NEW ISSUE – BOOK-ENTRY ONLY

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

$12,745,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS, SERIES 2012A

Consisting of:

$12,285,000 Subseries 2012A-1	$460,000 Subseries 2012A-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 2012A consisting of Subseries 2012A-1 (the "Subseries 2012A-1 Bonds") and Subseries 2012A-2 (Federally Taxable) (the "Subseries 2012A-2 Bonds"; together with the Subseries 2012A-1 Bonds, the "Series 2012A 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 2012A 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 2012A Bonds by the Series 2012A Resolution Authorizing Up To $14,500,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2012A, adopted February 29, 2012 (the "Series 2012A Resolution" and together with the Resolution, the "Resolutions"), including a Debt Service Reserve Fund.

The Revenues pledged to the payment of the Series 2012A Bonds are comprised of certain payments to be made under separate Loan Agreements dated as of February 29, 2012 (each a "Loan Agreement"), between the Authority and each of the following members of the Interagency Council of Developmental Disabilities Agencies, Inc., each of which is a New York State not-for-profit corporation: Birch Family Services, Inc., Federation Employment and Guidance Service, Inc., Program Development Services, Inc., SUS - Developmental Disabilities Services, Inc. and Services for the Underserved, Inc. (which shall be considered a single Series 2012A Participant), and United Cerebral Palsy of New York City, Inc. (each a "Series 2012A Participant" and collectively, the "Series 2012A Participants").

Each Loan Agreement is a general obligation of the respective Series 2012A 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 2012A Bonds corresponding to such Series 2012A Participant's proportionate share of the proceeds of the Series 2012A 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 2012A Participants. Each of the Series 2012A Participant's obligations under its respective Loan Agreement will be secured by a security interest in certain revenues of such Series 2012A Participant granted to the Authority and pledged and assigned to the Trustee.

A DEFAULT BY ANY ONE OR MORE OF THE SERIES 2012A PARTICIPANTS UNDER THEIR RESPECTIVE LOAN AGREEMENTS MAY RESULT IN A DEFAULT UNDER THE RESOLUTIONS WITH RESPECT TO SUCH SERIES 2012A PARTICIPANT'S ALLOCABLE PORTION OF THE SERIES 2012A BONDS; HOWEVER, ANY LIABILITY WITH RESPECT TO SUCH DEFAULT IS LIMITED SOLELY TO THE SERIES 2012A PARTICIPANT OR SERIES 2012A PARTICIPANTS THAT ARE IN DEFAULT, WITHOUT RIGHT OF CONTRIBUTION FROM THE NON-DEFAULTING SERIES 2012A PARTICIPANTS. ANY SUCH DEFAULT, HOWEVER, COULD RESULT IN A DEFAULT IN PAYMENT OF THE SERIES 2012a BONDS.

The Series 2012A 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 2012A Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple in excess thereof. Interest (due January 1, 2013 and each July 1 and January 1 thereafter) on the Series 2012A Bonds will be payable by check mailed to the registered owners thereof and principal and Redemption Price of the Series 2012A 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 2012A Bonds, by wire transfer, as more fully described herein.

The Series 2012A 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 2012A Bonds. Purchases of beneficial ownership interests in the Series 2012A Bonds may be made only through the DTC book-entry system. Beneficial Owners (as defined herein) of the Series 2012A Bonds will not receive certificates representing their interests in the Series 2012A Bonds. See "PART 4 - THE SERIES 2012A BONDS – Book-Entry Only System" herein.

Redemption and Purchase in Lieu of Redemption: The Series 2012A 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 2012A-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 2012A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. Interest on the Subseries 2012A-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 2012A 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 2012A 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 2012A Participants by Lombardi, Walsh, Wakeman, Harrison, Amodeo & Davenport, PC, Albany, New York and for the Underwriter by McCarter & English, LLP, New York, New York and Newark, New Jersey. The Authority expects to deliver the Series 2012A Bonds in definitive form in New York, New York on or about March 29, 2012.

MUNICIPAL CAPITAL MARKETS GROUP, INC.

March 21, 2012

$12,745,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS,
SERIES 2012A

Consisting of:

$12,285,000
Subseries 2012A-1

Maturing July 1	Principal Amount	Coupon	Yield	CUSIP[1]
2013	$ 795,000	3.00%	1.10%	649906 SF2
2014	1,245,000	3.00	1.36	649906 SG0
2015	1,250,000	5.00	1.56	649906 SH8
2016	1,085,000	4.00	1.78	649906 SJ4
2017	1,085,000	4.00	2.07	649906 SK1
2018	1,090,000	4.00	2.48	649906 SL9
2019	1,090,000	4.00	2.74	649906 SM7
2020	725,000	3.00	3.13	649906 SN5
2021	720,000	3.25	3.36	649906 SP0
2022	715,000	3.45	3.53	649906 SQ8

$1,000,000 5.00% Term Bond due July 1, 2027 to Yield 4.10% CUSIP[1] 649906 SR6

$1,485,000 4.00% Term Bond due July 1, 2027 to Yield 4.10% CUSIP[1] 649906 TX2

$460,000
Subseries 2012A-2
(Federally Taxable)

$460,000 1.75% Term Bond due July 1, 2013 to Yield 1.95% CUSIP[1] 649906 SS4

[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 2012A Bonds. Neither the Authority nor the Underwriter is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Series 2012A Bonds or as indicated above. CUSIP numbers are subject to being changed after the issuance of the Series 2012A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2012A 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 2012A Bonds.

No dealer, broker, salesman or other person has been authorized by the Authority, the Series 2012A Participants or the Underwriter to give any information or to make any representations with respect to the Series 2012A 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 2012A Participants or the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2012A 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 2012A Participants, the Interagency Council of Developmental Disabilities Agencies, Inc. (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 2012A Participant has reviewed the portions of this Official Statement describing such Series 2012A Participant, its Series 2012A Facilities, its Mortgage, if any, "PART 4 - THE SERIES 2012A PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2012A 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 2012A Bonds that each Series 2012A 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 2012A Participants make no representations as to the accuracy or completeness of any other information included in this Official Statement.

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

References in this Official Statement to the Act, the Resolution, the Series 2012A Resolution and the Loan Agreements do not purport to be complete. Refer to the Act, the Resolution, the Series 2012A Resolution and the Loan Agreements for full and complete details of their provisions. Copies of the Resolution, the Series 2012A 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 2012A Participants have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2012A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR

MAINTAIN THE MARKET PRICE OF THE SERIES 2012A 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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OFFICIAL STATEMENT
relating to
$12,745,000
INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS, SERIES 2012A
Consisting of:

$12,285,000 Subseries 2012A-1 and
$460,000 Subseries 2012A-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"), Birch Family Services, Inc., Federation Employment and Guidance Service, Inc., Program Development Services, Inc., SUS - Developmental Disabilities Services Inc. and Services for the Underserved, Inc. (which shall be considered a single Series 2012A Participant) and United Cerebral Palsy of New York City, Inc. (collectively, the "Series 2012A Participants") in connection with the offering by the Authority of the $12,745,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2012A, consisting of $12,285,000 Subseries 2012A-1 Bonds and $460,000 Subseries 2012A-2 Bonds (Federally Taxable) (collectively, the "Series 2012A Bonds").

The following is a brief description of certain information concerning the Series 2012A Bonds, the Authority and the Series 2012A Participants. A more complete description of such information and additional information that may affect decisions to invest in the Series 2012A 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 2012A Bonds are being issued for the purpose of (i) financing, refinancing or reimbursing a portion of the cost of the acquisition, renovation and furnishing, as applicable, of certain facilities (collectively, the "Series 2012A Facilities") of the Series 2012A 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 2012A Facilities (the "Series 2012A Project"), (ii) making a deposit to each account of the Debt Service Reserve Fund in an amount equal to each Series

2012A Participant's Allocable Portion of the Debt Service Reserve Fund Requirement and (iii) paying certain costs of issuance of the Series 2012A Bonds. The Loan Agreements in the aggregate require the 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 2012A Bonds as the same become due. See "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS." For a description of the Series 2012A Facilities being financed or refinanced with proceeds of the Series 2012A Bonds, see "Appendix A - Description of Series 2012A 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 Interagency Council of Developmental Disabilities Agencies, Inc., which members include the Series 2012A Participants.

The Series 2012A Bonds will be issued pursuant to the Act, the Resolution and the Series 2012A 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 2012A 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 2012A BONDS."

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 Interagency Council of Developmental Disabilities Agencies, Inc. (the "Program Facilitator") will act as the facilitator for the InterAgency Council Pooled Loan Program. The Program Facilitator is a not-for-profit membership organization voluntarily supported by one hundred thirty 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 2012A Participants. "PART 4 - THE SERIES 2012A PARTICIPANTS."

The Series 2012A Participants

Each of the Series 2012A 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 2012A PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2012A PARTICIPANT FUNDING," "Appendix A - Description of Series 2012A Participants," "Appendix B - Audited Financial Statements of Series 2012A Participants," and "Appendix C - Unaudited Financial Information of Series 2012A Participants."

Upon delivery of the Series 2012A Bonds, the Series 2012A Participants will receive loans from the Authority from the proceeds thereof in the following principal amounts, representing each Series 2012A Participant's Allocable Portion of each Subseries of the Series 2012A Bonds:

Series 2012A Participant	Subseries 2012A-1	Subseries 2012A-2	Total
Birch Family Services, Inc.	$2,425,000	$90,000	$2,515,000
Federation Employment and Guidance Service, Inc.	1,770,000	75,000	1,845,000
Program Development Services, Inc.	2,475,000	100,000	2,575,000
SUS - Developmental Disabilities Services, Inc. and Services for the Underserved, Inc.	1,685,000	65,000	1,750,000
United Cerebral Palsy of New York City, Inc.	3,930,000	130,000	4,060,000

No Series 2012A Participant is responsible for the payment obligations of any other Series 2012A Participant. If a Series 2012A Participant fails to pay amounts due under its Loan Agreement in respect of its Allocable Portion of the Series 2012A Bonds, the Authority's sole remedy will be against the defaulting Series 2012A Participant and no other Series 2012A Participant. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS - Events of Default - Special Provisions Relating to Defaults Affecting Only an Allocable Portion of the Series 2012A Bonds" and "Appendix F Summary of Certain Provisions of the Resolutions." See also, "PART 3 - THE SERIES 2012A BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

The Series 2012A Bonds

The Series 2012A Bonds are dated their date of delivery and bear interest from such date (payable January 1, 2013, 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 2012A BONDS - Description of the Series 2012A Bonds."

Payment of the Series 2012A Bonds

The Series 2012A Bonds are special obligations of the Authority payable from the Revenues, which consist of certain payments required to be made by the Series 2012A 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 2012A Bonds. The Revenues are pledged and assigned to the Trustee.

Pursuant to its Loan Agreement, each Series 2012A 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 2012A Bonds, in each case corresponding to the proceeds of each maturity of each Subseries of the Series 2012A Bonds loaned to it by the Authority. The obligation of each Series 2012A Participant to make payments under its Loan Agreement constitutes a general obligation of such Series 2012A Participant. The payment obligations of the Series 2012A Participants are several, not joint. For a listing of each Series 2012A Participant's Allocable Portion of the principal and Sinking Fund Installments of and interest on the Series 2012A Bonds, see "PART 3 – THE SERIES 2012A BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2012A Bonds."

Security for the Series 2012A Bonds

The Series 2012A Bonds will be secured by the pledge and assignment to the Trustee of the Revenues, the proceeds from the sale of the Series 2012A Bonds (until disbursed as provided by the Resolution) and all funds and accounts authorized by the Resolution and established by the Series 2012A Resolution (with the exception of the Arbitrage Rebate Fund), including a Debt Service Reserve Fund (the "Series 2012A Debt Service Reserve Fund") which will be funded at its requirement with proceeds of the Series 2012A Bonds. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A - Security for the Series 2012A Bonds."

The Series 2012A Bonds are separately secured from all other Series of Bonds. The Holders of any Series of Bonds other than the Series 2012A Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2012A Bonds.

Additional Security - Pledged Revenues and the Standby Intercept

The Series 2012A 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 2012A Participants to the Authority pursuant to its Loan Agreement. Certain of the Series 2012A 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. Certain of the Series 2012A Participants have pledged their accounts receivable, including Public Funds, as security for their obligations in connection with lines of credit. The pledge of the Pledged Revenues securing such Series 2012A Participant's Allocable Portion of the Series 2012A Bonds is subject, and subordinate, to such Prior Pledges in all respects. See "Appendix A - Description of Series 2012A Participants" for a description of which Series 2012A Participants have Prior Pledges of their respective Pledged Revenues.

Pledged Revenues are all Public Funds payable to a Series 2012A Participant with respect to its Series 2012A Facilities, which in the case of each Series 2012A Participant means amounts payable by the New York State Office for People with Developmental Disabilities, formerly known as the New York State Office of Mental Retardation and Developmental Disabilities ("OPWDD"), pursuant to separate Prior Property Approvals (each a "PPA") issued by OPWDD with respect to each Series 2012A Facility. The PPA represents OPWDD's pre-approval of the applicable Series 2012A Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2012A Participant in connection with its financing or refinancing of the acquisition, renovation and furnishing, as applicable, of such Series 2012A Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2012A Participant operates the applicable Series 2012A 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 2012A Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the Series 2012A Bonds. See "PART 5 - SOURCES OF SERIES 2012A PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

The Pledged Revenues will be paid directly to each Series 2012A Participant and may be disposed of by such Series 2012A Participant for any of its corporate purposes. However, pursuant to the Act, the respective Loan Agreements and certain agreements entered into by the Authority, OPWDD and the respective Series 2012A Participants (each an "Intercept Agreement"), upon the occurrence of certain events described herein, the Authority may direct OPWDD to remit the revenues payable by OPWDD to a Series 2012A 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 2012A Participant's Allocable Portion of the Outstanding Series 2012A Bonds. Pledged Revenues of one Series 2012A Participant will not be available to satisfy the obligations of any other Series 2012A Participant. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS - Security for the Series 2012A Bonds - Pledged Revenues - OPWDD Funds" and "- Standby Intercept." See also, "Appendix E - Summary of Certain Provisions of the Loan Agreements."

The ability of the Series 2012A Participants to satisfy their payment obligations under the respective Loan Agreements with respect to the Series 2012A 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 2012A Participants of their respective Series 2012A 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 2012A Participants and their ability to continue to generate sufficient revenues to support all of their respective facilities, including their Series 2012A Facilities, (ii) the continued compliance by the Series 2012A Participants with State and local operational standards with respect to their Series 2012A Facilities, and (iii) the continued commitment of public funds to support the programs and facilities operated by the Series 2012A Participants, particularly with respect to the Series 2012A Facilities, the continued appropriations by the State in amounts sufficient for OPWDD to make payments to the Series 2012A Participants pursuant to their respective PPAs. For a more detailed discussion of risk factors affecting the ability of the Series 2012A Participants to pay amounts owed under their Loan Agreements and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2012A Bonds, see "PART 11 - BONDHOLDERS' RISKS" herein. See also, "PART 5 - SOURCES OF SERIES 2012A PARTICIPANT FUNDING."

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

A failure by a Series 2012A 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 2012A 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 2012A 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 2012A Bonds that corresponds to a principal installment on the defaulting Series 2012A 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 2012A Bonds are limited by the Resolution to only those Revenues payable by or on behalf of such defaulting Series 2012A Participant pursuant to its Loan Agreement, funds on deposit with the Trustee attributable to such Series 2012A Participant and amounts recovered upon the realization on any collateral granted to the Authority as security for such Series 2012A Participant's obligations under its Loan Agreement and pledged to the payment of the Series 2012A Bonds. After the application of all such amounts to the payment of the Defaulted Allocable Portion of the Series 2012A Bonds following the acceleration or extraordinary mandatory redemption thereof in accordance with the Resolutions, such Defaulted Allocable Portion of the Series 2012A 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 2012A BONDS - Events of Default - Special Provisions Relating to Defaults Affecting Only an Allocable Portion of the Series 2012A Bonds" and "Appendix F - Summary of Certain Provisions of the Resolutions." See also, "PART 3 - THE SERIES 2012A BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

The Series 2012A Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

NO SERIES 2012A PARTICIPANT IS RESPONSIBLE FOR THE PAYMENT OBLIGATIONS OF ANY OTHER SERIES 2012A PARTICIPANT. IF A SERIES 2012A PARTICIPANT FAILS TO PAY AMOUNTS DUE UNDER ITS LOAN AGREEMENT IN RESPECT OF ITS ALLOCABLE PORTION OF THE SERIES 2012A BONDS, THE AUTHORITY'S SOLE REMEDY WILL BE AGAINST THE DEFAULTING SERIES 2012A PARTICIPANT AND NO OTHER SERIES 2012A PARTICIPANT.

The Mortgages

In the event that a Series 2012A Participant owns its Series 2012A Facilities, such Series 2012A Participant's obligations under its Loan Agreement will be additionally secured by a mortgage (each a "Mortgage") from such Series 2012A Participant to the Authority, granting a first mortgage lien on such owned Series 2012A Facilities, and by a first priority security interest 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 2012A Bonds. However, under certain circumstances described herein, one or more of the Mortgages are required to be assigned to the Trustee. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS - Security for the Series 2012A Bonds - The Mortgages."

In the event that a Series 2012A Participant does not own its Series 2012A Facilities, such Series 2012A Participant's obligations under its Loan Agreement will not be secured by any mortgage or security interest.

See "Appendix A - Description of Series 2012A Participants" for a description of which Series 2012A Participants (i) own or lease their respective Series 2012A Facilities and (ii) will grant first mortgages on their respective Series 2012A Facilities.

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2012A 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 2012A 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 2012A Bonds

The Series 2012A Bonds are special obligations of the Authority. The principal, Sinking Fund Installments, and Redemption Price of and interest on the Series 2012A Bonds are payable solely from the Revenues. The Revenues consist of the payments required to be made by each of the Series 2012A Participants under its respective Loan Agreement on account of such Series 2012A Participant's Allocable Portion of (i) the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2012A Bonds, and (ii) the Series 2012A 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 2012A 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 2012A Bonds when due, (ii) amounts necessary to maintain the Series 2012A 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 2012A Participant, pursuant to which such Series 2012A 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 2012A Bonds as reflected in the debt service table set forth in "PART 3 – THE SERIES 2012A BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2012A Bonds." The payment obligations of the Series 2012A Participants with respect to the Series 2012A Bonds are several, not joint. Each Series 2012A Participant is obligated to repay only its Allocable Portion of the Series 2012A Bonds. Each Series 2012A 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 2012A 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 2012A 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 2012A BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2012A Bonds." Each of the respective Loan Agreements also obligates each respective Series 2012A Participant to pay, at least 45 days prior to a redemption date of Series 2012A Bonds called for redemption, its Allocable Portion of the amount, if any, required to pay the Redemption Price of such Series 2012A Bonds. See "PART 3 – THE SERIES 2012A BONDS – Redemption Provisions."

Security for the Series 2012A Bonds

General

The Series 2012A 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 2012A Bonds will also be secured by the proceeds from the sale of the Series 2012A Bonds (until disbursed as provided in the Resolutions) and all funds and accounts authorized by the Resolution and established by the Series 2012A Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2012A Debt Service Reserve Fund.

Pursuant to the terms of the Resolution, the Series 2012A Bonds are separately secured from all other Series of Bonds. The Holders of any Series of Bonds other than the Series 2012A Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2012A Bonds.

Pledged Revenues - OPWDD Funds

Pursuant to the Act and the respective Loan Agreements, each Series 2012A 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 2012A Participant, the Pledged Revenues consist of the PPA Funds payable to such Series 2012A Participant by OPWDD in connection with its Series 2012A Facilities.

Each Series 2012A Facility is supported by an OPWDD PPA, which the applicable Series 2012A Participant has received. The PPA represents OPWDD's pre-approval of the applicable Series 2012A Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2012A Participant in connection with its financing or refinancing of the acquisition, renovation and furnishing, as applicable, of such Series 2012A Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2012A Participant operates the applicable Series 2012A 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 2012A Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the Series 2012A Bonds. See "PART 5 - SOURCES OF SERIES 2012A PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

The Series 2012A Participants' Pledged Revenues are subject to Prior Pledges, if any. See "Appendix A - Description of the Series 2012A Participants" for a description of which Series 2012A 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 OPWDD officials are authorized and required to pay a Series 2012A 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 2012A Participant described in clause (a) or (b) below, a Series 2012A Participant's PPA Funds will be paid directly to such Series 2012A 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 2012A 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 2012A Participant's Loan Agreement, or (b) a drawing of funds from the Debt Service Reserve Fund for the benefit of such Series 2012A Participant that has not been repaid by such Series 2012A Participant as required by its Loan Agreement and the Resolutions, the Authority may, in addition to all other remedies available pursuant to such Series 2012A Participant's Loan Agreement, cause such Series 2012A 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 2012A Participant pursuant to its Loan Agreement. See "PART 5 - SOURCES OF SERIES 2012A PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities." PPA Funds of one Series 2012A Participant will not be available to satisfy the payment obligations of any other Series 2012A Participant.

There can be no assurance that the amount of a Series 2012A Participant's PPA Funds will be sufficient to satisfy its payment obligations with respect to its Allocable Portion of the Series 2012A Bonds. In the event that amounts received from OPWDD upon the intercept of a Series 2012A Participant's PPA Funds are insufficient to pay all of a Series 2012A Participant's Allocable Portion of the principal of and interest on the Series 2012A Bonds when due, such amounts received will be applied pro rata to such Series 2012A Participant's Allocable Portion of each Subseries of the Series 2012A Bonds.

The ability of the Series 2012A Participants to satisfy their payment obligations under the respective Loan Agreements with respect to the Series 2012A 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 2012A Participants of their respective Series 2012A 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 2012A Participants and their ability to continue to generate sufficient revenues to support all of their respective facilities, including their Series 2012A Facilities, (ii) the continued compliance by the Series 2012A Participants with State and local operational standards with respect to their Series 2012A Facilities, and (iii) the continued commitment of public funds to support the programs and facilities operated by the Series 2012A Participants, particularly with respect to the Series 2012A Facilities, the continued appropriations by the State in amounts sufficient for OPWDD to make payments to the Series 2012A Participants pursuant to their respective PPAs. For a more detailed discussion of risk factors affecting the ability of the Series 2012A Participants to pay amounts owed under their Loan Agreements and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2012A Bonds, see "PART 11 - BONDHOLDERS' RISKS" herein. See also, "PART 5 - SOURCES OF SERIES 2012A PARTICIPANT FUNDING."

Debt Service Reserve Fund

The Resolution authorizes, and the Series 2012A Resolution establishes, the Series 2012A Debt Service Reserve Fund, which is required to be maintained in an amount equal to one-half of the greatest amount required in the then current or any future calendar year to pay the sum of (i) interest on the Outstanding Series 2012A 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 2012A Bonds (the "Series 2012A Debt Service Reserve Fund Requirement").

Proceeds of the Series 2012A Bonds will be deposited in separate accounts established in the Series 2012A Debt Service Reserve Fund for each Series 2012A Participant in amounts equal to the respective Series 2012A Participant's Allocable Portion of the Series 2012A Debt Service Reserve Fund Requirement. If, on the fourth Business Day preceding an interest payment date for the Series 2012A Bonds, the amount on deposit in the account established for a Series 2012A Participant in the Debt Service Fund is less than the amount necessary to pay such Series 2012A Participant's Allocable Portion of the principal or Sinking Fund Installments of and interest on the Outstanding Series 2012A Bonds payable on such interest payment date, the Trustee is required to transfer moneys from the applicable account of the Series 2012A 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 2012A Participant to restore in full any amount withdrawn from the Series 2012A 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 2012A Participant to restore in full its Allocable Portion of the Series 2012A Debt Service Reserve Fund Requirement within five (5) days after receiving notice of a deficiency in the Series 2012A Debt Service Reserve Fund resulting from a devaluation of the investments held therein. Moneys in the Series 2012A 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 2012A 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 2012A Debt Service Reserve Fund Requirement or any Series 2012A Participant's Allocable Portion thereof. See "Appendix F - Summary of Certain Provisions of the Resolutions."

Mortgages

In the event that a Series 2012A Participant owns its Series 2012A Facilities, such Series 2012A Participant's obligations to the Authority under its Loan Agreement will be additionally secured by its Mortgage granting a first mortgage lien on such owned Series 2012A Facilities to the Authority, and by a first priority security interest 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 2012A 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 2012A Debt Service Reserve Fund, which has not been restored by the respective Series 2012A 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 2012A Participant's Loan Agreement and the acceleration of the loan thereunder, the Authority is required to assign such Series 2012A 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 2012A Participant's Allocable Portion of the Outstanding Series 2012A 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 2012A Bonds. **Each Mortgage secures only the obligations of the Series 2012A Participant granting the Mortgage, and, in the event of a default by a Series 2012A Participant which may lead to the assignment of its Mortgage, only the Mortgage of that defaulting Series 2012A Participant may be assigned**.

Each Series 2012A 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 2012A 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 2012A Participant may remove furniture, fixtures or equipment from the Mortgaged Property provided that such Series 2012A 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 2012A Participant's owned Series 2012A 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 2012A 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 2012A 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 2012A Bonds of any Subseries; *provided, however*, if the failure to make any such payment is caused by a failure of a Series 2012A Participant to timely pay its Allocable Portion of the principal, Sinking Fund Installments or Redemption Price of or interest on the Series 2012A 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 2012A 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 2012A-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 2012A 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 2012A 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 2012A 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 2012A Bonds.

With respect to an event of default affecting only the Defaulted Allocable Portion of the Series 2012A Bonds and not any other portion of the Series 2012A Bonds, the Trustee will determine such Defaulted Allocable Portion in the manner described in "PART 3 - THE SERIES 2012A BONDS - Redemption Provisions - Extraordinary Mandatory Redemption" herein.

The Series 2012A 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 2012A Bonds, an event of default by a Series 2012A 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 2012A Participant's Loan Agreement.**

Acceleration; Control of Proceedings

The Resolution provides that if an event of default (other than an event of default described in clause (i) under the first paragraph of the subheading "Events of Default" above resulting from a Series 2012A Participant's failure to timely pay its Allocable Portion of the Series 2012A 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 2012A Bonds, by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Series 2012A 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 2012A 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 2012A Participant to timely pay its Allocable Portion of the Series 2012A 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 2012A Bonds, declare the principal of and interest on the Defaulted Allocable Portion of the Outstanding Series 2012A 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 2012A

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 2012A Bonds or 25% in principal amount of Defaulted Allocable Portion of the Outstanding Series 2012A 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 2012A 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 2012A 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 2012A 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 2012A Bonds.

