June 30, 2009:

Interest and dividend income	$ 27,820
Net realized and unrealized gain (loss) on investments	(22,580)
Total Investment Income	$ 5,240

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, consists of the following as of June 30, 2009:

Land	$ 960,600
Land improvements	1,274,151
Building	10,780,718
Building improvements	9,895,981
Furniture, fixtures and equipment	2,833,087
Total	25,744,537
Less: Accumulated depreciation	9,987,998
Net, Property, Plant and Equipment	$ 15,756,539

Depreciation expense was $1,221,604 for the year ended June 30, 2009.

4. DEBT SERVICE RESERVES AND RESTRICTED DEPOSITS

The debt service reserve represents 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 $700,714 at June 30, 2009.

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 $71,699 at June 30, 2009.

5. LINES OF CREDIT

The Agency has the following lines of credit as of June 30, 2009:

$750,000 unsecured line of credit with Key Bank to be drawn upon as needed for real estate, interest at the LIBOR rate, expiring December 31, 2009. The line is guaranteed by The Wildwood Foundation.	$ 346,817

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5. LINES OF CREDIT

$500,000 unsecured line of credit with Citizens Bank, N.A. to be drawn upon as needed for real estate, interest at the LIBOR rate, expiring January 30, 2010. The line is guaranteed by The Wildwood Foundation.	$ 255,884
$500,000 unsecured line of credit with KeyBank to be drawn upon as needed, interest at the LIBOR rate, expiring December 31, 2009. 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, interest at the LIBOR rate, expiring January 30, 2010. The line is guaranteed by The Wildwood Foundation.	-
Total Lines of Credit	$ 602,701

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, 2009 for each of the next five years and in the aggregate are as follows:

Year Ended June 30,	Amount
2010	$ 436,920
2011	486,695
2012	503,224
2013	503,007
2014	493,953
Thereafter	2,564,897

Rental expense included in the statement of activities was $687,844 for the year ended June 30, 2009.

7. LONG-TERM DEBT

The Agency's long-term debt consists of the following as of June 30, 2009:

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. The Agency was in compliance with the covenants as of June 30, 2009.	$ 640,000
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 2005K-2 (federally taxable). The bonds are secured by the mortgaged property located in Colonie, New York; 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 4.8%-5%. Payments are due semi-annually on January 1 and July 1.	3,365,000
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 2012.	626,961
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; 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, 2032. Interest rates in effect during the year ended June 30, 2009 ranged between .85%-8.00%. Payments are due annually on July 1. These rates are fixed with an interest rate swap contract with Key Bank (See Note 8).	7,580,000

7. LONG-TERM DEBT

Community Preservation Corporation Mortgage, fixed interest rate of 6.05%, monthly payments of $5,841 through October 2019, secured by buildings.	$ 725,639
Total	12,937,600
Less current installments	1,206,805
Long-term Debt, Net of Current Installments	$ 11,730,795

Long-term debt is payable in each of the next five years as follows:

Year Ended June 30,	Amount
2010	$ 1,206,805
2011	987,605
2012	1,039,023
2013	960,445
2014	951,422

Interest expense was $760,056 for the year ended June 30, 2009.

The Agency has agreed to a number of covenants including a fixed charge coverage ratio of 1:1. At June 30, 2009 the Agency met this debt covenant requirement.

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 notional amount of the Swap is for $6,950,000 which is 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 total amount of the Swap is for $3,485,000 less than the principal amount of the revenue bonds. Changes in the fair value of the Swap are accounted for as change in fair value of swap contract in the accompanying Statement of Activities.

9. FAIR VALUE MEASUREMENTS

The fair value of financial instruments measured on a recurring basis at June 30, 2009 is as follows:

		Fair Value Measurements at Reporting Date Using:	
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
ASSETS			
Investments (see Note 2)	$ 437,237	$ 437,237	$ -
LIABILITIES			
Fair value of interest rate swap agreement (see Note 8)	$ 893,898	$ -	$ 893,898

SFAS No. 157, 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 consisting of quoted prices in active markets for identical assets and liabilities 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.

Level 1 Fair Value Measurements
The fair value of investments is based on quoted market prices of the investments held by the Agency at June 30, 2009.

Level 2 Fair Value Measurements
The interest rate swap agreement is not actively traded however, other significant observable inputs exist. 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, 2009.

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 4% to 10%, 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 $903,312 for the year ended June 30, 2009.

11. AFFILIATED CORPORATIONS

The Agency is related to The Wildwood Foundation (the Foundation) and the Wildwood Family Corporation (WFC) in that Wildwood Family Corporation is the sole member of the Foundation and the Agency.

The Foundation is a not-for-profit corporation which began operations July 1, 1998 and whose charitable purpose is supporting and assisting WFC and the Agency. The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. As a supporting organization, the Foundation has taken over various fund-raising activities and special events that were previously carried on by the Agency.

WFC is a not-for-profit corporation founded in 1998 to operate exclusively for the charitable purpose of supporting and strengthening the charitable mission of the Agency and the Foundation. WFC is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

During the year ended June 30, 2009, the following transactions occurred between the Agency and the Foundation:

- The Foundation donated $1,382,408 to the Agency. This amount is included in contributions on the Statement 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 $17,748 to the Foundation for the reimbursement of an allocation of business office operations. The fees are included in other income.

The Foundation owed $43,936 to Wildwood Programs, Inc. as of June 30, 2009.

12. CHANGE IN RETIREMENT HEALTH BENEFIT FROM A DEFINED BENEFIT PLAN TO A DEFINED CONTRIBUTION PLAN

The Agency created its first post retirement health plan program in 2001. The program was set up as a defined benefit plan such that the amount of benefits to be paid out to each employee during retirement was based on a combination of the cost of the benefit at the time of retirement and the value of sick time available to the employee at the time of retirement. Subsequent to the establishment of the benefit, changes in accounting standards made it a requirement of the agency to conduct an annual actuarial study to discern the agency's probable long-term liability. The results of the study are used to determine the estimated reserve the agency would carry on its books to ensure that it could meet the future cash outlays of the program.

In addition to the actual benefit, the total cost of providing this benefit is increased by the Agency having to pay for the annual actuarial study.

Given the combination of low employee usage of the benefit, a high administrative cost relative to the actual monetary benefit paid, the huge difference between the annual reserve cost and the amount of paid out in the form of benefits, and the general unpredictability of the long-term liability, the Agency has opted to eliminate the defined benefit plan for its retirement health benefit as of June 30, 2009 and replace it with a defined contribution plan. Administration of the new plan should be much simpler and, therefore, of lower cost and higher quality. At the same time, the funding of the plan will be made in the form of actual contributions as opposed to funds held in reserve, thus making the plan funding predictable for both the Agency and its employees.

The Agency adjusted the financial statements at June 30, 2009 to account for the reduction of the liability as the result of this conversion from the defined benefit plan to the defined contribution plan. The Agency recorded the reduction of liability in the year ended June 30, 2009 as a Change in Retirement Health Benefit Obligation in the amount of $207,673.

13. 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 year ended June 30, 2009. At times, during the year, the Agency had bank deposits in excess of amounts insured by the FDIC.

Approximately 86% of the Agency's financing is with the County of Albany Industrial Development Agency and the Guilderland Industrial Development Agency.

14. CONTINGENCIES

Personal Allowance Accounts

The Agency is the custodian of clients' personal allowance funds. OMRDD 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.

Litigation

The Agency has been named as a defendant in a wrongful dismissal and discrimination claim filed by a former employee. The Agency has filed a complete response to the allegations and will continue to vigorously defend its position in connection with the charges. At this time, the outcome of this claim cannot be predicted. However, if the plaintiffs are successful in their claim, they could be awarded job reinstatement, lost wages, and other damages.

Medicaid and Service Fees

An internal evaluation of certain service documentation under Medicaid and similar state funded programs disclosed a number of instances where New York State documentation standards were not met. As a result, the Agency reported the matter to the New York State Office of Mental Retardation and Developmental Disabilities, consulted legal counsel and estimated the potential loss to be $866,232, which is included in deferred revenue in the June 30, 2009 financial statements. Approximately $266,000 has been recognized in the accompanying financial statements as a reduction to program support and revenue for the year ended June 30, 2009. It is at least reasonably possible that the estimate of the potential loss could change in the near term.

15. PRIOR PERIOD ADJUSTMENT

Net assets as of June 30, 2008 have been reclassified between the unrestricted, temporarily restricted and permanently restricted net asset classifications to properly reflect the restrictions imposed by the donors.

Wildwood Programs, Inc.
Schedule of Functional Expenses
For the Year Ended June 30, 2009

	Wildwood Programs	Management and General	Total
Functional Expenses			
Salaries and wages	$ 15,259,331	$ 1,286,385	$ 16,545,716
Employee benefits	5,176,925	373,616	5,550,541
Total Salaries and Employee Benefits	20,436,256	1,660,001	22,096,257
Supplies	1,448,120	64,023	1,512,143
Transportation	1,386,198	5,241	1,391,439
Occupancy	687,844	-	687,844
Professional fees and contract service payments	243,005	64,904	307,909
Interest	708,293	51,763	760,056
Utilities	432,577	14,532	447,109
Repairs and maintenance	343,822	7,165	350,987
Conferences, convention and meetings	148,904	26,801	175,705
Insurance	177,361	1,410	178,771
Telephone	138,350	(1,115)	137,235
Postage and shipping	14,439	13,179	27,618
Bad debts	48,923	-	48,923
Printing and publications	2,654	5,898	8,552
Depreciation and amortization	1,227,168	52,899	1,280,067
Total Functional Expenses	$ 27,443,914	$ 1,966,701	$ 29,410,615

See accompanying notes to financial statements.

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WILDWOOD PROGRAMS, INC.
FINANCIAL STATEMENTS
JUNE 30, 2008

WILDWOOD PROGRAMS, INC.

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Marvin and Company, P.C.

Independent Auditors' Report

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Board of Directors
Wildwood Programs, Inc.

We have audited the accompanying statements of financial position of Wildwood Programs, Inc. (the Agency) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wildwood Programs, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of supplementary information on page 18 and 19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Marvin and Company, P.C.

An Independent Member of BDO Seidman Alliance

October 24, 2008

WILDWOOD PROGRAMS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS

	2008	Restated 2007
Cash and cash equivalents	$ 3,055,348	$ 1,633,033
Investments	484,820	271,143
Accounts receivable	3,232,795	3,133,677
Due from The Wildwood Foundation	-	15,507
Prepaid expense and other assets	214,538	206,081
Property, plant and equipment, net	15,834,947	13,937,062
Debt service reserves and restricted deposits	595,062	10,806,428
Escrow	10,092	26,097
Security deposits	33,822	531,346
Deferred charges, net	892,238	949,366
Interest in net assets of related party	5,871,866	5,183,275
TOTAL ASSETS	$ 30,225,528	$ 36,693,015

LIABILITIES AND NET ASSETS

	2008	Restated 2007
Liabilities		
Lines of credit	$ 348,080	$ 850,000
Accounts payable	284,244	5,318,383
Accrued expenses and payroll withholdings	1,690,602	2,640,593
Due to Wildwood Foundation	50,299	-
Deferred revenue	723,062	112,375
Bonds and other notes payable	15,407,407	18,101,410
Fair value of swap contract	550,467	-
Postretirement health care benefit obligation	493,924	431,150
Total Liabilities	19,548,085	27,453,911
Net Assets		
Unrestricted	4,805,577	4,055,829
Temporarily restricted	5,657,662	4,973,180
Permanently restricted	214,204	210,095
Total Net Assets	10,677,443	9,239,104
TOTAL LIABILITIES AND NET ASSETS	$ 30,225,528	$ 36,693,015

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program Support and Revenue				
Government agencies	$ 24,997,889	$ -	$ -	$ 24,997,889
Program fees from clients	1,761,214	-	-	1,761,214
Restricted operating grants	520,527	-	-	520,527
Total Program Support and Revenue	27,279,630	-	-	27,279,630
Nonprogram Support and Revenue				
Contributions	1,685,207	-	-	1,685,207
Investment income	150,423	-	-	150,423
Consulting fees and conferences	119,038	-	-	119,038
Other income	32,080	-	-	32,080
Total Nonprogram Support and Revenue	1,986,748	-	-	1,986,748
Total Revenue	29,266,378	-	-	29,266,378
Expenses and Losses				
Wildwood Programs	26,048,910	-	-	26,048,910
Management and general	1,917,253	-	-	1,917,253
Total Expenses and Losses	27,966,163	-	-	27,966,163
Change in Net Assets Before Change in Interest in Net Assets of Related Party	1,300,215	-	-	1,300,215
Change in Interest in Net Assets of Related Party	-	684,482	4,109	688,591
Change in Net Assets Before Swap Contract	1,300,215	684,482	4,109	1,988,806
Change in Fair Value of Swap Contract	(550,467)	-	-	(550,467)
Change in Net Assets	749,748	684,482	4,109	1,438,339
Net Assets at Beginning of Year	4,055,829	4,973,180	210,095	9,239,104
Net Assets at End of Year	$ 4,805,577	$ 5,657,662	$ 214,204	$ 10,677,443

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
STATEMENT OF ACTIVITIES - RESTATED
FOR THE YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program Support and Revenue				
Government agencies	$ 22,592,442	$ -	$ -	$ 22,592,442
Program fees from clients	1,672,512	-	-	1,672,512
Restricted operating grants	602,138	-	-	602,138
Prior Year Revenue Adjustment	(162,894)	-	-	(162,894)
Total Program Support and Revenue	24,704,198	-	-	24,704,198
Nonprogram Support and Revenue				
Contributions	172,511	-	-	172,511
Investment income	129,671	-	-	129,671
Consulting fees and conferences	205,236	-	-	205,236
Other income	37,163	-	-	37,163
Total Nonprogram Support and Revenue	544,581	-	-	544,581
Total Revenue	25,248,779	-	-	25,248,779
Expenses				
Wildwood Programs	23,967,548	-	-	23,967,548
Management and general	1,634,319	-	-	1,634,319
Total Expenses	25,601,867	-	-	25,601,867
Change in Net Assets Before Change in Interest in Net Assets of Related Party	(353,088)	-	-	(353,088)
Change in Interest in Net Assets of Related Party	-	1,379,541	13,819	1,393,360
Change in Net Assets Before Effect of Adoption of FASB No. 158	(353,088)	1,379,541	13,819	1,040,272
Effect of Adoption of FASB No. 158	(43,878)	-	-	(43,878)
Change in Net Assets	(396,966)	1,379,541	13,819	996,394
Net Assets at Beginning of Year	4,452,795	3,593,639	196,276	8,242,710
Net Assets at End of Year	$ 4,055,829	$ 4,973,180	$ 210,095	$ 9,239,104

See accompanying notes to financial statements.

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WILDWOOD PROGRAMS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	$ 1,438,339	$ 996,394
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,161,539	886,371
Bad debts	29,687	4,894
Realized/unrealized (gain) loss on investments	(51,862)	(21,861)
Change in value of swap contract	550,467	-
Loss on disposal of assets	290	-
Effect of adoption of FASB No. 158	-	43,878
Change in interest in net assets of related party	(688,591)	(1,393,360)
(Increase) decrease in assets:		
Accounts receivable	(128,805)	106,452
Prepaid expense and other assets	(8,457)	(18,021)
Security deposits	497,524	(505,136)
Increase (decrease) in liabilities:		
Accounts payable	32,130	(33,149)
Accrued expenses and payroll withholdings	(949,991)	963,785
Deferred revenue	610,687	(113,641)
Postretirement health care benefits obligation	62,774	66,493
Net Cash Provided by Operating Activities	2,555,731	983,099
Cash Flows From Investing Activities		
Net proceeds (purchases) of investments	(161,815)	326
Net proceeds (purchases) of property, plant and equipment	(8,068,855)	(1,292,796)
(Increase) decrease in debt service reserve	10,211,366	(9,397,856)
Net change in due from/to The Wildwood Foundation	65,806	10,039
Net Cash Provided (Used) by Investing Activities	2,046,502	(10,680,287)
Cash Flows From Financing Activities		
Proceeds from lines of credit	1,300,000	1,750,000
Payments on lines of credit	(1,801,920)	(1,078,000)
Proceeds from issuance of bonds and other notes payable	263,366	10,293,702
Principal payments on bonds and other notes payable	(2,957,369)	(660,437)
Change in escrow	16,005	(8,240)
Expenditures/ writeoffs for bond closing costs	-	(324,722)
Net Cash Provided (Used) by Financing Activities	(3,179,918)	9,972,303
Net Increase in Cash and Cash Equivalents	1,422,315	275,115
Cash and Cash Equivalents at Beginning of Year	1,633,033	1,357,918
Cash and Cash Equivalents at End of Year	$ 3,055,348	$ 1,633,033
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 805,085	$ 580,047

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

1. NATURE OF ACTIVITIES

Wildwood Programs, Inc. (the Agency) is a 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, New York State Office of Mental Retardation and Developmental Disabilities (OMRDD) and the New York State Education Department (SED) reimbursements, contract sales and participant fees. The majority of the revenues and receivables are from Medicaid. The Agency extends credit to school districts and other governmental entities within New York State for services provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue from Medicaid, OMRDD and SED is recognized when services are rendered at approved rates. These rates are primarily cost based and determined by allowable expenditures in rate-setting periods. Costs are subject to audit by third party payors and changes, if any, are recognized in the year 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 restrictions. When a 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.

Financial Statement Presentation

The net assets of the Agency are reported in the three classes of net assets as follows:

Unrestricted Net Assets - Includes amounts that have no external restrictions on their use or purpose. The Board of Directors can authorize use of these funds as it desires to carry on the purpose of the Agency according to its by-laws.

Temporarily Restricted Net Assets - Includes the portion of the interest in net assets of 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 - Includes the portion of the interest in net assets of related party that are permanently restricted on the related party's financial statements and represent donor stipulations to maintain donated amounts in perpetuity.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Agency uses the direct write-off method of accounting for bad debts. Bad debt expense was $29,687 and $4,894 for the years ended June 30, 2008 and 2007, respectively.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or at their estimated fair values at date of donation less accumulated depreciation. Depreciation is provided using the straight-line method over the following estimated useful lives:

	Years
Land improvements	2-25
Buildings and Improvements	5-25
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 expensed currently.

Deferred Charges

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 $56,838 and $44,648 for the years ended June 30, 2008 and 2007, respectively. Amortization expense is expected to be approximately $57,000 in each of the next five years.

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 any remaining amounts will be recouped by funding sources.

Fair Value of Financial Instruments

Financial instruments include cash, debt and an interest rate swap agreement. The carrying amount of cash approximates fair value and the carrying amount of debt approximates fair value based on current rates at which the Agency's could borrow funds with similar remaining maturities. 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, 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Tax Status

The Agency is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Agency qualifies for charitable contribution deductions and has been classified as an organization other than a private foundation.

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.

Estimates

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

3. 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:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Equities	$ 110,362	$ 113,529	$ 5,686	$ 23,290
U.S. Government obligations	206,088	337,119	143,179	246,025
Money Markets	34,172	34,172	1,828	1,828
Total Investments	$ 350,622	$ 484,820	$ 150,693	$ 271,143

The following schedule summarizes the investment income in the statement of activities for the year ended June 30:

	2008	2007
Interest and dividend income	$ 98,561	$ 107,810
Net realized and unrealized gain on investments	51,862	21,861
Total Return on Investments	$ 150,423	$ 129,671

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, consists of the following:

	2008	2007
Land	$ 932,700	$ 925,600
Land improvements	855,093	814,017
Building	10,372,722	10,245,861
Building improvements	9,462,095	1,901,799
Equipment	2,754,070	2,665,034
Construction in progress	-	5,066,269
Total	24,376,680	21,618,580
Less: Accumulated depreciation	8,541,733	7,681,518
Net, Property, Plant and Equipment	$ 15,834,947	$ 13,937,062

Depreciation expense was $1,104,701 and $841,723 for the years ended June 30, 2008 and 2007, respectively.

5. DEBT SERVICE RESERVES AND RESTRICTED DEPOSITS

The debt service reserve represents deposits held by the Trustees of the Dormitory Authority (DA) and Albany County Industrial Developmental 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 obligation under the mortgages. Total debt service reserves were $523,581 and $527,511 at June 30, 2008 and 2007, respectively.

Restricted deposits represent amounts held in banks or held by the Trustees of the Town of Guilderland Industrial Development Agency (GIDA). These amounts are to be used to pay for certain capital projects and the payment of certain outstanding long-term debt (see also Note 8.) Restricted deposits were $71,481 and $10,278,917 at June 30, 2008 and 2007, respectively.

6. LINES OF CREDIT

The Agency has the following lines of credit:

	2008	2007
$750,000 unsecured line of credit with KeyBank to be drawn upon as needed for real estate at a rate of 5.50% expiring December 31, 2008. The line is guaranteed by The Wildwood Foundation.	$ 348,080	$ 350,000
$500,000 unsecured line of credit with Citizens Bank, N.A. to be drawn upon as needed for real estate at a rate of prime expiring January 30, 2009. The line is guaranteed by The Wildwood Foundation.	-	500,000
$500,000 unsecured line of credit with KeyBank to be drawn upon as needed at a rate of 7.75% expiring December 31, 2008. 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 at a rate of prime expiring January 30, 2009. The line is guaranteed by The Wildwood Foundation.	-	-
Total Lines of Credit	$ 348,080	$ 850,000

7. LEASES

The Agency leases office space under operating leases expiring in 2017.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2008 for each of the next five years and in the aggregate are:

Year Ended June 30	Amount
2009	$ 211,020
2010	203,536
2011	161,491
2012	172,994
2013	176,698
Thereafter	734,088

Rental expense included in the statement of activities was $569,243 and $603,494 for the years ended June 30, 2008 and 2007, respectively.

8. **BONDS AND OTHER NOTES PAYABLE**

	2008	2007
1996 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York. Bonds are net of unamortized discount of $14,993 at June 30, 2007. Bonds were payable in various increments through July 1, 2015. Interest payments were due July 1 and January 1 each year at rates from 5% to 5.875%, depending on the maturity date of the particular bond. The bonds were secured by the pledge and assignment of revenue; the reserve funds established under the bond; a security interest in certain fixtures, furnishings and equipment; and a mortgage on property located in Guilderland, New York. The bond was also insured by a municipal bond insurance policy.*	$ -	$ 2,455,000
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. The Agency was in compliance with the covenants as of June 30, 2008.	719,999	799,999
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 2005K-2 (federally taxable). The bonds are secured by the mortgaged property located in Colonie, New York; 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 4.8% - 5%. Payments are due semi-annually on January and July 1.	3,490,000	3,605,000

8. **BONDS AND OTHER NOTES PAYABLE**

	2008	2007
Vehicle and equipment loans payable to various financial institutions at interest rates ranging from 0.9% to 7.375%, secured by 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 2012.	$ 634,623	$ 599,775
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, consists of four issues. The bonds are secured by the land and building located in Guilderland, New York; 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, 2032. Interest rates range between 3.78%-4.135%. Payments are due annually on July 1.*	9,780,000	9,780,000
Community Preservation Corporation Mortgage, fixed interest rate of 6.05%, monthly payments of $5,841 through October 2019, secured by buildings.	763,535	799,186
Facilities Improvement Revenue Bond, secured by land and building located in Guilderland, New York. Further secured by all personal property and accounts receivable and the proceeds thereof, with respect to the property. Payable in semi-annual installments of $19,067, which include interest at 5.15% and an administrative fee of approximately $575, and are due every February 15 and August 15, through August 15, 2009.	19,250	62,450
Total Bonds and Other Notes Payable	$ 15,407,407	$ 18,101,410

Maturities of bonds and other notes payable are as follows:

Year Ended June 30	Amount
2009	$ 1,142,901
2010	1,037,310
2011	1,091,172
2012	1,002,689
2013	1,001,147

Interest expense was $805,120 and $580,047 for the years ended June 30, 2008 and 2007, respectively.