Special Provisions Relating to Defaults Affecting Only an Allocable Portion of the Series 2012A Bonds

The Resolution provides that upon the happening and continuance of an event of default affecting only a Defaulted Allocable Portion of the Series 2012A 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 2012A 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 2012A Participant's Loan Agreement, including such Series 2012A 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 2012A Participant as security for its loan, and (ii) the moneys and securities on deposit in only those accounts established pursuant to the Series 2012A Resolution for the payment of such defaulting Series 2012A Participant's Allocable Portion of the Series of 2012A Bonds. Holders of a Defaulted Allocable Portion of the Series 2012A 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 2012A Participant for the payment of the Series 2012A Bonds or any other security pledged by such other non-defaulting Series 2012A 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 2012A 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 2012A 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 2012A Bonds on a pro rata basis in accordance with the Resolution, (i) the remaining Defaulted Allocable Portion of the Series 2012A 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 2012A Bonds shall be deemed to have been discharged and satisfied, and (iii) the Holders of the Defaulted Allocable Portion of the Series 2012A 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 2012A Bonds. Upon such payment and/or cancellation of a Defaulted Allocable Portion of the Outstanding Series 2012A Bonds, the Authority shall execute and the Trustee shall authenticate a new Series 2012A Bond or Series 2012A Bonds in a principal amount equal to the Outstanding principal amount of the Series 2012A 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 2012A Bonds of less than all of the principal of and interest on a Defaulted Allocable Portion of the Outstanding Series 2012A Bonds following an acceleration or extraordinary mandatory redemption of such Defaulted Allocable Portion of the Series 2012A 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 2012A Bonds under the Resolutions.

General

The Series 2012A 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 2012A BONDS

Set forth below is a narrative description of certain provisions relating to the Series 2012A Bonds. These provisions have been summarized, and this description does not purport to be complete. Reference should be made to the Resolution, the Series 2012A 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 2012A Bonds.

General

The Series 2012A Bonds will be issued pursuant to the Resolutions. The Series 2012A 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 2012A 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 2012A Bonds, payments of principal, Sinking Fund Installments, Redemption Price and interest on the Series 2012A 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 2012A 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 2012A Bonds, the Series 2012A Bonds will be exchangeable for fully registered Series 2012A 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 2012A Bonds

The Series 2012A Bonds will be dated their date of delivery and will bear interest from such date (payable on January 1, 2013 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 2012A Bonds will be issuable in fully registered book-entry-only form, without coupons, in denominations of $5,000 or any integral multiple in excess thereof.

Each Subseries of the Series 2012A Bonds may be exchanged for other Series 2012A 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 2012A-1 Bonds maturing after July 1, 2021 are subject to redemption, on or after July 1, 2021, as a whole or in part at any time at the option of the Authority, at the Redemption Prices (expressed as percentages of unpaid principal amount of the Subseries 2012A-1 Bonds to be redeemed) set forth below, plus accrued interest to the redemption date:

Redemption Period (both dates inclusive)	**Redemption Price**
July 1, 2021 through June 30, 2022	101.00%
July 1, 2022 through June 30, 2023	100.50
July 1, 2023 and thereafter	100.00

The Subseries 2012A-2 Bonds are not subject to optional redemption.

Extraordinary Mandatory Redemption

Each Defaulted Allocable Portion of the Series 2012A 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 2012A Participant as security for its loan upon an acceleration of such loan under its Loan Agreement. The Series 2012A 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 2012A 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 2012A Bonds on the redemption date less the amount of accrued interest to be paid on such Defaulted Allocable Portion of the Series 2012A Bonds on such date, by (B) the principal amount of the Defaulted Allocable Portion of the Series 2012A 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 2012A Bonds to be redeemed based upon the schedule of amortization of the defaulting Series 2012A Participant's loan which has been accelerated. All Series 2012A 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 2012A 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 2012A Bond by the total principal scheduled to be paid in the year of maturity of such Series 2012A Bond on all loans made with the proceeds of the Series 2012A Bonds, including the defaulted loan.

The particular Series 2012A Bonds of each affected maturity to be redeemed will be selected in the manner described below under "- Selection of Series 2012A Bonds to be Redeemed."

Special Redemption

The Series 2012A 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 (a) the proceeds of a condemnation or insurance award, which is not to be used to repair, restore or replace a Series 2012A Facility of a Series 2012A Participant and (b) the proceeds of the sale of a Series 2012A Facility.

Mandatory Sinking Fund Redemption

The Subseries 2012A-1 Bonds maturing on July 1, 2027 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 2012A-1 Bonds specified for each such year below:

5.00% Subseries 2012A-1 Bonds
Maturing July 1, 2027

Year	Sinking Fund Installment	Year	Sinking Fund Installment
2023	$280,000	2026	$175,000
2024	280,000	2027†	50,000
2025	215,000		

†Final maturity.

4.00% Subseries 2012A-1 Bonds
Maturing July 1, 2027

Year	Sinking Fund Installment	Year	Sinking Fund Installment
2023	$420,000	2026	$265,000
2024	420,000	2027†	60,000
2025	320,000		

†Final maturity.

The Series 2012A Participants may elect to have the Series 2012A 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 2012A 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 2012A Bonds of the Subseries and maturity so purchased will be reduced for such year.

Selection of Series 2012A Bonds to be Redeemed

In the case of redemptions of Subseries 2012A-1 Bonds described above under the heading "Optional Redemption," the Authority will select the maturities of the Allocable Portion of the Subseries 2012A-1 Bonds to be redeemed. In the case of redemption of Series 2012A Bonds described above under the heading "Special Redemption," Series 2012A Bonds will be redeemed to the extent practicable pro rata among maturities of the Allocable Portion of the Series 2012A Bonds, but only in integral multiples of $5,000 within each maturity. If less than all of the Series 2012A Bonds of a maturity are to be redeemed (pursuant to an optional, special, extraordinary mandatory or mandatory sinking fund redemption), the Series 2012A 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 2012A 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 2012A 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 2012A 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 2012A Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Series 2012A 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 2012A Bonds.

If, on the redemption date, moneys for the redemption of the Series 2012A 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 2012A Bonds of such Subseries and maturity will cease to accrue from and after the redemption date and such Series 2012A Bonds will no longer be considered to be Outstanding under the Resolution and the Series 2012A Resolution.

For a more complete description of the redemption and other provisions relating to the Series 2012A Bonds, see "Appendix F - Summary of Certain Provisions of the Resolutions."

Purchase in Lieu of Optional Redemption

The Subseries 2012A-1 Bonds maturing after July 1, 2021 are also subject to purchase prior to maturity, at the election of the Authority, on or after July 1, 2021, in any order, in whole or in part at any time, at the prices set forth in "PART 3 - THE SERIES 2012A BONDS - Redemption Provisions -

Optional Redemption" (the "Purchase Price"), plus accrued interest to the date set for purchase (the "Purchase Date") set forth in the notice of purchase to the registered owners of the Subseries 2012A-1 Bonds to be so purchased.

Notice of Purchase and its Effect

Notice of the purchase of Subseries 2012A-1 Bonds will be given by the Authority in the name of the Series 2012A Participants to the registered owners of the Subseries 2012A-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 2012A-1 Bonds to be purchased are required to be tendered on the Purchase Date to the Trustee. Subseries 2012A-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 2012A-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 2012A-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 2012A-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 2012A-1 Bonds to be purchased, the former registered owners of such Subseries 2012A-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 2012A-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 2012A-1 Bonds in accordance with their respective terms.

In the event not all of the Outstanding Subseries 2012A-1 Bonds of a maturity are to be purchased, the Subseries 2012A-1 Bonds of such maturity to be purchased will be selected by lot in the same manner as Subseries 2012A-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 2012A Bonds. The Series 2012A 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 2012A Bond certificate will be issued for each maturity of the respective Subseries of Series 2012A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Series 2012A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2012A 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 2012A 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 2012A Bonds, except in the event that use of the book-entry system for the Series 2012A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012A 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 2012A 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 2012A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012A 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 2012A 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 2012A 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 2012A 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 2012A 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. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2012A Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2012A Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Series 2012A 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 Direct or Indirect Participant or any person claiming a beneficial ownership interest in the Series 2012A Bonds under or through DTC or any Direct or Indirect 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 Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2012A 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.

For every transfer and exchange of beneficial ownership of the Series 2012A 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 2012A 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 2012A 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 2012A Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2012A 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 Underwriter make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Principal, Sinking Fund Installment and Interest Requirements for the Series 2012A Bonds

The following table sets forth the amounts required to be paid by each of the Series 2012A Participants during each twelve month period ending June 30 of the Bond Years shown for the payment of the interest on the Series 2012A Bonds payable on January 1 of such year and the principal and Sinking Fund Installments of and interest on the Series 2012A Bonds payable on the succeeding July 1 and the aggregate payments to be made by the Series 2012A Participants during each such period with respect to the Series 2012A Bonds.

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Total Debt Service by Series 2012A Participant

FY Ending	Birch Family Services, Inc.		Federation Employment and Guidance Service, Inc.		Program Development Services, Inc.		SUS - Developmental Disabilities Services, Inc. and Services for the Underserved, Inc.		United Cerebral Palsy of New York City, Inc.	
	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest
6/30/2013	350,000	120,565	140,000	87,942	355,000	119,990	120,000	84,785	290,000	195,622
6/30/2014	355,000	86,650	140,000	66,780	340,000	86,168	120,000	64,740	290,000	148,730
6/30/2015	360,000	76,000	140,000	62,580	340,000	75,968	120,000	61,140	290,000	140,030
6/30/2016	360,000	58,000	140,000	55,580	175,000	58,968	120,000	55,140	290,000	125,530
6/30/2017	360,000	43,600	140,000	49,980	175,000	51,968	120,000	50,340	290,000	113,930
6/30/2018	365,000	29,200	140,000	44,380	175,000	44,968	120,000	45,540	290,000	102,330
6/30/2019	365,000	14,600	140,000	38,780	175,000	37,968	120,000	40,740	290,000	90,730
6/30/2020			140,000	33,180	175,000	30,968	120,000	35,940	290,000	79,130
6/30/2021			140,000	28,980	170,000	25,718	120,000	32,340	290,000	70,430
6/30/2022			140,000	24,430	165,000	20,193	120,000	28,440	290,000	61,005
6/30/2023			135,000	19,600	165,000	14,500	110,000	24,300	290,000	51,000
6/30/2024			135,000	13,650	165,000	7,250	110,000	19,450	290,000	38,250
6/30/2025			135,000	7,700			110,000	14,600	290,000	25,500
6/30/2026			40,000	1,750			110,000	9,750	290,000	12,750
6/30/2027							110,000	4,900		

PART 4 - THE SERIES 2012A PARTICIPANTS

General

Descriptions of the Series 2012A Participants, their operations and the Series 2012A Facilities they will finance or refinance with the proceeds of the Series 2012A Bonds are set forth in Appendix A hereto. Copies of the most recent audited financial statements for each of the Series 2012A Participants are set forth in Appendix B hereto and copies of recent unaudited financial information for each of the Series 2012A Participants are set forth in Appendix C. Prospective purchasers of the Series 2012A Bonds should carefully review Appendix A, Appendix B and Appendix C.

The Series 2012A Participants are not-for-profit corporations, organized and existing under the laws of the State. All of the Series 2012A 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 2012A 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 2012A Participant's charitable purposes. When revenues are not sufficient to cover expenses, the Series 2012A 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 2012A 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 2012A Participants owns and/or leases and operates one or more facilities, including the Series 2012A Facilities as described in Appendix A, in the State, to provide services to individuals who are developmentally disabled or have other special needs. Each of the Series 2012A Participants has represented that it has the appropriate licenses and authority to provide its services under State statutes. In addition to the PPAs with OPWDD on the Series 2012A Facilities, the Series 2012A 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 2012A 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 2012A 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 2012A Participants**. See "PART 5 - SOURCES OF SERIES 2012A PARTICIPANT FUNDING" herein.

The Series 2012A Participants have engaged the Program Facilitator to act as the facilitator for the InterAgency Council Pooled Loan Program. For its services, the Series 2012A Participants will pay the Program Facilitator a fee of .25% of the principal amount of the Series 2012A Bonds at closing and an annual fee of .125% of all outstanding Series 2012A Bonds. Each of the Series 2012A Participants are members of the Program Facilitator.

All of the Series 2012A Facilities financed by the Series 2012A Bonds are covered by PPAs funded by OPWDD. All of the Series 2012A Participants have over 25 years of experience providing services. See "PART 5 - SOURCES OF SERIES 2012A PARTICIPANT FUNDING."

PART 5 - SOURCES OF SERIES 2012A PARTICIPANT FUNDING

OPWDD provides a portion of the revenues of the Series 2012A Participants through contracts and reimbursement arrangements for the provision of their services. The current methodology used by OPWDD in determining the amounts to be paid to the Series 2012A Participants for provision of services is set forth below. Other government funding sources for one or more of the Series 2012A Participants are described in "Appendix A - Description of Series 2012A Participants."

New York State Office for People with Developmental Disabilities

OPWDD currently services over 126,000 individuals with developmental disabilities and all but approximately 1,200 of these individuals are served in a variety of community settings. OPWDD meets its statutory mandate almost entirely by contracting with more than 600 non-profit service provider agencies. Although the community residential program statewide has grown from 9,000 community beds in 1980 to over 39,000 community beds in 2011, additional community development will be required to serve individuals needing out of home placement who cannot be served within the existing capacity. Following the initial development of community services in the 1970s as a result of the Willowbrook Class Action settlement, in 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, added approximately 18,000 new community beds to the community service system. This initiative continued 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 Services 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.

OPWDD is charged with developing a comprehensive, cost-effective and integrated system of services to serve the full range of needs of persons with developmental disabilities. OPWDD currently 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 1,200 consumers in nine institutional settings informally known as developmental centers and specialized units located throughout the State. In addition, OPWDD funds and regulates a State-operated and voluntary-operated community based service program which now provides residential services to more than 39,000 individuals and day services supporting more than 58,000 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 OPWDD to deliver appropriate and cost-effective services to individuals with developmental disabilities.

In connection with the foregoing, OPWDD is responsible for, among other things, the regulation and certification of the Series 2012A Facilities expected to be financed or refinanced with the proceeds of the Series 2012A Bonds. Such regulation and certification includes, among other things, participation in the determination as to the need for the Series 2012A Facility, review of plans and specifications for construction/rehabilitation of the Series 2012A Facility, the right to conduct inspections and program audits, and the establishment of a reimbursement rate for an individual's care.

<u>Population</u>

Consistent with its comprehensive Five Year Plan, OPWDD serves a diverse population of individuals with developmental disabilities including persons with mental retardation, cerebral palsy, autism and epilepsy. OPWDD's programs are characterized by two related service systems: a State-operated institutional system and a community-based system with programs run by both the State and voluntary 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. OPWDD's 2011-2015 Comprehensive Plan includes plans to close the remainder of the developmental center through the placement of the 1,200 remaining individuals into community homes. The only remaining institutional facilities will be small, specialized forensic and behavioral units to serve individuals who require this level of care.

The proposed Executive Budget for 2012-2013 for OPWDD reflects less than a 1% reduction in overall funding to OPWDD. It also calls for new funding to provide 2,900 new opportunities for individuals to (i) be placed into community settings from developmental centers, and (ii) return from out-of-state residential school settings, as well as other respite, crisis, employment and community integration opportunities. In addition, the Executive Budget proposed to spend $334 million over five years (including $56 million this year) for enhanced fire safety efforts. OPWDD will also find efficiencies in its state operations by consolidating certain back office functions, including purchasing, and reconfiguring its regional offices. These savings will be reinvested in community services. It is anticipated that there will be a decrease of less than one percent in overall spending in Aid to Localities.

Population Statistics

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

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
2010	1,300	37,500
2011	1,300	39,000

* 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 OPWDD facilities by the criminal justice system.

The appropriations made for the operations and costs of OPWDD for State Fiscal Years 2004-2005 through 2011-2012 and the proposed appropriations for State Fiscal Year 2012-2013 are as follows (Source: OPWDD):

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

The PPA Funds received by the Series 2012A Participants from OPWDD are appropriated through Aid to Localities appropriations.

Prior Property Approval Process

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

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

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

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

Pursuant to the State's Mental Hygiene Law, facilities, such as the Series 2012A Facilities, are required to have an operating certificate issued by the New York State Commissioner of the Office for People with Developmental Disabilities (the "Commissioner"). The Commissioner, upon issuing a notice that he or she will revoke or suspend an operating certificate of a facility, or he or she will disapprove an application for a renewal of such certificate, or prior to suspending an operating certificate for up to 60 days, may ask a court to appoint a receiver for the facility in the event that the health, safety and welfare of the residents are in jeopardy. The court shall appoint a receiver, upon making certain findings as described in the Mental Hygiene Law, which should be a voluntary 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.

OPWDD Rights With Respect to Series 2012A Facilities

In addition to the statutory receivership remedy described above, each Loan Agreement provides for a contractual remedy upon the failure of a Series 2012A Participant to operate its Series 2012A Facilities in accordance with regulatory standards. Each Series 2012A 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 2012A Facilities in accordance with the valid operating certificate issued by OPWDD for such Series 2012A Facility, in addition to any other legal remedies OPWDD may have, OPWDD shall have the right (after written notice and a request to remedy such failure and without resort to judicial proceedings) to use, possess and occupy such Series 2012A Facility for the remaining term during which such Series 2012A Participant has agreed to operate such certified program at the Series 2012A Facility and, further, may assign such rights to another operator. In such event, OPWDD or any assignee will be required to make the payments owed by the Series 2012A Participant under its Loan Agreement with respect to such Series 2012A Facility as they become due and owing. See "Appendix D - Summary of Certain Provisions of the Loan Agreements" for further details of OPWDD's rights with respect to the Series 2012A Facilities and the Authority's remedy upon an event of default by a Series 2012A Participant under its Loan Agreement to request OPWDD to exercise such rights.

PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of proceeds of the Series 2012A Bonds:

Sources of Funds

Principal amount of Subseries 2012A-1 Bonds	$12,285,000.00
Net Original Issue Premium on Subseries 2012A-1 Bonds	627,852.77
Principal amount of Subseries 2012A-2 Bonds	460,000.00
Original Issue Discount on Subseries 2012A-2 Bonds	(1,140.51)
Total Sources of Funds	$13,371,712.26

Uses of Funds

Deposit into Series 2012A Debt Service Reserve Fund	$ 965,805.43
Deposit into Series 2012A Project Loan Fund	11,606,780.70
Underwriter's Discount	367,693.25
Series 2012A Costs of Issuance[(1)]	431,432.88
Total Uses of Funds	$13,371,712.26

(1) Includes 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 December 31, 2011, the Authority had approximately $45 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 December 31, 2011 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
State University of New York Dormitory Facilities	$ 2,738,656,000	$ 1,364,250,000	$ 0	$ 1,364,250,000
State University of New York Educational and Athletic Facilities	15,153,032,999	6,963,824,624	0	6,963,824,624
Upstate Community Colleges of the State University of New York	1,644,630,000	669,655,000	0	669,655,000
Senior Colleges of the City University of New York	11,126,291,762	3,735,313,213	0	3,735,313,213
Community Colleges of the City University of New York	2,590,993,350	552,686,787	0	552,686,787
BOCES and School Districts	3,279,181,208	2,439,090,000	0	2,439,090,000
Judicial Facilities	2,161,277,717	668,012,717	0	668,012,717
New York State Departments of Health and Education and Other	7,400,435,000	4,980,015,000	0	4,980,015,000
Mental Health Services Facilities	8,662,585,000	4,239,910,000	0	4,239,910,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	1,146,845,000	728,335,000	0	728,335,000
Totals Public Programs	$ 56,677,403,036	$ 26,341,092,341	$ 0	$ 26,341,092,341

Non-Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Independent Colleges, Universities and Other Institutions	$ 20,619,329,952	$ 10,700,855,536	$ 78,095,000	$ 10,778,950,536
Voluntary Non-Profit Hospitals	15,257,544,309	7,237,960,000	0	7,237,960,000
Facilities for the Aged	2,030,560,000	638,140,000	0	638,140,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Totals Non-Public Programs	$ 38,002,434,261	$ 18,576,955,536	$ 78,095,000	$ 18,655,050,536
Grand Totals Bonds and Notes	$ 94,679,837,297	$ 44,918,047,877	$ 78,095,000	$ 44,996,142,877

Outstanding Indebtedness of the Agency Assumed by the Authority

At December 31, 2011, the Agency had approximately $202.5 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 December 31, 2011 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	$ 2,035,000
Insured Mortgage Programs	6,625,079,927	197,035,000
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	3,440,000
Total Non-Public Programs	$ 9,265,549,927	$ 202,510,000
Total MCFFA Outstanding Debt	$ 13,082,780,652	$ 202,510,000

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 Earl G. Graves, Ltd/Black Enterprise, a multi-media company with properties in print, digital media, television, events and the internet. He is a member of the Investment Advisory Committee of the New York Common Retirement Fund and a member of the Board of Directors at Ronald McDonald House of New York. 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 the assets of the NY Common Retirement Fund, 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 expired on March 31, 2011 and by law he continues to serve until a successor shall be chosen and qualified.

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. By appointment of the Appellate Division, First Department, Mr. Moerdler serves as Vice Chair of the Committee on Character and Fitness and as a Member of the Departmental Disciplinary Committee. 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 as well as the Metropolitan Transportation Authority and is 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.

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

Ms. Snyder was appointed as a member of the Authority by the Governor on June 15, 2011. She is currently a principal in HBJ Investments, LLC, an investment company where her duties include evaluation and analysis of a wide variety of investments in, among other areas: fixed income, equities, alternative investments and early stage companies. Previously, she was Vice President, General Counsel and a Director of Biocraft Laboratories, Inc. and a Director of Teva Pharmaceuticals. Ms. Snyder serves as a Board member of the Beatrice Snyder Foundation, the Roundabout Theater, the Advisory Committee of the Hospital of Joint Diseases and the Optometric Center of New York, where she also serves on the Investment Committee. She holds a Bachelor of Arts degree in History from Vassar College and a Juris Doctor degree from Rutgers University. Her current term expires on August 31, 2013.

SANDRA M. SHAPARD, Delmar.

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.

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

Dr. John B. King, Jr., was appointed by the Board of Regents to serve as President of the University of the State of New York and Commissioner of Education on July 15, 2011. As Commissioner of Education, Dr. King serves as chief executive officer of the State Education Department and as President of the University of the State of New York, which is comprised of public and non-public elementary and secondary schools, public and independent colleges and universities, libraries, museums, broadcasting facilities, historical repositories, proprietary schools and services for children and adults with disabilities. Dr. King is also responsible for licensing, practice and oversight of numerous professions. Dr. King previously served as Senior Deputy Commissioner for P-12 Education at the New York State Education Department. Prior thereto, Dr. King served as a Managing Director with Uncommon Schools. Prior to this, Dr. King was Co-Founder and Co-Director for Curriculum & Instruction of Roxbury Preparatory Charter School and prior to that, Dr. King was a teacher in San Juan, Puerto Rico and Boston, Massachusetts. He holds a Bachelor of Arts degree in Government from Harvard University, a Master of Arts degree in Teaching of Social Studies from Teachers College, Columbia University, a Juris Doctor degree from Yale Law School and a Doctor of Education degree in Educational Administrative Practice from Teachers College, Columbia University.

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

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

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

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.

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.

The position of General Counsel is currently vacant.

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 2012 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 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, 2011. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 8 - LEGALITY OF THE SERIES 2012A BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2012A 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 2012A 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 2012A Bonds are negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution, the Series 2012A Resolution and in the Series 2012A Bonds.

PART 10 - TAX MATTERS

Subseries 2012A-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 2012A-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 2012A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, each of the Series 2012A Participants, as applicable, the Program Facilitator, and others, and Bond Counsel has assumed compliance by Authority, and each of the Series 2012A Participants, as applicable, with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subseries 2012A-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 2012A Participants regarding, among other matters, the current qualifications of the Series 2012A 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 2012A-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 2012A-1 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 2012A-1 Bonds, or under state and local tax law on the Series 2012A 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 2012A 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 2012A-1 Bonds in order that interest on the Subseries 2012A-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 2012A-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 2012A-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 2012A 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 2012A-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 2012A-1 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Subseries 2012A-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 2012A-1 Bonds.

Prospective owners of the Subseries 2012A-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 2012A-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 2012A-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 2012A-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 2012A-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 2012A-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 2012A-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 2012A-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 2012A-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 2012A-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 2012A-1 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Subseries 2012A-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 2012A-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 2012A-1 Bonds under Federal or state law or otherwise prevent beneficial owners of the Subseries 2012A-1 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Subseries 2012A-1 Bonds.

Prospective purchasers of the Subseries 2012A-1 Bonds should consult their own tax advisors regarding the foregoing matters.

Subseries 2012A-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 2012A-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 2012A-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 2012A-2 Bonds as a position in a "hedge" or "straddle" for United States Federal income tax purposes, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire the Subseries 2012A-2 Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code. Each prospective purchaser of the Subseries 2012A-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 2012A-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 2012A-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 2012A-2 Bonds (i) are included in gross income for United States Federal income tax purposes and (ii) are exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York.

Original Issue Discount

For United States Federal income tax purposes, a Subseries 2012A-2 Bond will be treated as issued with OID if the excess of a Subseries 2012A-2 Bond's "stated redemption price at maturity" over its "issue price" equals or exceeds a statutorily determined *de minimis* amount. The "issue price" of each Subseries 2012A-2 Bond in a particular issue equals the first price at which a substantial amount of such issue is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of a Subseries 2012A-2 Bond is the sum of all payments provided by such Subseries 2012A-2 Bond other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. In general, if the excess of a Subseries 2012A-2 Bond's stated redemption price at maturity over its issue price is less than 0.25 percent of the Subseries 2012A-2 Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity (the "*de minimis* amount"), then such excess, if any, constitutes *de minimis* OID, and the Subseries 2012A-2 Bond is not treated as being issued with OID and all payments of stated interest (including stated interest that would otherwise be characterized as OID) is treated as qualified stated interest, as described below.

Payments of qualified stated interest on a Subseries 2012A-2 Bond are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received in accordance with the U.S. Holder's regular method of tax accounting. A U.S. Holder of a Subseries 2012A-2 Bond having a maturity of more than one year from its date of issue generally must include OID in income as ordinary interest as it accrues on a constant-yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. The amount of OID included in income by the U.S. Holder of a Subseries 2012A-2 Bond is the sum of the daily portions of OID with respect to such Subseries 2012A-2 Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such Subseries 2012A-2 Bond. The daily portion of OID on any Subseries 2012A-2 Bond is determined by allocating to each day in any "accrual period" a ratable portion of the OID allocable to the accrual period. All accrual periods with respect to a Subseries 2012A-2 Bond may be of any length and the accrual periods may vary in length over the term of the Subseries 2012A-2 Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or final day of an accrual period. The amount of OID allocable to an accrual period is generally equal to the difference between (i) the product of the Subseries 2012A-2 Bond's "adjusted issue price" at the beginning of such accrual period and such Subseries 2012A-2 Bond's yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Subseries 2012A-2 Bond at the beginning of any accrual period is the issue price of the Subseries 2012A-2 Bond plus the amount of accrued OID includable in income for all prior accrual periods minus the amount of any prior payments on the Subseries 2012A-2 Bond other than qualified stated interest payments. The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (i) the amount payable at the maturity of the Subseries 2012A-2 Bond (other than a payment of qualified stated interest) and (ii) the Subseries 2012A-2 Bond's adjusted issue price as of the beginning of the final accrual period. Under the OID rules, U.S. Holders generally will have to include in income increasingly greater amounts of OID in successive accrual periods.

A U.S. Holder may elect to include in gross income all interest that accrues on a Subseries 2012A-2 Bond using the constant-yield method described above under the heading "Original Issue Discount," with the modifications described below. For purposes of this election, interest includes, among other things, stated interest, OID and de minimis OID, as adjusted by any amortizable bond premium described below under the heading "Bond Premium." In applying the constant-yield method to a Subseries 2012A-2 Bond with respect to which this election has been made, the issue price of the Subseries 2012A-2 Bond will equal its cost to the electing U.S. Holder, the issue date of the Subseries 2012A-2 Bond will be the date of its acquisition by the electing U.S. Holder, and no payments on the Subseries 2012A-2 Bond will be treated as payments of qualified stated interest. The election will generally apply only to the Subseries 2012A-2 Bond with respect to which it is made and may not be revoked without the consent of the Internal Revenue Service. If this election is made with respect to a Subseries 2012A-2 Bond with amortizable bond premium, then the electing U.S. Holder will be deemed to have elected to apply amortizable bond premium against interest with respect to all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludable from gross income) held by the electing U.S. Holder as of the beginning of the taxable year in which the Subseries 2012A-2 Bond with respect to which the election is made is acquired or thereafter acquired. The deemed election with respect to amortizable bond premium may not be revoked without the consent of the Internal Revenue Service.

U.S. Holders of any Subseries 2012A-2 Bonds issued with OID should consult their own tax advisors with respect to the treatment of OID for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of Subseries 2012A-2 Bonds.

Bond Premium

In general, if a U.S. Holder acquires a Subseries 2012A-2 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Subseries 2012A-2 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Subseries 2012A-2 Bond (a "Taxable Premium Bond"). In general, if a U.S. Holder of a Taxable Premium Bond elects to amortize the premium as "amortizable bond premium" over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the U.S. Holder will make a corresponding adjustment to such holder's basis in the Taxable Premium Bond. Any such election applies to all debt instruments of the U.S. Holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired, and is irrevocable without the Internal Revenue Service's consent. A U.S. Holder of a Taxable Premium Bond that so elects to amortize bond premium does so by offsetting the qualified stated interest allocable to each interest accrual period under the U.S. Holder's regular method of Federal tax accounting against the bond premium allocable to that period. If the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is treated as a bond premium deduction under Section 171(a)(1) of the Code, subject to certain limitations. If a Taxable Premium Bond is optionally callable before maturity at a price in excess of its stated redemption price at maturity, special rules may apply with respect to the amortization of bond premium. Under certain circumstances, the U.S. Holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the U.S. Holder's original acquisition cost.

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

U.S. Holders – Disposition of Subseries 2012A-2 Bonds

Except as discussed above, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Subseries 2012A-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 2012A-2 Bond. A U.S. Holder's adjusted tax basis in a Subseries 2012A-2 Bond generally will equal such U.S. Holder's initial investment in the Subseries 2012A-2 Bond, increased by any OID included in the U.S. Holder's income with respect to the Subseries 2012A-2 Bond and decreased by the amount of any payments, other than qualified stated interest payments, received and bond premium amortized with respect to such Subseries 2012A-2 Bond. Such gain or loss generally will be long-term capital gain or loss if the Subseries 2012A-2 Bond was held for more than one year.

U.S. Holders – Defeasance

U.S. Holders of the Subseries 2012A-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 2012A-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 2012A-2 Bonds subsequent to any such defeasance could also be affected. U.S. Holders of the Subseries 2012A-2 Bonds are advised to consult with their own tax advisors regarding the consequences of a defeasance for Federal income tax purposes, and for state and local tax purposes.

U.S. Holders – Backup Withholding and Information Reporting

In general, information reporting requirements will apply to non-corporate U.S. Holders with respect to payments of principal, payments of interest, and the accrual of OID on a Subseries 2012A-2 Bond and the proceeds of the sale of a Subseries 2012A-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 and to payments of OID unless the U.S. Holder (i) is a corporation or other exempt recipient and, when required, demonstrates that fact, or (ii) provides a correct taxpayer identification number, certifies under penalties of perjury, when required, that such U.S. Holder is not subject to backup withholding and has not been notified by the Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its United States Federal income tax returns.

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

IRS Circular 230 Disclosure

The advice under the caption "Subseries 2012A-2" concerning certain income tax consequences of the acquisition, ownership and disposition of the Subseries 2012A-2 Bonds, was written to support the marketing of the Subseries 2012A-2 Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, each prospective purchaser of the Subseries 2012A-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 2012A-2 Bonds under state law or otherwise prevent beneficial owners of the Subseries 2012A-2 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Subseries 2012A-2 Bonds.

Prospective purchasers of the Subseries 2012A-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 2012A Bonds involve a certain degree of risk. Prospective investors in the Series 2012A Bonds should review all of the information in this Official Statement and information pertaining to the Series 2012A Participants incorporated herein by reference carefully prior to purchasing any of the Series 2012A Bonds. This Official Statement contains only summaries of the Resolution, the Series 2012A 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 2012A Bonds. Copies of such documents may be obtained from the Underwriter prior to the issuance of the Series 2012A Bonds. In addition, prospective investors should carefully review Appendix A for a discussion of the financial condition and results of operations of the Series 2012A Participants, Appendix B for copies of the audited financial statements of the Series 2012A Participants and Appendix C for copies of recent unaudited financial information for each of the Series 2012A Participants.

Set forth below are certain risk factors, among others, that could adversely affect a Series 2012A Participant's operation and revenues and expenses of its Series 2012A Facilities to an extent which cannot be determined at this time. Such risk factors should be considered before any investment in the Series 2012A Bonds is made. These risk factors should not be considered definitive or exhaustive.

Special, Limited Obligations of Authority

The Series 2012A Bonds are special, limited obligations of the Authority payable solely from revenues to be received by the Authority from the Series 2012A 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 2012A 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 2012A Participants

The obligations of each Series 2012A Participant under its Loan Agreement are independent of the obligations of the other Series 2012A Participants under their Loan Agreements. A failure by a Series 2012A 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 2012A Participant's Allocable Portion of the Series 2012A Bonds. Upon the happening and continuance of an event of default affecting only a Defaulted Allocable Portion of the Series 2012A Bonds, payment on such Defaulted Allocable Portion of Series 2012A Bonds will be limited to amounts received from or payable by or on behalf of such Series 2012A Participant and amounts derived upon the realization of any security or collateral granted by such defaulting Series 2012A Participant. Holders of a Defaulted Allocable Portion of the Series 2012A 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 2012A Participant for the payment of the Series 2012A Bonds or any other security pledged by such other non-defaulting Series 2012A 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 2012A BONDS - Events of Default - Special Provisions Relating to Defaults Affecting Only an Allocable Portion of the Series 2012A Bonds," "PART

3 - THE SERIES 2012A BONDS - Redemption Provisions" and "Appendix F - Summary of Certain Provisions of the Resolutions."

Reliance on Credit of the Series 2012A Participants

The Series 2012A 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 2012A 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 2012A 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 2012A Participant's Allocable Portion of the Series 2012A Bonds (whether because of non-appropriation of funds by the State, failure of a Series 2012A Participant to operate its Series 2012A Facility or Facilities in accordance with operational standards or otherwise). Moreover, the payment obligations of the Series 2012A Participants are several, not joint. The Holders of the Series 2012A Bonds must therefore rely upon the credit of each Series 2012A Participant for the repayment of the Series 2012A Bonds (and not the credit of the Authority, the Trustee, the Underwriter, the State or any other municipality of the State) for all payments due to them under the Series 2012A Bonds. See "PART 1 - INTRODUCTION - Additional Security - Pledged Revenues and The Standby Intercept," "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS - Security for the Series 2012A Bonds," and "PART 5 - SOURCES OF SERIES 2012A PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

Revenues of Series 2012A Participants

Future revenues of each Series 2012A 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 2012A 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 2012A 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 2012A Participants; (ii) the State, various county and city departments to make timely payments to the Series 2012A Participants of appropriated amounts caused by revenue short falls or other State and local fiscal considerations; (iii) the Series 2012A Participants to fulfill their obligations which entitle them to receive payments; (iv) the Series 2012A Participants to receive the appropriate certifications from the required licensing or certifying entity(ies) to provide services as required; and/or (v) the Series 2012A Participants to obtain the renewal of their contracts. In addition, a Series 2012A Participant's license and/or certification may be revoked for failure to comply with standards of operation applicable to such Series 2012A Participant. The Loan Repayment obligation of a Series 2012A Participant may be accelerated in the event of such Series 2012A Participant's default. In the event a Series 2012A Participant's Loan Repayment obligation is accelerated due to a default, such Series 2012A Participant's Allocable Portion of the Series 2012A 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 2012A BONDS - Events of Default - Special Provisions Relating to Defaults Affecting Only an Allocable Portion of the Series 2012A 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 2012A Participants, the applicable Series 2012A Participant and the Authority shall enter into separate loan agreements. The Series 2012A Bonds are separately secured from all other Series of Bonds and the

Holders of any Series of Bonds other than the Series 2012A Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2012A 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 2012A Bonds, an event of default by a Series 2012A 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 2012A Participant's Loan Agreement. See "PART 1 - INTRODUCTION - Authorization of Issuance" and "- Security for the Series 2012A Bonds" and "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS."

Enforceability of Remedies; Effect of Bankruptcy of a Series 2012A Participant

The Series 2012A 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 2012A 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 2012A 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 2012A Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If a Series 2012A 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 2012A Participant and its property, including the commencement of foreclosure proceedings under its Mortgage, if applicable. Such Series 2012A 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 2012A 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 2012A 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 2012A Participant's Allocable Portion of the Series 2012A 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 2012A Participant, which could affect the likelihood or timing of obtaining such relief. In addition, if the Mortgage of such defaulting Series 2012A 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 2012A Participant's total Loan Repayment obligation at the time of a bankruptcy proceeding, the security interest of the Trustee in such property is subject to the claims of creditors that the mortgaged indebtedness in excess of the fair market value of the Mortgaged Property is unsecured and, therefore, to the extent of such excess is not entitled to a secured priority position in the administration of the bankruptcy estate.

A Series 2012A 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 2012A 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 2012A Bonds

The Mortgages do not presently provide any security for the Series 2012A 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 2012A BONDS - Security for the Series 2012A 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 2012A 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 2012A Participant's Loan Agreement, and one of the options under the Resolution, is to institute proceedings to enforce the lien on and sell such Series 2012A 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 2012A Participant's Mortgaged Property may be utilized, none of the Authority, the Program Facilitator, the Trustee, the applicable Series 2012A Participant, or the Underwriter makes any assurances or representations that a sale of a Series 2012A 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 2012A Participant established under the Resolution, will be sufficient to pay in full the principal of, or interest on, the Allocable Portion of the Series 2012A Bonds attributable to such defaulting Series 2012A 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 2012A Bonds that would otherwise have been available absent the existence of such hazardous materials.

Another option under a Series 2012A Participant's Loan Agreement is to institute proceedings to enforce the lien on and sell the Series 2012A 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 2012A Participant's Equipment may be utilized, none of the Authority, the Program Facilitator, the Trustee, the applicable Series 2012A Participant, or the Underwriter makes any assurances or representations that the Authority or the Trustee will be able to sell a Series 2012A 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 2012A Participant established under the Resolution, would be sufficient to pay in full the principal of, or interest on, the Series 2012A Bonds attributable to such defaulting Series 2012A 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 2012A Participants. Such approval was not sought in connection with the execution, delivery and performance by the Series 2012A Participants of the Mortgages or the pledges of assets and revenues that are contemplated by the Resolution and the Loan Agreements. It is the opinion of counsel to the Series 2012A Participants that such actions do not require approval pursuant to NFPCL §510. However, absent court decisions definitively resolving this issue, it cannot be ruled out that a defendant in a foreclosure action may raise as an affirmative defense the failure to obtain NFPCL §510 court approval.

Release of Series 2012A Facilities from Lien of Mortgages

Each Loan Agreement, each Mortgage and the Resolution provide a Series 2012A Participant the ability to prepay a portion of its loan attributable to a Series 2012A Facility and, upon the redemption or defeasance of the related Series 2012A Bonds to have such Series 2012A Facility released from the lien of the applicable Mortgage. There is no assurance that the security, if any, provided by the remaining Series 2012A 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 2012A Participant's Allocable Portion of the Series 2012A 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 2012A Participant.

In view of the foregoing, investors should rely on their own examination of the creditworthiness and financial condition of each of the Series 2012A 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 2012A Participants are subject to Federal, State and local actions, including, among others, actions by the various State, county and city departments. The Series 2012A Bonds are payable from operating revenues of the Series 2012A 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 2012A 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 2012A 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 2012A 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 2012A Bonds, will materially adversely affect a Series 2012A Participant's ability to make its Loan Repayments and, consequently, the repayment of the Series 2012A Bonds attributable to such Series 2012A 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 2012A Participants.

Completion of the Projects; Zoning; Certificate of Occupancy

The acquisition, renovation and furnishing, as applicable, of all of the Series 2012A Facilities are complete. All of the Series 2012A Facilities with the exception of: (1) Birch Family Services, Inc.'s Series 2012A Facility located at 418 Grove Street, Brooklyn, New York; (2) United Cerebral Palsy of New York City, Inc.'s Series 2012A Facility located at 251 W. 154 Street, New York, New York; and (3) Program Development Services Inc.'s Series 2012A Facility located at 1022 Avenue W, Brooklyn, New York, have their respective Certificates of Occupancy and/or Letters of Completion. Birch Family Services, Inc.'s Series 2012A Facility located at 418 Grove Street, Brooklyn, New York; United Cerebral Palsy of New York City, Inc.'s Series 2012A Facility located at 251 W. 154 Street, New York, New York; and Program Development Services Inc.'s Series 2012A Facility located at 1022 Avenue W, Brooklyn, New York, each have applied for its respective final Certificate of Occupancy, and each expects to receive is final Certificate of Occupancy within 6-12 months. Each Series 2012A Facility may require special use permits or compliance or other zoning approval (each, a "Certificate") from the applicable municipality. Failure of a Series 2012A Participant to obtain an appropriate Certificate where the same is required could materially adversely affect the financial position of such Series 2012A Participant. Moreover, the failure of a Series 2012A Participant's Series 2012A Facility to receive a

Certificate when required could materially adversely impact either the Series 2012A Participant's, the Trustee's or another party's right to use or occupy the Series 2012A Facility, before or after the exercise of default remedies.

Operating Certificates have been issued by OPWDD for all of the Series 2012A Facilities, which permit the Series 2012A Participants to operate such Series 2012A Facilities.

Additional Indebtedness

Under its Loan Agreement, each Series 2012A Participant has the ability to incur additional debt. An event of default by a Series 2012A 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 2012A Participant's Loan Agreement. See "Appendix E - Summary of Certain Provisions of the Loan Agreements."

Grant of Additional Security Interests

A Series 2012A 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 2012A Participant and its ability to satisfy its Loan Repayment obligations.

A Series 2012A Participant may also grant a subordinate mortgage as security for bonds issued by the Authority after the date of issuance of the Series 2012A Bonds, in an amount up to the amount approved by OPWDD pursuant to the PPA process, for the purpose of financing the cost of renovating, constructing, equipping or completing a Series 2012A Facility, and any loan agreement, or amendment to the applicable Loan Agreement, between the Authority and such Series 2012A 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 2012A Participant is subject to various requirements affecting its operation. The failure of a Series 2012A Participant to maintain its tax-exempt status may affect the Series 2012A 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 2012A Participant's status as a Section 501(c)(3) organization, failure of a Series 2012A Participant to comply with certain legal requirements of the Code, or adoption of amendments to the Code applicable to such Series 2012A Participant that restrict the use of tax-exempt bonds for facilities, such as one or more of its Series 2012A Facilities, could cause interest on the Subseries 2012A-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 2012A-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 2012A-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 2012A-1 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Subseries 2012A-1 Bonds. See "PART 10 - TAX MATTERS" above. The Subseries 2012A-1 Bonds are not subject to redemption, nor will the interest rate on the Subseries 2012A-1 Bonds be changed, if interest on the Subseries 2012A-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 2012A-1 Bonds.

Risk of Review by State and Federal Agencies

Various State and Federal agencies, including without limitation, OPWDD, the Office of Medicaid Inspector General, the New York State Office of State Controller, the New York State Department of Health, the United States Office of Inspector General, and the New York State Commission on Quality of Care, have ongoing programs of reviewing the services provided by, and the claims for payment submitted by, service provider agencies, such as the Series 2012A Participants, to determine compliance with State and/or Federal laws and regulations. Such reviews, if adversely determined, may affect the ability of the service provider agency to provide its services and receive payments therefor. No assurances can be given as to whether or not any State or Federal agency will commence a review of any Series 2012A Participant and the effect of any such review on such Series 2012A Participant's ability to make its payments under its Loan Agreement.

PART 12 - STATE NOT LIABLE ON THE SERIES 2012A 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 2012A 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 2012A 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 2012A 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 2012A Participants by Lombardi, Walsh, Wakeman, Harrison, Amodeo & Davenport, PC, Albany, New York and for the Underwriter by McCarter & English, LLP, New York, New York and Newark, New Jersey.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2012A Bonds or questioning or affecting the validity of the Series 2012A Bonds or the proceedings and authority under which they are to be issued.

See “Appendix A - Description of Series 2012A Participants” for a description of any litigation which may have a material adverse affect on the Series 2012A Participants.

PART 15 - CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), each Series 2012A Participant has undertaken in a written agreement (collectively, the “Continuing Disclosure Agreements”) for the benefit of the Holders of the Series 2012A 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 2012A Participants ending June 30, 2011 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 2012A 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 2012A Participants, DAC has undertaken in each Continuing Disclosure Agreement, on behalf of and as agent for the applicable Series 2012A 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 2012A Participant, with the MSRB.

The Series 2012A Participants also will undertake in their respective Continuing Disclosure Agreements to provide to the Authority, the Trustee and DAC, in a timely manner not in excess of nine (9) Business Days after the occurrence of a Notice Event (as hereinafter defined), the notices required to be provided by Rule 15c2-12 and described below (the “Notices”). In addition, 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. Upon receipt of Notices from a Series 2012A Participant, the Trustee or the Authority, DAC will file the Notices with the MSRB in a timely manner. With respect to the Series 2012A 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 2012A Participant, the Trustee or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, a Series 2012A Participant, the Trustee, the Owners of the Series 2012A Bonds or any other party. DAC has no responsibility for the Authority, any Series 2012A 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 2012A Participant, the Trustee or the Authority has complied with the

Continuing Disclosure Agreements and DAC may conclusively rely upon certifications of a Series 2012A 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 2012A Participants."

The Notices include notice of any of the following events with respect to the Series 2012A Bonds (a "Notice Event"): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2012A Bonds, or other material events affecting the tax status of the Series 2012A Bonds; (7) modifications to rights of the Owners of the Series 2012A Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2012A Bonds, if material; (11) rating changes on the Series 2012A Bonds; (12) bankruptcy, insolvency, receivership or similar events of a Series 2012A Participant; (13) the consummation of a merger, consolidation, or acquisition involving a Series 2012A Participant or the sale of all or substantially all of the assets of such Series 2012A Participant, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional Trustee or the change of name of a Trustee, if material. In addition, DAC will undertake to provide to the MSRB, in a timely manner, notice of any failure by any of the Series 2012A Participants to provide the Annual Information and annual financial statements by the date required in the Series 2012A 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 2012A Participant and/or the Authority or the Trustee, and no person, including any Holder of the Series 2012A Bonds, may recover monetary damages thereunder under any circumstances. The Authority or such defaulting Series 2012A 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 2012A Bonds or by the Trustee on behalf of the Owners of Outstanding Series 2012A 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 2012A 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 2012A 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 2012A Bonds. Copies of all Continuing Disclosure Agreements when executed by the parties thereto upon the delivery of the Series 2012A Bonds will be on file at the principal office of the Authority.

For information about the Series 2012A Participants' compliance with their continuing disclosure undertakings made pursuant to Rule 15c2-12, see "Appendix A - Description of Series 2012A Participants."

PART 16 - UNDERWRITING

The Series 2012A Bonds are being purchased by Municipal Capital Markets Group, Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Series 2012A Bonds from the Authority at a purchase price of $13,004,019.01 and to make a public offering of the Series 2012A Bonds at prices not in excess public offering prices set forth on the inside front cover page of this Official Statement. The Underwriter will be obligated to purchase all Series 2012A Bonds if any Series 2012A Bonds are purchased. The Series 2012A Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2012A Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

The Series 2012A Participants have agreed to indemnify the Underwriter and the Authority with respect to certain liabilities, including certain liabilities under the Federal securities laws.

PART 17 - RATINGS

The Series 2012A Bonds have been rated "Aa3" by Moody's. The rating on the Series 2012A Bonds is based upon the obligation of the Series 2012A 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 2012A 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 2012A Bonds.

PART 18 - INDEPENDENT PUBLIC ACCOUNTANTS

Each of the Series 2012A Participants has provided its financial statements as of and for the years ended June 30, 2011, June 30, 2010 and June 30, 2009. 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

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

The agreements of the Authority with Holders of the Series 2012A Bonds are fully set forth in the Resolutions. Neither any advertisement of the Series 2012A Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2012A 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 2012A Participants contained in this Official Statement and information concerning the Series 2012A Facilities contained herein has, in each case, been furnished by the Series 2012A 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 2012A Participants," "Appendix B - Audited Financial Statements of Series 2012A Participants" and "Appendix C - Unaudited Financial Information of Series 2012A Participants" were supplied by the Series 2012A 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 2012A Participant has reviewed the parts of this Official Statement describing such Series 2012A Participant, its Series 2012A 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 2012A Bonds that each Series 2012A Participant certify as of the dates of sale and delivery of the Series 2012A 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 2012A 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 2012A Participant.

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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

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APPENDIX A

DESCRIPTION OF SERIES 2012A PARTICIPANTS

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BIRCH FAMILY SERVICES, INC.

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

Birch Family Services' funding sources for its 2011 Fiscal Year were: the New York State Education Department ("SED") (approximately 61%), the State of New York Office for People with Developmental Disabilities ("OPWDD") (approximately 28%), the New York State Department of Health ("DOH") (approximately 4%), and miscellaneous other sources (approximately 7%).

Description of Facility and Financing Plan. The Authority will lend Birch Family Services approximately $2,515,000 from the proceeds of the Series 2012A Bonds ("Birch Family Services' Allocable Portion"). Such amount will be used to refinance debt incurred in the construction and/or renovation and furnishing of the following facility (the "Facility") for developmentally disabled adults:

- 418 Grove Street, Brooklyn, New York - approximately $2,306,425 for the construction, renovation and furnishing of a 9,561-square-foot 3-story building containing two intermediate care facilities for a total of twelve developmentally disabled adults.

The remaining Series 2012A Bond proceeds to be loaned in the amount of approximately $208,575 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facility is OPWDD and the Facility is supported by a PPA, which Birch Family Services has received. This means the Facility is pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the construction and/or renovation and furnishing of the Facility and financing or refinancing costs incurred in connection therewith. The Facility is expected to receive its Certificate of Occupancy or Letter of Completion within the next 12 months. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Birch Family Services leases the Facility. Birch Family Services will grant the Authority a lien on the Public Funds attributable to the Facility.

Other Properties. Birch Family Services also owns 8 properties and leases another 12 properties throughout New York City.

Employees. Birch Family Services employs a total of approximately 922 employees, of which approximately 44 full-time employees are employed at the Facility. Birch Family Services 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 Birch Family Services, the actual Debt Service Coverage for Fiscal Year 2011 and the Pro Forma Debt Service Coverage (which includes Birch Family Services' Allocable Portion of the Series 2012A Bonds) are as follows:

	2011 Actual	**2011 Pro Forma**
Net Income (after adj.)	$ 197,058	$ 197,058
Depreciation	1,241,800	1,241,800
Interest Expense	628,836	628,836
PPA Reimbursement	0	470,564
Cash Flow for Debt Service	2,067,694	2,538,258
Maximum Annual Debt Service	1,976,443	2,447,007
Debt Service Coverage	1.05	1.04

Financials.

Audited financial statements for Birch Family Services' fiscal years ended June 30, 2009 and June 30, 2010 were prepared by Loeb & Troper LLP. Audited financial statements for Birch Family Services' fiscal year ended June 30, 2011 were prepared by BDO USA, LLP. Such audited financial statements are attached as Appendix B-I. The audited financial statements for the fiscal years ended June 30, 2010 and June 30 2011 were prepared on a consolidated basis with The Herbert G. Birch Services Fund, Inc., a wholly-owned subsidiary of Birch Family Services (the "Fund"). Interim unaudited financial information relating to Birch Family Services and the Fund, prepared by Birch Family Services' Management and covering the period from July 1, 2011 through December 31, 2011 is attached as Appendix C-I. Significant accounting policies are contained in the audited financial statements.

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

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

The following is a combined summary of financial information for Birch Family Services for the most recently ended five (5) fiscal years for which audited financial statements were available and has been prepared by Birch Family Services' Management and derived from Birch Family Services' audited financial statements. The data with respect to fiscal years 2009[1] through 2011 is presented on a consolidated basis with the Fund. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-I.