8. BONDS AND OTHER NOTES PAYABLE

*On June 29, 2007 the Agency closed on the financing of the 2007 Series A Civic Facility Revenue Bonds issued by the Town of Guilderland Industrial Development Agency principally to finance ongoing construction, with the first payment due on July 1, 2008. Included in this closing were monies to repay the outstanding balance of the 1996 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York. At June 30, 2007, the monies received to repay the 1996 Insured Revenue Bonds remained in the debt service reserve and restricted deposits (See Note 5). The 1996 Insured Revenue Bonds were paid in full during the 2008 fiscal year.

The Agency has also agreed to a number of covenants including a fixed charge coverage ratio of 1:1. At June 30, 2008 the Agency met the debt covenant requirements.

9. INTEREST RATE SWAP AGREEMENT

Wildwood Programs, Inc. entered into an interest rate swap agreement (the Swap) in order to reduce the impact of changes in interest rates on its on the 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. Wildwood has assumed no ineffectiveness in the Swap as, among other things, the notional amount of the Swap is for $6,295,000 which is 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 total amount of the Swap is for $3,485,000 less than the principal amount of the revenue bonds. Changes in the fair value of the Swap are accounted for as change in fair value of swap contract in the accompanying Statement of Activities.

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 qualify for employer contributions during that year.

The Agency's contributions to the plan range from 4% to 10%, 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 $750,676 and $714,732 for the years ended June 30, 2008 and 2007, respectively.

11. AFFILIATED CORPORATIONS

The Agency is related to The Wildwood Foundation (the Foundation) and Wildwood Family Corporation (WFC) in that Wildwood Family Corporation is the sole member of the Foundation and the Agency.

11. AFFILIATED CORPORATIONS

The Foundation is a not-for-profit corporation which began operations July 1, 1998 and whose charitable purpose is supporting and assisting WFC and the Agency. The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. As a supporting organization, the Foundation has taken over various fund-raising activities and special events that were previously carried on by the Agency.

WFC is a not-for-profit corporation founded in 1998 to operate exclusively for the charitable purpose of supporting and strengthening the charitable mission of the Agency and the Foundation. WFC is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

During the years ended June 30, 2008 and 2007, the following transactions occurred between the Agency and the Foundation:

The Foundation donated $1,214,849 and $171,241, respectively to the Agency. This amount is included in contributions on the Statement of Activities.

The Agency charged administrative fees of $15,939 and $13,601, respectively to the Foundation. The fees are included in consulting fees and conferences.

The Foundation was owed $50,299 and the Agency was owed $15,507 as of June 30, 2008 and 2007, respectively.

12. POSTRETIREMENT HEALTH CARE BENEFITS

The Agency sponsors a defined benefit retirement health care benefit plan covering substantially all employees. The Plan's effective date was January 1, 2002. The Plan's measurement date is July 1. Results of the valuation are projected forward to the end of he year for the financial statement disclosure as of June 30, 2008. The Agency's funding policy is to contribute annually based upon medical premiums due under the Plan. The contribution to the Plan and the benefits paid, were $4,034 and $1,367 for the years ended June 30, 2008 and 2007, respectively.

The following sets forth the amount measured and shown in accordance with Statement of Financial Accounting Standards Number 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* at June 30:

	2008	2007
Accumulated postretirement benefit obligation (APBO):		
Accumulated postretirement benefit obligation	$ 493,924	$ 431,150
Fair value of plan assets	-	-
Unfunded Status	$ 493,924	$ 431,150

12. POSTRETIREMENT HEALTH CARE BENEFITS

	2008	2007
Amounts recognized in the statement of financial position consist of:		
Postretirement Health Liability	$ 493,924	$ 431,150
Weighted average assumptions as of June 30		
Discount rate *	5.75%	5.75%
Rate of compensation increase	3.00%	3.00%
Net Periodic Benefit Cost (see components below)	$ 70,842	$ 34,978
Employer Contributions and Benefits Paid	$ 8,068	$ 1,367

*The weighted-average discount rate used in determining the accumulated postretirement benefit obligation when the last actuarial valuation was done for the 2002 fiscal year was 7.5% for the years ended June 30, 2007.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in the health care trend rates would have the following effect:

	One Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 535	$ 437
Effect on postretirement benefit obligation	1,394	1,005

The Agency's postretirement health care benefit plan obligation is unfunded. The Agency expects to pay benefits, and therefore make contributions in each of the next five years as follows:

2009	$ 110,600
2010	130,100
2011	167,400
2012	152,600
2013	135,100

The postretirement health care benefits cost includes the following components for the year ended June 30:

	2008	2007
Service cost	$ 46,283	$ 16,298
Interest on APBO less interest on expected benefit payments	24,559	18,680
Accrued Health Care Benefit Cost	$ 70,842	$ 34,978

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

12. POSTRETIREMENT HEALTH CARE BENEFITS

For measurement purposes, the actuarial calculation performed for the period ending June 30, 2008 assumed an 8% annual rate of increase in per capita cost of covered health care benefits, the calculation for the period ending June 30, 2007 assumed an 8.5% annual rate of increase in per capita cost of covered health care benefits. The rate was assumed to decrease gradually to 5.5% over a six-year period based on the June 30, 2008 actuarial calculation and was assumed to decrease gradually to 5.0% to 2011per the June 30, 2008 actuarial calculation and remain at that level thereafter. The health care benefits cost trend rate assumption has a significant effect on the amounts reported. Because the assumptions used can differ substantially from actual results, it is at least reasonably possible that these significant estimates will change within the next year.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. To date, detailed regulations necessary to implement the Act have not been issued. In addition, current accounting standards do not provide sufficient guidance on how to account for the federal subsidy contained within this Act. In response, the FASB issued FASB Staff Position 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP 106-1). FSP 106-1 permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act until such time authoritative guidance is issued by the FASB on how to account for the federal subsidy. The Agency has not evaluated the impact of this Act on its expense and has elected to defer the accounting for the effects of the Act as permitted by FSP 106-1. Therefore, the accumulated postretirement benefit obligation and net periodic postretirement benefit cost presented in the financial statements do not include the effects of the Act on the plan. Authoritative guidance on accounting for the Act's federal subsidy is pending and that guidance, when issued, could require changes to previously reported information.

13. CONCENTRATIONS

The Agency maintains cash balances at various financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At June 30, 2008, the Agency's uninsured cash balances were approximately $3,099,000.

Approximately 86% of Agency's financing is with County of Albany Industrial Development Agency and the Guilderland Industrial Development Agency.

14. CONTINGENCIES

Personal Allowance Accounts

The Agency is the custodian of clients' personal allowance funds. OMRDD 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 Agency's financial statements

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WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

14. CONTINGENCIES

Medicaid and Service Fees

An internal evaluation of certain service documentation under Medicaid and similar state funded programs disclosed a number of instances where New York State documentation standards were not met. As a result, the Agency reported the matter to the New York State Office of Mental Retardation and Developmental Disabilities, consulted legal counsel and estimated the potential loss to be $600,000, which is included in deferred revenue in the June 30, 2008 financial statements. $300,000 has been recognized in the accompanying financial statements as a reduction to program support and revenue for each of the years ended June 30, 2008 and 2007. It is at least reasonably possible that the estimate of the potential loss could change in the near term.

15. 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 statement of financial position.

16. RESTATED FINANCIAL STATEMENTS

The 2007 financial statements did not reflect the postretirement health care benefit in accordance with FASB No. 158. During 2008 the Agency had an actuarial valuation of their postretirement health care benefit performed. As a result, the 2007 financial statements have been restated to reflect additional liabilities of $43,878. The 2007 statement of activities reflects a corresponding effect of adoption of FASB No. 158.

WILDWOOD PROGRAMS, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	Wildwood Programs	Management and General	Total
Salaries	$ 14,610,327	$ 1,252,196	$ 15,862,523
Employee benefits	4,677,787	339,151	5,016,938
Total Salaries and Employee Benefits	19,288,114	1,591,347	20,879,461
Supplies	1,466,878	65,105	1,531,983
Transportation	1,326,960	3,705	1,330,665
Occupancy	569,243	-	569,243
Professional fees and contract service payments	212,609	78,674	291,283
Interest	759,845	45,240	805,085
Utilities	445,307	17,246	462,553
Repairs and maintenance	357,432	11,725	369,157
Conferences, convention and meetings	119,924	37,394	157,318
Insurance	197,180	1,264	198,444
Telephone	133,984	(710)	133,274
Postage and shipping	14,473	10,934	25,407
Rental of equipment	4,271	739	5,010
Bad debts	29,687	-	29,687
Printing and publications	2,804	12,960	15,764
Depreciation and amortization	1,119,909	41,630	1,161,539
Loss on disposal	290	-	290
Total Expenses	$ 26,048,910	$ 1,917,253	$ 27,966,163

WILDWOOD PROGRAMS, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	Wildwood Programs	Management and General	Total
Salaries	$ 13,688,241	$ 1,131,144	$ 14,819,385
Employee benefits	4,280,243	299,202	4,579,445
Total Salaries and Employee Benefits	17,968,484	1,430,346	19,398,830
Supplies	1,426,082	50,497	1,476,579
Transportation	1,074,977	3,229	1,078,206
Occupancy	603,494	-	603,494
Professional fees and contract service payments	270,593	52,159	322,752
Interest	563,138	16,909	580,047
Utilities	376,988	12,881	389,869
Repairs and maintenance	344,816	9,256	354,072
Conferences, convention and meetings	169,857	24,320	194,177
Insurance	155,173	363	155,536
Telephone	114,806	3,954	118,760
Postage and shipping	14,981	9,897	24,878
Rental of equipment	5,702	866	6,568
Bad debts	4,894	-	4,894
Printing and publications	766	6,068	6,834
Depreciation and amortization	872,797	13,574	886,371
Total Expenses	$ 23,967,548	$ 1,634,319	$ 25,601,867

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WILDWOOD PROGRAMS, INC.
FINANCIAL STATEMENTS
JUNE 30, 2007

WILDWOOD PROGRAMS, INC.

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

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BDO SEIDMAN ALLIANCE

Board of Directors
Wildwood Programs, Inc.

We have audited the accompanying statements of financial position of Wildwood Programs, Inc. (the Agency) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

As disclosed in Note 11, the accompanying June 30, 2007 financial statements include an estimate for a postretirement health care benefit obligation, which has not been reported, including required note disclosures, in accordance with Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The effects of this departure from U.S. generally accepted accounting principles cannot be determined at this time.

In our opinion, except for the effects on the 2007 financial statements of the departure from generally accepted accounting principles discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Wildwood Programs, Inc. as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of supplementary information on page 15 and 16 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Marvin and Company, P.C.
November 9, 2007

WILDWOOD PROGRAMS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

ASSETS

	2007	2006
Cash and cash equivalents	$ 1,633,033	$ 1,357,918
Investments	271,143	249,608
Accounts receivable	3,133,677	3,245,023
Due from The Wildwood Foundation	15,507	25,546
Prepaid expense and other assets	206,081	188,060
Property, plant and equipment, net	13,937,062	8,419,720
Debt service reserves and restricted deposits	10,806,428	1,408,572
Escrow	26,097	17,857
Security deposits	531,346	26,210
Deferred charges, net	949,366	669,292
Interest in net assets of related party	5,183,275	3,789,915
TOTAL ASSETS	$ 36,693,015	$ 19,397,721

LIABILITIES AND NET ASSETS

	2007	2006
Liabilities		
Lines of credit	$ 850,000	$ 178,000
Accounts payable	5,318,383	285,263
Accrued expenses and payroll withholdings	2,640,593	1,676,808
Deferred revenue	112,375	226,016
Bonds and other notes payable	18,101,410	8,468,145
Postretirement health care benefit obligation	387,272	320,779
Total Liabilities	27,410,033	11,155,011
Net Assets		
Unrestricted	4,099,707	4,452,795
Temporarily restricted	4,973,180	3,593,639
Permanently restricted	210,095	196,276
Total Net Assets	9,282,982	8,242,710
TOTAL LIABILITIES AND NET ASSETS	$ 36,693,015	$ 19,397,721

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program Support and Revenue				
Government agencies	$ 22,592,442	$ -	$ -	$ 22,592,442
Program fees from clients	1,672,512	-	-	1,672,512
Restricted operating grants	602,138	-	-	602,138
Prior year revenue adjustments	(162,894)	-	-	(162,894)
Total Program Support and Revenue	24,704,198	-	-	24,704,198
Nonprogram Support and Revenue				
Contributions	172,511	-	-	172,511
Investment income	129,671	-	-	129,671
Consulting fees and conferences	205,236	-	-	205,236
Other income	37,163	-	-	37,163
Total Nonprogram Support and Revenue	544,581	-	-	544,581
Total Revenue	25,248,779	-	-	25,248,779
Expenses and Losses				
Wildwood Programs	23,967,548	-	-	23,967,548
Management and general	1,634,319	-	-	1,634,319
Total Expenses and Losses	25,601,867	-	-	25,601,867
Change in Net Assets Before Change in Interest in Net Assets of Related Party	(353,088)	-	-	(353,088)
Change in Interest in Net Assets of Related Party	-	1,379,541	13,819	1,393,360
Change in Net Assets	(353,088)	1,379,541	13,819	1,040,272
Net Assets at Beginning of Year	4,452,795	3,593,639	196,276	8,242,710
Net Assets at End of Year	$ 4,099,707	$ 4,973,180	$ 210,095	$ 9,282,982

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program Support and Revenue				
Government agencies	$ 20,565,515	$ -	$ -	$ 20,565,515
Program fees from clients	1,482,460	-	-	1,482,460
Restricted operating grants	545,803	-	-	545,803
Total Program Support and Revenue	22,593,778	-	-	22,593,778
Nonprogram Support and Revenue				
Contributions	357,652	-	-	357,652
Investment income	49,382	-	-	49,382
Consulting fees and conferences	113,036	-	-	113,036
Other income	36,993	-	-	36,993
Total Nonprogram Support and Revenue	557,063	-	-	557,063
Total Revenue	23,150,841	-	-	23,150,841
Expenses				
Wildwood Programs	21,310,292	-	-	21,310,292
Management and general	1,503,118	-	-	1,503,118
Impairment loss	35,305	-	-	35,305
Loss on disposal of assets	33,162	-	-	33,162
Total Expenses	22,881,877	-	-	22,881,877
Change in Net Assets Before Change in Interest in Net Assets of Related Party	268,964	-	-	268,964
Change in Interest in Net Assets of Related Party	-	566,184	2,855	569,039
Change in Net Assets	268,964	566,184	2,855	838,003
Net Assets at Beginning of Year	4,183,831	3,027,455	193,421	7,404,707
Net Assets at End of Year	$ 4,452,795	$ 3,593,639	$ 196,276	$ 8,242,710

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Cash Flows From Operating Activities		
Change in net assets	$ 1,040,272	$ 838,003
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	886,371	685,134
Bad debts	4,894	12,498
Realized/unrealized (gain) loss on investments	(21,861)	8,231
Impairment loss	-	35,305
Loss on disposal of assets	-	33,162
Change in interest in net assets of related party	(1,393,360)	(569,039)
(Increase) decrease in assets:		
Accounts receivable	106,452	173,403
Prepaid expense and other assets	(18,021)	(21,552)
Security deposits	(505,136)	(279)
Inventory	-	295
Increase (decrease) in liabilities:		
Accounts payable	(33,149)	100,182
Accrued expenses and payroll withholdings	963,785	(371,825)
Deferred revenue	(113,641)	169,103
Postretirement health care benefits obligation	66,493	73,136
Net Cash Provided by Operating Activities	983,099	1,165,757
Cash Flows From Investing Activities		
Net proceeds (purchases) of investments	326	40,111
Net proceeds (purchases) of property, plant and equipment	(1,292,796)	(3,703,913)
Increase in debt service reserve	(9,397,856)	(112,188)
Change in due from The Wildwood Foundation	10,039	(5,092)
Net Cash Used by Investing Activities	(10,680,287)	(3,781,082)
Cash Flows From Financing Activities		
Proceeds from lines of credit	1,750,000	1,378,000
Payments on lines of credit	(1,078,000)	(1,900,000)
Proceeds from issuance of bonds and other notes payable	10,293,702	3,997,597
Principal payments on bonds and other notes payable	(660,437)	(513,579)
Change in escrow	(8,240)	(1,909)
Expenditures for bond closing costs	(324,722)	(465,318)
Net Cash Provided by Financing Activities	9,972,303	2,494,791
Net Increase (Decrease) in Cash and Cash Equivalents	275,115	(120,534)
Cash and Cash Equivalents at Beginning of Year	1,357,918	1,478,452
Cash and Cash Equivalents at End of Year	$ 1,633,033	$ 1,357,918
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 580,047	$ 322,204
Noncash Investing Activities		
Impairment loss	$ -	$ 35,305

See accompanying notes to financial statements.

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

1. NATURE OF ACTIVITIES

Wildwood Programs, Inc. (the Agency) is a 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, New York State Office of Mental Retardation and Developmental Disabilities (OMRDD) and the New York State Education Department (SED) reimbursements, contract sales and participant fees. The majority of the revenues and receivables are from Medicaid. The Agency extends credit to school districts and other governmental entities within New York State for services provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue from Medicaid, OMRDD and SED is recognized when services are rendered at approved rates. These rates are primarily cost based and determined by allowable expenditures in rate-setting periods. Costs are subject to audit by third party payors and changes, if any, are recognized in the year 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 restrictions. When a 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.

Financial Statement Presentation

The net assets of the Agency are reported in the three classes of net assets as follows:

Unrestricted Net Assets - Includes amounts that have no external restrictions on their use or purpose. The Board of Directors can authorize use of these funds as it desires to carry on the purpose of the Agency according to its by-laws.

Temporarily Restricted Net Assets - Includes the portion of the interest in net assets of 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 - Includes the portion of the interest in net assets of related party that are permanently restricted on the related party's financial statements and represent donor stipulations to maintain donated amounts in perpetuity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Agency uses the direct write-off method of accounting for bad debts. Bad debt expense was $4,894 and $12,498 for the years ended June 30, 2007 and 2006, respectively.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or at their estimated fair values at date of donation less accumulated depreciation. Depreciation is provided using the straight-line method over the following estimated useful lives:

	Years
Land improvements	2-25
Buildings and Improvements	5-25
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 expensed currently.

Deferred Charges

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 $44,648 and $21,141 for the years ended June 30, 2007 and 2006, respectively. Amortization expense is expected to be approximately $45,000 in each of the next five years.

Deferred Revenue

Deferred revenue represents funds received at year-end for services to be provided after that date.

Income Tax Status

The Agency is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Agency qualifies for charitable contribution deductions and has been classified as an organization other than a private foundation.

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WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Estimates

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

3. 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:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Equities	$ 5,686	$ 23,290	$ 5,686	$ 16,172
U.S. Government obligations	143,179	246,025	143,179	231,684
Money Markets	1,828	1,828	1,752	1,752
Total Investments	$ 150,693	$ 271,143	$ 150,617	$ 249,608

The following schedule summarizes the investment income in the statement of activities for the year ended June 30:

	2007	2006
Interest and dividend income	$ 107,810	$ 57,613
Net realized and unrealized gain (loss) on investments	21,861	(8,231)
Total Return on Investments	$ 129,671	$ 49,382

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, consists of the following:

	2007	2006
Land	$ 925,600	$ 890,600
Land improvements	814,017	805,247
Building	10,245,861	9,932,940
Building improvements	1,901,799	1,501,461
Equipment	2,665,034	2,253,096
Construction in progress	5,066,269	-
Total	21,618,580	15,383,344
Less: Accumulated depreciation	7,681,518	6,963,624
Net, Property, Plant and Equipment	$ 13,937,062	$ 8,419,720

Depreciation expense was $841,723 and $663,993 for the years ended June 30, 2007 and 2006, respectively.

5. DEBT SERVICE RESERVES AND RESTRICTED DEPOSITS

The debt service reserve represents deposits held by the Trustees of the Medical Care Facilities Financing Agency (MCFFA), Dormitory Authority (DA) and Albany County Industrial Developmental Agency (AIDA). These deposits will be used to satisfy the last payments required on mortgages held by the Facilities Development Corporation, 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 obligation under the mortgages. Total debt service reserves were $527,511 and $1,408,572 at June 30, 2007 and 2006, respectively.

Restricted deposits represent amounts held in banks or held by the Trustees of the Town of Guilderland Industrial Development Agency (GIDA). These amounts are to be used to pay for certain capital projects and the payment of certain outstanding long-term debt (see also Note 8.) Restricted deposits were $10,278,917 and $-0- at June 30, 2007 and 2006, respectively.

WILDWOOD PROGRAMS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

6. LINES OF CREDIT

The Agency has the following lines of credit:

	2007	2006
$500,000 unsecured line of credit with KeyBank to be drawn upon as needed for real estate at a rate of 8.75% expiring December 31, 2007. The line is guaranteed by The Wildwood Foundation.	$ 350,000	$ 178,000
$500,000 unsecured line of credit with Citizens Bank, N.A. to be drawn upon as needed for real estate at a rate of prime expiring January 30, 2008. The line is guaranteed by The Wildwood Foundation.	500,000	-
$500,000 unsecured line of credit with KeyBank to be drawn upon as needed at a rate of 8.75% expiring December 31, 2007. 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 at a rate of prime expiring January 30, 2008. The line is guaranteed by The Wildwood Foundation.	-	-
Total Lines of Credit	$ 850,000	$ 178,000

7. LEASES

The Agency leases office space under operating leases expiring in 2016.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2007 for each of the next five years and in the aggregate are:

Year Ended June 30	Amount
2008	$ 198,588
2009	211,020
2010	203,536
2011	161,490
2012	172,994
Thereafter	910,787

Rental expense included in the statement of activities was $603,369 and $702,148 for the years ended June 30, 2007 and 2006, respectively.

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8. BONDS AND OTHER NOTES PAYABLE

	2007	2006
1996 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York. Bonds are net of unamortized discount of $14,993 at June 30, 2007. Bonds are payable in various increments through July 1, 2015. Interest payments are due July 1 and January 1 each year at rates from 5% to 5.875%, depending on the maturity date of the particular bond. The bonds are secured by the pledge and assignment of revenue; the reserve funds established under the bond; a security interest in certain fixtures, furnishings and equipment; and a mortgage on property located in Guilderland, New York. The bond is also insured by a municipal bond insurance policy. The bonds maturing on or before July 1, 2006 are not subject to optional redemption prior to maturity. The bonds maturing after July 1, 2006 are subject to redemption prior to maturity on or after July 1, 2006 at redemption prices ranging from 100% to 102% of the principal amount to be redeemed. *	$ 2,455,000	$ 2,655,000
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. The Agency was in compliance with the covenants as of June 30, 2007.	799,999	875,000
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 2005K-2 (federally taxable). The bonds are secured by the mortgaged property located in Colonie, New York; 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 4.8% - 5%. Payments are due semi-annually on January and July 1.	3,605,000	3,704,999

8. BONDS AND OTHER NOTES PAYABLE

	2007	2006
Vehicle and equipment loans payable to various financial institutions at interest rates ranging from 0.9% to 6.44%, secured by 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 2010.	$ 599,775	$ 464,949
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, consists of four issues. The bonds are secured by the land and building located in Guilderland, New York; 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, 2032. Interest rates range between 3.78%-4.135%. Payments are due annually on July 1.*	9,780,000	-
Community Preservation Corporation Mortgage, fixed interest rate of 6.05%, monthly payments of $5,841 through October 2019, secured by buildings.	799,186	663,347
Facilities Improvement Revenue Bond, secured by land and building located in Guilderland, New York. Further secured by all personal property and accounts receivable and the proceeds thereof, with respect to the property. Payable in semi-annual installments of $19,067, which include interest at 5.15% and an administrative fee of approximately $575, and are due every February 15 and August 15, through August 15, 2009. The mortgagee, Facilities Development Corporation financed this property through the issuance of a Facilities Improvement Revenue Bond.	$ 62,450	$ 104,850
Total Bonds and Other Notes Payable	$ 18,101,410	$ 8,468,145

Maturities of bonds and other notes payable are as follows:

Year Ended June 30	Amount
2008	$ 3,575,666
2009	1,049,832
2010	936,201
2011	1,040,231
2012	963,220

Interest expense was $580,047 and $322,204 for the years ended June 30, 2007 and 2006, respectively.