Fiscal Year Ended June 30,

	2007	**2008**	**2009**	**2010**	**2011**
Current Assets	$10,872,244	$ 8,613,744	$ 8,256,551	$ 7,869,255	$ 6,513,111
Net Fixed Assets	8,548,607	8,584,095	9,371,194	8,819,528	12,218,913
Other	953,380	1,146,260	1,403,884	1,664,856	963,379
Total	20,374,231	18,344,099	19,031,629	18,353,639	19,695,403
Current Liabilities	12,121,618	10,398,447	10,364,390	7,619,458	8,361,761
Other Liabilities	6,238,096	5,800,948	6,163,125	7,768,649	8,171,052
Net Assets	2,014,517	2,144,704	2,504,114	2,965,532	3,162,590
Total	20,374,231	18,344,099	19,031,629	18,353,639	19,695,403
Operating Revenue:					
Program Revenue	41,719,990	43,509,080	43,827,499	46,788,808	50,084,261
Nonprogram Revenue	1,311,853	1,160,273	1,264,423	1,238,248	1,177,102
Total	43,031,843	44,669,353	45,091,922	48,027,056	51,261,363
Operating Expenses	43,356,665	44,539,166	44,797,239	47,565,638	51,064,305
Change in Net Assets	(324,822)	130,187	294,863	461,418	197,058
Net Assets, Beginning of Year	2,339,339	2,014,517	2,209,431	2,504,114	2,965,532
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	2,014,517	2,144,704	2,504,114	2,965,532	3,162,590
Cash & Equivalents	3,447,048	1,506,716	1,892,152	2,886,893	1,543,775

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

Management Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal: Birch Family Services and the Fund had combined current assets of $7,869,255 and $6,513,111 at the end of the fiscal years of 2010 and 2011 respectively. (b) External: Birch Family Services has available a $7,000,000 line of credit from Citibank, N.A.

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

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, and interest for fiscal years 2010 and 2011 were $250,852 and $193,581, respectively. See Appendix C-I for interim unaudited financial information through December 31, 2011.

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

Liquidity and Capital Resources. As of June 30, 2011, Birch Family Services had $1,543,775 in unrestricted cash and cash equivalents and $4,676,954 in net accounts receivable.

As of December 31, 2011, Birch Family Services had an available line of credit of $7 million with Citibank, N.A. carrying an interest rate of the bank's prime rate minus .125%. The line of credit is available through April 30, 2012, and is secured by Birch Family Services' accounts receivable. The current outstanding balance as of January 31, 2012, is $0.

Long-Term Debt. As of June 30, 2011, Birch Family Services had $3,836,248 in outstanding long-term indebtedness. Approximately $3.3 million of this indebtedness is secured by mortgages, and is not secured by a security interest in Birch Family Services' Public Funds. The balance of approximately $500,000 is secured by a security interest in Birch Family Services' Public Funds. Birch Family Services has not incurred any long-term debt subsequent to June 30, 2011.

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

Management.

Directors and Officers. The affairs of the Birch Family Services are governed by a Board of Directors consisting of 11 members. The officers of the Board of Directors are: Robin E. Keller, Esq., Chair; Dan Brecher, Esq., First Vice Chair; Judith Kauffman Fullmer, Second Vice-Chair; Alan L. Goldberg, CPA, Treasurer; and Jean Rawitt, Secretary. Other members of the Board of Directors include: Judy Collins, Esq., Richard Farley, Esq., Iris Fishman, MA, CCC-SLP, Sharon Jones, Rahul Khara and George Varughese. The Board meets at least once per year; a majority of the members constitutes a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers.

Gerald F. Maurer, Ph.D. has been the Chief Executive Officer of Birch Family Services since 2005. Dr. Maurer has served people with developmental disabilities for over 30 years. His position reports to the Board of Directors. Rinku Bhattacharya assumed the role of Chief Financial Officer of Birch Family Services effective 2010. Ms. Bhattacharya has positioned herself to meet the complex fiscal challenges the agency faces due to the current economic climate by careful and critical analyses of all finance-based functions. Susan Lee Miller has worked for Birch Family Services since 1980 and has served as Chief Operating Officer since 1994.

Continuing Disclosure.

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

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

General Operations. Federation Employment and Guidance Service, Inc., also known as "F·E·G·S" and "F·E·G·S Health and Human Services System" ("F·E·G·S"), was founded in 1934. Operating out of over 350 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 with the following goals: to assist individuals to develop to their fullest level of independence; to allow individuals choice in determining what their lives will be like; to help families stay together by providing relief, training and support of 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 2011 Fiscal Year were: OPWDD (approximately 28%), the State of New York Office of Mental Health ("OMH") (approximately 27.5%), the New York City Human Resources Administration ("HRA") (approximately 22.5%), SED (approximately 2.5%), and miscellaneous other sources (approximately 19.5%).

Description of Facilities and Financing Plan. The Authority will lend F·E·G·S approximately $1,845,000 from the proceeds of the Series 2012A Bonds ("F·E·G·S's Allocable Portion"). Such amount will be used to refinance debt incurred to acquire, renovate and furnish the following facilities (collectively, the "Facilities") for developmentally disabled adults:

- 130-24 Inwood Street, Jamaica, New York: approximately $1,156,182 to refinance existing loans incurred in connection with the acquisition, construction, renovation and furnishing of a 3,768 square foot, two-story building containing two individualized residential alternative facilities, each used as a residence for four developmentally disabled adults.

- 332 Commack Road, Deer Park, New York: approximately $518,461 to refinance existing loans incurred in connection with the acquisition and design costs of a 3,200 square foot, two-story building containing one individualized residential alternative facility, used as a residence for five developmentally disabled adults.

The remaining Series 2012A Bond proceeds to be loaned to F·E·G·S in the amount of approximately $170,357 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OPWDD and the Facilities are supported by PPAs, which F·E·G·S has received. This means the Facilities are pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the acquisition, construction, renovation and furnishing, as applicable, of the Facilities and financing or refinancing costs incurred in connection therewith. F·E·G·S has received a Certificate of Occupancy for the Facility located at 332 Commack Road, Deer Park, New York and has received a Letter of Completion for the Facility located at 130-24 Inwood Street, Jamaica, New York.

F·E·G·S owns the Facilities and will grant a first priority mortgage on the Facilities to the Authority. F·E·G·S will also grant the Authority a lien on the Public Funds attributable to the Facilities. F·E·G·S has loans from the Authority outstanding as of June 30, 2011 in the aggregate principal amount of $13,779,089, which are secured by Prior Pledges of F·E·G·S Public Funds.

Other Properties. F·E·G·S also owns 66 other properties and leases another 414 properties throughout New York.

Employees. F·E·G·S and its affiliated companies employ a total of approximately 2,240 employees, of which approximately 22 full-time employees are employed at the Facilities. F·E·G·S 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 F·E·G·S, the actual Debt Service Coverage for Fiscal Year 2011 and the Pro Forma Debt Service Coverage (which includes F·E·G·S's Allocable Portion of the Series 2012A Bonds) are as follows:

	2011 Actual	**2011 Pro Forma**
Net Income (after adj.)	$2,653,248	$2,653,248
Depreciation	5,028,196	5,028,196
Interest Expense	1,098,623	1,098,623
PPA Reimbursement	0	227,942
Cash Flow for Debt Service	8,780,067	9,008,009
Maximum Annual Debt Service	2,426,597	2,654,539
Debt Service Coverage	3.618	3.393

Financials. Audited financial statements for F·E·G·S's fiscal years ended June 30, 2009 through June 30, 2011 were prepared by Loeb & Troper LLP and are attached as Appendix B-II. Interim unaudited financial information prepared by F·E·G·S's Management covering the period from July 1, 2011 through December 31, 2011 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 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-II.

Fiscal Year Ended June 30,

	2007	2008	2009	2010	2011
Current Assets	$91,210,220	$98,497,629	$97,705,860	$95,177,286	$91,600,879
Net Fixed Assets	50,033,531	48,724,199	46,969,897	43,569,850	42,366,300
Other	1,462,643	1,519,507	1,582,369	1,872,098	2,754,543
Total	142,706,394	148,741,335	146,258,126	140,619,234	136,721,722
Current Liabilities	66,679,242	70,592,134	69,233,469	62,827,585	57,507,386
Other Liabilities	25,542,558	25,145,709	24,702,209	23,852,529	22,621,968
Net Assets	50,484,594	53,003,492	52,322,448	53,939,120	56,592,368
Total	142,706,394	148,741,335	146,258,126	140,619,234	136,721,722
Operating Revenue:					
Program Revenue	212,434,526	218,600,984	227,256,773	231,797,388	227,657,388
Nonprogram Revenue	9,963,098	7,155,864	4,361,375	7,541,350	8,443,152
Total	222,397,624	225,756,848	231,618,148	239,338,738	236,100,540
Operating Expenses	219,636,894	223,237,950	232,299,192	237,722,066	233,447,292
Change in Accounting Policy	(327,064)	0	0	0	0
Change In Net Assets	2,433,666	2,518,898	(681,044)	1,616,672	2,653,248
Net Assets, Beginning of Year	48,050,928	50,484,594	53,003,492	52,322,448,	53,939,120
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	50,484,594	53,003,492	52,322,488	53,939,120	56,592,368
Cash & Equivalents	7,051,752	6,180,924	13,350,740	9,724,308	7,276,684

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 $95,177,286 and $91,600,879 at the end of the fiscal years of June 30, 2010 and 2011, respectively. (b) External - F·E·G·S has available a $5,000,000 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 2010 and 2011 were $6,168,197 and $8,443,152, respectively. See Appendix C-II for interim unaudited financial information through December 31, 2011.

(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.

Liquidity and Capital Resources. As of June 30, 2011, F·E·G·S had $7,276,684 in unrestricted cash and cash equivalents and $49,292,134 in net accounts receivable.

As of June 30, 2011, F·E·G·S had an available line of credit of $5,000,000 with JPMorgan Chase Bank carrying an interest rate of equal to the prime rate. The loan with respect to the line of credit is unsecured. As of June 30, 2011, the outstanding balance on the line of credit was $1,469,433.

Long-Term Debt. As of June 30, 2011, F·E·G·S had $17,519,089 in outstanding long-term indebtedness. This amount 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." F·E·G·S has not incurred any long-term debt subsequent to June 30, 2011, but is in the process of negotiating an approximately $3,000,000 capital lease for certain information technology equipment.

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 seeking damages in excess of applicable insurance coverage or wherein an adverse determination might materially adversely affect the ability of F·E·G·S to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement.

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, Burton M. Strauss, Jr., 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, Andrew R. Brownstein, Barry K. Fingerhut, Feliks Frenkel, Alex Gabay, Benjamin Ira Gertz, David Goodman, M.D., Barry M. Gosin, 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, Michael S. Preston, Jonathan Schulhof, Jason E. Silvers, Patricia Silverstein, 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.

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.

Continuing Disclosure.

F·E·G·S is in compliance with all of its continuing disclosure undertakings made pursuant to Rule 15c2-12.

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PROGRAM DEVELOPMENT SERVICES INC.

General Operations. Program Development Services Inc. ("PDS") began operation in February 1985. Since its inception, PDS has worked with large and small agencies, individuals, and parent groups who serve the developmentally disabled. PDS began providing services directly to individuals when in October 1987 it was invited by the New York State Office of Mental Retardation to develop a specialized Intermediate Care Facility for four dual sensory impaired adults, which has increased to 18 adults. PDS has continued to develop innovative residential alternatives for individuals with a wide range of needs and challenges. It currently operates large and smaller residential services for 145 individuals. These individualized residential alternatives ("IRA") are developed around each person's specialized needs, capabilities and desires. Currently, individuals being served include persons with dual-diagnosis, dual sensory impairments, autism, cerebral palsy and physical handicapping conditions. PDS has also designed, developed and operated innovative day habilitation programs for individuals with severe multihandicaps. PDS 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.

PDS' sole funding source for its 2011 Fiscal Year was OPWDD.

Description of Facilities and Financing Plan. The Authority will lend PDS approximately $2,575,000 from the proceeds of the Series 2012A Bonds ("PDS's Allocable Portion"). Such amount will be used to refinance debt incurred in the acquisition and/or renovation and furnishing of two properties at the following residential facilities (the "Facilities") for developmentally disabled adults:

- 662 85th Street, Brooklyn, New York - approximately $989,428 for the acquisition, renovation and furnishing of an 2,554-square-foot two-story building used as an IRA facility for five developmentally disabled adults.

- 1022 Avenue W, Brooklyn, New York - approximately $1,291,464 for the acquisition, renovation and furnishing of a 2,968-square-foot two-story building containing two IRA facilities, each used as a residence for four developmentally disabled adults.

The remaining Series 2012A Bond proceeds to be loaned in the amount of approximately $294,108 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OPWDD and the Facilities are supported by PPAs, which PDS has received. This means the Facilities are pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the acquisition and/or renovation and furnishing of the Facilities and financing or refinancing costs incurred in connection therewith. PDS has received Certificates of Occupancy for the Facility located at 662 85th Street, Brooklyn, New York. The Facility located at 1022 Avenue W, Brooklyn, New York is expected to receive its Certificate of Occupancy or Letter of Completion within the next 12 months. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.").

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

Other Properties. PDS also owns 7 other properties and leases another 53 properties in New York City.

Employees. PDS employs a total of approximately 267 employees, of which approximately 31 full-time employees are employed at the Facilities. PDS 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 PDS, the actual Debt Service Coverage for Fiscal Year 2011 and the Pro Forma Debt Service Coverage (which includes PDS' Allocable Portion of the Series 2012A Bonds) are as follows:

	2011 Actual	**2011 Pro Forma**
Net Income (after adj.)	$ 571,461	$ 571,461
Depreciation	495,932	495,932
Interest Expense	422,507	422,507
PPA Reimbursement		0
Cash Flow for Debt Service	1,489,899	1,489,899
Maximum Annual Debt Service*	1,206,021	1,204,021
Debt Service Coverage	1.24	1.24

* Maximum Annual Debt Service will decrease after refinancing of current long term bank loans.

Financials. Audited financial statements for PDS' fiscal years ended June 30, 2009 through June 30, 2011 were prepared by J. Gliksman CPA P.C. and are attached as Appendix B-III. Interim unaudited financial information prepared by PDS' Management covering the period from July 1, 2011 through December 31, 2011 is attached as Appendix C-III. Significant accounting policies are contained in the audited financial statements.

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<u>Management's Summary of Financial Information and Results of Operations</u>.

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

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

	2007	**2008**	**2009**	**2010**	**2011**
Current Assets	$ 2,602,878	$ 2,780,529	$ 3,524,978	$ 3,769,400	$ 3,987,253
Net Fixed Assets	5,640,677	7,681,198	7,332,372	6,886,752	6,720,213
Other	549,775	808,258	823,473	885,487	835,007
Total	8,793,330	11,269,985	11,680,823	11,541,639	11,542,473
Current Liabilities	2,013,802	4,904,398	2,591,268	2,200,468	2,133,952
Other Liabilities	4,182,187	3,877,011	6,167,874	5,265,868	4,761,757
Net Assets	2,597,341	2,488,576	2,921,681	4,075,303	4,646,764
Total	8,793,330	11,269,985	11,680,823	11,541,639	11,542,473
Operating Revenue:					
Program Revenue	13,749,619	14,740,591	17,046,097	18,617,914	18,589,079
Nonprogram Revenue	183,120	108,993	129,001	90,213	114,566
Total	13,932,739	14,849,584	17,175,098	18,708,127	18,703,645
Operating Expenses	14,065,159	14,988,349	16,741,993	17,554,505	18,132,184
Change in Net Assets	(132,420)	(138,765)	433,105	1,153,622	571,461
Net Assets, Beginning of Year	2,729,761	2,597,341	2,488,576	2,921,681	4,075,303
Prior Period Adjustment	0	30,000	0	0	0
Net Assets, End of Year	2,597,341	2,488,576	2,921,681	4,075,303	4,646,764
Cash & Equivalents	1,009,291	1,066,862	1,754,177	1,956,474	2,240,031

Management Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal – PDS had current assets of $3,987,253 and $3,769,400 at the end of the fiscal years of June 30, 2011 and 2010, respectively. (b) External – PDS has available a $750,000 line of credit with Hudson Valley Bank.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: PDS 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, and interest for fiscal years 2010 and 2011 were $3,693 and $8,158, respectively. See Appendix C-III for interim unaudited financial information through December 31, 2011.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally affects the revenue of such program. PDS' total operations have not materially increased or decreased in recent years.

Liquidity and Capital Resources. As of June 30, 2011, PDS had $2,240,031 in unrestricted cash and cash equivalents and $1,632,998 in net accounts receivable.

As of June 30, 2011, PDS had an available line of credit of $750,000 with Hudson Valley Bank carrying an interest rate equal to the bank's prime rate plus 0.5%. The loan with respect to the line of credit is secured by the accounts receivable of PDS. As of June 30, 2011, the outstanding balance on the line of credit was $0.

Long-Term Debt. As of June 30, 2011, PDS had $5,445,014 in outstanding long-term indebtedness. Of this amount, $5,147,376 is secured by a security interest in certain receivables of PDS, which may include PDS' Public Funds. See Note F of PDS' Audited Financial Statements under titles "Mortgages Payable" and Note G of PDS' Audited Financial Statements under titles "Loans Payable." PDS has not incurred any long-term debt subsequent to June 30, 2011.

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 PDS to continue to operate its facilities or to challenge title to its properties or seeking damages in excess of applicable insurance coverage or wherein an adverse determination might materially adversely affect the ability of PDS to carry out the transactions contemplated in the Loan Agreement, the Mortgage and the Intercept Agreement.

Management.

Directors and Officers. The affairs of PDS are governed by a Board of Directors consisting of five members. The officers of the Board of Directors are: Dr. Martin J. Brennan, President, Robert Ostrander, Vice President and John Martinelli, Secretary/Treasurer. Other members of the Board of Directors are: Francis Kelly, Salvatore Mulia, John Loosen and Patricia Harrison. The Board meets four times per year; three members constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers. Richard Murray is the Executive Director of PDS. He holds B.A. and M.S. degrees from the City University of New York. Prior to working at PDS, Mr. Murray was the Program Director of the Brooklyn School for Special Children. PDS's other key employee is Shulmais Lokeinskly, Comptroller.

Continuing Disclosure.

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

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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 five affiliates were founded in and after 1978. Operating out of 56 facilities and its corporate offices at 305 7th Avenue, New York, New York, SUS and its affiliates provide a wide range of in-home and residential services to the developmentally disabled, mentally ill, people living with AIDS and other communities of New York City. The mission of SUS and its affiliates is to provide support and assistance to individuals with special needs to live with dignity in the community, direct their own lives and attain personal fulfillment. In order to achieve their mission, SUS and its affiliates provide services with the following goals: (i) to assist individuals to develop to their fullest level of independence; (ii) to allow individuals choice in determining what their lives will be like; (iii) to help families stay together by providing relief, training and support of care givers which enhance the family's quality of life; and (iv) to provide excellent services as defined by the consumers of service. SUS is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State Law.

SUS-Developmental Disabilities Services, Inc. ("SUS-DD") is a subsidiary of SUS and is the entity that, along with SUS, will receive the loan from the proceeds of the Series 2012A 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 2012A Bonds, this Appendix includes financial information about SUS and its related organizations, which include all SUS subsidiaries, including SUS-DD, notwithstanding that the Series 2012A 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 2011 Fiscal Year were OPWDD (approximately 54%), OMH (approximately 21%), HRA (approximately 5%), the United States Department of Housing and Urban Development (approximately 3%), DMH (approximately 2%) and miscellaneous other sources (approximately 15%).

Description of Facility and Financing Plan. The Authority will lend SUS and SUS-DD approximately $1,750,000 from the proceeds of the Series 2012A Bonds ("SUS and SUS-DD's Allocable Portion"). Such amount will be used to refinance debt incurred to acquire and renovate the following facility (the "Facility") for developmentally disabled adults:

- 115-70 Lefferts Boulevard (a/k/a 115-49 118th Street), South Ozone Park, New York: approximately $1,600,265 for the acquisition and renovation of a 12,070 square foot three-story building containing two day habilitation facilities serving a total of 48 developmentally disabled adults.

The remaining Series 2012A Bond proceeds to be loaned to SUS and SUS-DD in the amount of approximately $149,735 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facility is OPWDD, and the Facility is supported by a PPA, which SUS has received. This means the Facility is pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the acquisition and renovation of the Facility and financing or refinancing costs incurred in connection therewith. SUS has received a Certificate of Occupancy for the Facility.

SUS-DD owns the Facility and will grant a first priority mortgage on the Facility to the Authority. SUS and SUS-DD will also grant the Authority a lien on the Public Funds attributable to the Facility. SUS has loans from the Authority outstanding as of June 30, 2011 in the aggregate principal amount of $8,555,537, which are secured by Prior Pledges of SUS Public Funds.

Other Properties. SUS-DD and other SUS affiliates own 41 other properties and lease another 13 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 1,107, of which 956 are full-time employees and 151 are part-time employees. Approximately 26 full-time and 7 part-time employees are employed at the Facility.

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 2011 and the Pro Forma Debt Service Coverage (which includes SUS and SUS-DD's Allocable Portion of the Series 2012A Bonds) are as follows:

	2011 Actual	**2011 Pro Forma**
Net Income (after adj.)	$ 646,277	$ 646,277
Depreciation	2,731,225	2,731,225
Interest Expense	1,227,480	1,227,480
PPA Reimbursement		204,784
Cash Flow for Debt Service	4,604,982	4,809,766
Maximum Annual Debt Service	2,803,587	2,977,917
Debt Service Coverage	1.64	1.62

Financials. Audited financial statements for SUS and its affiliates for the fiscal years ended June 30, 2009 through June 30, 2011 were prepared by BDO USA, LLP (or, with respect to the fiscal year ended June 30, 2009, its predecessor, BDO Seidman, LLP), and are attached as Appendix B-IV. Interim unaudited financial information for SUS and its affiliates prepared by SUS's and SUS-DD's Management covering the period from July 1, 2011 through December 31, 2011 is attached as Appendix C-IV. Significant accounting policies are contained in the audited financial statements.

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

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

The following is a summary of financial information for SUS and its affiliates for the most recently ended five (5) fiscal years for which audited financial statements were available and has been prepared by SUS's Management and derived from SUS's audited financial statements. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-IV.

Fiscal Year Ended June 30,

	2007	2008	2009	2010	2011
Current Assets	$21,605,964	$18,878,822	$23,961,797	$22,581,553	$22,524,676
Net Fixed Assets	36,568,212	39,438,499	36,295,289	35,120,095	37,196,087
Other	4,542,365	6,211,250	5,772,906	4,685,858	4,781,499
Total	62,716,541	64,528,571	66,029,992	62,387,506	64,502,262
Current Liabilities	6,579,542	7,280,662	7,771,017	8,052,992	7,525,660
Other Liabilities	40,192,041	40,919,531	40,713,966	35,842,764	39,589,429
Net Assets	15,944,958	16,328,378	17,545,009	18,491,750	17,387,173
Total	62,716,541	64,528,571	66,029,992	62,387,506	64,502,262
Operating Revenue:					
Program Revenue	75,012,920	78,686,517	81,123,408	88,002,715	85,672,714
Nonprogram Revenue	2,293,073	472,242	1,542,963	937,331	973,905
Total	77,305,993	79,158,759	82,666,371	88,940,046	86,646,619
Operating Expenses	74,795,547	77,542,499	81,449,740	87,993,305	86,000,342
Transfer to Funding Source[1]	0	(1,232,840)		0	(1,232,840)
Workers' Compensation Assessment[2]	0	0		0	(537,502)
Change in Net Assets	2,511,446	383,420	1,216,631	946,741	(1,104,577)
Net Assets, Beginning of Year	13,433,512	15,944,958	16,328,378	17,545,009	18,491,750
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	15,944,958	16,328,378	17,545,009	18,491,750	17,387,173
Cash & Equivalents	3,217,089	3,954,858	11,595,476	6,285,077	12,721,945

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

[2] See Note 17 to audited financial statements presented in Appendix B-IV.

Management's Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal – SUS had current assets of $22,524,676 and $22,581,553 at the end of the fiscal years of 2011 and 2010, respectively. (b) External – SUS has available an $6 million line of credit with Bank of America for operating expenses and a capital line of credit with Bank of America of $4 million.

(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 2011 and 2010 was $633,402 and $490,040, respectively. See Appendix C-IV for interim unaudited financial information through December 31, 2011.

(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. As of March 31 , 2011 the HRA did not renew its contract with SUS - Home Attendant Program Inc. ("SUS-HA"). This contract for the provision of home attendant services comprised the sole activity of SUS-HA. The net asset position of SUS-HA is being liquidated by SUS and the remaining cash balances will be recouped by HRA in accordance with the contract. During the fiscal year ended June 30, 2011 the net asset position of SUS-HA was written down by $1,213,352. The aggregate SUS revenue deficit for the year was $1,104,577.

Liquidity and Capital Resources. As of June 30, 2011, SUS had $12,721,945 in unrestricted cash and cash equivalents and $8,216,874 in net accounts receivable.

As of June 30, 2011, SUS had an available operating line of credit of $6 million with Bank of America carrying an interest rate of prime plus 0.25%. 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, 2012, and is secured by SUS's accounts receivable and certain personal property and fixtures. There was no balance as of June 30, 2011.

As of June 30, 3011, SUS had an acquisition and renovation line of $4 million with Bank of America carrying an interest rate of prime plus 0.25%. The line of credit is available through June 30, 2012, and is secured by a negative pledge of SUS with respect to the related property. There was a balance of $1,471,291 million as of June 30, 2011.

Long-Term Debt. As of June 30, 2011, SUS had $23,635,511 in outstanding long-term indebtedness. Of this amount, $14,223,602 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." Neither SUS nor SUS-DD has incurred any long-term debt subsequent to June 30, 2011.

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

Management.

Directors and Officers: The affairs of SUS are governed by a Board of Directors of not less than seven nor more than sixteen. The officers are comprised of: Carolyn P. Powell, Chair, Earl D. Brown, Vice-Chair, John A. McKesson, Treasurer and Jim Donna, Secretary. Other members of the Board of Directors are: Peter Friedland, Jacquie A. Holmes, Andrew Hurwitz, Daniel Lawrence, Joshua Liston, Marcus Mayo, Gareth Old, Beverly C. Reid and Joann Y. Sacks, Ph.D. The Board of Directors meets at least four times per year. A majority of the Board of Directors constitutes a quorum. The members of the Board of Directors serve without compensation.

Executive and Administrative Officers: Donna Colonna has been employed by SUS since 1997 and has been the President and Chief Executive Officer of SUS since January 2002. She holds a M.S. degree from Pace University and a B.A. from Hunter College. She currently serves as President of the Coalition of Behavioral Health Agencies, Inc., Vice President of the Program Facilitator, and on the Boards of the National Alliance on Mental Illness – New York City Metro and CDCH Charter School. Michael Whelan joined SUS as Chief Financial Officer in July 2009. Mr. Whelan is a chartered accountant and also is an International Member of the Connecticut Society of Certified Public Accountants.

Continuing Disclosure.

SUS and SUS-DD are in compliance with all of their continuing disclosure undertakings made pursuant to Rule 15c2-12.

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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. The mission of UCP is to create opportunities for people with disabilities to lead independent and fulfilling lives. Currently, approximately 14,000 individuals receive services annually from UCP. These services include preschool and school-age programs, residential programs, day programs, vocational programs and medical and support services. 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 2011 Fiscal Year were: OPWDD (approximately 74%), SED (approximately 20%), DOH (approximately 3%), and other miscellaneous sources (approximately 3%).

Description of Facility and Financing Plan. The Authority will lend UCP approximately $4,060,000 from the proceeds of the Series 2012A Bonds ("UCP's Allocable Portion"). Such amount will be used to refinance debt incurred to renovate and furnish the following facility (the "Facility") for developmentally disabled adults:

- 251 W. 154th Street, New York, New York - approximately $3,744,556 for the renovation and furnishing of a 15,000-square-foot unit in a one-story building to be used as a vocational day habilitation facility for 80 developmentally disabled adults.

The remaining Series 2012A Bond proceeds to be loaned to UCP in the amount of approximately $315,444 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facility is OPWDD. The Facility is supported by a PPA, which UCP has received. This means that the Facility is pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the acquisition and/or renovation of the Facilities and financing or refinancing costs incurred in connection therewith. The Facility is expected to receive its Certificate of Occupancy or Letter of Completion within the next 12 months. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

UCP leases the Facility. UCP will grant the Authority a lien on the Public Funds attributable to the Facility. UCP has loans from the Authority outstanding as of June 30, 2011 in the aggregate principal amount of $10,937,000, which are secured by a Prior Pledge of UCP's Public Funds.

Other Properties. UCP also owns 39 other properties and leases another 80 properties in New York City.

Employees. UCP employs 1,108 full-time and 545 part-time employees, of which approximately 32 full-time employees and no part-time employees are employed at the Facility. UCP 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 UCP, the actual Debt Service Coverage for Fiscal Year 2011 and the Pro Forma Debt Service Coverage (which includes UCP's Allocable Portion of the Series 2012A Bonds) are as follows:

	2011 Actual	2011 Pro Forma
Net Income (after adj.)	$3,983,000	$3,983,000
Depreciation	3,049,000	3,049,000
Interest Expense	772,000	772,000
PPA Reimbursement		485,621
Cash Flow for Debt Service	7,804,000	8,289,621
Maximum Annual Debt Service	1,975,000	2,378,811
Debt Service Coverage	3.95	3.48

Financials. Audited financial statements for UCP's fiscal years ended June 30, 2009 through June 30, 2011 were prepared by Holtz Rubenstein Reminick LLP and are attached as Appendix B-V. Interim unaudited financial information prepared by UCP's Management covering the period July 1, 2011 through December 31, 2011 is attached as Appendix C-V. Significant accounting policies are contained in the audited financial statements.

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

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

The following is a summary of financial information for 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-V.

Fiscal Year Ended June 30,

	2007	**2008**	**2009**	**2010**	**2011**
Current Assets	$29,207,000	$32,367,000	$30,928,000	$35,829,000	$37,163,000
Net Fixed Assets	30,346,000	29,148,000	29,197,000	28,059,000	29,344,000
Other	4,147,000	4,369,000	4,374,000	4,330,000	5,104,000
Total	63,700,000	65,884,000	64,499,000	68,218,000	71,611,000
Current Liabilities	12,137,000	15,614,000	16,900,000	13,447,000	15,380,000
Other Liabilities	32,551,000	32,996,000	38,468,000	44,154,000	37,871,000
Net Assets	19,012,000	17,274,000	9,131,000	10,617,000	18,360,000
Total	63,700,000	65,884,000	64,499,000	68,218,000	71,611,000
Operating Revenue:					
Program Revenue	88,289,000	92,324,000	95,616,000	102,915,000	103,931,000
Nonprogram Revenue	4,396,000	1,787,000	709,000	3,002,000	3,921,000
Total	92,685,000	94,111,000	96,325,000	105,917,000	107,852,000
Operating Expenses	91,275,000	92,958,000	96,846,000	104,011,000	103,869,000
Change in Net Assets	2,035,000	(1,738,000)	(8,143,000)	1,486,000	7,743,000
Net Assets, Beginning of Year	16,977,000	19,012,000	17,274,000	9,131,000	10,617,000
Prior Period Adjustment	0	0	0	0	0
Net Assets, End of Year	19,012,000	17,274,000	9,131,000	10,617,000	18,360,000
Cash & Equivalents	9,874,000	13,858,000	12,119,000	16,533,000	17,832,000

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 $37,163,000 and $35,829,000 at the end of the fiscal years of 2011 and 2010, respectively. (b) External – UCP has available (a) a $4 million line of credit with JP Morgan Chase Bank, (b) a $6 million line of credit with JP Morgan Chase Bank, and (c) a $3,224,000 line of credit with TD Bank, N.A.

(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 2011 and 2010 were $2,290,000 and $2,065,000, respectively. See Appendix C-V for interim unaudited financial information through December 31, 2011.

(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. UCP's total operations have increased due to market value income increase of $800,000 and a higher IRA occupancy amounting to $1 million.

Liquidity and Capital Resources. As of June 30, 2011, UCP had $17,832,000 in unrestricted cash and cash equivalents and $10,419,000 in net accounts receivable.

As of January 31, 2012, UCP had three available lines of credit, as follows:

- $6 million with JP Morgan Chase Bank, carrying an interest rate equal to the bank's prime rate plus 1%. This line of credit is available through July 1, 2012, and is unsecured. There was an outstanding balance of $ 0 as of January 31, 2012.

- $4 million with JP Morgan Chase Bank, carrying an interest rate of 3.25%. This line of credit is available through July 1, 2012, and is secured by UCP's accounts receivable. There was an outstanding balance of $ 0 as of January 31, 2012.

- $3,224,000 million with TD Bank, N.A., carrying an interest rate equal to the greater of 3.50% or the bank's prime rate. This line of credit is available through July 1, 2012, and is secured by a security interest in certain receivables of UCP. There was an outstanding balance of $3,224,000 as of January 31, 2012.

Long-Term Debt. As of June 30, 2011, UCP had $17,254,000 in outstanding long-term indebtedness. Of this amount, $10,937,000 is secured by UCP's Prior Pledge of certain property, plant and equipment and gross receipts of UCP, including Public Funds, in an amount equal to the greatest amount required to pay interest and principal with respect to such indebtedness. See Notes 6 and 7 of UCP's Audited Financial Statements under titles of "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 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 Gary Geresi, President; Jerome Belson, Chairman; Martin C. Hausman, Honorary Chairman; Kenneth Carmel, Vice-Chairman; James Kase, Executive Vice-President; Kenneth R. Auerbach, Vice-President and Treasurer; and Kelly E. Kaminski, Vice-President and Secretary. Other members of the Board of Directors are: Henry J. Amoroso, Esq., Jason Carlough, Houda Foster, John Lombardo, Jane Lyons, Ilene Margolin, Al Rutsky, Scott Rutsky, Jay Silver and Hilda S. Sloan. The Board of Directors meets 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. He is the current President of the Interagency Council of Developmental Disabilities Agencies, Inc. in New York City, a coordinating body and trade association consisting of over 150 agencies providing services to people with developmental disabilities. In February 2011, Mr. Matthews was appointed by Governor Andrew Cuomo to the Medicaid Redesign Team, the special task force responsible for the overhaul of New York State's massive Medicaid system. In addition, he has recently been appointed by the OPWDD Commissioner to serve on the Steering Committee to implement the 1115 Waiver, which is a partnership between New York State and the federal government to reconstruct the Medicaid funding system for New York's citizens with developmental disabilities, to provide greater choice and access as well as reducing costs.

Rajesh Shah, CPA, is the Chief Financial Officer for UCP. A Certified Public Accountant for over 17 years, Mr. Shah has worked with other NYC nonprofit agencies and came to UCP of NYC 7 years ago as the agency's Controller. In 2009, he was promoted to CFO and has since assumed all responsibilities for the agency's Accounting, Finance and Information Technology departments.

Continuing Disclosure.

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

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF SERIES 2012A PARTICIPANTS

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APPENDIX B-I

BIRCH FAMILY SERVICES, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2011, JUNE 30, 2010 AND JUNE 30, 2009)

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Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2011

B-I-1

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

Birch Family Services, Inc. and Affiliate

Combining Financial Statements
Year Ended June 30, 2011

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Birch Family Services, Inc. and Affiliate

Contents

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100 Park Avenue
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Independent Auditors' Report

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

We have audited the accompanying combining statement of financial position of Birch Family Services, Inc. and Affiliate ("Birch and Affiliate") as of June 30, 2011, and the related combining statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Birch and Affiliate's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of Birch and Affiliate as of June 30, 2011, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 13, 2011

Birch Family Services, Inc. and Affiliate

Combining Statement of Financial Position

June 30, 2011

	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined
Assets				
Current:				
Cash and cash equivalents (Note 3)	$ 957,571	$ 586,204	$ -	$ 1,543,775
Restricted cash	73,481	-	-	73,481
Accounts receivable, net of allowance for doubtful accounts of $18,700) (Notes 3 and 9)	4,629,624	47,330	-	4,676,954
Pledges receivable (Note 3)	-	10,000	-	10,000
Prepaid expenses and other assets	208,901	-	-	208,901
Due from affiliate (Notes 2 and 15)	162,662	-	(162,662)	-
Total Current Assets	6,032,239	643,534	(162,662)	6,513,111
Assets Limited to Use (Note 4)	747,188	-	-	747,188
Deferred Bond, Loan Financing and Other Program Costs (Note 3)	216,191	-	-	216,191
Fixed Assets, Net (Notes 3, 5 and 17)	12,218,913	-	-	12,218,913
	$19,214,531	**$643,534**	**$(162,662)**	**$19,695,403**
Liabilities and Net Assets				
Current:				
Accounts payable and accrued expenses	$ 2,473,434	$ 7,950	$ -	$ 2,481,384
Accrued compensation	1,306,922	-	-	1,306,922
Deferred revenue	-	3,165	-	3,165
Due to affiliate (Notes 2 and 15)	-	162,662	(162,662)	-
Due to governmental agencies (Notes 3 and 6)	2,423,475	-	-	2,423,475
Bonds payable, current portion (Note 7)	200,000	-	-	200,000
Loans and mortgages payable, current portion (Note 8)	784,993	-	-	784,993
Capital leases, current portion (Note 16)	110,223	-	-	110,223
Line of credit (Note 9)	1,051,599	-	-	1,051,599
Total Current Liabilities	8,350,646	173,777	(162,662)	8,361,761
Bonds Payable, Net of Current Portion (Note 7)	2,554,500	-	-	2,554,500
Loans and Mortgages Payable, Net of Current Portion (Note 8)	5,523,874	-	-	5,523,874
Capital Leases, Net of Current Portion (Note 16)	92,678	-	-	92,678
Total Liabilities	16,521,698	173,777	(162,662)	16,532,813
Commitments and Contingencies (Notes 3,5,9,11,12 and 14)				
Net Assets (Note 3):				
Unrestricted	2,692,833	320,195	-	3,013,028
Temporarily restricted (Note 13)	-	149,562	-	149,562
	$19,214,531	**$643,534**	**$(162,662)**	**$19,695,403**

See accompanying notes to combining financial statements.

Birch Family Services, Inc. and Affiliate

Combining Statement of Activities

Year ended June 30, 2011

	Unrestricted		Temporarily Restricted		
	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined
Revenue and Other Support:					
Tuition revenue	$29,629,972	$ -	$ -	$ -	$29,629,972
Medicaid revenue for community services	14,418,196	-	-	-	14,418,196
Federal and New York State grants	5,894,759	-	-	-	5,894,759
Grants from the Herbert Birch Services Fund (Note 15)	218,357	-	-	(218,357)	-
Autism training fees	-	141,334	-	-	141,334
Contributions	-	94,553	75,033	-	169,586
Donated services	141,350	-	-	-	141,350
Donated costs (Note 10)	735,379	-	-	-	735,379
Day care private fees	13,140	-	-	-	13,140
Special events	-	128,150	2,985	-	131,135
Less: Direct costs of special events	-	(43,767)	(1,206)	-	(44,973)
Interest income	23,989	6	-	-	23,995
Other income	7,490	-	-	-	7,490
Net assets released from restriction (Note 13)	-	117,107	(117,107)	-	-
Total Revenue and Other Support	51,082,632	437,383	(40,295)	(218,357)	51,261,363
Expenses:					
Program services:					
Educational services	33,559,522	20,095	-	-	33,579,617
Community services	12,304,849	-	-	-	12,304,849
Grants to Birch Family Services	-	218,357	-	(218,357)	-
Total Program Services	45,864,371	238,452	-	(218,357)	45,884,466
Supporting services:					
Management and general	5,116,678	12,376	-	-	5,129,054
Fundraising	-	50,785	-	-	50,785
Total Expenses	50,981,049	301,613	-	(218,357)	51,064,305
Change in Net Assets	101,583	135,770	(40,295)	-	197,058
Net Assets, Beginning of Year	2,591,250	184,425	189,857	-	2,965,532
Net Assets, End of Year	$ 2,692,833	$320,195	$149,562	$ -	$ 3,162,590

See accompanying notes to combining financial statements.

Birch Family Services, Inc. and Affiliate

Combining Statement of Functional Expenses

Year ended June 30, 2011

	Program Services					The Herbert G. Birch Services Fund, Inc.		
	Educational Services	Community Services	Total Program Services	Management and General	Total		Eliminations	Combined
Salaries and Related Expenses:								
Salaries	$21,940,182	$ 6,632,564	$28,572,746	$2,316,204	$30,888,950	$ -	$ -	**$30,888,950**
Payroll taxes and employee benefits	4,542,755	1,720,856	6,263,611	581,889	6,845,500	-	-	**6,845,500**
Total Salaries and Related Expenses	26,482,937	8,353,420	34,836,357	2,898,093	37,734,450	-	-	**37,734,450**
Other Expenses:								
Contracted personal services	897,917	521,388	1,419,305	-	1,419,305	-	-	**1,419,305**
Advertising	389	-	389	161,930	162,319	-	-	**162,319**
Auto expense	154	30,050	30,204	615	30,819	-	-	**30,819**
Donated costs from ACS	735,379	-	735,379	-	735,379	-	-	**735,379**
Equipment costs	-	36,884	36,884	9,983	46,867	-	-	**46,867**
Facility costs	2,476,003	1,179,311	3,655,314	639,279	4,294,593	3,297	-	**4,297,890**
Grants to Birch Family Services, Inc.	-	-	-	-	-	218,357	(218,357)	**-**
Food	619,347	307,358	926,705	-	926,705	-	-	**926,705**
Insurance	60,794	56,236	117,030	31,828	148,858	-	-	**148,858**
Interest expense	-	-	-	137,691	137,691	-	-	**137,691**
Equipment rental	65,918	30,603	96,521	44,186	140,707	-	-	**140,707**
Office supplies, printing and postage	-	-	-	203,831	203,831	4,223	-	**208,054**
Other program expenses	161,996	-	161,996	-	161,996	20,095	-	**182,091**
Professional fees	9,005	10,786	19,791	633,589	653,380	32,172	-	**685,552**
Program operational expenses	1,056,699	371,834	1,428,533	23,309	1,451,842	-	-	**1,451,842**
Repairs and maintenance	266,724	335,568	602,292	64,444	666,736	-	-	**666,736**
Indirect gala expenses	-	-	-	-	-	10,649	-	**10,649**
Staff Development	82,476	36,017	118,493	24,100	142,593	-	-	**142,593**
Telephone	66,219	41,379	107,598	45,051	152,649	408	-	**153,057**
Bad debt expense	152,330	-	152,330	-	152,330	-	-	**152,330**
Transportation	2,261	284,233	286,494	-	286,494	-	-	**286,494**
Miscellaneous	654	928	1,582	88,123	89,705	12,412	-	**102,117**
Total Expenses Before Depreciation and Amortization	33,137,202	11,595,995	44,733,197	5,006,052	49,739,249	301,613	(218,357)	**49,822,505**
Depreciation and Amortization	422,320	708,854	1,131,174	110,626	1,241,800	-	-	**1,241,800**
Total Expenses	**$33,559,522**	**$12,304,849**	**$45,864,371**	**$5,116,678**	**$50,981,049**	**$301,613**	**$(218,357)**	**$51,064,305**

See accompanying notes to combining financial statements.

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Year ended June 30, 2011

	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Combined
Cash Flows From Operating Activities:				
Change in net assets	$ 101,583	$ 95,475	$ -	$ 197,058
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	1,218,585	-	-	1,218,585
Amortization of bond and loan financing costs	23,215	-	-	23,215
Bad debt expense	152,330	9,625	-	161,955
(Increase) decrease in:				
Accounts receivable	272,796	(9,203)	-	263,593
Pledges receivable	-	22,941	-	22,941
Prepaid expenses and other assets	(35,524)	-	-	(35,524)
Due from affiliate	112,590	-	(112,590)	-
Deferred bond, loan financing and program costs	577,681	-	-	577,681
Increase (decrease) in:				
Accounts payable and accrued expenses	(1,566,316)	747	-	(1,565,569)
Accrued compensation	10,773	-	-	10,773
Deferred revenue	-	3,165	-	3,165
Due to affiliate	-	(112,590)	112,590	-
Due to governmental agencies	1,947,715	-	-	1,947,715
Net Cash Provided By Operating Activities	2,815,428	10,160	-	2,825,588
Cash Flows From Investing Activities:				
Purchase of fixed assets	(4,617,970)	-	-	(4,617,970)
Change in assets limited to use	(18,746)	-	-	(18,746)
Net Cash Used In Investing Activities	(4,636,716)	-	-	(4,636,716)
Cash Flows From Financing Activities:				
Repayment of bonds payable	(195,000)	-	-	(195,000)
Proceeds from loans and mortgages payable	1,462,270	-	-	1,462,270
Repayment of loans and mortgages payable	(734,009)	-	-	(734,009)
Proceeds from capital lease obligations	162,440	-	-	162,440
Repayments of capital lease obligations	(154,210)	-	-	(154,210)
Proceeds from line of credit	3,500,000	-	-	3,500,000
Payments on line of credit	(3,500,000)	-	-	(3,500,000)
Net Cash Provided By Financing Activities	541,491	-	-	541,491
Net Increase (Decrease) in Cash and Cash Equivalents	(1,279,797)	10,160	-	(1,269,637)
Cash and Cash Equivalents, Beginning of Year	2,310,849	576,044	-	2,886,893
Cash and Cash Equivalents, End of Year	$1,031,052	$586,204	$ -	$ 1,617,256
Supplemental Disclosures of Cash Flow Information:				
Cash paid for interest	$ 628,836	$ -	$ -	$ 628,836
Noncash transactions related to capital leases	162,440	-	-	162,440

See accompanying notes to combining financial statements.

1. Principles of Combination

The accompanying combining financial statements include Birch Family Services, Inc. ("Birch") and the Herbert G. Birch Services Fund, Inc. (the "Fund") (collectively, "Birch and Affiliate"), which are related through common board membership and substantially identical management.

2. Nature of Organizations

(a) Birch is a not-for-profit organization that operates schools in New York City for preschool and school-age students with various learning disabilities and serious developmental disabilities, as well as for nondisabled children. Birch also operates five Intermediate Care Facilities ("ICFs"), six Individual Residential Alternative Facilities ("IRAs") and two day habilitation facilities, and provides other services for developmentally disabled individuals varying in age from birth through adulthood. Two new ICFs were opened in December 2010 and March 2011.

(b) The Fund operates in support of Birch, which is funded primarily by general public contributions, special events and autism program fees.

3. Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Financial Statement Presentation

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

These classes are defined as follows:

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

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

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

(c) Cash and Cash Equivalents

Birch and Affiliate consider all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

(d) Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the useful lives of the assets. Leasehold improvements and equipment under capital leases are amortized over the shorter of the lease term or the estimated useful lives of the related assets.

	Estimated Useful Lives
Building and building improvements	25 years
Leasehold improvements	5 - 25 years
Furniture, fixtures and equipment	3 - 20 years
Vehicles	3 years

(e) Deferred Bond, Loan Financing and Other Program Costs

Deferred bond and loan financing costs are stated at cost and amortized on the straight-line basis over the term of the bonds/loans.

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Deferred program costs are stated at cost. They are costs related to new programs incurred by Birch and will be amortized once the program commences operations in accordance with applicable New York State guidelines.

(f) Contributions and Promises to Give

Contributions, including unconditional promises to give that are expected to be collected within one year, are recognized as revenues in the period earned and are either classified as permanently restricted, temporarily restricted or unrestricted. Conditional contributions, including conditional promises to give, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

(g) Third-party Reimbursement and Revenue Recognition

Birch and Affiliate receive substantially all its revenue for services provided to approved clients from third-party reimbursement agencies. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or results of operations of Birch and Affiliate.

Revenue is recognized as earned from third parties and when received or pledged for contributions and fundraising activities.

(h) Income Taxes

Birch and Affiliate were incorporated in the State of New York and are exempt from Federal, state and local income taxes under Section 501(c)(3) of the IRC. Birch and Affiliate have been determined by the Internal Revenue Service ("IRS") not to be "private foundations" within the meaning of Section 509(a) of the Internal Revenue Code ("IRC"). As of June 30, 2011, there was no unrelated business income.

(i) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been detailed by expense category on a functional basis in the statement of functional expenses. Direct program and administrative expenses are charged to the cost centers in which they are incurred. Shared costs have been allocated among the various cost centers based upon various allocation methods.

(j) Uncertainty in Income Taxes

Birch and Affiliate adopted the provisions of Accounting Standards Codification ("ASC") 740, "Accounting for Uncertainty in Income Taxes". Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. Then implementation of ASC 740 had no impact on Birch and Affiliate's financial statements. Birch and Affiliate do not believe there are any material uncertain tax positions and, accordingly, they will not recognize any liability for unrecognized tax benefits. Birch and Affiliate have filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, Birch and Affiliate have filed IRS Form 990 tax returns, as required, and all other applicable returns in jurisdictions when it is required. For the year ended June 30, 2011, there was no interest or penalties recorded or included in the combining statement of activities. As of June 30, 2011, the years still subject to examination by a taxing authority are 2008 through 2010.

(k) Use of Estimates

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

(l) Provision for Doubtful Accounts

Birch and Affiliate provide an allowance for doubtful accounts for accounts receivable which are specifically identified by management as to their uncertainty in regards to collectibility. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

(m) Allocation Methodology

Common costs incurred for the administration of the various programs are allocated directly to respective programs as incurred and/or utilizing predetermined allocation rates established by management.

(n) Concentration of Credit Risk

Financial instruments which potentially subject Birch and Affiliate to concentration of credit risk consist primarily of cash and cash equivalents. At various times Birch and Affiliate have cash deposits at financial institutions, which exceed the Federal Depository Insurance Corporation insurance limits.

4. Assets Limited to Use

Assets limited to use consisting of cash and cash equivalents at June 30, 2011 amount to $747,188 and are maintained in the following restricted bond funds:

(a) *Debt Service Reserve Fund* - The Debt Service Reserve Fund was established for the purpose of assuring that Birch will have money for payment of debt service on the bonds in each year that the bonds are outstanding.

(b) *Escrow Funds* - Assets whose use is limited is comprised of assets set aside under the terms of escrow agreements, under the control of the New York City Industrial Development Agency ("NYCIDA"), Birch and the escrow agent, to be used for capital replacements.

5. Fixed Assets, Net

Fixed assets, net, consists of the following:

June 30, 2011

	Birch	Fund	Combined
Land	$ 1,513,261	$ -	$ 1,513,261
Building and building improvements	11,586,318	-	11,586,318
Leasehold improvements	2,416,391	-	2,416,391
Furniture, fixtures and equipment	2,247,342	-	2,247,342
Vehicles and equipment under capital lease obligations	467,896	-	467,896
Total fixed assets	18,231,208	-	18,231,208
Less: Accumulated depreciation	(6,012,295)	-	(6,012,295)
Fixed assets, net	$12,218,913	$ -	$12,218,913

6. Due to Governmental Agencies

Due to governmental agencies at June 30, 2011 consists of the following:

June 30, 2011

Advanced funds by Office of People With Developmental Disabilities ("OPWDD") under various contracts for the construction and rehabilitation of several residencies	$ 366,839
Due to the New York City Education Department	1,849,509
Due to the Administration for Child Services	207,127
	$2,423,475

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7. Bonds Payable

Issuer	Description	Date of Issuance	Original Amount	Total Payments (1997-2011)	Balance at June 30, 2011	Collateral
NYCIDA	Series 1997A at 7.375% per annum, due February 1, 2009	February 6, 1997	$ 780,000	$(780,000)	$ -	N/A
NYCIDA	Series 1997B at 8.375% per annum, due February 1, 2022	February 6, 1997	2,195,000	(210,000)	1,985,000	Leasehold mortgage liens and security interests in Washington Heights facility
NYCIDA	Series 1999B-2 at 8.750% per annum, due August 1, 2001	December 9, 1999	21,100	(21,100)	-	N/A
NYCIDA	Series 1999B-1 at 7.125% per annum, due August 1, 2005	December 9, 1999	95,000	(95,000)	-	N/A
NYCIDA	Series 1999B-1 at 7.125% per annum, due August 1, 2015	December 9, 1999	300,000	(155,000)	145,000	Leasehold mortgage liens and security interests in Brooklyn IRA facility
NYCIDA	Series 2000A-2 at 9.500% per annum, due July 1, 2002	August 17, 2000	52,000	(52,000)	-	N/A
NYCIDA	Series 2000A-1 at 8.125% per annum, due July 1, 2005	August 17, 2000	130,000	(130,000)	-	N/A
NYCIDA	Series 2000A-1 at 8.125% per annum, due July 1, 2015	August 17, 2000	425,000	(200,000)	225,000	Leasehold mortgage liens and security interests in Brooklyn IRA facility
DASNY	Mortgage - semiannual payments of principal plus interest at 6.0157% per annum, due February 15, 2020	April 29, 1996	754,500	(355,000)	399,500	Real property, improvements, gifts, grants and bequests for Flatlands Avenue project
					$2,754,500	

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Required principal and interest payments are as follows:

2012	$ 200,000
2013	215,000
2014	245,000
2015	260,000
2016	325,000
Thereafter	1,509,500
Total	$2,754,500

8. Loans and Mortgages Payable

Loans and mortgages payable consist of:

June 30, 2011	
Loan payable to Citibank, due April 18, 2017, payable in monthly installments of $8,333 including interest of 7.50%, secured by related property	$ 583,333
Loan payable to FJC, Inc. due April 30, 2013, payable upon maturity including interest of the prime rate plus 3%	1,000,000
Loan payable to Nonprofit Finance Fund, due February 1, 2021, payable in monthly installments including interest of 6.50%, secured by certain receivables from the New York State Education Department which includes reimbursement for the cost of certain renovations and improvements	338,587
Mortgage payable to Citibank, due April 14, 2014, payable in monthly installments including interest of 6.75%, secured by related property	407,277
Mortgage payable to Citibank, due March 11, 2022, payable in monthly installments of $5,082 including interest of 8.00%, secured by related property	650,510
Mortgage payable to Citibank, due March 11, 2012, payable in monthly installments of $4,082 including interest of 6.00%, secured by related property	38,413
Mortgage payable to Citibank, due May 1, 2024, payable in monthly installments of $3,533 including interest of 6.50%, secured by related property	547,588
Mortgage payable to Citibank, due May 1, 2014, payable in monthly installments of $9,490 including interest of 6.00%, secured by related property	332,143
Mortgage payable to Citibank, due June 10, 2025, payable in monthly installments of $3,393 including interest of 6.80%, secured by related property	570,021
Mortgage payable to Citibank, due June 10, 2015, payable in monthly installments of $1,666 including interest of 5.60%, secured by related property	79,951

June 30, 2011	
Mortgage payable to Citibank, due June 10, 2025, payable in monthly installments of $3,597 including interest of 6.80%, secured by related property	$ 604,256
Mortgage payable to Citibank, due June 10, 2015, payable in monthly installments of $2,774 including interest of 5.00%, secured by related property	133,150
Mortgage payable to Citibank, due September 22, 2020, payable in monthly installments of $5,274 including interest of 5.60%, secured by related property	585,412
Mortgage payable to Citibank, due September 22, 2017, payable in monthly installments of $5,843 including interest of 4.70%, secured by related property	438,226
Total loans and mortgages payable	6,308,867
Less: Current maturities	784,993
	$5,523,874

Required principal payments are as follows:

	Birch	Fund	Total
2012	$ 784,993	$ -	$ 784,993
2013	1,761,443	-	1,761,443
2014	749,130	-	749,130
2015	507,791	-	507,791
2016	454,517	-	454,517
Thereafter	2,050,993	-	2,050,993
	$6,308,867	$ -	$6,308,867

9. Line of Credit

Birch has a line of credit of $7,000,000 with Citibank. Interest is payable monthly at the greater of the prime rate or one-month LIBOR plus 2% per annum, less .125% in each instance. The interest rate charged during 2011 was 3.125%. The note is secured by the related receivables which are used to determine the borrowing base as defined in the agreement. The balance outstanding at June 30, 2011 was $1,051,599. Subsequent to June 30, 2011, Birch drew down an additional $2,000,000 on their line of credit, which has been repaid.