8. BONDS AND OTHER NOTES PAYABLE

***On June 29, 2007 the Agency closed on the financing of the 2007 Series A Civic Facility Revenue Bonds issued by the Town of Guilderland Industrial Development Agency principally to finance ongoing construction. Included in this closing were monies to repay the outstanding balance of the 1996 Insured Revenue Bonds, issued through the Dormitory Authority of the State of New York. At the time of issuance of these financial statements, the monies received to repay the 1996 Insured Revenue Bonds remains in the debt service reserve and restricted deposits (See Note 5). The repayment of the 1996 Insured Revenue Bonds is expected to occur during the 2008 fiscal year.

9. 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 qualify for employer contributions during that year.

The Agency's contributions to the plan range from 4% to 10%, 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 $714,732 and $679,507 for the years ended June 30, 2007 and 2006, respectively.

10. AFFILIATED CORPORATIONS

The Agency is related to The Wildwood Foundation (the Foundation) and Wildwood Family Corporation (WFC) in that Wildwood Family Corporation is the sole member of the Foundation and the Agency.

The Foundation is a not-for-profit corporation which began operations July 1, 1998 and whose charitable purpose is supporting and assisting WFC and the Agency. The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. As a supporting organization, the Foundation has taken over various fund-raising activities and special events that were previously carried on by the Agency.

WFC is a not-for-profit corporation founded in 1998 to operate exclusively for the charitable purpose of supporting and strengthening the charitable mission of the Agency and the Foundation. WFC is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. WFC is the sole member of both the Agency and the Foundation. As such it has significant control over both Boards of Directors. Currently WFC is operating as a policy-setting entity and has no assets, liabilities, support and revenue or expenses.

During the years ended June 30, 2007 and 2006, the following transactions occurred between the Agency and the Foundation:

The Foundation donated $171,241 and $356,452, respectively to the Agency. This amount is included in contributions on the Statement of Activities.

10. AFFILIATED CORPORATIONS

The Agency charged administrative fees of $13,601 and $16,807, respectively to the Foundation. The fees are included in consulting fees and conferences.

The Foundation owed the Agency $15,507 and $25,546 as of June 30, 2007 and 2006, respectively.

11. POSTRETIREMENT HEALTH CARE BENEFITS

The Agency sponsors a defined benefit retirement health care benefit plan covering substantially all employees. The Plan's effective date is January 1, 2002. The Agency's funding policy is to contribute annually based upon medical premiums due under the Plan. The contribution to the Plan and the benefits paid, were $1,367 and $3,069 for the years ended June 30, 2007 and 2006, respectively.

The following sets forth the amount measured and shown in the Agency's Statement of Financial Position at June 30:

	2007	2006
Accumulated postretirement benefit obligation (APBO):		
Accumulated postretirement benefit obligation in excess of plan assets	$ 411,383	$ 384,416
Unrecognized prior service cost	(24,111)	(63,637)
Accrued Postretirement Benefit Cost in the Statement of Financial Position	$ 387,272	$ 320,779

The Agency's postretirement health care benefit plan obligation is unfunded. The Agency expects to pay out benefits in each of the next five years as follows:

2008	$ 1,596
2009	1,723
2010	1,862
2011	2,010
2012	2,170

The postretirement health care benefits cost includes the following components for the year ended June 30:

	2007	2006
Service cost	$ 16,298	$ 16,298
Interest on APBO less interest on expected benefit payments	18,680	18,680
Amortization of unrecognized prior service cost	39,526	39,526
Accrued Health Care Benefit Cost	$ 74,504	$ 74,504

11. POSTRETIREMENT HEALTH CARE BENEFITS

For measurement purposes, an 8.5% annual rate of increase in per capita cost of covered health care benefits was assumed for June 30, 2007 and 2006. The rate was assumed to decrease gradually to 5.0% at 2011 and remain at that level thereafter. The health care benefits cost trend rate assumption has a significant effect on the amounts reported. Because the assumptions used can differ substantially from actual results, it is at least reasonably possible that these significant estimates will change within the next year.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation when the last actuarial valuation was done for the 2002 fiscal year was 7.5% for the years ended June 30, 2007 and 2006.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. To date, detailed regulations necessary to implement the Act have not been issued. In addition, current accounting standards do not provide sufficient guidance on how to account for the federal subsidy contained within this Act. In response, the FASB issued FASB Staff Position 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP 106-1). FSP 106-1 permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act until such time authoritative guidance is issued by the FASB on how to account for the federal subsidy. The Agency has not evaluated the impact of this Act on its expense and has elected to defer the accounting for the effects of the Act as permitted by FSP 106-1. Therefore, the accumulated postretirement benefit obligation and net periodic postretirement benefit cost presented in the financial statements do not include the effects of the Act on the plan. Authoritative guidance on accounting for the Act's federal subsidy is pending and that guidance, when issued, could require changes to previously reported information.

12. CONCENTRATION OF CREDIT RISK

The Agency maintains cash balances at various financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At June 30, 2007, the Agency's uninsured cash balances were approximately $1,977,000.

13. CONTINGENCIES

Personal Allowance Accounts

The Agency is the custodian of clients' personal allowance funds. OMRDD 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 Agency's financial statements.

13. CONTINGENCIES

Medicaid and Service Fees

An internal evaluation of certain service documentation under Medicaid and similar state funded programs disclosed a number of instances where New York State documentation standards were not met. As a result, the Agency reported the matter to the New York State Office of Mental Retardation and Developmental Disabilities, consulted legal counsel and estimated the potential loss to be $300,000. This amount has been included in the accompanying financial statements as a reduction to program support and revenue. It is at least reasonably possible that the estimate of the potential loss could change in the near term.

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WILDWOOD PROGRAMS, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	Wildwood Programs	Management and General	Total
Salaries	$ 13,688,241	$ 1,131,144	$ 14,819,385
Employee benefits	4,280,243	299,202	4,579,445
Total Salaries and Employee Benefits	17,968,484	1,430,346	19,398,830
Supplies	1,426,082	50,497	1,476,579
Transportation	1,074,977	3,229	1,078,206
Occupancy	603,494	-	603,494
Professional fees and contract service payments	270,593	52,159	322,752
Interest	563,138	16,909	580,047
Utilities	376,988	12,881	389,869
Repairs and maintenance	344,816	9,256	354,072
Conferences, convention and meetings	169,857	24,320	194,177
Insurance	155,173	363	155,536
Telephone	114,806	3,954	118,760
Postage and shipping	14,981	9,897	24,878
Rental of equipment	5,702	866	6,568
Bad debts	4,894	-	4,894
Printing and publications	766	6,068	6,834
Depreciation and amortization	872,797	13,574	886,371
Total Expenses	$ 23,967,548	$ 1,634,319	$ 25,601,867

WILDWOOD PROGRAMS, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	Wildwood Programs	Management and General	Total
Salaries	$ 12,422,143	$ 1,047,493	$ 13,469,636
Employee benefits	3,864,802	268,188	4,132,990
Total salaries and employee benefits	16,286,945	1,315,681	17,602,626
Supplies	1,126,974	44,520	1,171,494
Transportation	928,116	2,948	931,064
Occupancy	702,148	-	702,148
Professional fees and contract service payments	256,148	43,118	299,266
Interest	304,229	17,975	322,204
Utilities	332,613	13,927	346,540
Repairs and maintenance	285,529	6,013	291,542
Conferences, convention and meetings	111,502	19,005	130,507
Insurance	179,716	574	180,290
Telephone	88,910	7,486	96,396
Postage and shipping	15,599	9,162	24,761
Rental of equipment	7,224	339	7,563
Bad debts	12,498	-	12,498
Printing and publications	1,128	5,993	7,121
Depreciation and amortization	670,718	14,416	685,134
Cost of goods sold	295	-	295
Capital campaign expense	-	1,961	1,961
Total expenses	$ 21,310,292	$ 1,503,118	$ 22,813,410

APPENDIX B-VIII

YOUNG ADULT INSTITUTE, INC.

AUDITED FINANCIAL STATEMENTS

FISCAL YEARS 2009, 2008 AND 2007

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YOUNG ADULT INSTITUTE, INC.

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2009

LOEB & TROPER LLP

YOUNG ADULT INSTITUTE, INC.

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LOEB & TROPER LLP

LOEB & TROPER LLP

Independent Auditor's Report

Board of Directors
Young Adult Institute, Inc.

We have audited the accompanying balance sheet of Young Adult Institute, Inc. (YAI) as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of YAI's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Young Adult Institute, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

November 23, 2009

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors

655 Third Avenue, 12th Floor, New York, NY 10017
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EXHIBIT A

YOUNG ADULT INSTITUTE, INC.

BALANCE SHEET

JUNE 30, 2009

ASSETS

Cash and cash equivalents	$ 13,685,824
Money market - U.S. Government securities (Note 2)	1,333,472
Accounts receivable	
Medicaid	26,150,797
New York State	4,016,503
New York City	235,478
Client fees	479,394
Private pay	441,045
Medicare	608,222
Prepaid expenses and other receivables	1,617,616
Bond issuance costs (net of accumulated amortization of $4,129,244)	3,536,044
Fixed assets (Note 3)	42,560,951
Other assets (Note 2)	10,225,709
Total assets	$ 104,891,055

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	$ 19,856,353
Due to New York State (Note 4)	2,801,287
Notes and mortgages payable (Note 5)	39,836,545
Capital lease obligations (Note 6)	24,512,677
Total liabilities	87,006,862
Net assets (Exhibit B)	
Unrestricted	17,830,300
Temporarily restricted (Note 10)	53,893
Total net assets	17,884,193
Total liabilities and net assets	$ 104,891,055

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT B

YOUNG ADULT INSTITUTE, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Total
Operating revenues			
Medicaid	$ 134,480,442		$ 134,480,442
New York State contractual agreements	26,999,096		26,999,096
New York City contractual agreements	1,296,275		1,296,275
Client fees	5,568,202		5,568,202
Private pay	963,937		963,937
Medicare	833,468		833,468
Total operating revenues	170,141,420		170,141,420
Operating expenses			
Residential services	76,490,930		76,490,930
Clinical services	65,623,256		65,623,256
Home health care services	8,452,105		8,452,105
Employment initiative services	3,368,862		3,368,862
General support services	18,574,322		18,574,322
Total operating expenses	172,509,475		172,509,475
Change in net assets from operations	(2,368,055)		(2,368,055)
Nonoperating revenues and expenses			
Contributions	2,198,768		2,198,768
Interest income	103,106		103,106
Fund-raising expenses	(360,230)		(360,230)
Special events	2,135,375		2,135,375
Cost of direct benefits of special events	(766,996)		(766,996)
Other expenses	(59,818)		(59,818)
Net assets released from restrictions (Note 10)	68	$ (68)	
Total nonoperating revenues and expenses	3,250,273	(68)	3,250,205
Change in net assets (Exhibit C)	882,218	(68)	882,150
Net assets - beginning of year	16,948,082	53,961	17,002,043
Net assets - end of year (Exhibit A)	$ 17,830,300	$ 53,893	$ 17,884,193

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

EXHIBIT C

YOUNG ADULT INSTITUTE, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

Cash flows from operating activities	
Change in net assets (Exhibit B)	$ 882,150
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	4,983,794
Decrease (increase) in assets	
Accounts receivable	6,826,964
Prepaid expenses and other receivables	2,309,052
Other assets	(197,565)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	(602,031)
Due to New York State	665,137
Net cash provided by operating activities	14,867,501
Cash flows from investing activities	
Fixed asset acquisitions	(5,725,950)
Proceeds from sale of money market - U.S. Government securities - under repurchase agreement	3,476,548
Net cash used by investing activities	(2,249,402)
Cash flows from financing activities	
Principal payments on notes and mortgage loans	(7,223,649)
Principal payments on capital leases	(3,383,086)
Proceeds from notes and mortgage loans	8,287,068
Net cash used by financing activities	(2,319,667)
Net increase in cash and cash equivalents	10,298,432
Cash and cash equivalents - beginning of year	3,387,392
Cash and cash equivalents - end of year	$ 13,685,824
Supplemental disclosure of cash flow information	
Cash paid for interest	$ 3,060,927

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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. Young Adult Institute, Inc. 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 more than 269 programs and direct services benefit more than 9,000 individuals and their families daily in 10 counties throughout the New York metropolitan area. YAI is funded primarily by Medicaid.

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 contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include certain investments in highly liquid instruments with original maturities when acquired of three months or less.

Cash concentrations - YAI has cash deposits with various major banks in excess of Federal Deposit Insurance Corporation limits. YAI has not experienced any losses on its cash deposits.

Investments - Money market U.S. Government securities are stated at fair value based upon quoted market. Securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could materially affect the amounts reported in the financial statements.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable, allowance for doubtful accounts and revenue recognition - YAI records receivables and revenue based on established third-party reimbursement rates. Management determines whether an allowance for uncollectible accounts should be provided for accounts receivable. YAI has determined that no allowance for uncollectible accounts receivable is necessary as of June 30, 2009. Such estimate is based on management's assessments of the creditworthiness of its third-party payors, the aged basis of its receivables, subsequent receipts, as well as current economic conditions and historical information. Interest is not charged on outstanding receivables.

Fixed assets - Fixed assets are recorded at cost. Items with a cost in excess of $1,000 and an estimated useful life of more than one year are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight-line method over the term of the lease.

Other assets - deferred assets - In accordance with SOP 98-5, YAI expenses all start-up costs. In addition, in order to account for the future reimbursement of these costs, YAI has recorded a deferred charge equal to the net future reimbursement it expects in the operation of its programs. The deferred charge will reduce revenue over the period of reimbursement.

Other assets - deferred charges - The New York State Office of Mental Retardation and Developmental Disabilities (OMRDD) 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 OMRDD 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.

Other assets - assets limited as to use - The amount represents cash which is set aside under the terms of the bond agreements. The amount as of June 30, 2009 was $4,264,978.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. YAI reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 - Operations include all revenues and expenses relating to consumer care. Contributions, interest income, fund-raising expenses, special events, the cost of direct benefits of special events, other expenses and net assets released from restrictions are considered nonoperating.

Leases - Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Capital leases are recorded at the lower of the fair market value of the assets or the present value of the minimum lease payments and are amortized over the lease term or estimated useful life of the assets, whichever is shorter, unless the lease provides for transfer of title or includes a bargain purchase option, in which case the lease is amortized over the estimated useful life of the asset. Operating lease payments are charged to rental expense. Operating lease expense has been recorded on the straight-line basis over the life of the lease, unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property, in which case, that basis shall be used. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Unrestricted net assets - Unrestricted net assets are those assets which are not restricted by donors or for which the donor-imposed restrictions have expired.

Restricted net assets - Temporarily restricted net assets are those whose use has been restricted by donors to a specific time period or purpose.

Audit contingencies - Certain outside agencies have the right to audit YAI involving contractual relationships with these agencies. Management has determined that no provision for possible audit adjustments is required.

Financial Accounting Standards Board (FASB) Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for nonpublic companies and not-for-profits for periods beginning after December 15, 2008.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FASB SFAS No. 165 - subsequent events - Subsequent events have been evaluated through November 23, 2009, which is the date the financial statements were available to be issued.

Fair Value Measurements

FASB Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that YAI has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at June 30, 2009.

Money market/U.S. Government securities - Valued at the closing price reported on the active market on which the individual securities are traded.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while YAI believes its valuation method is 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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2009:

	Level 1	Level 2	Level 3	Total
Money market/U.S. Government securities	$ 1,333,472	$ -	$ -	$ 1,333,472

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115* (SFAS No. 159), permits but does not require measurement of financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As YAI did not elect to fair value any of the financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective July 1, 2008 did not have an impact on the financial statements.

NOTE 3 - FIXED ASSETS

	Cost	Accumulated Depreciation and Amortization	Net	Estimated Useful Lives
Land	$ 8,630,761		$ 8,630,761	
Building	19,080,406	$ 10,348,725	8,731,681	15 - 25 years
Building improvements	24,032,860	10,528,148	13,504,712	3 - 25 years
Equipment	2,329,764	2,048,602	281,162	3 - 20 years
Furniture and fixtures	3,825,640	2,569,807	1,255,833	5 years
Leasehold improvements	13,220,660	9,084,314	4,136,346	2 - 10 years
Computer software	1,170,454	991,543	178,911	5 years
Construction in progress	5,841,545		5,841,545	
	$ 78,132,090	$ 35,571,139	$ 42,560,951	

The cost of fixed assets purchased with capital lease proceeds was $48,109,506 with accumulated amortization thereon of $21,496,215. Amortization expense was $2,288,318 for the fiscal year ended June 30, 2009.

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NOTE 4 - DUE TO NEW YORK STATE

YAI has entered into contracts with OMRDD for the operation of intermediate care facilities, individual residential alternatives, community residences, supportive apartments and day habilitation programs. As part of these agreements, OMRDD advanced YAI interest-free funds for preoperational start-up costs, equipment, renovations, lease costs, real estate taxes and operations. YAI has agreed to pay back to OMRDD all of the above funds to the extent that such costs are reimbursed by Medicaid. Medicaid payments for these costs are withheld from remittances.

Total	$ 2,801,287

Payments over the next five years are as follows:

2009-2010	$ 1,123,559
2010-2011	415,491
2011-2012	431,255
2012-2013	415,491
2013-2014	415,491

NOTE 5 - NOTES AND MORTGAGES PAYABLE

The prime interest rate of Key Bank and Bank of America was 3.25% on June 30, 2009.

A. ***Key Bank***

YAI has available an $18 million line of credit carrying an interest rate of 1/4% over the bank's prime per annum. The loan is secured by the agency's accounts receivable and matures on August 31, 2010.	$ 17,920,358

B. ***Bank of America***

YAI has available a $2 million line of credit carrying an interest rate of 3/4% over the bank's prime per annum, maturing on August 7, 2011. The note is collateralized by Medicaid rate appeal accounts receivable.	2,000,000
YAI has available a $6 million line of credit carrying an interest rate of 3/4% over the bank's prime per annum, which matures on July 24, 2011. The note is collateralized by Medicaid rate adjustments accounts receivable.	1,280,895

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NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

B. Bank of America (continued)

YAI has available a $15.5 million line of credit for the acquisition and renovation of residences. Upon receipt of New York State prior property approvals, the funds drawn down are converted into notes. The line is available until April 29, 2010 and the following notes have been executed:

1. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on April 29, 2010. The secured loan was used to finance improvements on property located at 177 Falmouth Drive, Scarsdale, New York.	$	851,398
2. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on April 29, 2010. The secured loan was used to finance improvements on property located at 3321 Bainbridge Avenue, Bronx, New York.		484,941
3. The notes, bearing an interest rate of 1/2% over the bank's prime per annum, mature on April 29, 2010. The secured loan was used to finance the purchase and improvements on property located at 736 West 187th Street, Units 202 & 203, New York, New York.		1,635,737
4. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on April 29, 2010. The secured loan was used to finance the purchase and improvements on property located at 47-52 Glenwood Street, Little Neck, New York.		1,406,600
5. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on April 29, 2010. The secured loan was used to finance improvements on property located at 340 Old Town Road, East Setauket, New York		474,947
6. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on April 29, 2010. The secured loan was used to finance improvements on property located at 475 Union Avenue, Westbury, New York.		440,631

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NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

B. Bank of America (continued)

7. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on April 29, 2010. The secured loan was used to finance the purchase and improvements on property located at 45 Spencer Drive, New Rochelle, New York.	$	1,550,459
8. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on April 29, 2010. The secured loan was used to finance the purchase and improvements on property located at 640 Johnson Avenue, Ronkonkoma, New York.		404,148
9. The notes, bearing an interest rate of 1/2% over the bank's prime per annum, mature on April 29, 2010. The secured loan was used to finance leasehold improvements on property located at 555 Washington Avenue, Brentwood, New York.		122,226
10. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on December 25, 2010. The secured loan was used to finance the purchase of property located at 580 North Broadway, Hastings, New York.		954,000
11. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on April 29, 2010. The secured loan was used to finance the purchase and improvements on property located at 1514 New York Avenue, Brooklyn, New York.		1,031,625
12. The note, bearing an interest rate of 1/2% over the bank's prime per annum matures on April 29, 2010. The secured loan was used to finance leasehold improvements on property located at 314 East 35th Street, New York, New York.		645,941
13. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on April 29, 2010. The secured loan was used to finance improvements on property located at 135-39 Union Turnpike, Kew Gardens, New York.		71,437

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NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

B. Bank of America (continued)

14. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on April 29, 2010. The secured loan was used to finance improvements on property located at 197 Canterbury Road, Williston Park, New York. $ 594,912

C. Dormitory Authority of the State of New York

Young Adult Institute, Inc. entered into 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 of Mental Retardation and Developmental Disabilities. 7,966,290

1. The principal amount of $51,258 carries an interest rate of 5.81% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 26-04 203rd Street, Bayside, New York.

2. The principal amount of $92,908 carries an interest rate of 5.81% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 924 Hampshire Road, Bay Shore, New York.

3. The principal amount of $104,327 carries an interest rate of 5.61% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 2228 Ocean Avenue, Brooklyn, New York.

4. The principal amount of $104,184 carries an interest rate of 5.61% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 82-24 209th Street, Hollis, New York.

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NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

C. Dormitory Authority of the State of New York (continued)

5. The principal amount of $66,604 carries an interest rate of 5.44% per annum, payable in semiannual installments until February 2011. The property collateralized is located at 1352 East 15th Street, Brooklyn, New York.

6. The principal amount of $113,660 carries an interest rate of 5.44% per annum, payable in semiannual installments until February 2011. The property collateralized is located at 2985 Bedford Avenue, Brooklyn, New York.

7. The principal amount of $184,504 carries an interest rate of 7.27% per annum, payable in semiannual installments until August 2014. The property collateralized is located at One Rose Lane, Yonkers, New York.

8. The principal amount of $169,805 carries an interest rate of 7.29% per annum, payable in semiannual installments until August 2014. The property collateralized is located at 5437 Browvale Lane, Little Neck, New York.

9. The principal amount of $90,199 carries an interest rate of 7.29% per annum, payable in semiannual installments until August 2014. The property collateralized is located at 2 Meridian Road, Levittown, New York.

10. The principal amount of $315,029 carries an interest rate of 7.67% per annum, payable in semiannual installments until August 2015. The property collateralized is located at 2647 East 13th Street, Brooklyn, New York.

11. The principal amount of $3,543,022 carries an interest rate of 7.82% per annum, payable in semiannual installments until February 2016. The property collateralized is located at 677 White Plains Road, Tarrytown, New York.

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NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

C. Dormitory Authority of the State of New York (continued)

12. The principal amount of $322,220 carries an interest rate of 7.82% per annum, payable in semiannual installments until February 2016. The property collateralized is located at 177 Falmouth Road, Scarsdale, New York.

13. The principal amount of $318,056 carries an interest rate of 6.17% per annum, payable in semiannual installments until August 2018. The property collateralized is located at 289 Sprucewood Drive, Levittown, New York.

14. The principal amount of $373,732 carries an interest rate of 6.03% per annum, payable in semiannual installments until August 2018. The property collateralized is located at 42 Stratton Road, New Rochelle, New York.

15. The principal amount of $1,745,504 carries an interest rate of 6.42% per annum, payable in semiannual installments until February 2019. The property collateralized is located at 314 East 35th Street, New York, New York.

16. The principal amount of $371,278 carries an interest rate of 6% per annum, payable in semiannual installments until February 2017. The property collateralized is located at 191-55 Foothill Terrace, Holliswood, New York.

$ 39,836,545

Principal payments over the next five years and thereafter are as follows:

2009-2010	$ 28,832,805
2010-2011	5,263,736
2011-2012	940,647
2012-2013	1,016,850
2013-2014	1,093,200
Thereafter	2,689,307

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NOTE 6 - CAPITAL LEASE OBLIGATIONS

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 by series of:

2001 Bond Series: 6.5%, 6.875% and 7.25% per annum with maturity dates of July 1, 2009, July 1, 2010 and July 1, 2016, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 3321 Bainbridge Avenue, Bronx, New York; 3112 East Tremont Avenue, Bronx New York; 340 Old Town Road, Setauket, New York.

2002 A Bond Series: 6.1% and 6.5% per annum with maturity dates of July 1, 2012 and July 1, 2017, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized property located at 3180 Rochambeau Avenue, Bronx, New York.

2002 C, D, E Bond Series: 5.50%, 6.00% and 6.50% per annum with maturity dates of July 1, 2009, July 1, 2012 and July 1, 2017, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 110-56 67th Drive, Forest Hills, New York; 1 Gerald Drive, Holbrook, New York; 150 Van Guilder Ave., New Rochelle, New York; 24 Belvedere Place, New Rochelle, New York; 124 Wagner Ave., Mamaroneck, New York; and 16 Brentwood Dr., Pleasantville, New York.

2004 C, D Bond Series: 4.5% with maturity date of July 1, 2009 and 5.25% and 6.8% per annum with maturity dates of July 1, 2014 and July 1, 2019, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 305 East 206th Street, Bronx, New York; 2253 Nostrand Avenue, Brooklyn, New York; 125 East 36th Street, New York, New York; 460 West 34th Street, New York, New York; 421 North Barry Avenue, Mamaroneck, New York; and 146 Villa Avenue, Yonkers, New York.

2005 B Bond Series: 3.1% to 4.75% with maturity dates ranging from July 1, 2009 to July 1, 2020. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 261 King Street, Port Chester, New York; 56 Woodycrest Avenue, Yonkers, New York; and 62 Woodland Avenue, Rye Brook, New York.

2006 A Bond Series: 3.8% to 4.5% with maturity dates ranging from July 1, 2009 to July 1, 2030. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 281 West 261st Street, Riverdale, New York; and 48-46 58th Place, Woodside, New York.

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NOTE 6 - CAPITAL LEASE OBLIGATIONS (continued)

2006 B Bond Series: 3.1% to 4.75% with maturity dates from July 1, 2009 to July 1, 2019. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 3737 Martin Court, Seaford, New York; and 197 Canterbury Road, Williston Park, New York.

2006 C Bond Series: 4.15% to 5.1% with maturity dates from July 1, 2009 to July 1, 2023. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 54-37 Browvale Lane, Little Neck, New York; 82-24 209th Street, Hollis Hills, New York; 460 West 34th Street, 11th Floor North, New York, New York; 460 West 34th Street, 11th Floor West, New York, New York; 460 West 34th Street, 9th Floor Day Hab, New York, New York; 29-42 Tiffany Place, Apartment #1A, 1B, 1C, Brooklyn, New York; 1015 Avenue Z, Brooklyn, New York; 2140 Glebe Avenue, Bronx, New York; 2422 Bragg Street, Brooklyn, New York; 3340-3342 Nostrand Avenue, Brooklyn, New York; 211-11 Northern Boulevard, Bayside, New York; 3079 Hull Avenue, Bronx, New York; 135-39 Union Turnpike, Kew Gardens, New York.

2006 D Series: 4.15% to 4.9% with maturity dates from July 1, 2009 to July 1, 2014. The proceeds of the loan were used to finance the purchase and renovation of collateralized property located at 555 Washington Avenue, Brentwood, New York.

2006 E Bond Series: 4.15% to 4.9% with maturity dates from July 1, 2009 to July 1, 2020. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 677 White Plains Road, Tarrytown, New York; 61 Parkway Drive, Port Chester, New York; and 24 Belvidere Place, New Rochelle, New York.

2006 F Bond Series: 4.15% to 4.9% with maturity dates from July 1, 2009 to July 1, 2020. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 18 LaMarcus Avenue, Glen Cove, New York; 302 Jerusalem Avenue, Hicksville, New York; and 1241 Round Swamp Road, Old Bethpage, New York.

2007 A Bond Series: 3.80% to 4.50% with maturity dates from April 1, 2009 to July 1, 2021. The proceeds of the loan were used to finance the purchase and renovation of collateralized property located at 41-76 Little Neck Parkway, Little Neck, New York.

2007 B, C Bond Series: 4.10% to 5.30% with maturity dates from November 1, 2009 to July 1, 2022. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 18 North Howell Ave, Centereach, New York and 320 West 13th Street, New York, New York.

-continued-

NOTE 6 - CAPITAL LEASE OBLIGATIONS (continued)

As part of the agreement with NYCIDA, YAI transferred the titles to the above mentioned 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 all of the leased property for $1.

YAI has entered into capital lease agreements to fund the purchase of buildings, building improvements and equipment. Future minimum lease payments are as follows:

2009-2010	$ 4,379,825
2010-2011	4,066,647
2011-2012	3,558,185
2012-2013	3,105,149
2013-2014	3,240,166
Thereafter	13,392,069
	31,742,041
Less amount representing interest	(7,229,364)
Present value of net minimum lease payments	$ 24,512,677

NOTE 7 - 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 $6,130,892 for the year ended June 30, 2009.

NOTE 8 - LEASED FACILITIES

YAI leases various facilities for its administrative office and program sites. The leases expire at various periods through June 2027. Rental expense for the year ended June 30, 2009 was $6,925,842.

-continued-

NOTE 8 - LEASED FACILITIES (continued)

The minimum annual rental payments are as follows:

2009-2010	$ 6,743,610
2010-2011	6,017,144
2011-2012	5,943,987
2012-2013	5,730,311
2013-2014	5,678,872
Thereafter	28,387,489
	$ 58,501,413

NOTE 9 - FUNCTIONAL EXPENSES

Program expenses	$ 153,935,153
General support services	18,574,322
Cost of direct benefits of special events	766,996
Fund-raising expenses	420,048
Total expenses	$ 173,696,519

Total interest expense for the year ended June 30, 2009 was $3,060,927.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Young Adult Institute, Inc. received funds from the New York State Health Foundation 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 amount released from restrictions during the year was $68. The balance available at June 30, 2009 is $53,893.

-continued-

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by YAI in estimating the fair value of its financial instruments:

Cash and cash equivalents - The carrying amount approximates fair value because the instrument is liquid in nature.

Money market - U.S. Government securities - The fair value is estimated based upon quoted market prices.

Notes and mortgage payable - The carrying amounts approximate fair value because the interest rates are similar to rates currently offered.

Capital lease obligations - The carrying amounts approximate fair value because the interest rates are similar to rates currently offered.

The estimated fair values of YAI's financial instruments are as follows:

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 13,685,824	$ 13,685,824
Money market - U.S. Government securities	1,333,472	1,333,472
Notes and mortgage payable	39,836,545	39,836,545
Capital lease obligations	24,512,677	24,512,677

B-VIII-12

YOUNG ADULT INSTITUTE, INC.

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2008

LOEB & TROPER LLP

LOEB & TROPER LLP

Independent Auditor's Report

Board of Directors
Young Adult Institute, Inc.

We have audited the accompanying balance sheet of Young Adult Institute, Inc. (YAI) as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of YAI's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Young Adult Institute, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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. as of June 30, 2008, 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.

Loeb & Troper LLP

November 24, 2008

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors

655 Third Avenue, 12th Floor, New York, NY 10017
(212) 867-4000 / Fax (212) 867-9810 / *www.loebandtroper.com*

YOUNG ADULT INSTITUTE, INC.

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YOUNG ADULT INSTITUTE, INC.

BALANCE SHEET

JUNE 30, 2008

ASSETS

Cash and cash equivalents	$ 3,387,392
Money market - U.S. Government securities	4,810,020
Accounts receivable	
Medicaid	32,480,443
New York State	4,681,773
New York City	547,243
Client fees	271,124
Private pay	268,736
Medicare	509,084
Prepaid expenses and other receivables	3,926,668
Bond issuance costs (net of accumulated amortization of $3,601,962)	4,077,292
Fixed assets - at cost (net of accumulated depreciation and amortization of $31,360,033) (Note 3)	41,387,757
Other assets	10,028,144
Total assets	$ 106,375,676

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	$ 20,458,384
Due to New York State (Note 4)	2,246,360
Notes and mortgages payable (Note 5)	38,773,126
Capital lease obligations (Note 6)	27,895,763
Total liabilities	89,373,633
Net assets (Exhibit B)	
Unrestricted	16,948,082
Temporarily restricted (Note 10)	53,961
Total net assets	17,002,043
Total liabilities and net assets	$ 106,375,676

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT B

YOUNG ADULT INSTITUTE, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Total
Operating revenues			
Medicaid	$ 127,797,541		$ 127,797,541
New York State contractual agreements	25,400,456		25,400,456
New York City contractual agreements	1,262,678		1,262,678
Client fees	5,466,290		5,466,290
Private pay	1,096,792		1,096,792
Medicare	850,148		850,148
Total operating revenues	161,873,905		161,873,905
Operating expenses			
Residential services	73,048,699		73,048,699
Clinical services	61,390,141		61,390,141
Home health care services	8,105,598		8,105,598
Employment initiative services	3,050,361		3,050,361
General support services	17,526,780		17,526,780
Total operating expenses	163,121,579		163,121,579
Change in net assets from operations	(1,247,674)		(1,247,674)
Nonoperating revenues and expenses			
Contributions	700,013	$ 29,914	729,927
Interest income	264,168		264,168
Fund-raising expenses	(349,794)		(349,794)
Special events	2,418,959		2,418,959
Cost of direct benefits of special events	(891,800)		(891,800)
Other expenses	(62,248)		(62,248)
Net assets released from restrictions (Note 10)	9,062	(9,062)	
Total nonoperating revenues and expenses	2,088,360	20,852	2,109,212
Change in net assets (Exhibit C)	840,686	20,852	861,538
Net assets - beginning of year	16,107,396	33,109	16,140,505
Net assets - end of year (Exhibit A)	$ 16,948,082	$ 53,961	$ 17,002,043

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

EXHIBIT C

YOUNG ADULT INSTITUTE, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2008

Cash flows from operating activities	
Change in net assets (Exhibit B)	$ 861,538
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	4,695,307
Decrease (increase) in assets	
Accounts receivable	(3,039,900)
Prepaid expenses and other receivables	838,374
Other assets	360,026
Increase in liabilities	
Accounts payable and accrued expenses	53,032
Due to New York State	349,709
Net cash provided by operating activities	4,118,086
Cash flows from investing activities	
Fixed asset acquisitions	(5,753,531)
Purchase of money market - U.S. Government securities - under repurchase agreement	(729,221)
Net cash used by investing activities	(6,482,752)
Cash flows from financing activities	
Principal payments on notes and mortgage loans	(6,552,840)
Principal payments on capital leases	(3,321,360)
Proceeds from notes and mortgage loans	10,647,642
Proceeds from sale and leaseback agreement	516,823
Net cash provided by financing activities	1,290,265
Net decrease in cash and cash equivalents	(1,074,401)
Cash and cash equivalents - beginning of year	4,461,793
Cash and cash equivalents - end of year	$ 3,387,392

-continued-

LOEB & TROPER LLP

YOUNG ADULT INSTITUTE, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2008

Supplemental disclosure of cash flow information	
Cash paid for interest	$ 3,897,103
Capital lease obligations of $3,730,865 were incurred during the year for the following:	
Refinancing of mortgage loans	$ 2,457,024
Purchase of fixed assets	227,476
Debt service reserve fund	253,494
Bond issuance costs	276,048
Sale and capital leaseback agreement for certain fixed assets	516,823
	$ 3,730,865

See independent auditor's report.

The accompanying notes are an integral part of these statements.

YOUNG ADULT INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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. Young Adult Institute, Inc. 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 more than 274 programs and direct services benefit more than 9,000 individuals and their families daily in 10 counties throughout the New York metropolitan area. YAI is funded primarily from Medicaid.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared on the accrual basis.

YAI has cash deposits with various major banks in excess of Federal Deposit Insurance Corporation limits. YAI has not experienced any losses on its cash deposits.

Money Market U.S. Government securities are stated at fair value based upon quoted market. Securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' declines, and that such changes could materially affect the amounts reported in the financial statements.

The New York State Office of Mental Retardation and Developmental Disabilities (OMRDD) 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 OMRDD 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.

Certain outside agencies have the right to audit YAI involving contractual relationships with these agencies. Management deems that a provision for possible audit adjustments is not required.

Unrestricted net assets are those assets which are not restricted by donors or which the donor-imposed restrictions have expired.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets are recorded at cost. Depreciation and amortization of fixed assets are recorded on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is recorded on the straight-line method over the term of the lease.

Cash and cash equivalents include certain investments in highly liquid instruments with original maturities when acquired of three months or less.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Unconditional contributions including promises to give cash and other assets are reported at fair value at the date the contribution is received. YAI reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Temporarily restricted net assets are those whose use has been restricted by donors to a specific time period or purpose.

In accordance with SOP 98-5, YAI expenses all start-up costs. In addition, in order to account for the future reimbursement of these costs, YAI has recorded a deferred charge equal to the net future reimbursement it expects in the operation of its programs. The deferred charge will reduce revenue over the period of reimbursement.

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.

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NOTE 3 - FIXED ASSETS

	Cost	Accumulated Depreciation and Amortization	Net	Estimated Useful Lives
Land	$ 8,426,073		$ 8,426,073	
Building	18,912,574	$ 9,517,761	9,394,813	15 - 25 years
Building improvements	21,757,272	9,137,764	12,619,508	3 - 25 years
Equipment	2,188,785	1,984,172	204,613	3 - 20 years
Furniture and fixtures	3,667,415	1,990,285	1,677,130	5 years
Leasehold improvements	12,785,258	8,011,507	4,773,751	2 - 10 years
Computer software	1,165,363	718,544	446,819	5 years
Construction in progress	3,845,050		3,845,050	
	$ 72,747,790	$ 31,360,033	$ 41,387,757	

NOTE 4 - DUE TO NEW YORK STATE

YAI has entered into contracts with OMRDD for the operation of intermediate care facilities, individual residential alternatives, community residences, supportive apartments and day treatment programs. As part of these agreements, OMRDD advanced YAI interest-free funds for preoperational start-up costs, equipment, renovations, lease costs, real estate taxes and operations. YAI has agreed to pay back to OMRDD all of the above funds to the extent that such costs are reimbursed by Medicaid.

Total	$ 2,246,360

Payments over the next five years are as follows:

2008-2009	$ 856,144
2009-2010	343,796
2010-2011	358,828
2011-2012	343,796
2012-2013	343,796

-continued-

NOTE 5 - NOTES AND MORTGAGES PAYABLE

The prime interest rate of Key Bank and Bank of America was 5.00% on June 30, 2008.

A. ***Key Bank***

YAI has available a $18 million line of credit carrying an interest rate of 1/4% over the bank's prime per annum. The loan is secured by the agency's accounts receivable and matures on June 30, 2009.	$ 16,908,538

B. Bank of America

YAI has available a $2 million line of credit carrying an interest rate of 3/4% over the bank's prime per annum, maturing on August 7, 2010. The note is collateralized by Medicaid rate appeal accounts receivable.	2,000,000
YAI has available a $6 million line of credit carrying an interest rate of 3/4% over the bank's prime per annum, which matures on July 24, 2010. The note is collateralized by Medicaid rate adjustment accounts receivable.	4,565,938

YAI has available a $11.5 million line of credit for the acquisition and renovation of residences. Upon receipt of New York State prior property approvals, the funds drawn down are converted into notes. The line is available until April 29, 2009 and the following notes have been executed:

1. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on August 15, 2009. The secured loan was used to finance leasehold improvements on property located at 170 Falmouth Drive, Scarsdale, New York.	42,638
2. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on November 25, 2008 and May 28, 2009. The secured loan was used to finance leasehold improvements on property located at 3321 Bainbridge Avenue, Bronx, New York.	444,575

-continued-

NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

B. Bank of America (continued)

3. The notes, bearing an interest rate of 1/2% over the bank's prime per annum, mature on November 8, 2008. The secured loan was used to finance leasehold improvements on property located at 736 West 187th Street, Units 202 & 203, New York, New York.	$ 1,635,737
4. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on December 31, 2008. The secured loan was used to finance leasehold improvements on property located at 47-52 Glenwood Street, Little Neck, New York.	1,406,600
5. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on December 31, 2008. The secured loan was used to finance leasehold improvements on property located at 340 Old Town Road, East Setauket, New York	471,225
6. The note, bearing an interest rate of 1/2% over the bank's prime per annum matures on December 31, 2008. The secured loan was used to finance leasehold improvements on property located at 475 Union Avenue, Westbury, New York.	440,631
7. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on May 28, 2009. The secured loan was used to finance leasehold improvements on property located at 45 Spencer Drive, New Rochelle, New York.	1,360,875
8. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on October 10, 2009. The secured loan was used to finance leasehold improvements on property located at 640 Johnson Ave, Ronkonkoma, New York.	404,148

-continued-

NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

C. Dormitory Authority of the State of New York

Young Adult Institute, Inc. entered into 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 of Mental Retardation and Developmental Disabilities. $ 9,092,221

1. The principal amount of $8,829 carries an interest rate of 6.00% per annum, payable in semiannual installments until August 2008. The property collateralized is located at 197 Canterbury Road, Williston Park, New York.

2. The principal amount of $5,878 carries an interest rate of 5.31% per annum, payable in semiannual installments until February 2009. The property collateralized is located at 84-15 127th Street, Kew Gardens, New York.

3. The principal amount of $121,254 carries an interest rate of 5.81% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 26-04 203rd Street, Bayside, New York.

4. The principal amount of $132,904 carries an interest rate of 5.81% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 924 Hampshire Road, Bay Shore, New York.

5. The principal amount of $164,495 carries an interest rate of 5.61% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 2228 Ocean Avenue, Brooklyn, New York.

6. The principal amount of $164,268 carries an interest rate of 5.61% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 82-24 209th Street, Hollis, New York.

-continued-

NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

C. Dormitory Authority of the State of New York (continued)

7. The principal amount of $126,604 carries an interest rate of 5.44% per annum, payable in semiannual installments until February 2011. The property collateralized is located at 1352 East 15th Street, Brooklyn, New York.

8. The principal amount of $177,404 carries an interest rate of 5.44% per annum, payable in semiannual installments until February 2011. The property collateralized is located at 2985 Bedford Avenue, Brooklyn, New York.

9. The principal amount of $213,628 carries an interest rate of 7.27% per annum, payable in semiannual installments until August 2014. The property collateralized is located at One Rose Lane, Yonkers, New York.

10. The principal amount of $196,278 carries an interest rate of 7.29% per annum, payable in semiannual installments until August 2014. The property collateralized is located at 5437 Browvale Lane, Little Neck, New York.

11. The principal amount of $104,275 carries an interest rate of 7.29% per annum, payable in semiannual installments until August 2014. The property collateralized is located at 2 Meridian Road, Levittown, New York.

12. The principal amount of $354,053 carries an interest rate of 7.67% per annum, payable in semiannual installments until August 2015. The property collateralized is located at 2647 East 13th Street, Brooklyn, New York.

13. The principal amount of $848,300 carries an interest rate of 7.82% per annum, payable in semiannual installments until February 2016. The property collateralized is located at 677 White Plains Road, Tarrytown, New York.

-continued-

NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

C. Dormitory Authority of the State of New York (continued)

14. The principal amount of $3,089,954 carries an interest rate of 7.82% per annum, payable in semiannual installments until February 2016. The property collateralized is located at 677 White Plains Road, Tarrytown, New York.

15. The principal amount of $358,172 carries an interest rate of 7.82% per annum, payable in semiannual installments until February 2016. The property collateralized is located at 177 Falmouth Road, Scarsdale, New York.

16. The principal amount of $343,448 carries an interest rate of 6.17% per annum, payable in semiannual installments until August 2018. The property collateralized is located at 289 Sprucewood Drive, Levittown, New York.

17. The principal amount of $408,376 carries an interest rate of 6.03% per annum, payable in semiannual installments until August 2018. The property collateralized is located at 42 Stratton Road, New Rochelle, New York.

18. The principal amount of $1,865,503 carries an interest rate of 6.42% per annum, payable in semiannual installments until February 2019. The property collateralized is located at 314 East 35th Street, New York, New York.

19. The principal amount of $408,598 carries an interest rate of 6% per annum, payable in semiannual installments until February 2017. The property collateralized is located at 191-55 Foothill Terrace, Holliswood, New York.

$ 38,773,126

-continued-

NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

Principal payments over the next five years and thereafter are as follows:

2008-2009	$ 23,794,160
2009-2010	8,210,169
2010-2011	1,028,841
2011-2012	940,647
2012-2013	1,016,850
Thereafter	3,782,459

NOTE 6 - CAPITAL LEASE OBLIGATIONS

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 of: (1) 6.5%, 6.875% and 7.25% per annum with maturity dates of July 1, 2008, July 1, 2010 and July 1, 2016, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 3321 Bainbridge Avenue, Bronx, New York; 3112 East Tremont Avenue, Bronx New York; 656 Commack Road, Commack, New York; 340 Old Town Road, Setauket, New York. (2) 6.1% and 6.5% per annum with maturity dates of July 1, 2012 and July 1, 2017, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized property located at 3180 Rochambeau Avenue, Bronx, New York; and (3) 5.50%, 6.00% and 6.50% per annum with maturity dates of July 1, 2008, July 1, 2012 and July 1, 2017, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 110-56 67th Drive, Forest Hills, New York; 1 Gerald Drive, Holbrook, New York; 150 Van Guilder Ave., New Rochelle, New York; 24 Belvedere Place, New Rochelle, New York; 124 Wagner Ave., Mamaroneck, New York; and 16 Brentwood Dr., Pleasantville, New York. (4) 4.5% with maturity date of July 1, 2009 and 5.25% and 6.8% per annum with maturity dates of July 1, 2014 and July 1, 2019, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 305 East 206th Street, Bronx, New York; 2253 Nostrand Avenue, Brooklyn, New York; 125 East 36th Street, New York, New York; 460 West 34th Street, New York, New York; 421 North Barry Avenue, Mamaroneck, New York; and 146 Villa Avenue, Yonkers, New York. (5) Ranging from 3.1% to 4.75% with maturity dates ranging from July 1, 2008 to July 1, 2020. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 580 Broadway, Hastings, New York; 261 King Street, Port Chester, New York; 56 Woodycrest Avenue, Yonkers, New York; and 62 Woodland Avenue, Rye Brook, New York. (6) Ranging from 3.8% to 4.5% with maturity dates ranging from July 1, 2008 to July 1, 2030.