10. Donated Costs

Birch's contracts with the City of New York and Agency for Child Development (the "Agency") have cost-sharing agreements whereby certain costs are borne by the Agency. City-administered support is included in the accompanying financial statements as donated costs. Total city-administered support at June 30, 2011 has been recorded as follows:

Health insurance	$325,644
Lease/rental - real property	266,017
Pension	22,052
Gas and heating fuel	34,212
Water	6,520
HRA agency insurance package	6,499
Real property taxes	74,435
	$735,379

11. Leased Facilities

Pursuant to several lease agreements, Birch and Affiliate is obligated for minimum annual rentals payable to nonrelated entities as indicated below. Birch and Affiliate are obligated for certain operating costs at these sites and equipment rentals. The future minimum commitments to all nonrelated parties are as follows:

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Year ending June 30,	
2012	$ 3,068,696
2013	3,105,227
2014	2,802,728
2015	2,774,911
2016	1,471,025
Thereafter	6,410,624
Total	$19,633,211

12. Pension Plans

(a) Retirement Plan

Birch's employees are covered under an employer-discretionary, noncontributory, defined contribution profit-sharing plan. To be eligible to participate, an employee must complete one year of service with Birch, have worked 1,000 hours during the plan year, have attained age 21 and be employed on the last day of the plan year, June 30. The entry dates are June 30 and December 31. The minimum required contribution is zero. The contribution percentage used for 2011 was 3.5%, based on employee job classification and length of service. Vesting begins in the first year of participation and increases based upon years of continuous service until a participant is fully vested after the sixth year.

Retirement expense for the year ended June 30, 2011 was $1,000,073.

(b) 403(b) Plan

Birch has a 403(b) tax-deferred annuity plan whereby participants in the plan may elect to defer a portion of their salary and direct Birch to contribute that deferral to the plan on their behalf. Employees become eligible to participate upon date of hire by directing Birch to make the aforementioned salary reduction contributions.

(c) 457(b) Plan

Birch has a Section 457(b) deferred compensation plan for one key employee. The benefit expense related to the 457(b) plan for the year ended June 30, 2011 was $20,862. The fully funded liability related to the plan amounted to approximately $49,713 and is included in accrued compensation in the accompanying combining statement of financial position.

(d) Postretirement Benefit Obligation

Birch provides medical and dental benefits for the founder of the organization. As of June 30, 2011, the accumulated postretirement benefit obligation amounted to $106,480 and is included in accrued compensation in the accompanying combining statement of financial position.

13. Temporarily Restricted Net Assets

The Fund has temporarily restricted net assets that are available for the following purposes:

June 30, 2011	
Educational and training projects	$ 62,293
Domestic violence projects	4,636
Library projects	2,858
Hillcrest Music Fund	41,475
Hillcrest Art and Book Funds	1,358
Hillcrest Parents Fund	21,486
Warner Tech Fund	1,370
Christmas Toys Fund	862
Other	13,224
	$149,562

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

June 30, 2011	
Educational and training projects	$ 57,687
Family support	12,500
Construction	28,400
Hillcrest Art and Book Funds	1,311
Hillcrest Parents Fund	4,230
Warner Tech Fund	8,069
Christmas Toys Fund	2,989
Other	1,921
	$117,107

14. Commitments and Contingencies

(a) Department of Education

The New York City Department of Education ("DOE") issued a revised reconciliation report covering Birch's education program's enrollment and rates for the years 1995/1996 through 2005/2006. That reconciliation report reflects a net liability owed to the DOE of $2,117,668 as of July 2009. Previously, DOE reconciliations for the same period of time were $1,904,000 less than the current amount. Birch is currently contesting the amount and timing of the proposed reconciliation. Management has set up a reserve of $163,000 as the liability to the DOE for those fiscal years.

(b) Workers' Compensation Trust

Birch participated in a group self-insured workers' compensation trust for the period from 1996 through 2003, for the purposes of providing workers' compensation insurance. The trust voluntarily closed effective December 31, 2010. During 2011, Birch received notification of an assessment from the plan's administrator for approximately $388,383 representing Birch's obligation for the administrator's estimate of the expected losses. The plan administrator has not provided documentation supporting the calculation of the total liability, or Birch's portion of the liability; as such, no provision has been recorded in the accompanying combining financial statements related to the assessment.

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15. Transactions With Affiliate

(a) The Fund receives contributions that are restricted for Birch's programs per the instructions of the donor. During the fiscal year ended June 30, 2011, the Fund received $151,666 of contributions that were granted back to Birch to be used for the programs specified by the donor.

(b) Birch charges the Fund for salaries, fringe benefits, rent and other administrative expenses. Total fees charged for the year ended June 30, 2011 were $66,691.

The amount due from the Fund at June 30, 2011 was $162,662.

Birch Family Services, Inc. and Affiliate

Notes to Combining Financial Statements

16. Capital Leases

Birch leases various automobiles and copiers under capital leases that expire at various dates through 2014, which require monthly payments of principal and interest at a rate of 7.55%. The following is a schedule of the future minimum lease payments including interest under the terms of the leases, together with the present value of the net minimum lease payments as of June 30, 2011.

June 30,	
2012	$115,862
2013	66,867
2014	27,500
Total minimum lease payments	210,229
Less: Amount representing interest	(7,328)
Present value of net minimum lease payments	202,901
Less: Current portion	(92,678)
	$110,223

17. Subsequent Events

Birch and Affiliate have performed subsequent event procedures through December 13, 2011, which is the date the combining financial statements were available to be issued. There were no subsequent events requiring adjustment to the combining financial statements.

On July 20, 2011, Birch drew an additional $322,224 from the $716,000 10-year loan agreement with Nonprofit Finance Fund for the purpose of renovations in the Washington Heights facility. The current anticipated rate for the loan is 6.5%, which is subject to review on November 1, 2013, at which time the lender has the right to raise the rate to prime plus 2%.

On August 12, 2011, Birch received an additional $900,000 unsecured loan from FJC, Inc. for the purpose of a renovation of the Grove Street facility in Brooklyn, New York. The terms of the agreement provide for quarterly interest payments at an annual rate of prime plus 3%. The loan shall be due April 30, 2013. The prime rate as of June 30, 2010 was 3.25%, for a total interest rate of 6.25%.

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BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2010 AND 2009

LOEB & TROPER LLP

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

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LOEB & TROPER LLP

Independent Auditor's Report

Board of Directors
Birch Family Services, Inc. and
The Herbert G. Birch Services Fund, Inc.

We have audited the accompanying consolidated balance sheet of Birch Family Services, Inc. and The Herbert G. Birch Services Fund, Inc. as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Birch Family Services, Inc. and The Herbert G. Birch Services Fund, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Birch Family Services, Inc. and The Herbert G. Birch Services Fund, Inc. as of June 30, 2010 and 2009, and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors
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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Loeb + Troper LLP

November 22, 2010

LOEB & TROPER LLP

EXHIBIT A

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

CONSOLIDATED BALANCE SHEET

JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,886,893	$ 1,892,152
Accounts receivable (net of allowance for doubtful accounts of $30,000 in 2010 and $225,000 in 2009)	4,847,623	6,177,011
Contributions receivable - due within one year	32,941	82,941
Fees receivable	47,752	17,190
Prepaid expenses	54,046	87,257
Total current assets	7,869,255	8,256,551
Fixed assets - net (Note 3)	8,819,528	9,371,194
Limited use assets (Notes 4 and 15)		
Debt service reserve fund	584,220	565,478
Bond escrow	144,222	188,132
Deferred bond, loan financing and other program costs (Note 2)	817,086	559,424
Other assets	119,328	90,850
Total assets	$ 18,353,639	$ 19,031,629
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable, accrued expenses, accrued payroll and benefits	$ 5,343,097	$ 4,714,010
Deferred income		975
Due to OPWDD (Note 7)	268,633	225,725
Current portion of long-term debt and capital leases (Notes 5 and 9)	956,129	2,372,081
Line of credit (Note 6)	1,051,599	3,051,599
Total current liabilities	7,619,458	10,364,390
Long-term debt and capital leases, less current portion (Notes 5 and 9)	7,768,649	6,163,125
Total liabilities	15,388,107	16,527,515
Net assets (Exhibit B)		
Unrestricted	2,775,675	2,373,840
Temporarily restricted (Note 13)	189,857	130,274
Total net assets	2,965,532	2,504,114
Total liabilities and net assets	$ 18,353,639	$ 19,031,629

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

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BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

LOEB & TROPER LLP

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support						
Tuition	$ 27,342,817		$ 27,342,817	$ 26,962,942		$ 26,962,942
Medicaid revenue for community services	12,976,305		12,976,305	11,287,674		11,287,674
Federal and New York State grants	6,469,686		6,469,686	5,576,883		5,576,883
Contributions	68,963	$ 157,900	226,863	138,564	$ 165,570	304,134
Donated services (Note 2)	70,043		70,043	71,894		71,894
Donated costs (Notes 2 and 14)	596,094		596,094	620,201		620,201
Day care private fees	9,991		9,991	22,310		22,310
Autism program fees	99,727		99,727	189,341		189,341
Special events	280,978		280,978			
Less: direct costs of special events	(129,692)		(129,692)			
Interest income	23,989		23,989	26,142		26,142
Other income	60,255		60,255	30,401		30,401
Net assets released from restrictions (Note 13)	98,317	(98,317)		70,360	(70,360)	
Total revenues and other support	47,967,473	59,583	48,027,056	44,996,712	95,210	45,091,922
Expenses						
Educational (includes $596,094 and $620,201 of donated costs in 2010 and 2009, respectively, $5,250 of donated services in 2009, and $187,920 and $199,070 of interest expense in 2010 and 2009, respectively)	31,310,213		31,310,213	30,113,063		30,113,063
Community services (includes $299,023 and $249,506 of interest expense in 2010 and 2009, respectively)	10,732,909		10,732,909	9,158,214		9,158,214
Educational and other programs	20,796		20,796	8,114		8,114
Fund raising (including $3,900 of donated services in 2010)	60,524		60,524	100,052		100,052
Management and general (includes $66,143 and $66,644 of donated services in 2010 and 2009, respectively, and $191,160 and $282,802 of interest expense in 2010 and 2009, respectively)	5,441,196		5,441,196	5,417,796		5,417,796
Total expenses (Note 11)	47,565,638		47,565,638	44,797,239		44,797,239
Change in net assets (Exhibit C)	401,835	59,583	461,418	199,473	95,210	294,683
Net assets - beginning of year	2,373,840	130,274	2,504,114	2,174,367	35,064	2,209,431
Net assets - end of year (Exhibit A)	$ 2,775,675	$ 189,857	$ 2,965,532	$ 2,373,840	$ 130,274	$ 2,504,114

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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EXHIBIT C

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 461,418	$ 294,683
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,062,675	956,444
Amortization of bond, loan financing, and other program costs	19,168	19,168
Decrease (increase) in assets		
Accounts receivable	1,329,388	602,048
Contributions receivable - due within one year	50,000	(17,441)
Fees receivable	(30,562)	59,780
Prepaid expenses	33,211	(62,426)
Other assets	(28,478)	49,151
Increase (decrease) in liabilities		
Accounts payable, accrued expenses, accrued payroll and benefits	629,087	435,234
Deferred income	(975)	(2,325)
Due to OPWDD	42,908	98,450
Net cash provided by operating activities	3,567,840	2,432,766
Cash flows from investing activities		
Capital expenditures	(462,379)	(1,542,929)
Deferred other program costs	(261,584)	(279,683)
Decrease (increase) in limited use assets	25,168	(46,260)
Net cash used by investing activities	(698,795)	(1,868,872)
Cash flows from financing activities		
Loan financing costs	(15,246)	
Principal proceeds from long-term debt	2,524,531	1,205,297
Principal payments on long-term debt	(2,383,589)	(670,364)
Principal proceeds from line of credit		1,000,000
Principal payments on line of credit	(2,000,000)	(1,948,401)
Net cash used by financing activities	(1,874,304)	(413,468)
Net change in cash and cash equivalents	994,741	150,426
Cash and cash equivalents - beginning of year	1,892,152	1,741,726
Cash and cash equivalents - end of year	$ 2,886,893	$ 1,892,152
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 635,844	$ 719,791
Capital leases entered into during the year for equipment	$ 48,630	$ 200,180

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1 - NATURE OF ENTITY

The accompanying consolidated financial statements include the accounts of Birch Family Services, Inc. (BFS) and The Herbert G. Birch Services Fund, Inc., which are related by common members of the Board of Directors.

Birch Family Services, Inc.

BFS, formerly known as The Herbert G. Birch Services, Inc. (until March 23, 2007) is a not-for-profit organization that operates schools in New York City for preschool and school-age students with various learning disabilities and serious developmental disabilities as well as for nondisabled children. BFS also operates three Intermediate Care Facilities (ICFs), six Individual Residential Alternative Facilities (IRAs) and two day habilitation facilities, and provides other services for developmentally disabled individuals varying in age from birth through adulthood. In addition, two new ICFs will be opened in December 2010.

The Herbert G. Birch Services Fund, Inc. (the "Organization")

The Organization operates in support of BFS.

BFS and the Organization are not-for-profit organizations exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. BFS is funded primarily by tuition, and Medicaid revenue for community services and grants. The Organization is funded primarily by general public contributions, special events and autism program fees, which both represent a concentration of revenue for the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation - The consolidated financial statements include the balance sheet, statement of activities and cash flows of BFS and the Organization. All material intercompany balances and transactions have been eliminated in the consolidation.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FASB Accounting Standards Codification - In July 2009, the FASB released FASB Accounting Standards Codification (ASC) as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* All other accounting literature not included in the Codification is nonauthoritative.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include investments in highly liquid instruments with original maturities when acquired of three months or less.

Accounts receivable - Accounts receivable from tuition, Medicaid revenue for community services, government grants and other sources of income are recorded when services are rendered.

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

Allowance for doubtful accounts - Management determines whether an allowance for uncollectibles should be provided for accounts and contributions receivable. Such estimates are based on management's assessment of the aged basis of its sources, current economic conditions, subsequent collections and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fees receivable - Fees receivable consist of unpaid fee balances. Fees receivable are presented net of allowances for doubtful accounts. The allowances are based on management's evaluation of the collectibility of the related accounts. Interest is not accrued or recorded on outstanding receivables. As of June 30, 2010 and 2009, the Organization has deemed that an allowance for doubtful accounts is not necessary for fees receivable.

Fixed assets - BFS - Items with a cost of $5,000 and estimated useful life of more than one year are subject to capitalization and are recorded at cost. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets as provided by the New York State Education Department's Consolidated Fiscal Reporting Manual. Amortization of leasehold improvements is provided on the straight-line basis over the lesser of term of the lease or their estimated useful lives.

Fixed assets - Organization - Items with a cost of $500 and an estimated useful life of more than one year are capitalized. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets.

Limited use assets - Limited use assets represent funds deposited and maintained by the Trustee pursuant to the financing agreements (see Note 4). BFS invests in various securities such as money market and guaranteed investment contracts. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the statement of activities.

Deferred bond and loan financing costs - Deferred bond and loan financing costs are stated at cost and amortized on the straight line basis over the term of the bonds/loans.

Deferred program costs - Deferred program costs are stated at cost. They are costs related to new programs and will be amortized once the program commences operations in accordance with applicable New York State guidelines.

Net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time periods or purpose.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tuition and Medicaid revenue for community services - third-party reimbursement and revenue recognition - Revenue for the school's programs are based on reimbursement rates promulgated by New York State and funded by the New York City Department of Education, the Department of Health ("DOH"), and the NYC Administration for Children's Services. Revenue for Community Services are funded by New York State through the Medicaid system and Office for People with Developmental Disabilities (OPWDD).

Revenues and receivables arising from programs funded by government agencies are dependent upon final audit and negotiation between BFS and the agencies. Cost reimbursements applicable to various programs conducted for and on behalf of government agencies are subject to adjustments, if any, based upon the results of audits by the agencies.

Federal and New York State grants - Revenues from government contracts are recognized when reimbursable expenses are incurred under the terms of the contracts. Contract payments in excess of or less than qualified expenses are accounted for as contract advances payable or accounts receivable, respectively.

Contributions - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Autism program fees - Autism program fees are based on established rates and are recorded when services are rendered.

Donated services - BFS and the Organization receive certain contributed services that meet criteria under accounting principles generally accepted in the United States of America for recognition as contributions. Such services (primarily legal, advertising and marketing) are recorded in these financial statements at fair value amounting to $70,043 in 2010 and $71,894 in 2009.

Donated costs - BFS receives certain contributed city-administered support that meets criteria under accounting principles generally accepted in the United States of America for recognition as contributions. Such support, amounting to $596,094 in 2010 and $620,201 in 2009, is recorded in these financial statements at fair value (see Note 14).

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases - Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Capital leases are recorded at the lower of the fair market value of the assets or the present value of the minimum lease payments and are amortized over the lease term or estimated useful life of the assets, whichever is shorter, unless the lease provides for transfer of title or includes a bargain purchase option, in which case the lease is amortized over the estimated useful life of the asset. Operating lease payments are charged to rental expense. Operating lease expense has been recorded on the straight-line basis over the term of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Advertising - All advertising costs are expensed in the year they are incurred. The amount totaled $122,834 in 2010 and $142,542 in 2009.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Uncertainty in income taxes - Effective July 1, 2009, BFS adopted the provision pertaining to uncertain tax positions (ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Subsequent events - Subsequent events are evaluated through the date the financial statements are available to be issued.

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NOTE 3 - FIXED ASSETS

	2010	2009	Estimated Useful Lives
Land	$ 1,513,261	$ 1,513,261	
Building and building improvements	8,006,897	7,681,880	25 years
Leasehold improvements	2,391,959	2,363,100	5-25 years
Furniture, fixtures and equipment (including capital lease assets of $405,610 in 2010 and $356,980 in 2009)	2,519,863	2,362,730	3-20 years
	14,431,980	13,920,971	
Accumulated depreciation and amortization	(5,612,452)	(4,549,777)	
	$ 8,819,528	$ 9,371,194	

Amortization of capital lease assets was $123,264 during 2010 and $79,100 in 2009.

NOTE 4 - LIMITED USE ASSETS

In connection with the issuance of New York City Industrial Development Agency Revenue Bonds on its behalf, BFS was required to set up debt service reserve funds for the Washington Heights bonds, for the East 45th Street bonds, and for the 94th Street bond. Pursuant to the agreements, these accounts are held in escrow and are invested by BFS. At June 30, 2010 and 2009, the balances on these accounts were $337,600 and $320,668; $39,047 and $39,045; and $207,573 and $205,765, which total $584,220 and $565,478, respectively.

BFS received funds to be held in escrow upon completion of future improvements to the Washington Heights building related to the New York City Industrial Development Agency Revenue Bonds. There was $53,844 withdrawn for improvements to the building during 2010, and no amounts withdrawn during 2009. The balance as of June 30, 2010 and 2009 was $4,430 and $58,220, respectively.

The amount received from the New York City Industrial Development Agency Revenue Bonds for East 45th Street was $75,768, to be held in escrow upon completion of future improvements to the building. As of June 30, 2010 and 2009, the balance was $87,137 and $83,205, respectively.

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NOTE 4 - LIMITED USE ASSETS (continued)

The 94th Street bond escrow was held with Bank of New York. As of June 30, 2010 and 2009, the balance was $52,655 and $46,707, respectively.

The totals of the above bond escrows were $144,222 in 2010 and $188,132 in 2009.

NOTE 5 - LONG-TERM DEBT

On February 6, 1997, BFS borrowed $2,975,000 from the New York City Industrial Development Agency to acquire and renovate an educational facility located in Washington Heights, New York. The original debt consisted of two separate civic facility revenue bonds:

Series 1997A at 7.375% per annum, due February 1, 2009	$ 780,000
Series 1997B at 8.375% per annum, due February 1, 2022	2,195,000
	$ 2,975,000

The Series 1997A Bonds of $780,000 have been repaid as of June 30, 2009. For Series 1997B, $100,000, was paid during the fiscal year ended June 30, 2010. The balances at June 30, 2010 and 2009 were $2,095,000 and $2,195,000, respectively. BFS has granted one or more leasehold mortgage liens on, and security interests in, the facility as collateral.

On December 9, 1999, BFS borrowed $416,100 from the New York City Industrial Development Agency to acquire and renovate an individualized residential alternative facility (IRA) located in Brooklyn, New York. The original debt consisted of three separate civic facility revenue bonds:

Series 1999B-2 at 8.750% per annum, due August 1, 2001	$ 21,100
Series 1999B-1 at 7.125% per annum, due August 1, 2005	95,000
Series 1999B-1 at 7.125% per annum, due August 1, 2015	300,000
	$ 416,100

The balances at June 30, 2010 and 2009 were $170,000 and $190,000, respectively. BFS has granted one or more leasehold mortgage liens on, and security interests in, the facility as collateral.

-continued-

NOTE 5 - LONG-TERM DEBT (continued)

On August 17, 2000, BFS borrowed $607,000 from the New York City Industrial Development Agency to retire the initial financing used in the acquisition of an IRA located in Brooklyn, New York. The original debt consisted of three separate civic facility revenue bonds:

Series 2000A-2 at 9.500% per annum, due July 1, 2002	$	52,000
Series 2000A-1 at 8.125% per annum, due July 1, 2005		130,000
Series 2000A-1 at 8.125% per annum, due July 1, 2015		425,000
	$	607,000

The balances at June 30, 2010 and 2009 were $255,000, and $280,000, respectively. BFS has granted one or more leasehold mortgage liens on, and security interests in, the facility as collateral.

On April 29, 1996, BFS received a mortgage from the Dormitory Authority of the State of New York for the facility located at Flatlands Avenue, Brooklyn, New York in the amount of $754,500. The terms of the mortgage require semiannual payments of principal, as defined in the mortgage agreements, plus interest at a rate of 6.0157% per annum through February 15, 2020. The mortgage is secured by the real property, improvements, gifts, grants and bequests for the project and any fees owed to the facility by the State of New York. During 2010 and 2009, principal payments totaling $30,000 were made. The balances at June 30, 2010 and 2009 were $429,500 and $459,500, respectively.

On August 23, 2002, BFS borrowed $400,000 from Citibank N.A. ("Citibank") to upgrade the telecommunication system for all sites and for an energy conservation project. The terms of the loan require monthly payments of $4,800, including principal and interest, through July 2012. The interest rate is fixed for the length of the term at 7.75%. During 2010 and 2009, principal payments totaling $161,300 and $43,266 were made. The balance at June 30, 2009 was $161,300 and was paid off in full on July 28, 2009. The mortgage was secured by security interests covering all of BFS' personal properties, subject only to prior liens in favor of the Lender and as otherwise approved by the Lender.

On September 30, 2003, BFS borrowed $350,000 from Citibank to purchase Navision software. The terms of the loan require monthly payments of $4,487 of principal, not including interest, through April 2010. The interest rate is fixed for the length of the term at 6.00%. During 2010 and 2009, principal payments totaling $44,872 and $53,846 were made. The balance at June 30, 2009 was $44,872 and was paid off in full in April 2010. The mortgage was secured by security interests covering all of BFS' personal properties, subject only to liens disclosed to and accepted by the bank.

-continued-

NOTE 5 - LONG-TERM DEBT (continued)

On April 14, 2004, BFS arranged for financing in the amount of $1,000,000 from Citibank for various facility upgrades. The terms of the loan require monthly payments of principal, plus interest, at a rate of 6.75% per annum through April 14, 2014. The note is secured by BFS and the related personal property. During 2010 and 2009, principal payments of $113,886 and $106,673 were made. The balance at June 30, 2010 and 2009 was $529,206 and $643,092, respectively. The mortgage is secured by security interests covering all of BFS' personal properties, subject only to prior liens in favor of the Lender and as otherwise approved by the Lender.

On May 11, 2006, BFS borrowed $914,786 and $288,108, totaling $1,202,894, from Citibank for the purpose of renovating one of the Far Rockaway properties. The terms of the agreements provide for monthly interest payments at an annual rate of 8% and 6%, respectively. Monthly principal payments commenced in March 2007 and amount to $5,082 and $4,802, respectively, and mature February 2022 and February 2012, respectively. During 2010, principal payments of $60,986 and $57,624, respectively, were made. During 2009, principal payments of $60,986 and $57,620, respectively, were made. The balances at June 30, 2010 were $711,496 and $96,035, totaling $807,531. The balances at June 30, 2009 were $772,482 and $153,659, totaling $926,141. First priority mortgage of BFS covering residential real property generally located in Far Rockaway, NY is secured by collateral assignment of leases and rents of BFS relating to the mortgaged property and security interests covering all of BFS' personal properties relating to the mortgaged property, including all revenue derived from the utilization of the mortgaged property.

As of June 30, 2006, BFS borrowed $1,975,000 from FJC, Inc. for the purchase of three facilities in Far Rockaway, New York. The terms of the agreements provide for quarterly interest payments at an annual rate of prime plus 3%. $600,000 was paid off in March 2008, leaving a balance of $1,375,000, with the maturity date extended to June 30, 2010. The balance was paid off on June 10, 2010. The balance at June 30, 2009 was $1,375,000.

On April 17, 2007, BFS borrowed $1,000,000 from Citibank for the purpose of relocating and renovating its administrative headquarters. The terms of the loan require monthly payments of principal, plus interest at a rate of 7.5% per annum through April 18, 2017. During 2010 and 2009, principal payments of $100,000 were made. The balance at June 30, 2010 and 2009 was $683,333 and $783,333, respectively. The mortgage is secured by security interests covering all of BFS' personal properties, subject only to liens disclosed to and accepted by the bank.

-continued-

NOTE 5 - LONG-TERM DEBT (continued)

On July 10, 2007, BFS borrowed $52,905 from Sterling Bank for the purpose of upgrading its internal computer systems. The terms of the unsecured loan require monthly payments of principal, plus interest at a rate of 10.564% per annum through June 10, 2011. During 2010 and 2009, principal payments of $13,966 and $12,572, respectively, were made. The balance at June 30, 2010 and 2009 was $14,159 and $28,125, respectively.

On July 28, 2008, BFS borrowed $635,909 and $569,388, totaling $1,205,297, from Citibank for the purpose of closing on property for a new IRA facility located at 52nd St., Brooklyn. The terms of the agreements provide for monthly interest payments at an annual rate of 6.5% and 6%, and mature May 2024 and May 2014, respectively. During 2010, principal payments of $42,394 and $115,301, respectively, were made. During 2009, principal payments of $3,533 and $8,066, respectively, were made. The balance at June 30, 2010 was $589,982 and $446,021, totaling $1,036,003. The balances at June 30, 2009 were $632,376 and $561,322, totaling $1,193,698. The mortgage is secured by security interests covering all of BFS' personal properties, including all revenue derived from the utilization of the mortgaged property.

On April 7, 2010, BFS received a $1,000,000 unsecured loan from FJC, Inc., for the purpose of a renovation of the Grove Street facility in Brooklyn, New York. The terms of the agreement provide for quarterly interest payments at an annual rate of prime plus 3%. The loan shall be due April 30, 2012. The prime rate as of June 30, 2010 was 3.25%, for a total interest rate of 6.25%. The balance at June 30, 2010 is $1,000,000.

On June 10, 2010, BFS borrowed $647,417 and $166,438, totaling $813,855, from Citibank for the purpose of renovating one of the Far Rockaway properties at Grassmere Street. The terms of the agreements provide for monthly interest payments at an annual rate of 6.8% and 5.6%, respectively. Monthly principal payments commenced in July 2010 and amount to $3,597 and $2,774, respectively, and the loans mature June 2025 and June 2015, respectively. During 2010, no principal payments were made. First priority mortgage of BFS covering residential real property generally located in Far Rockaway, NY is secured by collateral assignment of leases and rents of BFS relating to the mortgaged property and security interests covering all of BFS' personal properties relating to the mortgaged property, including all revenue derived from the utilization of the mortgaged property. The balance at June 30, 2010 is $813,855.

-continued-

NOTE 5 - LONG-TERM DEBT (continued)

On June 10, 2010, BFS borrowed $610,737 and $99,939, totaling $710,676, from Citibank for the purpose of renovating one of the Far Rockaway properties at President Street. The terms of the agreements provide for monthly interest payments at an annual rate of 6.8% and 5.6%, respectively. Monthly principal payments commenced in July 2010 and amount to $3,393 and $1,666, respectively, and the loans mature June 2025 and June 2015, respectively. During 2010, no principal payments were made. First priority mortgage of BFS covering residential real property generally located in Far Rockaway, NY is secured by collateral assignment of leases and rents of BFS relating to the mortgaged property and security interests covering all of BFS' personal properties relating to the mortgaged property, including all revenue derived from the utilization of the mortgaged property. The balance at June 30, 2010 is $710,676.

Aggregate maturities of long-term debt for the years subsequent to June 30, 2010 are as follows:

2011	$ 843,130
2012	1,823,377
2013	809,182
2014	826,856
2015	600,530
Thereafter	3,641,188
	$ 8,544,263

NOTE 6 - LINE OF CREDIT

BFS has a line of credit of $7,000,000 with Citibank. Interest is payable monthly at the greater of the prime rate or one-month LIBOR plus 2% per annum, less .125% in each instance. The interest rate charged during 2010 and 2009 was 3.125% and 3.00%, respectively. The note is secured by BFS and the related receivables which are used to determine the borrowing base as defined in the agreement. The balances outstanding at June 30, 2010 and 2009 were $1,051,599 and $3,051,599, respectively. As of November 22, 2010, the balance outstanding was $1,051,599.

-continued-

NOTE 7 - DUE TO OPWDD

BFS has entered into contracts with OPWDD for the operation of three ICFs, six IRAs and two Day Habilitation facilities. As part of the agreement, OPWDD advanced funds to BFS and expended funds on BFS' behalf for preoperational start-up costs, buildings, equipment, renovations, lease costs, real estate taxes, health care costs and operations. BFS has agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid. Medicaid payments for these costs are withheld from remittances. The amount due to OPWDD as of June 30, 2010 and 2009 was $268,633 and $225,725, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

(a) BFS leases various buildings and equipment under operating leases. The commitments under these leases, which have various expiration dates through 2017, are as follows:

2011	$ 2,522,191
2012	2,489,906
2013	2,511,725
2014	2,201,299
2015	2,164,815
Thereafter	4,280,093
	$ 16,170,029

During 2010 and 2009, rent expense amounted to $2,579,653 and $2,504,357, respectively.

(b) BFS is responsible for reporting to various third parties. Besides SED, the New York City Department of Education, DOH and OPWDD, the New York State Office of the Attorney General and the Internal Revenue Service have the right to audit BFS.

(c) As of the date of this report, audits performed by OPWDD have been completed and resolved through 2007.

-continued-

NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued)

(d) The New York City Department of Education issued a revised reconciliation report covering BFS' education program's enrollment and rates for the years 1995/1996 through 2005/2006. That reconciliation report reflects a net liability owed to the New York City Department of Education of $2,117,668 as of July 2009. Previously, New York City Department of Education reconciliations for the same period of time were $1,904,000 less than the current amount. BFS is currently contesting the amount and timing of the proposed reconciliation. Management has set up a reserve of $163,000 as the liability to the New York City Department of Education for those fiscal years.

NOTE 9 - CAPITAL LEASES

During 2010 and 2009, BFS entered into several capital leases on various automobiles and copiers.

The monthly installments on the leases vary. The interest rate was 7.55% for 2010 and 2009.

Required payments are as follows:

2011	$ 122,724
2012	59,593
2013	10,598
	192,915
Less interest	(12,400)
Total	$ 180,515

Interest expense was $18,805 for 2010 and $17,720 for 2009.

-continued-

NOTE 10 - RETIREMENT PLAN

BFS' employees are covered under an employer-discretionary, noncontributory, defined contribution profit-sharing plan. To be eligible to participate, an employee must complete one year of service with BFS, have worked 1,000 hours during the plan year, have attained age 21 and be employed on the last day of the plan year, June 30. The entry dates are June 30 and December 31. The minimum required contribution is zero. The contribution percentage used for both 2010 and 2009 was between 3.5% and 7%, based on employee job classification and length of service.

Vesting begins in the first year of participation and increases based upon years of continuous service until a participant is fully vested after the sixth year.

Retirement expense for the years ended June 30, 2010 and 2009 amounted to $1,159,612 and $994,670, respectively.

NOTE 11 - FUNCTIONAL EXPENSES

	2010	2009
Program services		
Educational and community services	$ 42,043,122	$ 39,271,277
Educational and other programs	20,796	8,114
Total program services	42,063,918	39,279,391
Supporting services		
Management and general	5,441,196	5,417,796
Fund raising	60,524	100,052
Total supporting services	5,501,720	5,517,848
Total expenses	$ 47,565,638	$ 44,797,239

-continued-

NOTE 12 - CONCENTRATIONS

Approximately 84% of revenues are derived from the State Education Department and OPWDD.

Financial instruments which potentially subject BFS and the organization to a concentration of credit risk are cash accounts in financial institutions which, from time to time, exceed FDIC insurance limits.

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 and 2009 are available for the following purposes:

	2010	2009
Educational and training projects	$ 26,597	$ 57,093
Family support	12,500	15,000
Domestic violence projects	4,636	4,636
Library projects	2,858	2,858
Other	143,266	50,687
	$ 189,857	$ 130,274

During the years ended June 30, 2010 and 2009, net assets were released from donor restriction by incurring expenses satisfying the following temporarily restricted purposes:

	2010	2009
Educational and training projects	$ 5,049	$ 5,848
Family support	27,500	27,903
Community services	500	13,300
Other	65,268	23,309
	$ 98,317	$ 70,360

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NOTE 14 - DONATED COSTS

BFS' contracts with the City of New York, Agency for Child Development (the "Agency") have cost-sharing agreements whereby certain costs are borne by the Agency. City-administered support is included in the accompanying financial statements as donated costs. Total City-administered support has been recorded as follows:

	2010	2009
Health insurance	$ 185,965	$ 209,481
Lease/rental - real property	266,017	266,017
Pension	22,052	22,052
Gas and heating fuel	34,212	34,212
Water	6,520	6,520
HRA agency insurance package	6,893	7,484
Real property taxes	74,435	74,435
	$ 596,094	$ 620,201

NOTE 15 - FAIR VALUE MEASUREMENTS

Accounting Standards Codification (ASC) Section 820, *Fair Value Measurements*, establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that BFS has the ability to access. Level 2 inputs to the valuation methodology include:

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

-continued-

NOTE 15 - FAIR VALUE MEASUREMENTS (continued)

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2010 and 2009.

Money market funds - Valued at the closing price reported on the active market on which they are traded.

Guaranteed investment contracts - Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations, considering the credit-worthiness of the issuer.

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2010 and 2009:

	2010		
	Level 1	Level 2	Total
Limited use assets:			
Money market funds	$ 442,299	$ -	$ 442,299
Guaranteed investment contracts	-	286,143	286,143
	$ 442,299	$ 286,143	$ 728,442

	2009		
	Level 1	Level 2	Total
Limited use assets:			
Money market funds	$ 467,467	$ -	$ 467,467
Guaranteed investment contracts	-	286,143	286,143
	$ 467,467	$ 286,143	$ 753,610

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

-continued-

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 22, 2010, which is the date the financial statements were available to be issued.

BFS entered into two new loan agreements with Citibank on September 22, 2010. The first loan, in the amount of $632,870, is for renovating the Hillcrest school to accommodate a Children's Residential Program. The terms of the agreement provide for monthly interest payments at 5.1%. The loan matures September 2020. The second loan, in the amount of $490,813, is for purchasing a system for human resources and attendance, called the Kronos System. The terms of the agreement provide for monthly interest payments at an annual rate of 4%, and mature September 2017.

BFS will be entering into a 10-year loan agreement in the amount of $716,000 for the purpose of renovations in the Washington Heights facility. The current anticipated rate for the loan is 6.5%, which is subject to review on November 1, 2013, at which time the lender has the right to raise the rate to prime plus 2%.

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BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

SCHEDULE 1

CONSOLIDATING BALANCE SHEET

JUNE 30, 2010

	Birch Family Services, Inc.	The Herbert G. Birch Services, Fund, Inc.	Eliminations	Consolidated
ASSETS				
Current assets				
Cash and cash equivalents	$ 2,310,849	$ 576,044		$ 2,886,893
Accounts receivable (net of allowance for doubtful accounts of $30,000)	4,847,623			4,847,623
Contributions receivable - due within one year		32,941		32,941
Due from The Herbert G. Birch Services Fund, Inc.	275,255		$ (275,255)	
Fees receivable		47,752		47,752
Prepaid expenses	54,046			54,046
Total current assets	7,487,773	656,737	(275,255)	7,869,255
Fixed assets - net	8,819,528			8,819,528
Limited use assets				
Debt service reserve fund	584,220			584,220
Bond escrow	144,222			144,222
Deferred bond, loan financing and other program costs	817,086			817,086
Other assets	119,328			119,328
Total assets	$ 17,972,157	$ 656,737	$ (275,255)	$ 18,353,639

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LOEB & TROPER LLP

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

SCHEDULE 1
-2-

CONSOLIDATING BALANCE SHEET

JUNE 30, 2010

	Birch Family Services, Inc.	The Herbert G. Birch Services, Fund, Inc.	Eliminations	Consolidated
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable, accrued expenses, accrued payroll and benefits	$ 5,335,897	$ 7,200		$ 5,343,097
Due to OPWDD	268,633			268,633
Due to Birch Family Services, Inc.		275,255	$ (275,255)	
Current portion of long-term debt and capital leases	956,129			956,129
Line of credit	1,051,599			1,051,599
Total current liabilities	7,612,258	282,455	(275,255)	7,619,458
Long-term debt and capital leases, less current portion	7,768,649			7,768,649
Total liabilities	15,380,907	282,455	(275,255)	15,388,107
Net assets				
Unrestricted	2,591,250	184,425		2,775,675
Temporarily restricted		189,857		189,857
Total net assets	2,591,250	374,282		2,965,532
Total liabilities and net assets	$ 17,972,157	$ 656,737	$ (275,255)	$ 18,353,639

See independent auditor's report.

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

SCHEDULE 2

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

	Unrestricted				Temporarily Restricted	
	Birch Family Services, Inc.	The Herbert G. Birch Services, Fund, Inc.	Eliminations	Total	The Herbert G. Birch Services, Fund, Inc.	Consolidated
Revenues and other support						
Tuition	$ 27,342,817			$ 27,342,817		$ 27,342,817
Medicaid revenue for community services	12,976,305			12,976,305		12,976,305
Federal and New York State grants	6,469,686			6,469,686		6,469,686
Grants from The Herbert G. Birch Services Fund, Inc.	157,103		$ (157,103)			
Contributions		$ 68,963		68,963	$ 157,900	226,863
Donated services	66,143	3,900		70,043		70,043
Donated costs	596,094			596,094		596,094
Day care private fees	9,991			9,991		9,991
Autism program		99,727		99,727		99,727
Special events		280,978		280,978		280,978
Less: direct costs of special events		(129,692)		(129,692)		(129,692)
Interest income	23,987	2		23,989		23,989
Other income	60,255			60,255		60,255
Net assets released from restrictions (Note 13)		98,317		98,317	(98,317)	
Total revenues and other support	47,702,381	422,195	(157,103)	47,967,473	59,583	48,027,056
Expenses						
Educational (includes $596,094 of donated costs and $187,920 of interest expense)	31,310,213			31,310,213		31,310,213
Community services (includes $299,023 of interest expense)	10,732,909			10,732,909		10,732,909
Grants to Birch Family Services, Inc.		157,103	(157,103)			
Educational and other program expenses		20,796		20,796		20,796
Fund raising (includes $3,900 of donated services)		60,524		60,524		60,524
Management and general (includes $66,143 of donated services and $191,160 of interest expense)	5,412,069	29,127		5,441,196		5,441,196
Total expenses (Note 11)	47,455,191	267,550	(157,103)	47,565,638		47,565,638
Change in net assets	247,190	154,645	-	401,835	59,583	461,418
Net assets - beginning of year	2,344,060	29,780		2,373,840	130,274	2,504,114
Net assets - end of year	$ 2,591,250	$ 184,425	$ -	$ 2,775,675	$ 189,857	$ 2,965,532

See independent auditor's report.

LOEB & TROPER LLP

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

SCHEDULE 3

CONSOLIDATING SCHEDULE OF CASH FLOWS

YEAR ENDED JUNE 30, 2010

	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Total
Cash flows from operating activities				
Change in net assets	$ 247,190	$ 214,228		$ 461,418
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation and amortization	1,062,675			1,062,675
Amortization of bond, loan financing, and other program costs	19,168			19,168
Decrease (increase) in assets				
Accounts receivable	1,329,388			1,329,388
Contributions receivable		50,000		50,000
Fees receivable		(30,562)		(30,562)
Prepaid expenses	33,211			33,211
Due from The Herbert G. Birch Services Fund, Inc.	(92,961)		$ 92,961	
Other assets	(28,478)			(28,478)
Increase (decrease) in liabilities				
Accounts payable, accrued expenses, accrued payroll and benefits	632,981	(3,894)		629,087
Deferred income		(975)		(975)
Due to Birch Family Services, Inc.		92,961	(92,961)	
Due to OPWDD	42,908			42,908
Net cash provided by operating activities	3,246,082	321,758	-	3,567,840

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-continued-

BIRCH FAMILY SERVICES, INC. AND
THE HERBERT G. BIRCH SERVICES FUND, INC.

SCHEDULE 3
-2-

CONSOLIDATING SCHEDULE OF CASH FLOWS

YEAR ENDED JUNE 30, 2010

LOEB & TROPER LLP

	Birch Family Services, Inc.	The Herbert G. Birch Services Fund, Inc.	Eliminations	Total
Cash flows from investing activities				
Capital expenditures	$ (462,379)			$ (462,379)
Deferred other program costs	(261,584)			(261,584)
Decrease in limited use assets	25,168			25,168
Net cash used by investing activities	(698,795)			(698,795)
Cash flows from financing activities				
Loan financing costs	(15,246)			(15,246)
Principal proceeds from long-term debt	2,524,531			2,524,531
Principal payments on long-term debt	(2,383,589)			(2,383,589)
Principal payments on line of credit	(2,000,000)			(2,000,000)
Net cash used by financing activities	(1,874,304)			(1,874,304)
Net change in cash and cash equivalents	672,983	$ 321,758	$ -	994,741
Cash and cash equivalents - beginning of year	1,637,866	254,286		1,892,152
Cash and cash equivalents - end of year	$ 2,310,849	$ 576,044	$ -	$ 2,886,893
Supplemental disclosure of cash flow information				
Cash paid during the year for interest	$ 635,844			$ 635,844
Capital leases entered into during the year for equipment	$ 48,630			$ 48,630

See independent auditor's report.

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BIRCH FAMILY SERVICES, INC.

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2009

LOEB & TROPER LLP

BIRCH FAMILY SERVICES, INC.

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LOEB & TROPER LLP

Independent Auditor's Report

Board of Directors
Birch Family Services, Inc.

We have audited the accompanying special-purpose balance sheet of Birch Family Services, Inc. as of June 30, 2009, and the related special-purpose statements of activities 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.

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

As discussed in Notes 1 and 2, these special-purpose financial statements were prepared to present the financial position, changes in net assets and cash flows of Birch Family Services, Inc. only, and were prepared for the purpose of complying with the filing requirements of the New York State Department of Mental Hygiene. These special-purpose financial statements accompany the annual filing of the organization's Consolidated Fiscal Report (CFR). These special-purpose financial statements do not include the financial position, changes in net assets and cash flows of its related organization, The Herbert G. Birch Services Fund, Inc., and are not intended to be a complete presentation in conformity with accounting principles generally accepted in the United States of America.

Auditors and Consultants
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In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of Birch Family Services, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended, on the basis of accounting described in Note 2.

This report is intended solely for the information and use of the Board of Directors and management of Birch Family Services, Inc. and the New York State Department of Mental Hygiene and is not intended to be and should not be used by anyone other than these specified parties.

Loeb + Troper LLP

November 24, 2009

EXHIBIT A

BIRCH FAMILY SERVICES, INC.

BALANCE SHEET

JUNE 30, 2009

ASSETS

Current assets		
Cash and cash equivalents	$	1,637,866
Accounts receivable, net of allowance for doubtful accounts of $225,000		6,177,011
Prepaid expenses		87,257
Due from The Herbert G. Birch Services Fund, Inc.		182,294
Total current assets		8,084,428
Fixed assets - net (Note 3)		9,371,194
Limited use assets (Notes 4 and 15)		
Debt service reserve fund		565,478
Bond escrow		188,132
Deferred bond, loan financing and other program costs (Note 2)		559,424
Other assets		90,850
Total assets	$	18,859,506

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable, accrued expenses, accrued payroll and benefits	$	4,702,916
Due to OMRDD (Note 7)		225,725
Current portion of long-term debt and capital leases (Notes 5 and 9)		2,372,081
Line of credit (Note 6)		3,051,599
Total current liabilities		10,352,321
Long-term debt and capital leases, less current portion (Notes 5 and 9)		6,163,125
Total liabilities		16,515,446
Net assets - unrestricted (Exhibit B)		2,344,060
Total liabilities and net assets	$	18,859,506

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

EXHIBIT B

BIRCH FAMILY SERVICES, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

Revenues		
Tuition	$	26,962,942
Medicaid revenue for community services		11,287,674
Federal and New York State grants		5,576,883
Grants from The Herbert G. Birch Fund, Inc. (Note 12)		250,215
Donated services (Note 2)		71,894
Donated costs (Note 14)		620,201
Day care private fees		22,310
Interest income		25,968
Other income		30,401
Total revenues		44,848,488
Expenses		
Educational (includes $620,201 of donated costs and $11,152 of interest expense)		30,113,063
Community services (includes $437,424 of interest expense)		9,158,214
Management and general (includes $71,894 of donated services and $282,802 of interest expense)		5,377,855
Total expenses (Note 11)		44,649,132
Change in unrestricted net assets (Exhibit C)		199,356
Net assets - unrestricted - beginning of year		2,144,704
Net assets - unrestricted - end of year (Exhibit A)	$	2,344,060

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

EXHIBIT C

BIRCH FAMILY SERVICES, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

Cash flows from operating activities		
Change in net assets (Exhibit B)	$	199,356
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization		956,010
Amortization of bond, loan financing, and other program costs		19,168
Decrease (increase) in assets		
Accounts receivable		602,048
Prepaid assets		(62,426)
Due from The Herbert G. Birch Services Fund, Inc.		120,844
Other assets		49,151
Increase in liabilities		
Accounts payable, accrued expenses, accrued payroll and benefits		430,889
Due to OMRDD		98,450
Net cash provided by operating activities		2,413,490
Cash flows from investing activities		
Capital expenditures		(1,542,929)
Deferred bond, loan financing, and other program costs		(279,683)
Increase in limited use assets		(46,260)
Net cash used by investing activities		(1,868,872)
Cash flows from financing activities		
Principal proceeds from long-term debt		1,205,297
Principal payments on long-term debt		(670,364)
Principal proceeds from line of credit		1,000,000
Principal payments on line of credit		(1,948,401)
Net cash used by financing activities		(413,468)
Net increase in cash and cash equivalents		131,150
Cash and cash equivalents - beginning of year		1,506,716
Cash and cash equivalents - end of year	$	1,637,866
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$	719,791
Capital leases entered during the year for equipment	$	200,180

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BIRCH FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - NATURE OF ENTITY

Birch Family Services, Inc. (BFS), formally known as The Herbert G. Birch Services, Inc. (until March 23, 2007), is a not-for-profit organization that operates schools in New York City for preschool and school-age students with various learning disabilities and serious developmental disabilities as well as for non-disabled children. BFS also operates three Intermediate Care Facilities (ICFs), five Individual Residential Alternative Facilities (IRAs), two residential habilitation facilities, and provides other services for developmentally disabled individuals varying in age from birth through adulthood. In addition, a new IRA was opened on July 1, 2009.

Birch Family Services, Inc. is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Birch Family Services, Inc. is funded primarily by tuition, Medicaid revenue for community services, and grants.

The financial statements are for Birch Family Services, Inc. only and do not include The Herbert G. Birch Services Fund Inc., which provides grants to Birch Family Services, Inc. (see Note 12).

Consolidated statements will be issued. Accordingly, readers of the accompanying special-purpose financial statements are directed to the related-entity financial statements and the consolidated financial statements of Birch Family Services, Inc.

	Revenues	Expenses
The Herbert G. Birch Services Fund, Inc.	$ 493,649	$ 398,322

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The special-purpose financial statements were prepared for the purpose of complying with the filing requirements of the New York State Department of Mental Hygiene. BFS (a.k.a. the service provider) is required to file, on an annual basis, a Consolidated Fiscal Report along with a certified financial statement of the service provider. These financial statements do not include the financial position and activities of its related organization, which are required by accounting principles generally accepted in the United States of America to be consolidated and, therefore, are not a complete presentation in conformity with accounting principles generally accepted in the United States of America.

-continued-

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with original maturities when acquired of three months or less.

Accounts receivable - Accounts receivable from tuition, Medicaid revenue for community services, government grants and other sources of income are recorded when services are rendered.

Allowance for doubtful accounts - BFS determines whether an allowance for uncollectibles should be provided for accounts receivable. Such estimates are based on management's assessment of the aged basis of its sources, current economic conditions, subsequent collections and historical information. Accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Fixed assets - Items with a cost of $1,000 and estimated useful life of more than one year are subject to capitalization and are recorded at cost. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets as provided by the New York State Education Department Consolidated Fiscal Reporting Manual, ranging from 3 to 25 years. Amortization of leasehold improvements is provided on the straight-line method over the life of the lease.

Limited use assets - Limited use assets represent funds deposited and maintained by the Trustee pursuant to the financing agreements (see Note 4). These investments in marketable securities are recorded at fair value as determined by quoted market value. BFS invests in various securities such as money market and guaranteed investment contracts. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the statement of activities.

Deferred bond and loan financing costs - Deferred bond and loan financing costs are stated at cost and amortized over the life of the bonds/loans.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred program costs - Deferred program costs are stated at cost. They are costs related to new programs and will be amortized once the program commences operations in accordance with applicable New York State guidelines.