-continued-

NOTE 6 - CAPITAL LEASE OBLIGATIONS (continued)

The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 281 West 261st Street, Riverdale, New York; and 48-46 58th Place, Woodside, New York. (7) Ranging from 3.1% to 4.75% with maturity dates from July 1, 2008 to July 1, 2020. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 3737 Martin Court, Seaford, New York; and 197 Canterbury Road, Williston Park, New York. (8) Ranging from 4.15% to 5.1% with maturity dates from July 1, 2008 to July 1, 2031. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 54-37 Browvale Lane, Little Neck, New York; 82-24 209th Street, Hollis Hills, New York; 460 West 34th Street, 11th Floor North, New York, New York; 460 West 34th Street, 11th Floor West, New York, New York; 460 West 34th Street, 9th Floor Day Hab, New York, New York; 29-42 Tiffany Place, Apartment #1A, 1B, 1C, Brooklyn, New York; 1015 Avenue Z, Brooklyn, New York; 2140 Glebe Avenue, Bronx, New York; 2422 Bragg Street, Brooklyn, New York; 3340-3342 Nostrand Avenue, Brooklyn, New York; 211-11 Northern Boulevard, Bayside, New York; 3079 Hull Avenue, Bronx, New York; 135-39 Union Turnpike, Kew Gardens, New York; and 33-32 89th Street, Jackson Heights, New York. (9) Ranging from 4.15% to 4.9% with maturity dates from July 1, 2008 to July 1, 2021. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 555 Washington Avenue, Brentwood, New York. (10) Ranging from 4.15% to 4.9% with maturity dates from July 1, 2008 to July 1, 2021. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 677 White Plains Road, Tarrytown, New York; 61 Parkway Drive, Port Chester, New York; and 24 Belvedere Place, New Rochelle, New York. (11) Ranging from 4.15% to 4.9% with maturity dates from July 1, 2008 to July 1, 2021. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 18 LaMarcus Avenue, Glen Cove, New York; 302 Jerusalem Avenue, Hicksville, New York; and 1241 Round Swamp Road, Old Bethpage, New York. (12) Ranging from 3.80% to 4.50% with maturity dates from April 1, 2008 to July 1, 2021. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 41-76 Little Neck Parkway, Little Neck, New York. (13) Ranging from 4.10% to 5.30% with maturity dates from November 1, 2008 to July 1, 2027. The proceeds from the loan were used to finance the purchase and renovation of collateralized properties located at 18 North Howell Ave., Centereach, New York and 320 West 13th Street, New York, New York. As part of the agreement with NYCIDA, YAI transferred the titles to the above-mentioned 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 all of the leased property for $1.

-continued-

NOTE 6 - CAPITAL LEASE OBLIGATIONS (continued)

YAI has entered into capital lease agreements to fund the purchase of buildings, building improvements and equipment. Future minimum lease payments are as follows:

2008-2009	$ 4,731,349
2009-2010	4,389,400
2010-2011	4,081,646
2011-2012	3,573,186
2012-2013	3,105,148
Thereafter	16,634,692
	36,515,421
Less amount representing interest	(8,619,658)
Present value of net minimum lease payments	$ 27,895,763

NOTE 7 - 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 the Internal Revenue Service Code Section 415 on an annual basis and totaled $6,110,016 for the year ended June 30, 2008.

NOTE 8 - LEASED FACILITIES

YAI leases various facilities for its administrative office and program sites. The leases expire at various periods through June 2023. Rental expense for the year ended June 30, 2008 was $6,102,285.

-continued-

NOTE 8 - LEASED FACILITIES (continued)

The minimum annual rental payments are as follows:

2008-2009	$ 5,799,935
2009-2010	5,073,537
2010-2011	4,658,078
2011-2012	4,515,684
2012-2013	3,973,574
Thereafter	11,317,970
	$ 35,338,778

NOTE 9 - FUNCTIONAL EXPENSES

Program expenses	$ 145,594,799
General support services	17,589,028
Cost of direct benefits of special events	891,800
Fund-raising expenses	349,794
Total expenses	$ 164,425,421

Total interest expense for the year ended June 30, 2008 was $3,897,103.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Young Adult Institute, Inc. received funds from the New York State Health Foundation 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 amount released from restrictions during the year was $9,062. The balance available at June 30, 2008, is $53,961.

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NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by YAI in estimating the fair value of its financial instruments:

Cash and cash equivalents - The carrying amount approximates fair value because the instrument is liquid in nature.

Money market - U.S. Government securities - The fair value is estimated based upon quoted market prices.

Notes and mortgage payable - The carrying amounts approximate fair value because the interest rates are similar to rates currently offered.

Capital lease obligations - The carrying amounts approximate fair value because the interest rates are similar to rates currently offered.

The estimated fair values of YAI's financial instruments are as follows:

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 3,387,392	$ 3,387,392
Money market - U.S. Government securities	4,810,020	4,810,020
Notes and mortgage payable	38,773,126	38,773,126
Capital lease obligations	27,895,763	27,895,763

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YOUNG ADULT INSTITUTE, INC.

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2007

LOEB & TROPER LLP

YOUNG ADULT INSTITUTE, INC.

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YAII-FS07

LOEB & TROPER LLP

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Independent Auditor's Report

Board of Directors
Young Adult Institute, Inc.

We have audited the accompanying balance sheet of Young Adult Institute, Inc. (YAI) as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of YAI's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Young Adult Institute, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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. as of June 30, 2007, 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.

Loeb & Troper LLP

January 22, 2008

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors

655 Third Avenue, 12th Floor, New York, NY 10017
(212) 867-4000 / Fax (212) 867-9810 / www.loebandtroper.com

EXHIBIT A

YOUNG ADULT INSTITUTE, INC.

BALANCE SHEET

JUNE 30, 2007

ASSETS

Cash and cash equivalents	$ 4,461,793
Money market - U.S. Government securities	4,080,799
Accounts receivable	
Medicaid	30,401,524
New York State	4,039,160
New York City	489,878
Client fees	148,825
Private pay	272,272
Medicare	366,844
Prepaid expenses and other receivables	4,765,042
Bond issuance costs (net of accumulated amortization of $3,073,835)	4,329,371
Fixed assets - at cost (net of accumulated depreciation and amortization of $27,040,043) (Note 3)	39,573,930
Other assets	10,134,676
Total assets	$ 103,064,114

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	$ 20,405,352
Due to New York State (Note 4)	1,896,651
Notes and mortgages payable (Note 5)	37,135,348
Capital lease obligations (Note 6)	27,486,258
Total liabilities	86,923,609
Net assets (Exhibit B)	
Unrestricted	16,107,396
Temporarily restricted (Note 10)	33,109
Total net assets	16,140,505
Total liabilities and net assets	$ 103,064,114

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

EXHIBIT B

YOUNG ADULT INSTITUTE, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Total
Operating revenues			
Medicaid	$ 120,016,248		$ 120,016,248
New York State contractual agreements	23,214,854		23,214,854
New York City contractual agreements	1,595,015		1,595,015
Client fees	4,963,675		4,963,675
Private Pay	677,461		677,461
Medicare	951,154		951,154
Total operating revenues	151,418,407		151,418,407
Operating expenses			
Residential services	69,736,514		69,736,514
Clinical services	55,860,917		55,860,917
Home health care services	8,018,331		8,018,331
Employment initiative services	2,634,267		2,634,267
General support services	16,871,631		16,871,631
Total operating expenses	153,121,660		153,121,660
Change in net assets from operations	(1,703,253)		(1,703,253)
Nonoperating revenues and expenses			
Contributions	734,263	$ 112,177	846,440
Investment income	236,279		236,279
Fund-raising expenses	(147,390)		(147,390)
Special events	2,255,043		2,255,043
Cost of direct benefits of special events	(725,584)		(725,584)
Other	1,535		1,535
Net assets released from restrictions (Note 10)	79,068	(79,068)	
Total nonoperating revenues and expenses	2,433,214	33,109	2,466,323
Change in net assets (Exhibit C)	729,961	33,109	763,070
Net assets - beginning of year	15,377,435		15,377,435
Net assets - end of year (Exhibit A)	$ 16,107,396	$ 33,109	$ 16,140,505

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

EXHIBIT C

YOUNG ADULT INSTITUTE, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2007

Cash flows from operating activities	
Change in net assets (Exhibit B)	$ 763,070
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	4,115,195
Increase in assets	
Accounts receivable	(2,340,044)
Prepaid expenses and other receivables	(1,845,212)
Other assets	(177,927)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	726,560
Due to New York State	(158,066)
Net cash provided by operating activities	1,083,576
Cash flows from investing activities	
Fixed asset acquisitions	(6,429,049)
Proceeds from sale of money market - U.S. Government securities - under repurchase agreement	3,009,456
Maturity of certificate of deposit	331,099
Net cash used by investing activities	(3,088,494)
Cash flows from financing activities	
Principal payments on notes and mortgage loans	(10,167,155)
Principal payments on capital leases	(3,126,085)
Proceeds from notes and mortgage loans	17,185,468
Net cash provided by financing activities	3,892,228
Net increase in cash and cash equivalents	1,887,310
Cash and cash equivalents - beginning of year	2,574,483
Cash and cash equivalents - end of year	$ 4,461,793

-continued-

LOEB & TROPER LLP

EXHIBIT C
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YOUNG ADULT INSTITUTE, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2007

Supplemental disclosure of cash flow information		
Cash paid for interest	$	3,920,363
Capital lease obligations of $1,710,000 were incurred during the year for the following:		
Refinancing of mortgage loans	$	1,400,378
Debt service reserve fund		109,474
Bond issuance costs		200,148
	$	1,710,000

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See independent auditor's report.

The accompanying notes are an integral part of these statements.

YOUNG ADULT INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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. Young Adult Institute, Inc. 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 more than 225 programs and direct services benefit more than 9,000 individuals and their families daily in 10 counties throughout the New York metropolitan area. YAI is funded primarily from Medicaid.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared on the accrual basis.

YAI has cash deposits with various major banks in excess of Federal Deposit Insurance Corporation limits. YAI has not experienced any losses on its cash deposits.

Money Market U.S. Government securities are stated at fair value based upon quoted market.

The New York State Office of Mental Retardation and Developmental Disabilities (OMRDD) 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 OMRDD 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.

Certain outside agencies have the right to audit YAI involving contractual relationships with these agencies. Management deems that a provision for possible audit adjustments is not required.

Unrestricted net assets are those assets which are not restricted by donors or which the donor-imposed restrictions have expired.

Fixed assets are recorded at cost. Depreciation and amortization of fixed assets are recorded on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is recorded on the straight-line method over the term of the lease.

Cash and cash equivalents include certain investments in highly liquid instruments with original maturities when acquired of three months or less.

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YOUNG ADULT INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Unconditional contributions including promises to give cash and other assets are reported at fair value at the date the contribution is received. YAI reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Temporarily restricted net assets are those whose use has been restricted by donors to a specific time period or purpose.

In accordance with SOP 98-5, YAI expenses all start-up costs. In addition, in order to account for the future reimbursement of these costs, YAI has recorded a deferred charge equal to the net future reimbursement it expects in the operation of its programs. The deferred charge will reduce revenue over the period of reimbursement.

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.

NOTE 3 - FIXED ASSETS

	Cost	Accumulated Depreciation and Amortization	Net	Estimated Useful Lives
Land	$ 8,426,073		$ 8,426,073	
Building	16,016,230	$ 8,517,724	7,498,506	15 - 25 years
Building improvements	20,530,536	7,876,730	12,653,806	3 - 25 years
Equipment	2,016,222	1,946,972	69,250	3 - 20 years
Furniture and fixtures	2,574,708	1,443,321	1,131,387	5 years
Leasehold improvements	10,017,613	6,848,909	3,168,704	2 - 10 years
Computer software	875,025	406,387	468,638	5 years
Construction in progress	6,157,566		6,157,566	
	$ 66,613,973	$ 27,040,043	$ 39,573,930	

-continued-

YOUNG ADULT INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 4 - DUE TO NEW YORK STATE

YAI has entered into contracts with OMRDD for the operation of intermediate care facilities, individual residential alternatives, community residences, supportive apartments and day treatment programs. As part of these agreements, OMRDD advanced YAI funds for preoperational start-up costs, equipment, renovations, lease costs, real estate taxes and operations. YAI has agreed to pay back to OMRDD all of the above funds to the extent that such costs are reimbursed by Medicaid.

Total $ 1,896,651

Payments over the next five years are as follows:

2007-2008	881,711
2008-2009	253,735
2009-2010	253,735
2010-2011	253,735
2011-2012	253,735

NOTE 5 - NOTES AND MORTGAGES PAYABLE

The prime interest rate of Key Bank and Bank of America was 8.25% on June 30, 2007.

B. Key Bank

YAI has an available line of credit of $18 million carrying an interest rate of the bank's prime per annum. The loan is secured by the agency's accounts receivable and matures on June 30, 2009.	$ 15,683,965

B. Bank of America

YAI has available a $4 million line of credit carrying an interest rate of 3/4% over the bank's prime per annum, maturing on August 7, 2009. The note is collateralized by Medicaid rate appeal accounts receivable.	2,220,782
YAI has available a $4 million line of credit carrying an interest rate of 3/4% over the bank's prime per annum, which matures on July 24, 2009. The note is collateralized by Medicaid rate adjustment accounts receivable.	3,925,134

-continued-

NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

B. Bank of America (continued)

YAI has available a $11.5 million line of credit for the acquisition and renovation of residences. Upon receipt of New York State prior property approvals, the funds drawn down are converted into notes. The line is available until April 29, 2008 and the following notes have been executed:

1. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on March 28 and April 29, 2008. The secured loan was used to finance leasehold improvements on property located at 320 West 13th Street, New York, New York.	$	1,525,506
2. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on November 25, 2008. The secured loan was used to finance leasehold improvements on property located at 3321 Bainbridge Avenue, Bronx, New York.		7,400
3. The notes, bearing an interest rate of 1/2% over the bank's prime per annum, mature on November 8, 2008. The secured loan was used to finance leasehold improvements on property located at 736 West 187th Street, Units 202 & 203, New York, New York.		1,423,157
4. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on March 28, 2008. The secured loan was used to finance leasehold improvements on property located at 47-52 Glenwood Street, Little Neck, New York.		1,103,201
5. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on March 28, 2008. The secured loan was used to finance leasehold improvements on property located at 340 Old Town Road, East Setauket, New York		24,329
6. The note, bearing an interest rate of 1/2% over the bank's prime per annum matures on May 3, 2008. The secured loan was used to finance leasehold improvements on property located at 475 Union Avenue, Westbury, New York.		34,578

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NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

B. Bank of America (continued)

7. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on May 3, 2008. The secured loan was used to finance leasehold improvements on property located at 18 North Howell, Centereach, New York.	704,149
8. The note, bearing an interest rate of 1/2% over the bank's prime per annum, matures on March 28, 2008. The secured loan was used to finance leasehold improvements on property located at 460 West 34th Street, New York, New York.	202,149

C. Dormitory Authority of the State of New York

Young Adult Institute, Inc. entered into a loan agreement 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 of Mental Retardation and Developmental Disabilities.	10,280,998

1. The principal amount of $15,032 carries an interest rate of 7.15% per annum, payable in semiannual installments until February 2008. The property collateralized is located at 34-40 79th Street, Apartments 3F and 6F, Jackson Heights, New York.

2. The principal amount of $77,929 carries an interest rate of 6.00% per annum, payable in semiannual installments until August 2008. The property collateralized is located at 197 Canterbury Road, Williston Park, New York.

3. The principal amount of $66,003 carries an interest rate of 5.31% per annum, payable in semiannual installments until February 2009. The property collateralized is located at 84-15 127th Street, Kew Gardens, New York.

-continued-

NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

C. ***Dormitory Authority of the State of New York***

4. The principal amount of $185,004 carries an interest rate of 5.81% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 26-04 203rd Street, Bayside, New York.

5. The principal amount of $172,904 carries an interest rate of 5.81% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 924 Hampshire Road, Bay Shore, New York.

6. The principal amount of $221,654 carries an interest rate of 5.61% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 2228 Ocean Avenue, Brooklyn, New York.

7. The principal amount of $221,343 carries an interest rate of 5.61% per annum, payable in semiannual installments until August 2010. The property collateralized is located at 82-24 209th Street, Hollis, New York.

8. The principal amount of $186,604 carries an interest rate of 5.44% per annum, payable in semiannual installments until February 2011. The property collateralized is located at 1352 East 15th Street, Brooklyn, New York.

9. The principal amount of $237,404 carries an interest rate of 5.44% per annum, payable in semiannual installments until February 2011. The property collateralized is located at 2985 Bedford Avenue, Brooklyn, New York.

10. The principal amount of $239,940 carries an interest rate of 7.27% per annum, payable in semiannual installments until August 2014. The property collateralized is located at One Rose Lane, Yonkers, New York.

-continued-

NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

C. ***Dormitory Authority of the State of New York (continued)***

11. The principal amount of $220,952 carries an interest rate of 7.29% per annum, payable in semiannual installments until August 2014. The property collateralized is located at 5437 Browvale Lane, Little Neck, New York.

12. The principal amount of $117,375 carries an interest rate of 7.29% per annum, payable in semiannual installments until August 2014. The property collateralized is located at 2 Merdian Road, Levittown, New York.

13. The principal amount of $390,228 carries an interest rate of 7.67% per annum, payable in semiannual installments until August 2015. The property collateralized is located at 2647 East 13th Street, Brooklyn, New York.

14. The principal amount of $927,459 carries an interest rate of 7.82% per annum, payable in semiannual installments until February 2016. The property collateralized is located at 677 White Plains Road, Tarrytown, New York.

15. The principal amount of $3,378,295 carries an interest rate of 7.82% per annum, payable in semiannual installments until February 2016. The property collateralized is located at 677 White Plains Road, Tarrytown, New York.

16. The principal amount of $391,472 carries an interest rate of 7.82% per annum, payable in semiannual installments until February 2016. The property collateralized is located at 177 Falmouth Road, Yonkers, New York.

17. The principal amount of $367,273 carries an interest rate of 6.17% per annum, payable in semiannual installments until August 2018. The property collateralized is located at 289 Sprucewood Drive, Levittown, New York.

-continued-

NOTE 5 - NOTES AND MORTGAGES PAYABLE (continued)

C. Dormitory Authority of the State of New York (continued)

18. The principal amount of $441,026 carries an interest rate of 6.03% per annum, payable in semiannual installments until August 2018. The property collateralized is located at 42 Stratton Road, New Rochelle, New York.

19. The principal amount of $1,979,253 carries an interest rate of 6.42% per annum, payable in semiannual installments until February 2019. The property collateralized is located at 314 East 35th Street, New York, New York.

20. The principal amount of $443,848 carries an interest rate of 6% per annum, payable in semiannual installments until February 2017. The property collateralized is located at 191-55 Foothill Terrace, Holliswood, New York.

$ 37,135,348

Principal payments over the next five years are as follows:

2007-2008	$ 4,782,632
2008-2009	18,240,502
2009-2010	7,343,361
2010-2011	1,028,841
2011-2012	940,647

-continued-

NOTE 6 - CAPITAL LEASE OBLIGATIONS

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 of: (1) 6.5%, 6.875% and 7.25% per annum with maturity dates of July 1, 2007, July 1, 2010 and July 1, 2016, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 3321 Bainbridge Avenue, Bronx, New York; 3112 East Tremont Avenue, Bronx New York; 656 Commack Road, Commack, New York; 340 Old Town Road, Setauket, New York. (2) 6.1% and 6.5% per annum with maturity dates of July 1, 2012 and July 1, 2017, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized property located at 3180 Rochambeau Avenue, Bronx, New York; and (3) 5.50%, 6.00% and 6.50% per annum with maturity dates of July 1, 2007, July 1, 2012 and July 1, 2017, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 110-56 67th Drive, Forest Hills, New York; 1 Gerald Drive, Holbrook, New York; 150 Van Guilder Ave., New Rochelle, New York; 24 Belvedere Place, New Rochelle, New York; 124 Wagner Ave., Mamaroneck, New York; and 16 Brentwood Dr., Pleasantville, New York. (4) 4.5% with maturity date of July 1, 2009 and 5.25% and 6.8% per annum with maturity dates of July 1, 2014 and July 1, 2019, respectively. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 305 East 206th Street, Bronx, New York; 2253 Nostrand Avenue, Brooklyn, New York; 125 East 36th Street, New York, New York; 460 West 34th Street, New York, New York; 421 North Barry Avenue, Mamaroneck, New York; and 146 Villa Avenue, Yonkers, New York. (5) Ranging from 3.1% to 4.75% with maturity dates ranging from July 1, 2007 to July 1, 2020. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 580 Broadway, Hastings, New York; 261 King Street, Port Chester, New York; 56 Woodycrest Avenue, Yonkers, New York; and 62 Woodland Avenue, Rye Brook, New York. (6) Ranging from 3.8% to 4.5% with maturity dates ranging from July 1, 2007 to July 1, 2030. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 281 West 261st Street, Riverdale, New York; and 48-46 58th Place, Woodside, New York. (7) Ranging from 3.1% to 4.75% with maturity dates from July 1, 2007 to July 1, 2020. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 3737 Martin Court, Seaford, New York; and 197 Canterbury Road, Williston Park, New York. (8) Ranging from 4.15% to 5.1% with maturity dates from July 1, 2007 to July 1, 2031. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 54-37 Browvale Lane, Little Neck, New York; 82-24 209th Street, Hollis Hills, New York; 460 West 34th Street, 11th Floor North, New York, New York; 460 West 34th Street, 11th Floor West, New York, New York; 460 West 34th Street, 9th Floor Day Hab, New York, New York; 29-42 Tiffany Place, Apartment #1A, 1B, 1C, Brooklyn, New York; 1015 Avenue Z, Brooklyn, New York; 2140 Glebe Avenue, Bronx, New York; 2422 Bragg Street, Brooklyn, New York; 3340-3342 Nostrand Avenue, Brooklyn, New York; 211-11 Northern Boulevard, Bayside, New York; 3079 Hull Avenue, Bronx, New York; 135-39 Union

-continued-

NOTE 6 - CAPITAL LEASE OBLIGATIONS (continued)

Turnpike, Kew Gardens, New York; and 33-32 89th Street, Jackson Heights, New York. (9) Ranging from 4.15% to 4.9% with maturity dates from July 1, 2007 to July 1, 2021. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 555 Washington Avenue, Brentwood, New York. (10) Ranging from 4.15% to 4.9% with maturity dates from July 1, 2007 to July 1, 2021. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 677 White Plains Road, Tarrytown, New York; 61 Parkway Drive, Port Chester, New York; and 24 Belvidere Place, New Rochelle, New York. (11) Ranging from 4.15% to 4.9% with maturity dates from July 1, 2007 to July 1, 2021. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 18 LaMarcus Avenue, Glen Cove, New York; 302 Jerusalem Avenue, Hicksville, New York; and 1241 Round Swamp Road, Old Bethpage, New York. (12) Ranging from 3.80% to 4.50% with maturity dates from April 1, 2007 to July 1, 2021. The proceeds of the loan were used to finance the purchase and renovation of collateralized properties located at 41-76 Little Neck Parkway, Little Neck, New York. As part of the agreement with NYCIDA, YAI transferred the titles to the above-mentioned 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 all of the leased property for $1.

YAI has entered into capital lease agreements to fund the purchase of buildings, building improvements and equipment. Future minimum lease payments are as follows:

2007-2008	$ 4,453,212
2008-2009	4,081,304
2009-2010	3,746,997
2010-2011	3,451,474
2011-2012	2,992,669
Thereafter	17,933,695
	36,659,351
Less amount representing interest	(9,173,093)
Present value of net minimum lease payments	$ 27,486,258

Total interest expense for the year ended June 30, 2007 was $3,920,363.

-continued-

NOTE 7 - 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 the Internal Revenue Service Code Section 415 on an annual basis and totaled $5,760,196 for the year ended June 30, 2007.

NOTE 8 - LEASED FACILITIES

YAI leases various facilities for its administrative office and program sites. The leases expire at various periods through June 2023. Rental expense for the year ended June 30, 2007 was $5,508,830.

The minimum annual rental payments are as follows:

2007-2008	$ 6,028,166
2008-2009	5,472,016
2009-2010	4,681,482
2010-2011	4,404,939
2011-2012	4,235,446
Thereafter	14,214,107
	$ 39,036,156

NOTE 9 - FUNCTIONAL EXPENSES

Program expenses	$ 136,250,029
General support services	16,871,631
Cost of direct benefits of special events	725,584
Fund-raising expenses	147,390
Total expenses	$ 153,994,634

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YOUNG ADULT INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Young Adult Institute, Inc. received funds from the New York State Health Foundation 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.

Funds received	$	112,177
Net assets released from restrictions		(79,068)
	$	33,109

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by YAI in estimating the fair value of its financial instruments:

Cash and cash equivalents - The carrying amount approximates fair value because the instrument is liquid in nature.

Money market - U.S. Government securities - The fair value is estimated based upon quoted market prices.

Notes and mortgage payable - The carrying amounts approximate fair value because the interest rates are similar to rates currently offered.

Capital lease obligations - The carrying amounts approximate fair value because the interest rates are similar to rates currently offered.

The estimated fair values of YAI's financial instruments are as follows:

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 4,461,793	$ 4,461,793
Money market – U.S. Government Securities	4,080,799	4,080,799
Notes and mortgage payable	37,135,348	37,135,348
Capital lease obligations	27,486,258	27,486,258

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APPENDIX C-I

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

UNAUDITED FINANCIAL INFORMATION

FOR THE PERIOD FROM JULY 1, 2009 THROUGH MARCH 31, 2010

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FEGS HEALTH AND HUMAN SERVICES SYSTEM
SUMMARY OF OPERATIONS
MARCH, 2010 YEAR TO DATE ACTUALS

	EIGHT MONTHS ENDING March 31, 2010 ACTUAL
TOTAL REVENUES	176,174,747
TOTAL EXPENSES	172,175,008
NET OPERATING INCOME	3,999,739
LESS DEPRECIATION	(4,244,844)
ADD: INTEREST AND PRIOR YEAR'S INCOME	120,753
NET SURPLUS/(DEFICIT)	(124,352)

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APPENDIX C-II

HUMAN CARE SERVICES FOR FAMILIES & CHILDREN, INC.

UNAUDITED FINANCIAL INFORMATION

FOR THE PERIOD FROM JULY 1, 2009 THROUGH MARCH 31, 2010

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HUMAN CARE SERVICE FOR FAMILIES AND CHILDREN
STATEMENT OF REVENUES AND EXPENDITURES
From 07/01/2009 - 03/31/10
UNAUDITED

REVENUE:			
GOVERNMENT	10,961,908		
INVESTMENT INCOME	40,107		
DONATIONS	1,850		
OTHER	16,776		
TOTAL REVENUE			11,020,641
EXPENSES			
PERSONNEL			
SALARIES	5,210,941		
FRINGE BENEFITS	1,216,965		
		6,427,906	
OCCUPANCY			
RENT	335,491		
UTILITIES	68,514		
MAINTENANCE	47,208		
		451,213	
OTHER EXPENSES			
FOOD	148,138		
SUPPLIES	74,761		
FINANCIAL ASSISTANCE	613,922		
VEHICLE EXPENSE	150,236		
OFFICE EXPENSE	439,097		
TELEPHONE	68,068		
INTEREST EXPENSE	141,930		
DEPRECIALTION	199,191		
		1,835,343	
TOTAL EXPENSES			8,714,462
NET REVENUE			2,306,179

HUMAN CARE SERVICE FOR FAMILIES AND CHILDREN
BALANCE SHEET
03/31/10
UNAUDITED

ASSETS			
CURRENT ASSETS			
CASH & CASH EQUIVALENTS		832,658	
INVESTMENTS		4,512,823	
ACCOUNTS RECEIVABLE	4,036,695		
LESS: ALLOW FOR BAD DEBTS	(511,910)		
		3,524,785	
OTHER ASSETS		376,742	
PREPAID EXPENSES		43,660	
TOTAL CURRENT ASSETS			9,290,668
LONG TERM ASSETS			
FIXED ASSETS	5,145,291		
ALLOWANCE FOR DEPRECIOATION	(1,140,958)		
			4,004,333
TOTAL ASSETS			13,295,001
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
ACCOUNTS PAYABLE	240,601		
INTERIM LOANS - FJC	1,450,000		
TOTAL CURRENT LIABILITIES		1,690,601	
LONG TERM LIABILITIES			
IDA BONDS PAYABLE - 218 AVE N	628,749		
IDA BONDS PAYABLE - 1592 E 34TH	1,058,751		
TOTA; LONG TERM LIABILITIES		1,687,500	
TOTAL LIABILITIES			3,378,101
NET ASSETS - BEGINNNING OF YEAR		7,610,721	
CHANGE IN UNRESTRICED NET ASSETS		2,306,179	
NET ASSETS - END OF PERIOD			9,916,900
TOTAL LIABILITIES AND NET ASSETS			13,295,001

APPENDIX C-III

LIFESPIRE, INC.

UNAUDITED FINANCIAL INFORMATION

FOR THE PERIOD FROM JULY 1, 2009 THROUGH MARCH 31, 2010

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LIFESPIRE, INC.
STATEMENT OF FINANCIAL POSITION
March 31, 2010
(Unaudited)

Assets	
Cash and Cash Equivalents	17,386,007
Investments	2,864,827
Accounts Receivable - Net	817,086
Accrued Income Receivables	17,771,359
Note Receivable from Related Party	140,203
Security Deposits and Prepaid Expenses	1,410,496
Assets Restricted to investment in Poperty, Plant and Equip.	7,610,942
Property, Plant and Equipment - Net	20,537,973
Deferred Charges - Bond Issue Costs-Net	1,015,241
Total Assets	**69,554,134**

Liabilities and Net Assets

Liabilities	
Accounts Payable and Accrued Expenses	13,723,663
Accrued Payroll	2,069,309
Accrued Compensated Absences	2,795,762
Recoupments Payable	4,972,677
Deferred Income	2,281,471
Due to Funding Sources	243,685
Mortgages Payable - DASNY	4,213,340
Underfunded Pension Obligation	8,604,294
Underfunded Health Insurance Obligation	3,322,474
Notes Payable	6,449,903
Bonds Payable - DASNY	30,001
Bonds Payable IDA	10,125,000
Total Liabilities	58,831,579
Net Assets:	
Unrestricted – Undesignated	4,381,550
Unrestricted - Board Designated	1,070,110
Unrestricted - Property, Plant and Equip	5,227,338
Total Unrestricted Net Assets	10,678,998
Temporarily restricted	43,557
Total Net Assets	10,722,555
Total Liabilities and Net Assets	**69,554,134**

LIFESPIRE, INC.
STATEMENT OF ACTIVITIES
PERIOD ENDED 3/31/2010
(Unaudited)

Support and Revenue - Program Operations:	
Program Service Fees	76,205,861
Participant's Share of Room and Board	503,478
Subcontract - Net	382,789
MCFAA and DASNY Bond Fees	0
Subtotal Support and Revenue - Program Operations	77,092,128
Expenses:	
Program Services	71,641,774
Management and Administration	4,321,305
Total Expenses	75,963,079
Change in unrestricted net assets before other revenue and prior year revenue	1,129,049
Other Revenue	
Interest Income	50,506
Contributions and Fund Raising	19,863
Unrealized loss on investments	-6,128
Miscellaneous	352,974
Total other revenue	417,214
Changes in unrestricted net assets before prior period revenue	1,546,263
Prior Period Revenue	518,069
Increase in urestricted net assets	2,064,332
Net Assets, Beginning of the Period	11,152,180
Net Assets, End of the Period	**13,216,512**

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APPENDIX C-IV

SCO FAMILY OF SERVICES

UNAUDITED FINANCIAL INFORMATION

FOR THE PERIOD FROM JULY 1, 2009 THROUGH MARCH 31, 2010

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SCO Family of Services

Statements of Financial Position
As Of March 31, 2010

ASSETS	03 - 31 - 10	03 - 31 - 09
CURRENT ASSETS		
Cash and cash equivalents	$143,989	$215,266
Investments in marketable securities	23,690,212	19,400,879
Due from governmental agencies	48,484,379	50,132,654
Prepaid expenses, pledges and other current assets	1,476,616	2,150,063
Custodial accounts	344,084	442,818
Total current assets	74,139,280	72,341,680
Property and Equipment	36,814,582	38,953,080
Investment Securities designated as Collateral	2,623,151	2,581,210
Other Assets	1,790,998	1,995,566
TOTAL ASSETS	115,368,011	115,871,536
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Lines of Credit	14,500,000	18,724,304
Current portion of long-term debt	2,199,224	2,143,391
Accounts payable and accrued expenses	3,642,611	6,457,226
Accrued payroll, vacation and related withholdings	10,365,949	9,859,214
Accrued foster care payments	1,283,539	1,170,493
Due to governmental agencies	3,547,049	385,495
Accrued interest payable	241,118	227,566
Short Term Deferred revenue	6,882,322	7,493,275
Custodial accounts	344,084	442,818
Total current liabilities	43,005,896	46,903,782
LONG TERM DEBT	24,593,471	24,785,139
LONG TERM DEFERRED REVENUE	1,947,813	1,755,584
Total liabilities	69,547,180	73,444,505
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted -Board designated		
Collateral	2,623,151	2,581,210
Other	15,710,532	11,529,249
Unrestricted - Undesignated	16,760,407	17,818,937
Total unrestricted net assets	35,094,090	31,929,396
Temporarily restricted	10,726,741	10,497,635
Total net assets	45,820,831	42,427,031
TOTAL LIABILITIES AND NET ASSETS	115,368,011	115,871,536

SCO Family of Services

Statements of Unrestricted Activities
As Of March 31, 2010

	03 - 31 - 10	03 - 31 - 09
PROGRAM REVENUE AND SUPPORT		
Direct program revenues		
Contract programs	51,103,824	47,624,383
Contract programs - Foundation grants	3,169,512	3,020,088
Foster boarding homes	29,567,494	29,051,120
Group homes	12,476,603	13,031,423
Medicaid programs	10,208,748	9,266,406
Residential treatment centers	9,979,284	9,892,524
Residential treatment facilities	8,517,892	8,303,476
Individual residential alternative	7,628,884	7,498,706
Schools	6,922,778	6,322,486
Intermediate care facilities	5,208,767	5,037,694
Shelter programs	1,720,257	1,704,773
Total Direct program revenues	146,504,043	140,753,079
Prior years' cost reimbursement adjustments	(167,876)	307,357
Contributions and other income	801,192	987,250
Net assets released from restrictions	1,933,169	2,307,857
Total program revenue and support	149,070,528	144,355,543
PROGRAM EXPENSES AND OTHER EXPENSES		
Direct program costs:		
Contract programs	52,288,459	49,940,850
Foster boarding homes	28,592,203	26,776,258
Group homes	11,813,558	11,828,965
Residential treatment centers	9,868,944	9,012,372
Medicaid programs	9,111,107	8,521,444
Residential treatment facilities	8,034,139	7,628,596
Individual residential alternative	7,377,449	7,115,423
Schools	6,325,943	6,412,195
Intermediate care facilities	4,658,225	4,735,348
Shelter programs	1,558,167	1,480,030
Total direct program expenses	139,628,194	133,451,481
Management and other indirect costs	9,603,234	9,213,034
Fund Raising expenses	385,941	342,007
	9,989,175	9,555,041
Total program expenses	149,617,369	143,006,522
CHANGE IN NET ASSETS FROM OPERATIONS	(546,841)	1,349,021
INVESTMENT INCOME (LOSS)		
Interest and dividend income	415,345	453,547
Realized and unrealized gains (losses) on securities	2,290,861	(4,823,006)
	2,706,206	(4,369,459)
CHANGE IN TOTAL UNRESTRICTED NET ASSETS	2,159,365	(3,020,438)

SCO Family of Services

Statements of Changes in Net Assets
As Of March 31, 2010

	Unrestricted	Temporarily Restricted	Total
NET ASSETS, BEGINNING OF YEAR	32,934,725	10,287,652	43,222,377
Program revenue and support	146,336,167	0	146,336,167
Net assets released from restrictions	1,933,169	(1,933,169)	0
Contributions	801,192	2,372,258	3,173,450
Investment Gain (loss)	2,706,206	0	2,706,206
Total	151,776,734	439,089	152,215,823
EXPENSES	149,617,369	0	149,617,369
CHANGE IN NET ASSETS	2,159,365	439,089	2,598,454
NET ASSETS, END OF PERIOD	35,094,090	10,726,741	45,820,831

SCO Family of Services

STATEMENTS OF CASH FLOWS
As Of March 31, 2010

	03 - 31 - 10	03 - 31 - 09
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease)/Increase in net assets	$2,598,454	($2,638,040)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle	-	-
Depreciation and amortization	2,121,950	2,023,995
Amortization of deferred financing costs	118,292	115,936
Unrealized change in appreciation of investments	(2,369,907)	4,778,456
Realized loss on sale of marketable securities	79,047	44,550
Gain on disposal of fixed assets	(11,061)	(13,012)
Restricted contributions	(2,372,258)	(2,690,255)
Change in operating assets and liabilities:		
Decrease/(Increase) in due from governmental agencies	(178,908)	(5,019,112)
Decrease/(Increase) in prepaid expenses, pledges and other receivables	858,617	4,679,394
Decrease/(Increase) in other assets	30,180	(218,981)
(Decrease)/Increase in accounts payable and accrued expenses	(7,628,034)	(681,071)
(Decrease)/Increase in accrued payroll, vacation and related withholdings	(1,683,072)	(2,415,039)
(Decrease)/Increase in accrued foster parent payroll	154,717	108,335
(Decrease)/Increase in accrued interest payable	(214,011)	(251,617)
(Decrease)/Increase in due to governmental agencies	1,192,393	(578,700)
(Decrease)/Increase in long-term liabilities and deferred revenue	4,667,640	4,424,417
(Decrease)/Increase in custodial accounts	0	132,528
Net cash (used) provided by operating activities	(2,635,961)	1,801,784
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment, net	(666,380)	(6,420,518)
Purchase of investments in marketable equity securities	0	0
Proceeds from sales of marketable equity securities	(3,270,998)	(510,539)
Purchases of designated investments	474,413	692,981
Proceeds from sales of designated investments	(64,289)	(33,258)
Net cash (used) provided by investing activities	(3,527,254)	(6,271,334)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term liabilities & letter of credit	(16,186,180)	(28,928,097)
Restricted contributions	2,372,258	2,690,255
Proceeds from bonds/loan agreements/letter of credit	14,280,075	29,200,000
	466,153	2,962,158
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(5,697,062)	(1,507,392)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,841,051	1,722,658
CASH AND CASH EQUIVALENTS, END OF PERIOD	143,989	215,266

SCO Family of Services
Functional Expense Report with Budget
For the Nine Months Ending March 31, 2010

Description	Contract Programs	Foster Boarding Homes	Group Homes	Mngmnt and Other Costs	Resident'l Treatment Centers	Medicaid Programs	Resident'l Treatment Facilities	Individual Resident'l Altern.	Schools	Intermed. Care Facilities	Shelter Programs	TOTAL COSTS	YTD Budget
Salaries	26,187,709	10,050,893	6,604,468	6,026,878	6,000,599	5,302,007	4,297,289	4,449,633	4,115,519	2,674,923	944,001	76,653,919	79,888,988
Employee Fringe Benefits	7,419,155	3,068,318	2,026,277	1,859,792	1,837,317	1,632,474	1,301,142	1,306,848	1,238,446	780,466	289,538	22,759,773	21,870,200
Sub - Total	33,606,864	13,119,211	8,630,745	7,886,670	7,837,916	6,934,481	5,598,431	5,756,481	5,353,965	3,455,389	1,233,539	99,413,692	101,759,188
Rent	8,578,424	456,271	584,674	17,869	80,250	76,520	7,937	241,084	2,791	45,897	0	10,091,717	10,044,573
Purchase of Services	3,391,803	1,309,709	153,546	283,539	495,827	35,798	312,827	63,143	78,871	34,074	35,657	6,194,794	6,373,820
Utilities	871,496	153,421	273,770	133,582	256,127	27,009	211,876	120,967	111,041	65,706	52,380	2,277,375	2,546,105
Depreciation & Amortization	317,696	238,974	230,462	265,875	203,999	42,350	316,375	231,392	230,091	151,915	43,269	2,272,398	2,371,653
Food	368,329	3,259	536,534	0	218,564	0	153,447	246,161	48	125,587	51,446	1,703,375	1,798,453
Purchase of Health Services	195,514	0	0	0	0	994,940	118,817	24,912	126,122	104,455	0	1,564,760	1,662,828
Interest	276,437	145,788	90,401	143,153	124,440	40,626	208,386	147,312	181,559	150,288	22,391	1,530,781	1,546,405
Supplies & Equipment	472,666	80,645	260,229	75,359	197,577	58,371	107,909	104,772	65,298	60,208	36,116	1,519,150	1,941,473
Supplies & Equipment - Med	27,790	0	0	0	0	782,866	579,736	17,734	858	15,604	123	1,424,711	1,564,590
Transportation & Workers Exp	570,219	425,842	213,638	44,701	59,909	6,156	28,931	16,691	1,038	3,968	923	1,372,016	1,738,309
Insurance	367,179	174,214	158,580	73,492	95,280	21,241	64,767	86,894	63,639	47,599	27,355	1,180,240	1,193,858
Professional Fees	124,174	430,482	9,131	401,347	20,963	13,151	1,681	4,243	1,491	1,042	1,527	1,009,232	1,104,124
Allowance - Parents	735,329	85,041	7,463	0	81	3	0	0	0	0	0	827,917	707,562
Rent of Furnishings & Equip	224,924	186,364	114,399	43,312	33,324	21,925	30,904	85,715	31,941	38,367	10,736	821,911	911,578
Repairs & Maintenance	275,900	50,861	73,421	18,612	94,019	14,018	61,790	125,394	28,504	48,707	21,304	812,530	713,077
Office Supplies	230,394	82,951	62,243	117,666	41,284	15,585	16,140	24,941	10,790	17,042	6,375	625,411	749,407
Real Estate Taxes	327,037	2,493	0	244,433	0	0	0	0	0	0	65	574,028	13,453
Telephone & Telegraph	210,502	98,310	85,269	69,722	13,053	9,333	15,532	22,136	3,974	11,438	7,373	546,642	733,807
Activities - Children	149,014	56,374	101,522	1,515	23,864	256	52,379	16,484	6,513	5,208	2,149	415,278	1,171,753
Clothing	12,458	0	140,796	0	45,640	0	60,436	30,369	0	16,977	318	306,994	333,483
Administrative Expense	4,185	4,806	7,678	8,267	507	4,257	2,225	292	455	236,196	73	268,941	359,393
Dues, Licenses & Permits	20,219	2,401	1,782	94,144	6,669	860	20,577	1,218	11,387	8,586	51	167,894	110,177
Beddings and Linen	55,914	0	22,780	0	1,480	0	58,952	5,284	0	12,794	1,995	159,199	164,953
Other Expenses	117,640	10,381	0	275	300	2,830	0	0	192	0	0	131,618	0
Staff Development	42,841	11,881	4,622	36,147	13,276	4,332	1,360	3,269	5,441	456	621	124,246	239,883
Postage	12,616	50,172	2,945	22,984	3,791	3,699	1,299	222	1,394	384	1,476	100,982	102,676
Tuition and Related - Children	21,785	2,253	5,346	0	54	0	0	0	8,131	0	115	37,684	34,149
Subscriptions & Publications	17,035	1,258	1,182	2,054	0	500	682	339	409	338	790	24,587	23,492
Repairs & Maintenance - Veh	253	0	0	4,457	0	0	743	0	0	0	0	5,453	4,583
Sub - Total	18,019,773	4,064,151	3,142,413	2,102,505	2,030,278	2,176,626	2,435,708	1,620,968	971,978	1,202,836	324,628	38,091,864	40,259,617
Foster Care Payments	527,762	10,713,889	0	0	0	0	0	0	0	0	0	11,241,651	10,992,239
Clothing Replacement Payment	1,534	304,998	0	0	0	0	0	0	0	0	0	306,532	743,081
Special Payments	132,526	389,954	40,400	0	750	0	0	0	0	0	0	563,630	568,617
Sub - Total	661,822	11,408,841	40,400	0	750	0	0	0	0	0	0	12,111,813	12,303,937
Total Costs	52,288,459	28,592,203	11,813,558	9,989,175	9,868,944	9,111,107	8,034,139	7,377,449	6,325,943	4,658,225	1,558,167	149,617,369	154,322,742

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APPENDIX C-V

SERVICES FOR THE UNDERSERVED, INC. AND RELATED ORGANIZATIONS
AND
SUS – DEVELOPMENTAL DISABILITIES SERVICES, INC.

UNAUDITED FINANCIAL INFORMATION

FOR THE PERIOD FROM JULY 1, 2009 THROUGH MARCH 31, 2010

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SUS - Consolidated
Nine Month Actuals and P/Y Annual audited
March 31, 2010

	Actual 07/09-03/10	Prior Actual 07/08 - 06/09
Revenue	54,550.	66,669.
Expenses		
Personal Services	26,596.	32,637.
OTPS	17,607.	22,486.
Direct Result	**10,347.**	**11,546.**
Administration	8,690.	10,312.
Surplus or Deficit	**1,657.**	**1,234.**

C-V-1

C-V-2

SUS - Developmental Disabilities Inc.
Nine Month Acutals and Prior Year Audited
March 31, 2010

	Actual 07/09 - 03/10	Prior Actual 07/08 - 06/09
Revenue	25,838.	30,583.
Expenses		
Personal Services	15,312.	18,319.
OTPS	4,922.	6,826.
Direct Result	**5,603.**	**5,438.**
Administration	4,097.	4,648.
Surplus or Deficit	**1,506.**	**790.**

Services for the Underserved Inc.
Budget Comparison
DD

	Current Actual 07/09 - 03/10	Prior Actual 07/08 - 03/09	Actual Variance	Budget Amount 07/09 - 03/10	Budget Variance	Yearly Budget 07/09 - 06/10
Revenue						
Revenue						
Program Development Revenue	0	8,350	(8,350)	0	0	0
Contract Revenue	8,040	2,935	5,105	10,875	(2,835)	14,500
Client Fee Income	1,523,419	1,341,235	182,184	1,506,968	16,451	2,009,289
Medicaid Revenue	23,610,057	21,228,072	2,381,985	23,004,541	605,516	30,672,719
UNCOLLECTED BILLING	0	(249,986)	249,986	(1,341,601)	1,341,601	(1,788,810)
Total Revenue	25,141,516	(22,330,606)	2,810,910	23,180,783	1,960,733	30,907,698
Prior Year Revenue						
Prior Year Revenue	423,453	(38,303)	461,756	0	423,453	0
Total Prior Year Revenue	423,453	38,303	461,756	0	423,453	0
FOOD STAMPS REVENUE	272,679	36,592	236,087	0	272,679	0
Total Revenue	25,837,648	22,328,895	3,508,753	23,180,783	2,656,865	30,907,698
Expenses						
Personal Services						
Salaries & Wages	5,168,597	4,641,652	(526,945)	4,955,387	(213,210)	6,607,168
Union Employees	6,454,994	5,824,281	(630,713)	6,225,559	(229,435)	8,300,751
Accrued Increases	0	233,613	233,613	132,526	132,526	176,694
Total Personal Services	11,623,591	10,699,546	(924,045)	11,313,472	(310,119)	15,084,613
Fringe Benefits						
Fringe Benefits	3,688,870	2,920,505	(768,365)	3,507,142	(181,728)	4,676,194
Total Fringe Benefits	3,688,870	2,920,505	(768,365)	3,507,142	(181,728)	4,676,194
OTPS-DIRECT						
Consultants	72,925	74,637	1,712	162,489	89,564	216,652
Staff Training-General	74,287	76,968	2,681	81,040	6,753	108,059
Professional Fees	35,997	43,998	8,001	48,557	12,560	64,742
Office Supplies & Postage	77,456	69,727	(7,729)	62,031	(15,425)	82,711
Staff Travel	34,703	27,755	(6,948)	28,322	(6,381)	37,765
Repairs & Maintenance	317,332	239,984	(77,348)	266,276	(51,056)	355,046
Rent	378,476	348,747	(29,729)	332,764	(45,712)	443,684
Equipment	220,766	208,258	(12,508)	255,344	34,578	340,475
Computer Operations	93,085	102,354	9,269	102,317	9,232	136,421
Household Supplies	315,974	306,635	(9,339)	326,209	10,235	434,949
Facility Tax	12,182	3,465	(8,717)	4,553	(7,629)	6,071
Miscellaneous Tickets	22,788	31,716	8,928	18,987	(3,801)	25,312
Telephone Usage & Installation	121,994	91,254	(30,740)	88,515	(33,479)	118,023
UTILITIES	379,023	327,856	(51,167)	454,846	75,823	606,459
Food	515,829	414,101	(101,728)	461,949	(53,880)	615,931
TEMPORARY LABOR	821,910	932,656	110,746	631,600	(190,310)	842,136
ARCHITECTS FEES	58,982	1,289	(57,693)	0	(58,982)	0
MEMBERSHIP DUES\SUBSCF	12,890	13,911	1,021	15,999	3,109	21,335
BOARD EXPENSE	39	0	(39)	0	(39)	0
ADMINISTRATIVE FEES	10,238	29,462	19,224	8,862	(1,376)	11,822
START-UP COST	3,160	605,429	602,269	0	(3,160)	0
MEDICAL SUPPLIES	55,066	61,996	6,930	39,773	(15,293)	53,027
PROGRAM SUPPLIES	58,236	49,063	(9,173)	27,764	(30,472)	37,022
VEHICLE MAINTENANCE	51,900	52,389	489	63,657	11,757	84,879
VEHICLE LEASING	157,281	102,843	(54,438)	90,078	(67,203)	120,110
TRANSPORTATION CLIENT R	116,118	114,384	(1,734)	154,755	38,637	206,334

Services for the Underserved Inc.
Budget Comparison
DD

	Current Actual 07/09 - 03/10	Prior Actual 07/08 - 03/09	Actual Variance	Budget Amount 07/09 - 03/10	Budget Variance	Yearly Budget 07/09 - 06/10
CONTRACTED TRANSPORT	790,262	782,275	(7,987)	673,556	(116,706)	898,074
LAUNDRY	6,498	6,500	2	15,393	8,895	20,531
CLOTHING	(404)	(4,749)	(4,345)	19,508	19,912	26,014
RECREATION/GROUP ACTI	89,424	72,824	(16,600)	73,173	(16,251)	97,573
CLIENT VACATION	14,970	17,199	2,229	34,972	20,002	46,630
CLIENTS STIPENDS	0	978	978	182	182	243
CONTINGENCY	23	427	404	0	(23)	0
CLIENT INCIDENTAL ALLOWA	2,458	5,147	2,689	1,330	(1,128)	1,774
PUBLIC RELATIONS/COMMUN	103	0	(103)	0	(103)	0
MISCELLANEOUS EXPENSE	200	(107)	(307)	8,507	8,307	11,350
Total OTPS-DIRECT	4,922,171	5,211,371	289,200	4,553,308	(368,863)	6,071,154
OTPS-ADMIN						
Legal	81,309	21,800	(59,509)	12,248	(69,061)	16,327
Administrative Overhead	2,155,023	185,543	(1,969,480)	2,073,001	(82,022)	2,763,999
Rent	242,800	253,479	10,679	268,768	25,968	358,356
Insurance	149,479	196,360	46,881	188,207	38,728	250,949
Facility Tax	227,644	228,133	489	220,721	(6,923)	294,295
Interest Expense	398,414	508,095	109,681	421,818	23,404	562,421
Depreciation Expense	725,751	658,682	(67,069)	576,197	(149,554)	768,264
BANK CHARGES/LATE CHAR	15,294	(2,945)	(18,239)	816	(14,478)	1,091
Bond payment	6,282	5,922	(360)	5,296	(986)	7,059
SHELTERED WORKSHOP	25,431	25,431	0	25,431	0	33,908
RECRUITMENT/ADVERTISIN	8,663	38,991	30,328	26,148	17,485	34,863
AMORTIZATION CLOSING C	50,221	50,222	1	34,521	(15,700)	46,027
Total OTPS-ADMIN	4,086,311	2,169,713	(1,916,598)	3,853,172	(233,139)	5,137,559
Director of Finance Operatings	3,014	0	(3,014)	0	(3,014)	0
BOND FEES	7,500	0	(7,500)	0	(7,500)	0
Total Expenses	24,331,457	21,001,135	(3,330,322)	23,227,094	(1,104,363)	30,969,520
Excess or (Deficiency) of Revenue over Expenditures	1,506,191	1,327,760	178,431	(46,311)	1,552,502	(61,822)

APPENDIX C-VI

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

UNAUDITED FINANCIAL INFORMATION

FOR THE PERIOD FROM JULY 1, 2009 THROUGH MARCH 31, 2010

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United Cerebral Palsy of New York City, Inc.	
STATEMENT OF ACTIVITIES	
For the year ended March 31, 2010	
Support, revenue & reclassifications	
Support from the public:	
Contributions	$ 290,000
Special events	317,000
Legacies	45,000
Total support from public	652,000
Direct costs of spec events	(260,000)
Net support from the public	392,000
Contracts, grants & fees applicable	
to program & community services	
Contracts & grants for resid, etc.	
programs	2,184,000
Fees for resid, etc. programs	73,938,000
Total contracts, grants & fees	76,122,000
Revenue:	
Rental income	728,000
Other Income	128,000
Investment Income:	
Interest & dividends	202,000
Unrealized gain (loss)	1,335,000
Released from restrictions	
Total revenue	2,393,000
Total support, revenue & reclassifications	**78,907,000**
EXPENSES	
Program services:	
Family Support Services Programs	2,521,000
Educational programs	15,272,000
Adult Day Program	29,468,000
Residential programs	25,495,000
Total program services	72,756,000
Supporting services:	
Management & general	5,339,000
Public relations & fund raising	424,000
Total supporting services	5,763,000
Total program & supporting services	78,519,000
Payments to affiliated organizations	68,000
Total Expenses	**78,587,000**
CHANGES IN NET ASSETS	320,000

United Cerebral Palsy of New York City, Inc.	
Combined Statement of Financial Position	
as of March 31, 2010	
	FY'10
Assets	
Cash and cash equivalents	$12,566,000
Marketable securities	7,925,000
Assets limited as to use	2,451,000
Grants and fees receivable from governmental agencies-less reserve for reimbursement adjustments of approximately $1,310,000	11,478,000
Other Assets	1,410,000
Fixed Assets:	71,917,000
Less accumulated depreciation	(44,181,000)
Fixed Assets - Net	27,736,000
Total Assets	**63,566,000**
Liabilities and net assets	
Accounts payable and accrued expenses	8,522,000
Accrued payroll	19,543,000
Refundable Advances	1,158,000
Loans payable	2,659,000
State repayment obligation	-
Other liabilities	5,800,000
Mortgages payable	16,433,000
Total liabilities	54,115,000
	-
Net Assets at 3/31/10	9,451,000
	-
Total Liabilities & Net Assets	**$ 63,566,000**

APPENDIX C-VII

WILDWOOD PROGRAMS, INC.

UNAUDITED FINANCIAL INFORMATION

FOR THE PERIOD FROM JULY 1, 2009 THROUGH MARCH 31, 2010

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WILDWOOD PROGRAMS
Balance Sheet
As of 30-APR-10

OPERATING CASH	1,483,427.42	
PROPERTY & PLANT FUNDS	558,289.11	
CPC CONSTRUCTION FUND		
RESTRICTED FUNDS	1,673,662.99	
BOND SERIES 1996 RESTRICTED FUNDS		
BOND SERIES 2003 RESTRICTED FUNDS	157,879.96	
BOND SERIES 2006 RESTRICTED FUNDS	430,680.68	
BOND SERIES 2007 RESTRICTED FUNDS		
HEARST ENDOWMENT FUNDS	191,780.58	
INVESTMENT ASSETS	22,094.84	
UNEMPLOYMENT RESERVE FUND		
ACCOUNTS RECEIVABLE	3,729,633.77	
DUE FROM FOUNDATION	22,553.71	
PREPAID EXPENSES	262,916.17	
TOTAL CURRENT ASSETS	8,532,919.23	
TOTAL LAND VALUE	2,519,166.70	
TOTAL BUILDING VALUE	21,593,454.67	
TOTAL EQUIPMENT AND VEHICLE VALUE	2,800,296.90	
ACCUMULATED DEPRECIATION AND AMORTIZATION	-10,760,855.12	
DEFERRED START UP COSTS		
ACCOUNTS RECEIVABLE WWS		
PLEDGES RECEIVABLE		
NET LONG TERM ASSETS	16,152,063.15	
TOTAL ASSETS		24,684,982.38
ACCOUNTS PAYABLE	1,710,947.48	
PENSION PAYABLE	758,485.04	
ACCRUED EXPENSES	956,333.17	
DEBT SERV PAYABLE MAINTENANCE FUNDS	129,230.51	
DEBT SERVICE FUND PAYABLE 2003	54,800.51	
DEBT SERVICE FUND PAYABLE 2006	146,121.25	
TOTAL ACCOUNTS PAYABLE & ACCRUED EXPENSES	3,755,917.96	
SHORT TERM LOAN LINES OF CREDIT		
LONG TERM LOAN PAYABLE	652,701.09	
CAPITAL LEASE PAYABLE		
LOANS PAYABLE VEHICLE	401,686.00	
BOND PAYABLE 1996 - WWS DASNY		
RESIDENCE MORTGAGE PAYABLE	1,274,879.31	
BOND PAYABLE 2006 LATHAM BLDG	3,267,500.05	
BOND PAYABLE 2007	6,980,000.00	
TOTAL LOANS PAYABLE	12,576,766.45	
GRANT DEFFERED REVENUE	425.80	
DEFERRED REVENUE	1,111,917.88	
2007 BOND SWAP LIABILITY	893,897.68	
TOTAL LIABILITIES		18,338,925.77
FUND BALANCE	5,501,948.83	

Agency Financial Report

For Period Ending 31-MAR-10, For Months Ranging From 07/09 To 06/10

AGENCY FINANCIAL REPORT

Description	Current Month Actual	Current Month Budget	PTD Actual	PTD Budget	Total Budget	9 Month Actual 3 Month Budget
4101 School District Tuition	913,172.52	929,120.20	7,972,945.88	8,108,487.40	10,895,848.00	10,760,306.48
4102 Pre-School Tuition	0.00	0.00	7,136.00	0.00	0.00	7,136.00
4105 Retro Fee Income	563,330.02	0.00	731,656.79	0.00	0.00	731,656.79
4106 Education Grants	36,827.38	44,368.83	303,315.98	339,319.49	472,425.98	436,422.47
4109 Restricted Donations	2,125.00	5,750.00	59,844.05	50,750.00	68,000.00	77,094.05
4111 Administrative Fees	978.50	0.00	9,231.80	0.00	0.00	9,231.80
4112 Grant Income	4,500.00	3,070.83	55,532.00	27,637.49	36,849.98	64,744.49
4114 Miscellaneous Income	21,280.98	2,666.65	67,853.49	23,999.99	31,999.98	75,853.48
4115 Medicaid Funded Res Hab	1,313,215.05	1,051,653.15	8,270,684.63	9,464,879.15	12,619,838.80	11,425,644.28
4116 NWE Funding	27,799.35	25,465.41	307,303.94	229,188.73	305,584.96	383,700.17
4119 Service Coordination Fees	116,603.30	90,286.00	790,100.15	812,574.00	1,083,432.00	1,060,958.15
4301 Client Fees	43,598.02	30,998.31	257,973.14	278,984.99	371,979.98	350,968.13
4303 Saratoga County Contributi	0.00	0.00	3,464.00	0.00	0.00	3,464.00
4401 Omrdd Program Grants	28,134.00	27,398.00	237,958.00	246,582.00	328,776.00	320,152.00
4404 Food Stamp Income	134,996.06	0.00	165,825.78	0.00	0.00	165,825.78
4402 OMRDD Maint Grants	17,695.00	0.00	17,695.00	0.00	0.00	17,695.00
4407 HCE Medicaid	-62,534.00	0.00	0.00	0.00	0.00	0.00
4408 HCE WL	-1,696.00	0.00	0.00	0.00	0.00	0.00
4409 Retro HCE	-158,327.00	0.00	0.00	0.00	0.00	0.00
4501 OMRDD Funds Comm Residence	206,155.47	65,751.19	1,737,082.78	591,761.20	789,014.89	1,934,336.47
4502 Retro Appeal/Grant Income	247.00	0.00	1,371.00	0.00	0.00	1,371.00
4503 SSI/SSA Rent Fees	129,534.93	125,609.58	1,139,915.35	1,130,486.24	1,507,314.98	1,516,744.09
4601 Vesid Fees	27,771.40	44,986.57	268,359.10	404,879.25	539,839.00	403,318.85
4603 Contract Fees	94,398.39	98,558.58	840,686.16	887,027.24	1,182,702.99	1,136,361.91
4602 Retro Vesid Fees	0.00	0.00	-664.50	0.00	0.00	-664.50
4607 Farm/Outdoor Projects	800.00	0.00	1,882.50	0.00	0.00	1,882.50
4605 Interest Income	6.37	291.66	294.60	2,625.00	3,500.00	1,169.60
4702 Foundation Donations	0.00	0.00	253,947.58	0.00	0.00	253,947.58
4704 Investment Gain or Loss	17,460.20	0.00	42,464.87	0.00	0.00	42,464.87
4707 Interest Income Fund Raisi	886.66	0.00	10,641.61	0.00	0.00	10,641.61
4708 Investment Dividend Income	-3,970.00	0.00	2,812.34	0.00	0.00	2,812.34
4901 Clothing Allowance	125.00	2,416.60	28,375.00	21,749.92	28,999.89	35,624.97
TOTAL INCOME	3,475,113.60	2,548,391.56	23,585,689.02	22,620,932.09	30,266,107.43	31,230,864.36
TOTAL OPERATING INCOME	3,475,113.60	2,548,391.56	23,585,689.02	22,620,932.09	30,266,107.43	31,230,864.36
5101 Administration	197,896.63	176,956.14	1,652,893.94	1,592,605.46	2,123,473.93	2,183,762.41
5104 Social Services	91,181.79	87,745.21	747,492.63	740,133.19	1,003,368.88	1,010,728.32
5105 Direct Care	646,480.69	621,992.97	5,478,717.21	5,533,168.55	7,399,147.73	7,344,696.39
5106 Resident/Program Managers	171,857.99	157,139.56	1,485,905.07	1,400,716.92	1,872,135.80	1,957,323.95
5107 Assistants & Aides	185,866.78	180,855.51	1,639,677.19	1,557,293.21	2,099,859.82	2,182,243.80
5108 Speech & Language	61,424.72	59,352.90	492,574.38	481,991.30	660,050.00	670,633.08
5110 Substitutes	12,166.00	10,194.00	72,145.65	86,820.00	117,402.00	102,727.65
5111 Medicatl & Clinical	122,467.24	114,871.68	933,089.84	995,542.76	1,340,157.93	1,277,705.01
5113 Plant Maintenance	34,874.09	35,126.90	303,291.00	316,142.24	421,522.98	408,671.74
5115 Salary Reimbursement	-680.00	1,666.66	-36,102.74	15,000.00	20,000.00	-31,102.74
TOTAL PERSONAL SERVICES	1,523,535.93	1,445,901.53	12,769,684.17	12,719,413.63	17,057,119.07	17,107,389.61

Agency Financial Report

For Period Ending 31-MAR-10, For Months Ranging From 07/09 To 06/10

AGENCY FINANCIAL REPORT

Description	Current Month Actual	Current Month Budget	PTD Actual	PTD Budget	Total Budget	9 Month Actual 3 Month Budget
5201 Social Security Taxes	79,671.24	88,544.91	786,100.77	787,455.63	1,053,090.64	1,051,735.78
5202 Health Insurance	245,230.08	230,381.73	2,149,212.27	2,073,437.11	2,764,582.78	2,840,357.94
5203 Medicare	18,628.62	19,699.74	183,804.82	187,647.01	246,746.62	242,904.43
5204 Life Insurance	3,196.69	3,332.80	27,942.89	29,996.87	39,995.76	37,941.78
5205 Pension & Retirement	78,941.31	81,108.63	697,280.46	729,978.61	973,304.72	940,606.57
5206 New York State Disability	11,231.96	567.75	34,021.88	18,983.95	34,560.91	49,598.84
5207 Long Term Disability	3,647.08	3,018.90	30,688.72	27,171.58	36,228.73	39,745.87
5208 Worker's Compensation	25,517.17	25,034.66	225,099.09	225,313.32	300,417.66	300,203.43
5211 Workman's Comp/Self Insure	312.11	1,418.07	3,003.52	12,764.04	17,018.61	7,258.09
5209 Unemployment Benefits	7,806.90	5,222.42	58,551.66	47,003.06	62,670.71	74,219.31
5216 Wellness	2,724.11	1,002.60	7,944.57	9,023.94	12,031.89	10,952.52
5210 HRA Expenses	25,498.58	24,468.47	223,019.90	220,217.79	293,623.61	296,425.72
5212 Retirement Health Benefit	0.00	1,193.16	0.00	14,337.85	21,061.76	6,723.91
5213 Vacation Accrued Exp	0.00	57.66	-36,093.39	9,949.49	19,552.98	-26,489.90
5215 Employee Assistance Progra	-1.95	1,427.74	8,146.22	12,851.05	17,134.63	12,429.80
5214 Dental Plan	4,188.64	13,789.22	129,975.94	124,103.82	165,471.66	171,343.78
TOTAL FRINGE BENEFIT EXPENSE	506,592.54	500,268.46	4,528,699.32	4,530,235.12	6,057,493.67	6,055,957.87
5310 Depr Exp Land Improvements	5,326.12	3,008.64	43,375.00	27,077.98	36,103.96	52,400.98
5311 Depr Exp Admin Equip	2,475.41	2,558.79	22,816.96	23,029.47	30,705.95	30,493.44
5312 Depr Exp Instr Equip	274.01	293.75	2,483.59	2,643.75	3,525.00	3,364.84
5314 Depr Exp Facility Equip	3,617.55	4,012.87	32,726.43	36,116.19	48,154.91	44,765.15
5315 Depr Exp Vehicles	22,629.72	27,274.03	190,353.04	245,466.71	327,288.92	272,175.25
5316 Depr Exp Building	30,709.14	35,423.65	276,473.05	318,812.99	425,083.98	382,744.04
5335 Depr Bond Closing Costs	4,709.05	0.00	42,381.45	0.00	0.00	42,381.45
5317 Gain (Loss) From Disposal	0.00	0.00	-4,964.84	0.00	0.00	-4,964.84
5355 Depr Exp Technology Equip	56.79	58.33	511.11	524.99	699.99	686.11
5319 Depr Building Improvement	36,640.04	36,349.14	330,554.27	327,142.48	436,189.96	439,601.75
5320 Depr Leaseheld Equip	1,929.83	1,769.70	17,004.41	15,927.74	21,236.98	22,313.65
TOTAL DEPRECIATION EXPENSE	106,373.09	110,748.90	935,763.34	996,742.30	1,328,989.65	1,268,010.69
5401 Interest Mortgage	42,982.95	53,935.68	486,572.74	485,421.68	647,228.84	648,379.90
5405 Rent Program Space	32,980.40	40,942.30	291,154.61	368,480.96	491,307.92	413,981.57
5406 Rent Apartments	37,338.66	21,826.66	276,679.97	196,440.00	261,920.00	342,159.97
5408 Rent-Other	0.00	3,749.99	868.00	33,749.97	44,999.95	12,117.98
5412 Repairs, Maintenance, Leas	24,626.68	19,497.75	199,433.65	183,481.13	249,974.80	265,927.32
5414 Building & Household Suppl	7,455.85	9,835.31	88,179.31	89,393.67	119,774.84	118,560.48
5416 Linens	277.74	324.95	1,346.43	2,924.93	3,899.87	2,321.37
5421 Utilities Exp	41,382.52	39,254.40	311,414.20	341,290.40	474,053.82	444,177.62
5431 Taxes & Assessments	0.00	208.33	0.00	1,874.99	2,499.99	625.00
TOTAL OCCUPANCY EXPENSE	187,044.80	189,575.37	1,655,648.91	1,703,057.73	2,295,660.03	2,248,251.21
5502 Repair & Maintance Office	2,830.57	1,179.13	3,205.57	10,412.45	13,949.93	6,743.05
5503 Photocopying Costs	835.36	3,662.41	15,115.73	31,712.37	42,699.78	26,103.14
5505 Telephone Expense	14,449.60	12,038.21	98,388.60	108,744.91	144,859.86	134,503.55
5507 Postage	3,315.69	2,772.44	25,547.67	24,302.44	32,619.90	33,865.13

For Period Ending 31-MAR-10, For Months Ranging From 07/09 To 06/10

AGENCY FINANCIAL REPORT

Description	Current Month Actual	Current Month Budget	PTD Actual	PTD Budget	Total Budget	9 Month Actual 3 Month Budget
5508 Printing Costs	1,090.80	770.81	10,940.54	6,837.49	9,149.99	13,253.04
5509 Office Supplies	2,477.00	3,949.93	28,125.57	34,649.91	46,499.85	39,975.51
TOTAL OFFICE EXPENSES	24,999.02	24,372.93	181,323.68	216,659.57	289,779.31	254,443.42
5601 Legal Fees	106.25	2,558.31	34,369.43	22,824.99	30,499.99	42,044.43
5602 Audit Fees	0.00	0.00	0.00	0.00	28,500.00	28,500.00
5603 Consultants	13,072.94	1,074.97	17,618.66	9,674.95	12,899.91	20,843.62
5606 Advertising	884.38	2,833.26	11,811.83	24,349.96	32,849.93	20,311.80
5608 Purchase Of Services	4,572.00	2,979.13	22,141.50	22,112.45	31,049.91	31,078.96
5610 Medical Visits Consumers	1,487.52	1,029.13	6,185.26	9,262.45	12,349.92	9,272.73
5612 Medical Visit Staff	481.50	1,614.45	8,995.48	14,031.13	18,874.76	13,839.11
TOTAL FEES FOR SERVICES	20,604.59	12,089.25	101,122.16	102,255.93	167,024.42	165,890.65
5701 Rental Of Vehicles	757.36	0.00	4,779.86	0.00	0.00	4,779.86
5702 Reimb. Employee Milage	19,665.97	24,883.17	187,921.80	221,949.81	296,599.69	262,571.68
5703 Gasoline Espenses	20,392.00	22,914.47	148,510.65	206,831.17	275,574.84	217,254.32
5704 Vehicle Reparis & Maintena	9,247.56	9,729.08	73,858.39	87,562.40	116,749.87	103,045.86
5705 Transportation Contracts	88,572.81	82,791.55	671,861.03	746,624.25	994,999.00	920,235.78
5721 Travel Expense	12,332.66	4,083.31	51,829.98	36,349.99	48,599.98	64,079.97
5722 Conference Fees	1,002.00	3,227.36	9,600.00	27,147.38	36,829.80	19,282.42
5725 Staff Development	7,367.00	10,339.43	85,752.33	86,556.07	117,574.69	116,770.95
5726 Employee Background Check	31.50	387.48	2,628.00	3,987.48	5,149.96	3,790.48
5727 Dues/Subscriptions	3,969.91	5,385.25	49,167.07	45,668.63	61,824.79	65,323.23
TOTAL TRAV/CONF/TRAIN EXPENSES	163,338.77	163,741.10	1,285,909.11	1,462,677.18	1,953,902.62	1,777,134.55
5801 Food Expenses	47,038.01	33,420.69	327,234.02	299,087.39	399,349.78	427,496.41
5805 Recreation Expense	9,464.99	10,944.48	89,120.94	98,201.12	131,034.76	121,954.58
5802 Interest Operations	0.00	737.84	4,557.69	6,491.16	8,704.82	6,771.35
5803 Bank Charges	1,114.65	1,170.82	8,696.28	10,537.50	14,050.00	12,208.78
5804 Auto Loan Interest	2,911.70	4,187.11	27,201.40	37,684.41	50,245.84	39,762.83
5806 Instructional Activity	694.85	536.50	4,182.70	4,505.50	6,115.00	5,792.20
5808 Medical & Supply	4,293.92	2,345.76	21,542.95	20,962.44	27,999.93	28,580.44
5809 Program Supplies	6,600.78	11,374.86	97,489.95	98,774.86	132,899.77	131,614.86
5812 Equipment Less Than $1000	-7,856.25	17,874.85	114,762.62	153,874.85	207,499.73	168,387.50
5814 Voc. Mot. Activity	0.00	40.00	10.00	280.00	400.00	130.00
5816 Housing Stipend	9,388.95	10,000.00	87,158.95	90,000.00	120,000.00	117,158.95
5818 Client Personal Allowance	19,091.00	18,847.32	169,502.77	169,626.00	226,168.00	226,044.77
5824 Clothing Allowance	14,250.00	2,468.68	28,375.00	22,218.68	29,624.91	35,781.23
5820 Lease Adaptive Equip	0.00	0.00	399.00	0.00	0.00	399.00
5826 Medicine	1,401.17	2,066.59	15,494.02	18,599.95	24,799.93	21,694.00
5827 Family Support Autism Expe	1,285.00	2,743.41	25,957.00	24,690.75	32,921.00	34,187.25
5828 Family Coop Payment	1,745.00	3,871.33	39,265.00	34,841.99	46,455.99	50,879.00
5829 Rec/Respite	408.25	463.58	2,627.01	4,172.24	5,562.98	4,017.75
5840 Bad Debt Expense	0.00	0.00	16,674.21	0.00	0.00	16,674.21
TOTAL OPERATING EXPENSES	111,832.02	123,093.82	1,080,251.51	1,094,548.84	1,463,832.44	1,449,535.11

Agency Financial Report

For Period Ending 31-MAR-10, For Months Ranging From 07/09 To 06/10

AGENCY FINANCIAL REPORT

Description	Current Month Actual	Current Month Budget	PTD Actual	PTD Budget	Total Budget	9 Month Actual 3 Month Budget
5901 Property Ins	2,697.08	3,898.16	24,556.50	35,084.82	46,779.70	36,251.38
5902 Liability Ins	3,147.54	3,438.21	29,293.58	30,944.92	41,259.88	39,608.54
5903 Umbrella Insurance	1,867.42	2,233.24	16,820.83	20,099.88	26,799.77	23,520.72
5907 Auto Liability Insurance	4,773.24	5,168.61	42,787.01	46,518.67	62,024.85	58,293.19
5908 Professional Liab Ins	1,343.06	1,503.98	11,925.48	13,537.38	18,049.76	16,437.86
5910 Dir/Off/Board Insurance	1,438.58	1,333.65	12,947.22	12,003.63	16,004.78	16,948.37
TOTAL INSURANCE EXPENSE	15,266.92	17,575.85	138,330.62	158,189.30	210,918.74	191,060.06
5920 Board Of Directors	0.00	39.25	0.00	353.25	471.00	117.75
TOTAL ADMIN O/H EXPENSE	0.00	39.25	0.00	353.25	471.00	117.75
TOTAL EXPENSES	2,659,587.68	2,587,406.46	22,676,732.82	22,984,132.85	30,825,190.95	30,517,790.92
NET INCOME OR DEFICIT	815,525.92	-39,014.90	908,956.20	-363,200.76	-559,083.52	713,073.44

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APPENDIX C-VIII

YOUNG ADULT INSTITUTE, INC.

UNAUDITED FINANCIAL INFORMATION

FOR THE PERIOD FROM JULY 1, 2009 THROUGH MARCH 31, 2010

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EXHIBIT A

Young Adult Institute, Inc.
Balance Sheet - Unaudited
March 31, 2010

ASSETS

Cash and cash equivalents	$ 1,566,314
Money Market-U.S. Government Securities	23,189,174
Accounts receivable	
Medicaid	26,431,251
New York State	2,094,137
Client fees	376,843
Private Pay	1,226,956
Medicare	237,600
Prepaid expenses and other receivables	4,343,545
Bond issuance costs (net of accumulated amortization of $4,518,570)	3,146,718
Fixed assets - at cost (net of accumulated depreciation and amortization of $38,768,031)	41,858,837
Other assets	10,499,997
Total assets	$ 114,971,372

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	$ 29,429,452 ✓
Due to New York State	2,986,620
Notes and mortgages payable	39,473,918
Capital lease obligations	22,270,157
Total liabilities	94,160,147
Net Assets (Exhibit B)	
Unrestricted	20,757,332
Temporarily restricted	53,893
Total Net Assets	20,811,225
Total liabilities and net assets	$ 114,971,372

EXHIBIT B

Young Adult Institute, Inc.
Statement of Activities - Unaudited
For the Nine Months Ended March 31, 2010

Operating revenues	$	131,480,034
Operating expenses		130,402,020
Change in unrestricted net assets from operations		1,078,014 ✓
Nonoperating revenues		1,849,018
Change in unrestricted net assets		2,927,032
Net assets - beginning of year		17,884,193
Net assets - end of year (Exhibit A)	$	20,811,225 ✓

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 2010A 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 June 1, 2010, between the Authority and the Program Facilitator, as accepted and consented to by 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 with respect to the Series 2010A Bonds, one-third 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 2010A 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 2010A Bonds.

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 OMRDD, as acknowledged by OMRDD, as may be amended and supplemented from time to time, regarding the deduction, withholding and/or payment of public funds by OMRDD, 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.

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 the Participant relating to the construction of a Project, and any amendments to the foregoing.

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.

OMRDD means 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 InterAgency Council of Mental Retardation and Developmental Disabilities Agencies, Inc. 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, and (vii) 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 OMRDD 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 shall mean Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated, as program facilitator under the Administration Agreement, and its successors in such capacity.

Project or **Projects** means, with respect to each Participant and each Loan under the Resolution, the acquisition, financing, refinancing, construction, reconstruction, renovation, development, improvement, expansion and equipping of certain educational, administrative, day program and residential facilities to be located in the State, which may include more than one part, financed in whole or in part from the proceeds of the sale of an Applicable Series of Bonds or any portion thereof, as more particularly described and designated the Applicable Series Resolution.

Project Loan Account means each of the respective accounts or subaccounts so designated, created and established in the Applicable Project Loan Fund by an Applicable Series Resolution.

Project Loan Fund means the fund so designated and established for a Series of Bonds by an Applicable Series Resolution.

Project Property means the administrative, educational and residential facilities owned or leased by a Participant including real and personal property located thereat, as more particularly described in the Applicable Loan Agreement.

Public Funds means all moneys appropriated, apportioned or otherwise payable to a Participant by the Federal government, any agency thereof, the State, any agency of the State, a political subdivision, as defined in Section 100 of the General Municipal Law, any social services district in the State or any governmental entity, including OMRDD 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 2010A Resolution means the Authority's Series Resolution Authorizing Up to $45,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2010A adopted by the Authority on March 31, 2010, as amended and supplemented by the Series 2010 Supplemental Resolution, 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.

Supplemental Series 2010 Resolution means the Supplemental Resolution Amending and Supplementing the Dormitory Authority of the State of New York InterAgency Council Pooled Loan Program Series 2010A Resolution, Series 2010B Resolution and Series 2010C Resolution, adopted by the Authority on May 12, 2010.

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 LOAN AGREEMENTS

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS

The following is a brief summary of certain provisions of one Loan Agreement, and the summarized provisions are identical to each Loan Agreement. This summary does not purport to be complete and reference is made to the Loan Agreements for full and complete statements of such and all provisions. Defined terms used herein shall have the meaning ascribed to them in Appendix D.

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 status of the taxability of the Subseries 2010A-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 at the date of such transfer, sale or conveyance, as such amount is determined by the Authority. Notwithstanding the foregoing, the Participant may remove equipment, furniture or fixtures in the Project or which comprise a part of the Project provided that the Participant substitutes equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced.

The Participant covenants that it shall not sell, assign or transfer, nor shall it be released from, any of its obligations under the Loan Agreement without the prior written consent of the Authority, which consent shall be accompanied by (i) an agreement by the Participant and the assignee to comply with all terms and conditions of such consent and (ii) an opinion of Bond Counsel stating that the assignment will not have an effect on the status of the taxability of the Subseries 2010A-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, the Participant may, upon written notice to the Authority and the Trustee and compliance with the following, effect the release of a Project Property from the Loan Agreement and, if a Mortgaged Property, the lien of the Mortgage. Upon receipt of such notice, the Authority and the Trustee shall, at the sole cost and expense of the Participant, execute and deliver any and all instruments necessary or appropriate to so release and remove such Project Property from the Loan Agreement and if a Mortgaged Property, the lien of the Mortgage; provided, that, no such release shall be effected unless (i) the Participant shall cause Bonds allocable to such Project Property to cease to be Outstanding (either through the redemption or the defeasance provisions of the Resolution) and (ii) there shall be delivered to the Authority an opinion of Bond Counsel stating that such release will not have an effect on the status of the taxability of the Subseries 2010A-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.

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 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;

(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 "Covenants 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.

Subject to the provisions of the Loan Agreement and of the Resolution or the Series Resolution, the Participant shall receive a credit against the amount required to be paid by the Participant during a Bond Year pursuant to paragraph (c) above on account of a Sinking Fund Installment if, prior to the date notice of redemption is given pursuant to the Resolution with respect to Bonds to be redeemed through a Sinking Fund Installment payable on the next succeeding July 1, the Participant delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such July 1. The amount of the credit shall be equal to the principal amount of the Bonds so delivered.

The Authority directs the Participant, and the Participant agrees, to make the payments required by paragraphs (c), (e) and (h) above directly to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund and application in accordance with the Resolution or the Series Resolution, the payments required by paragraph (b) above directly to the Trustee for deposit in the Applicable Project Loan Account of the Project Loan Fund or other fund established under the Resolution or the Series Resolution, as directed by the Authority, the payments required by paragraph (i) above directly to the Trustee for deposit in the Arbitrage Rebate Fund, and the payments required by paragraphs (a), (f) and (g) above directly to the Authority.

Notwithstanding the foregoing, to the extent the Authority shall have received payment of Pledged Revenues on account of the payments required by paragraphs (c), (e), (h) and (i) above, such amounts received shall be credited against any payments due from the Participant with respect to its obligations under the Loan Agreement and are Revenues which shall be paid by the Authority to the Trustee. To the extent the Authority shall have received Pledged Revenues on account of the payments required by paragraphs (a), (f) and (g) above, such amounts received shall be credited against any payments due from the Participant with respect to its obligations under the Loan Agreement, and shall be retained by the Authority.

Notwithstanding any provision in the Loan Agreement or in the Resolution or the Series Resolution to the contrary (except as otherwise specifically provided for in provisions described under this heading), (i) all moneys paid by the Participant to the Trustee pursuant to paragraphs (c), (e) and (h) above (other than moneys received by the Trustee pursuant to the Resolution which shall be retained and applied by the Trustee for its own account) shall be received by the Trustee as agent for the Authority in satisfaction of the Participant's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the Bonds to the extent of such payment and (ii) the transfer by the Trustee of any moneys (other than moneys described in clause (i) of this subdivision) held by it in the Applicable Project Loan Account of the Project Loan Fund to the Applicable Debt Service Account of the Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Resolution shall be deemed, upon such transfer, receipt by the Authority from the Participant of a payment in satisfaction of the Participant's indebtedness to the Authority with respect to the Participant's Applicable Portion of the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Immediately after receipt or transfer of such moneys, as the case may be, by the Trustee, the Trustee shall hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Bondholders, regardless of the actual due date or payment date of any payment to the Bondholders, except in respect to the payment to the Participant by the Trustee as provided for in the Resolution.

The obligations of the Participant to make payments or cause the same to be made under the Loan Agreement shall be absolute and unconditional and the amount, manner and time of making such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the Participant may otherwise have against the Authority, the Trustee or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Participant to complete the Project or the completion thereof with defects, failure of the Participant to occupy or use the Project, any declaration or finding that the Bonds of any Series are or the Resolution or the Series Resolution is invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the Authority from the performance of any agreements on its part therein contained or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the Participant may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Participant for, or to pay, the Costs of the

Project beyond the extent of moneys in the Applicable Project Loan Account of the Project Loan Fund established for such Project.

The Loan Agreement and the obligation of the Participant to make payments thereunder are general obligations of the Participant.

The Authority, for the convenience of the Participant, shall furnish to the Participant statements of the due date, purpose and amount of payments to be made pursuant to the Loan Agreement. The failure to furnish such statements shall not excuse non-payment of the amounts payable under the Loan Agreement at the time and in the manner provided thereby.

The Authority shall have the right in its sole discretion to make on behalf of the Participant any payment required pursuant to the provisions of the Loan Agreement as described under this heading which has not been made by the Participant when due; provided, that notice of such payment is immediately made to the Participant. No such payment by the Authority shall limit, impair or otherwise affect the rights of the Authority under the provisions of the Loan Agreement described under the heading "Defaults and Remedies" below arising out of the Participant's failure to make such payment and no payment by the Authority shall be construed to be a waiver of any such right or of the obligation of the Participant to make such payment.

The Participant, if there is not then an Event of Default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in accordance with the directions of the Authority in the Applicable Debt Service Account of the Debt Service Fund or held by the Trustee for the payment of Bonds or portions thereof in accordance with the Resolution. Upon any voluntary payment by the Participant or any deposit in the Applicable Debt Service Account of the Debt Service Fund made as described in the fifth paragraph above, the Authority agrees to direct the Trustee to purchase or redeem Bonds or portions thereof in accordance with the Resolution or to give the Trustee irrevocable instructions in accordance with defeasance provisions of the Resolution; provided, however, that in the event such voluntary payment is in the sole judgment of the Authority sufficient to prepay the Loan under the Loan Agreement and to pay all other amounts then due thereunder, and to purchase or redeem the Participant's Allocable Portion of the Bonds Outstanding, or to pay or provide for the payment of the Participant's Allocable Portion of the Bonds Outstanding in accordance with defeasance provisions of the Resolution, the Authority agrees, in accordance with the instructions of the Participant, to direct the Trustee to purchase or redeem the Participant's Allocable Portion of the Bonds Outstanding, or to cause the Participant's Allocable Portion of the Bonds Outstanding to be paid or to be deemed paid in accordance with defeasance provisions of the Resolution.

(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, 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 only after the notice required by the Series Resolution is given.

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.

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, 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 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.

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. 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, OMRDD, 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 OMRDD and all State and local officers are authorized and required to pay any Pledged Revenues so assigned and pledged to the Authority in accordance with the Loan Agreement. The Authority may periodically file a certificate with OMRDD, 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 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.

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 Payment" 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 2010A-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 (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 Mortgaged Property and Financial Information

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.

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.

(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 OMRDD, and the Participant, subsequent to 15 days after written notice shall have been given to the Participant by OMRDD 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 OMRDD, 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 OMRDD;

(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 OMRDD 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 OMRDD 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 2010A-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 Bonds at the time of such action, investment or use. The Participant (or any related person, as defined in Section 147(a)(2) of the Code) shall not, pursuant to an arrangement, formal or informal, purchase Bonds in an amount related to the amount of any obligation to be acquired from the Participant by the Authority. 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.

(Section 40)

Financial Covenants

Rate Covenant

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.

Additional Indebtedness

The Participant may not incur any additional Indebtedness (including, but not limited to, guarantees or derivatives in the form of credit default swaps or total-rate-of-return swaps or similar instruments), without the prior written consent of the Authority, except for the following:

(a) Indebtedness (other than for working capital, other than installment purchase payments payable under installment sale agreements and other than rents payable under lease agreements) incurred in the ordinary course of the Participant's business for its current operations including the maintenance and repair of its property, advances from third party payors and obligations under reasonably necessary employment contracts,

(b) Indebtedness in the form of rentals under leases which are not required to be capitalized in accordance with generally accepted accounting principles in effect on the date of issuance of the Bonds,

(c) Indebtedness in which recourse to the Participant for repayment is expressly limited to proceeds from the sale, lease or foreclosure of any tangible property of the Participant other than the Project Property,

(d) Non-PPA Indebtedness to the extent that the Participant has delivered to the Authority and the Trustee a certificate signed by the Participant's chief executive officer or chief financial officer demonstrating a Total Debt Service Coverage Ratio of not less than 1.25 to 1.00 for the most recent Fiscal Year for which audited financial statements exist. In preparing its calculations of the required ratios, the Participant's representative or the independent certified public accountant, as applicable, shall include the proposed debt service requirements with respect to the Non-PPA Indebtedness to be issued,

(e) Indebtedness to finance a PPA Facility, and

(f) short-term Indebtedness for working capital purposes, provided, however, that such Indebtedness may be secured by no more than ninety percent (90%) of the Participant's Accounts Receivables.

(Exhibit E)

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 2010A 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 2010A Resolution establishes a Debt Service Reserve Fund to be held and maintained by the Trustee with respect to the Series 2010A 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 2010A 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 2010A Bonds or Permitted Investments in an amount sufficient to satisfy each Applicable Series 2010A Participant's Allocable Portion of the Debt Service Reserve Fund Requirement as set forth in the Applicable Bond Series Certificate. An Applicable Series 2010A 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 2010A Bonds for all or any part of the Debt Service Reserve Fund Requirement or any Applicable Series 2010A 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 2010A are not rated by Moody's and S&P by whichever of said rating services that then rates the Outstanding Series 2010A 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.

If, upon a valuation, the value of all moneys, Permitted Investments and Reserve Fund Facilities held for the credit of an Applicable Series 2010A Participant's Allocable Portion of a Debt Service Reserve Fund is less than such Applicable Series 2010A 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 2010A Participant of such deficiency. Such Applicable Series 2010A 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 2010A 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 2010A Participant's Allocable Portion of, respectively, interest on the Outstanding Series 2010A 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 2010A 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 2010A Bonds upon the acceleration of such Series 2010A Participant's Loan pursuant to the Applicable Loan Agreement.

Upon the exercise by a Series 2010A Participant of its option to prepay its Loan under the Applicable Loan Agreement, 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 2010A Bonds which correspond to the principal of and interest on the Loan so prepaid.

(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 2010A 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 2010A 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 2010A 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 2010A 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

PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL

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**PROPOSED FORM OF APPROVING OPINION
OF BOND COUNSEL**

Upon delivery of the Series 2010A 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 have examined a record of proceedings relating to the issuance of $29,670,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2010A, consisting of two subseries: $29,015,000 Subseries 2010A-1 (the “Subseries 2010A-1 Bonds”) and $655,000 Subseries 2010A-2 (Federally Taxable) (the “Subseries 2010A-2 Bonds” and together with the Subseries 2010A-1 Bonds, the “Series 2010A Bonds”) of the Dormitory Authority of the State of New York (the “Authority”), a body corporate and politic constituting a public benefit corporation of the State of New York created and existing under the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the “Act”).

The Series 2010A 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 March 31, 2010 authorizing the Series 2010A Bonds, as amended by the supplemental resolution adopted by the Authority on May 12, 2010 (the “Series 2010A Resolution”). The Bond Resolution and the Series 2010A Resolution are herein collectively referred to as the “Resolutions.”

The Series 2010A 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 2010A 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 2010A Bonds, the Revenues and all funds and accounts established by the Series 2010A 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 2010A 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 2010A 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 2010A Bonds be payable out of funds of the Authority other than those pledged for the payment of the Series 2010A Bonds.

5. The Loan Agreements between the Authority and, respectively, Federation Employment and Guidance Service, Inc., Human Care Services for Families & Children, Inc., Lifespire, Inc., SCO Family of Services,. SUS - Developmental Disabilities Services, Inc. and Services for the Underserved, Inc., United Cerebral Palsy of New York City, Inc., Wildwood Programs, Inc. and Young Adult Institute, Inc. (collectively, the "Series 2010A Participants"), each dated as of March 31, 2010 (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 2010A Participants, constitute legal, valid and binding obligations of the Authority enforceable in accordance with their terms.

6. Under existing statutes and court decisions, (i) interest on the Subseries 2010A-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 2010A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax. 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 2010A Participants, as applicable, and the InterAgency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated (the "Program Facilitator"), and we have assumed compliance by Authority, each of the Series 2010A Participants, as applicable, and the Program Facilitator with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subseries 2010A-1 Bonds from gross income under Section 103 of the Code. In addition, we have relied on the opinion of counsel to the Series 2010A Participants regarding, among other matters, the current qualifications of the Series 2010A Participants as organizations described in Section 501(c)(3) of the Code.

7. Interest on the Subseries 2010A-2 Bonds is included in gross income for Federal income tax purposes pursuant to the Code.

8. Under existing statutes, interest on the Series 2010A 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 as to any Federal or state tax consequences with respect to the Series 2010A Bonds. We render this opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. 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 Subseries 2010A-1 Bonds, or the exemption from personal income taxes of interest on the Series 2010A Bonds 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 2010A 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 2010A-1 Bond and a Subseries 2010A-2 Bond and, in our opinion, the form of said Series 2010A Bonds and their execution are regular and proper.

Very truly yours,

DORMITORY AUTHORITY OF THE STATE OF NEW YORK • INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS, SERIES 2010A

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