Tuition and Medicaid revenue for community services - third-party reimbursement and revenue recognition - Revenues for the schools (tuition) are promulgated by rates set by the State Education Department ("SED"), the New York City Department of Education, the Department of Health ("DOH"), and the NYC Administration for Children's Services. The Medicaid revenue for community services for residences are funded by the New York State Office of Mental Retardation and Developmental Disabilities ("OMRDD").

Revenues and receivables arising from programs funded by government agencies are dependent upon final audit and negotiation between BFS and the agencies. Cost reimbursements applicable to various programs conducted for and on behalf of government agencies are subject to adjustments, if any, based upon the results of audits by the agencies.

Federal and New York State grants - Revenue from government contracts is recognized when reimbursable expenses are incurred under the terms of the contracts. Contract payments in excess of or less than qualified expenses are accounted for as contract advances payable or accounts receivable, respectively.

Donated services - BFS receives certain contributed services that meet criteria under accounting principles generally accepted in the United States of America for recognition as contributions. Such services (primarily legal, advertising and marketing) are recorded in these financial statements at fair value amounting to $71,894.

Donated costs - BFS receives certain contributed city-administered support that meets criteria under accounting principles generally accepted in the United States of America for recognition as contributions. Such support, amounting to $620,201, is recorded in these financial statements at fair value (see Note 14).

Leases - Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Capital leases are recorded at the lower of the fair market value of the assets or the present value of the minimum lease payments and are amortized over the lease term or estimated useful life of the assets, whichever is shorter, unless the lease provides for transfer of title or includes a bargain purchase option, in which case the lease is amortized over the estimated useful life of the asset. Operating lease payments are charged to rental expense. Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising - All advertising costs are expensed in the year they are incurred. The amount totaled $142,542 in 2009.

Functional allocation of expenses - The costs of providing BFS' services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 ending after September 15, 2009.

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

Recently issued accounting standards - In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for interim or annual reporting periods ending after June 15, 2009. The adoption of SFAS 165 effective June 30, 2009 did not impact BFS' financial statements.

In June 2009, the FASB issued SFAS No. 168, *FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168). SFAS 168 approved the FASB Accounting Standards Codification as the single source of authoritative nongovernmental Generally Accepted Accounting Principles (GAAP). The FASB Accounting Standards Codification is effective for interim or annual periods ending after September 15, 2009. All existing accounting standards have been superseded and all other accounting literature not included in the FASB Accounting Standards Codification will be considered nonauthoritative. BFS does not expect the adoption of SFAS 168 to have a material impact on its financial statements.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NOTE 3 - FIXED ASSETS

	Cost	Accumulated Depreciation and Amortization	Net	Estimated Useful Lives
Land	$ 1,513,261		$ 1,513,261	
Building and building improvements	7,681,880	$ 2,521,232	5,160,648	25 years
Leasehold improvements	2,363,100	843,244	1,519,856	5-25 years
Furniture, fixtures and equipment (including capital lease assets of $356,980)	2,359,301	1,181,872	1,177,429	3-20 years
	$ 13,917,542	$ 4,546,348	$ 9,371,194	

Amortization of capital lease assets was $79,100 during the year.

NOTE 4 - LIMITED USE ASSETS

In connection with three New York City Industrial Development Agency Revenue Bonds, BFS was required to set up debt service reserve funds for the Washington Heights bonds, for the East 45th Street bonds, and for the 94th Street bond. Pursuant to the agreements, these accounts are held in escrow and are invested by BFS. At June 30, 2009, the balances on these accounts were $320,668, $39,045 and $205,765, which total $565,478.

BFS received $788,999 to be held in escrow upon completion of future improvements to the Washington Heights building related to the New York City Industrial Development Agency Revenue Bonds. There were no amounts withdrawn this year for improvements to the building. The balance as of June 30, 2009 was $58,220.

-continued-

NOTE 4 - LIMITED USE ASSETS (continued)

The amount received from the New York City Industrial Development Agency Revenue Bonds for East 45th Street was $75,768, to be held in escrow upon completion of future improvements to the building. As of June 30, 2009, the balance was $83,205.

The 94th Street bond escrow was held with Bank of New York. As of June 30, 2009, the balance was $46,707.

The total of the above bond escrows is $188,132.

NOTE 5 - LONG-TERM DEBT

On February 6, 1997, BFS borrowed $2,975,000 from the New York City Industrial Development Agency to acquire and renovate an educational facility located in Washington Heights, New York. The original debt consisted of two separate civic facility revenue bonds:

Series 1997A at 7.375% per annum, due February 1, 2009	$ 780,000
Series 1997B at 8.375% per annum, due February 1, 2022	2,195,000
	$ 2,975,000

In lieu of the redemption of the series 1997 bonds through mandatory sinking fund installments, the cumulative amount of $780,000 has been repaid at June 30, 2009. Of this cumulative amount, $95,000 was paid during the fiscal year ended June 30, 2009. The balance at June 30, 2009 was $2,195,000. BFS has granted one or more leasehold mortgage liens on, and security interests in, the facility as collateral.

On December 9, 1999, BFS borrowed $416,100 from the New York City Industrial Development Agency to acquire and renovate an individualized residential alternative facility (IRA) located in Brooklyn, New York. The original debt consisted of three separate civic facility revenue bonds:

Series 1999B-2 at 8.750% per annum, due August 1, 2001	$ 21,100
Series 1999B-1 at 7.125% per annum, due August 1, 2005	95,000
Series 1999B-1 at 7.125% per annum, due August 1, 2015	300,000
	$ 416,100

-continued-

NOTE 5 - LONG-TERM DEBT (continued)

The balance at June 30, 2009 was $190,000. BFS has granted one or more leasehold mortgage liens on, and security interests in, the facility as collateral.

On August 17, 2000, BFS borrowed $607,000 from the New York City Industrial Development Agency to retire the initial financing used in the acquisition of an IRA located in Brooklyn, New York. The original debt consisted of three separate civic facility revenue bonds:

Series 2000A-2 at 9.500% per annum, due July 1, 2002	$ 52,000
Series 2000A-1 at 8.125% per annum, due July 1, 2005	130,000
Series 2000A-1 at 8.125% per annum, due July 1, 2015	425,000
	$ 607,000

The balance at June 30, 2009 was $280,000. BFS has granted one or more leasehold mortgage liens on, and security interests in, the facility as collateral.

On April 29, 1996, BFS received a mortgage from the Dormitory Authority of the State of New York for the facility located at Flatlands Avenue, Brooklyn, New York in the amount of $754,500. The terms of the mortgage require semiannual payments of principal, as defined in the mortgage agreements, plus interest at a rate of 6.0157% per annum through February 15, 2020. The mortgage is secured by the real property, improvements, gifts, grants and bequests for the project and any fees owed to the facility by the State of New York. During the year, principal payments totaling $30,000 were made. The balance at June 30, 2009 was $459,500.

On August 23, 2002, BFS borrowed $400,000 from Citibank N.A. ("Citibank") to upgrade the telecommunication system for all sites and for an energy conservation project. The terms of the loan require monthly payments of $4,800, including principal and interest, through July 2012. The interest rate is fixed for the length of the term at 7.75%. During the year, principal payments totaling $43,266 were made. The balance at June 30, 2009 was $161,300; this loan was paid off on July 28, 2009. The mortgage is secured by security interests covering all of BFS' personal properties, subject only to prior liens in favor of the Lender and as otherwise approved by the Lender.

On September 30, 2003, BFS borrowed $350,000 from Citibank to purchase Navision software. The terms of the loan require monthly payments of $4,487 of principal, not including interest, through April 2010. The interest rate is fixed for the length of the term at 6.00%. During the year, principal payments totaling $53,846 were made. The balance at June 30, 2009 was $44,872. The mortgage is secured by security interests covering all of BFS' personal properties, subject only to liens disclosed to and accepted by the bank.

-continued-

NOTE 5 - LONG-TERM DEBT (continued)

On April 14, 2004, BFS arranged for financing in the amount of $1,000,000 from Citibank for various facility upgrades. The terms of the loan require monthly payments of principal, plus interest, at a rate of 6.75% per annum through April 14, 2014. The note is secured by BFS and the related personal property. During the year, principal payments of $106,373 were made. The balance at June 30, 2009 was $643,092. The mortgage is secured by security interests covering all of BFS' personal properties, subject only to prior liens in favor of the Lender and as otherwise approved by the Lender.

On May 11, 2006, BFS borrowed $914,786 and $288,108, totaling $1,202,894, from Citibank for the purpose of renovating one of the Far Rockaway properties. The terms of the agreements provide for monthly interest payments at an annual rate of 8% and 6%, respectively. Monthly principal payments commenced in March 2007 and amount to $5,082 and $4,802, respectively, and mature February 2022 and February 2012, respectively. During the year, principal payments of $60,986 and $57,620, respectively, were made. The balances at June 30, 2009 were $772,482 and $153,659, respectively. First priority mortgage of BFS covering residential real property generally located in Far Rockaway, NY is secured by collateral assignment of leases and rents of BFS relating to the mortgaged property and security interests covering all of BFS' personal properties relating to the mortgaged property, including all revenue derived from the utilization of the mortgaged property.

As of June 30, 2006, BFS borrowed $1,975,000 from FJC, Inc. for the purchase of three facilities in Far Rockaway, New York. The terms of the agreements provide for quarterly interest payments at an annual rate of prime plus 3%. The prime rate as of June 30, 2009 was 3.3%. During the year, FJC, Inc. agreed to extend the maturity date of various loans due June 30, 2009, amounting to $1,375,000, to June 30, 2010.

On April 17, 2007, BFS borrowed $1,000,000 from Citibank for the purpose of relocating and renovating its administrative headquarters. The terms of the loan require monthly payments of principal, plus interest at a rate of 7.5% per annum through April 18, 2017. During the year, principal payments of $100,000 were made. The balance at June 30, 2009 was $783,333. The mortgage is secured by security interests covering all of BFS' personal properties, subject only to liens disclosed to and accepted by the bank.

On July 10, 2007, BFS borrowed $52,905 from Sterling Bank for the purpose of upgrading its internal computer systems. The terms of the unsecured loan require monthly payments of principal, plus interest at a rate of 10.564% per annum through June 10, 2011. During the year, principal payments of $12,572 were made. The balance at June 30, 2009 was $28,125.

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BIRCH FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 5 - LONG-TERM DEBT (continued)

On July 28, 2008, BFS borrowed $635,909 and $568,399, totaling $1,204,308, from Citibank for the purpose of closing property for a new IRA facility, located at 52nd St., Brooklyn. The terms of the agreements provide for monthly interest payments at an annual rate of 6.5% and 6%, and mature May 2024 and May 2014, respectively. During the year, principal payments of $3,533 and $8,066, respectively, were made. The balance at June 30, 2009 was $632,376 and $561,322. The mortgage is secured by security interests covering all of BFS' personal properties, including all revenue derived from the utilization of the mortgaged property.

Aggregate maturities of long-term debt for the years subsequent to June 30, 2009 are as follows:

2010	$ 2,258,912
2011	705,977
2012	686,225
2013	672,029
2014	691,117
Thereafter	3,265,801
	$ 8,280,061

NOTE 6 - LINE OF CREDIT

BFS has a line of credit of $7,000,000 with Citibank. Interest is payable monthly at the bank's prime rate less .125%. The prime rate as of June 30, 2009 was 3.125%, making the interest rate 3.00%. The note is secured by BFS and the related receivables which are used to determine the borrowing base as defined in the agreement. The balance outstanding at June 30, 2009 was $3,051,599. As of November 24, 2009, the balance outstanding was $3,051,599.

NOTE 7 - DUE TO OMRDD

BFS has entered into contracts with The New York State Office of Mental Retardation and Developmental Disabilities (OMRDD) for the operation of three intermediate care facilities (ICFs) and five individualized residential alternatives (IRAs) and two Residential Habilitation facilities. As part of the agreement, OMRDD advanced funds to BFS and expended funds on BFS' behalf for preoperational start-up costs, buildings, equipment, renovations, lease costs, real estate taxes, health care costs and operations. BFS has agreed to pay back to 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. The amount due to OMRDD as of June 30, 2009 is $225,725.

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NOTE 8 - COMMITMENTS AND CONTINGENCIES

(a) BFS leases various buildings and equipment under operating leases. The commitments under these leases, which have various expiration dates through 2017, are as follows:

2010	$ 2,382,142
2011	1,873,239
2012	1,847,393
2013	1,884,964
2014	1,893,828
Thereafter	5,629,382
	$ 15,510,948

During 2009, rent expense amounted to $2,504,357.

(b) BFS is responsible for reporting to various third parties. Besides SED, the New York City Department of Education, DOH and OMRDD, the New York State Office of the Attorney General and the Internal Revenue Service have the right to audit BFS.

(c) As of the date of this report, audits performed by OMRDD have been completed through 2007. Management cannot determine the ultimate effect on the financial statements of these years' audits.

(d) The New York City Department of Education issued a revised reconciliation report covering BFS' education program's enrollment and rates for the years 1995/1996 through 2005/2006. That reconciliation report reflects a net liability owed to the New York City Department of Education of $2,117,668. Previously, New York City Department of Education reconciliations for the same period of time were $1,904,000 less than the current amount. BFS is currently contesting the amount and timing of the proposed reconciliation. Management has set up a reserve of $163,000 as the liability to the New York City Department of Education for those fiscal years.

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NOTE 9 - CAPITAL LEASES

During 2009, BFS entered into several capital leases on various automobiles and copiers.

The monthly installments on the leases vary. The interest rate is 7.55%.

Required payments are as follows:

2010	$ 130,182
2011	104,857
2012	43,545
2013	4,879
	283,463
Less interest	(28,318)
Total	$ 255,145

Interest expense was $17,720 for 2009.

NOTE 10 - RETIREMENT PLAN

BFS' full-time employees are covered under a noncontributory, defined contribution profit-sharing plan. To be eligible to participate, an employee must complete one year of service with BFS, have worked 1,000 hours during the plan year, have attained age 21 and be employed on the last day of the plan year, June 30. The entry dates are June 30 and December 31. The contribution percentage is between 3.5% and 7%.

Vesting begins in the first year of participation and increases based upon years of continuous service until a participant is fully vested after the seventh year.

Retirement expense for the year ended June 30, 2009 amounted to $994,670.

NOTE 11 - FUNCTIONAL EXPENSES

Program services - educational and community services	$ 39,271,277
Supporting services - management and general	5,377,855
	$ 44,649,132

-continued-

NOTE 12 - RELATED ORGANIZATIONS

Birch Family Services, Inc. is the sole member of The Herbert G. Birch Services Fund, Inc. During 2009, The Herbert G. Birch Services Fund, Inc. gave grants of $250,215 to BFS.

NOTE 13 - CONCENTRATIONS

- Approximately 85% of revenues are derived from the State Education Department and OMRDD.
- Financial instruments which potentially subject BFS to a concentration of credit risk are cash accounts in financial institutions which, from time to time, exceed FDIC insurance limits.

NOTE 14 - DONATED COSTS

BFS' contracts with the City of New York, Agency for Child Development (the "Agency") have cost-sharing agreements whereby certain costs are borne by the Agency. City-administered support is included in the accompanying financial statements as donated costs.

Total City-administered support has been recorded as follows:

Health insurance	$ 209,481
Lease/rental - real property	266,017
Pension	22,052
Gas and heating fuel	34,212
Water	6,520
HRA agency insurance package	7,484
Real property taxes	74,435
	$ 620,201

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NOTE 15 - 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 BFS has the ability to access. Level 2 inputs to the valuation methodology include:

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

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.

Money market funds - Valued at the closing price reported on the active market.

Guaranteed investment contracts - Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations, considering the credit-worthiness of the issuer.

-continued-

BIRCH FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 15 - 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 funds	$ 467,467	$ -	$ -	$ 467,467
Guaranteed investment contracts	-	286,143	-	286,143
	$ 467,467	$ 286,143	$ -	$ 753,610

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

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 BFS 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 16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 24, 2009, which is the date the financial statements were available to be issued.

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APPENDIX B-II

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2011, JUNE 30, 2010 AND JUNE 30, 2009)

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FEDERATION EMPLOYMENT AND
GUIDANCE SERVICE, INC.

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2011

LOEB & TROPER LLP

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

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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, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Federation Employment and Guidance Service, 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 Federation Employment and Guidance Service, Inc.'s June 30, 2010 financial statements and, in our report dated January 7, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

January 6, 2012

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*

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

BALANCE SHEET

JUNE 30, 2011
(With Summarized Financial Information for June 30, 2010)

	2011	2010
ASSETS		
Cash and cash equivalents	$ 7,276,684	$ 9,724,308
Cash - escrow	37,145	37,108
Investments (Note 2)	24,979,234	23,555,183
Accounts receivable (net of allowance for accounts doubtful of collection of $5,676,500 in 2011 and $5,613,600 in 2010)	49,292,134	52,084,844
Assets held for deferred compensation (Note 2)	1,091,922	887,405
Contributions receivable (Note 4)	861,362	796,981
Prepaid expenses and other assets	8,062,398	8,091,457
Deposits	2,754,543	1,872,098
Fixed assets (Note 5)	42,366,300	43,569,850
Total assets	$ 136,721,722	$ 140,619,234
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 27,957,004	$ 33,156,950
Accrued salaries and vacations payable	9,798,518	9,914,468
Allowance for third-party adjustments	5,728,407	5,530,680
Advances	12,931,535	13,338,082
Liability for deferred compensation	1,091,922	887,405
Mortgages payable (Note 6)	17,519,089	18,756,378
Loan payable (Note 7)	1,469,433	1,378,540
Construction advances (Note 8)	3,633,446	3,717,611
Total liabilities	80,129,354	86,680,114
Net assets (Exhibit B)		
Unrestricted		
Operating	14,189,885	14,054,019
Board designated	33,680,273	31,688,731
Total unrestricted	47,870,158	45,742,750
Temporarily restricted (Note 16)	7,036,274	6,510,434
Permanently restricted (Note 16)	1,685,936	1,685,936
Total net assets	56,592,368	53,939,120
Total liabilities and net assets	$ 136,721,722	$ 140,619,234

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, 2011
(With Summarized Financial Information
for the Year Ended June 30, 2010)

	Unrestricted					Total	
	Operating	Board Designated	Total	Temporarily Restricted	Permanently Restricted	2011	2010
Revenues, gains and other support							
Program revenues and support	$ 227,657,388		$ 227,657,388			$ 227,657,388	$ 231,797,388
UJA/Federation - basic and pension grants	3,258,515		3,258,515			3,258,515	3,295,757
Contributions	1,547,624	$ 130,803	1,678,427	$ 38,600		1,717,027	1,588,118
Special events		1,228,635	1,228,635			1,228,635	1,074,078
Less direct cost of special events (Exhibit C)		(201,786)	(201,786)			(201,786)	(170,153)
Investment income (Note 3)	26,163	1,565,925	1,592,088	848,673		2,440,761	1,753,550
Net assets released from restrictions							
Satisfaction of program restrictions (Note 16)	361,433		361,433	(361,433)			
Total revenues, gains and other support	232,851,123	2,723,577	235,574,700	525,840		236,100,540	239,338,738
Expenses							
Program services (Exhibit C)							
Educational/vocational services	59,445,483		59,445,483			59,445,483	59,354,103
Behavioral health and family services	57,805,869		57,805,869			57,805,869	54,870,125
Developmental disabilities and work services	36,907,073		36,907,073			36,907,073	48,138,907
Residential	50,313,108		50,313,108			50,313,108	48,189,556
Various other	251,659	658,513	910,172			910,172	820,204
Total program services	204,723,192	658,513	205,381,705			205,381,705	211,372,895
Supporting services							
Management and general	27,528,944		27,528,944			27,528,944	26,221,795
Fund raising	463,121	73,522	536,643			536,643	127,376
Total supporting services	27,992,065	73,522	28,065,587			28,065,587	26,349,171
Total expenses	232,715,257	732,035	233,447,292			233,447,292	237,722,066
Change in net assets (Exhibit D)	135,866	1,991,542	2,127,408	525,840		2,653,248	1,616,672
Net assets - beginning of year	14,054,019	31,688,731	45,742,750	6,510,434	$ 1,685,936	53,939,120	52,322,448
Net assets - end of year (Exhibit A)	$ 14,189,885	$ 33,680,273	$ 47,870,158	$ 7,036,274	$ 1,685,936	$ 56,592,368	$ 53,939,120

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, 2011
(With Summarized Financial Information
for the Year Ended June 30, 2010)

	Program Services						Supporting Services			Total	
	Educational/ Vocational Services	Behavioral Health and Family Services	Developmental Disabilities and Work Services	Residential	Various Other	Total	Management and General	Fund Raising	Special Events	2011	2010
Salaries and stipends	$ 29,307,404	$ 33,602,282	$ 14,986,987	$ 22,363,452	$ 230,775	$ 100,490,900	$ 9,677,724	$ 289,044		$ 110,457,668	$ 109,396,516
Payroll taxes and employee benefits	8,979,083	10,216,148	4,434,931	6,928,077	46,268	30,604,507	2,932,033	83,145		33,619,685	32,625,021
Total salaries and related expenses	38,286,487	43,818,430	19,421,918	29,291,529	277,043	131,095,407	12,609,757	372,189		144,077,353	142,021,537
Rent	5,431,738	3,965,520	3,589,823	7,325,611	37,032	20,349,724	1,616,436	24,911		21,991,071	21,326,036
Utilities	1,152,750	1,401,100	866,214	1,767,886	11,351	5,199,301	425,739	4,141		5,629,181	5,106,638
Contract/subcontract services	7,997,651	1,416,740	2,606,182	179,613	6,572	12,206,758	408,386	50,508		12,665,652	21,715,010
Skills training supplies	157,274	361,323	56,368	14,813	137	589,915	690			590,605	520,275
Office equipment	86,354	83,434	60,145	496,210	32,132	758,275	42,299	1,404		801,978	887,296
Building and equipment maintenance	306,429	436,571	297,967	1,086,924	29,398	2,157,289	251,563	5,535		2,414,387	1,680,878
Janitorial	133,365	156,223	161,873	331,265	203	782,929	68,218	401		851,548	840,646
Consultants	138,956	556,717	3,030,948	299,450	41,437	4,067,508	34,227			4,101,735	3,621,437
Professional fees	236,302	225,521	44,379	369	137,448	644,019	10,374,166	24,909		11,043,094	10,626,340
Travel	80,014	367,527	106,120	139,422	25,292	718,375	150,289	697		869,361	899,649
Client transportation	2,566,194	834,362	4,974,500	524,653	1,320	8,901,029	1,683			8,902,712	8,984,003
Office supplies/printing	328,026	310,959	99,268	173,611	20,922	932,786	66,102	26,633		1,025,521	1,172,009
Advertising	7,262	14,258	10,441	9,707	135	41,803	15,570	120		57,493	148,096
Postage and delivery	75,105	60,567	23,700	88,299	500	248,171	80,582	4,256		333,009	333,455
Dues and subscriptions	15,803	50,376	38,382	29,107	150	133,818	34,592	10,402		178,812	157,797
Food	40,556	392,487	114,611	1,715,199	657	2,263,510	6,967			2,270,477	2,379,031
Medical/test supplies	8,169	376,701	43,984	197,874	150	626,878	827			627,705	515,825
Equipment leasing	190,104	157,284	81,793	139,359	1,211	569,751	162,852			732,603	611,819
Accreditation	119,538	13,519	14,485	81,936	1,003	230,481	121,413			351,894	411,247
Temporary help	763,724	864,238	273,646	1,796,201		3,697,809	87,651			3,785,460	3,956,067
Insurance	216,293	415,512	225,884	772,415	1,764	1,631,868	101,801	951		1,734,620	1,698,507
Client trips/entertainment/clothing	177,608	37,048	63,131	246,928	4,249	528,964	130			529,094	424,761
Bad debts		487,136	125,885	236,090		849,111				849,111	813,000
Interest				1,086,338		1,086,338	12,285			1,098,623	1,167,549
Catering and facilities									$ 201,786	201,786	170,153
Miscellaneous	159,718	42,918	13,532	239,598	264,407	720,173	125,215	6,323		851,711	677,057
Total expenses before depreciation and amortization	58,675,420	56,846,471	36,345,179	48,270,407	894,513	201,031,990	26,799,440	533,380	201,786	228,566,596	232,866,118
Depreciation and amortization	770,063	959,398	561,894	1,988,415	15,659	4,295,429	729,504	3,263		5,028,196	4,993,387
Amortization of finance costs				54,286		54,286				54,286	32,714
Total expenses	59,445,483	57,805,869	36,907,073	50,313,108	910,172	205,381,705	27,528,944	536,643	201,786	233,649,078	237,892,219
Less direct cost of special events									(201,786)	(201,786)	(170,153)
Total expenses reported by function on statement of activities (Exhibit B)	$ 59,445,483	$ 57,805,869	$ 36,907,073	$ 50,313,108	$ 910,172	$ 205,381,705	$ 27,528,944	$ 536,643	$ -	$ 233,447,292	$ 237,722,066

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, 2011 AND 2010

	2011	2010
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 2,653,248	$ 1,616,672
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	5,028,196	4,993,387
Amortization of finance costs	54,286	32,714
Gain on investments	(1,720,932)	(1,304,113)
Decrease (increase) in assets		
Accounts receivable	2,792,710	1,807,921
Contributions receivable	(64,381)	(101,358)
Prepaid expenses and other assets	(25,227)	(99,974)
Deposits	(882,445)	(289,729)
Increase (decrease) in liabilities		
Accounts payable, accrued expenses and other liabilities	(5,199,946)	(3,007,369)
Accrued salaries and vacations payable	(115,950)	517,188
Allowance for third-party adjustments	197,727	426,167
Advances	(406,547)	(4,003,842)
Net cash provided by operating activities	2,310,739	587,664
Cash flows from investing activities		
Purchase of fixed assets	(3,824,646)	(1,593,340)
Purchase of investments	(3,434,452)	(6,826,140)
Proceeds from sale of investments	3,731,333	5,041,101
Decrease (increase) in escrow account	(37)	13,963
Net cash used by investing activities	(3,527,802)	(3,364,416)
Cash flows from financing activities		
Payments on loan and mortgage	(1,237,289)	(1,838,816)
Proceeds from loan and mortgage	90,893	1,073,301
Reduction of construction advances	(84,165)	(84,165)
Net cash used by financing activities	(1,230,561)	(849,680)
Net change in cash and cash equivalents	(2,447,624)	(3,626,432)
Cash and cash equivalents - beginning of year	9,724,308	13,350,740
Cash and cash equivalents - end of year	$ 7,276,684	$ 9,724,308
Supplemental disclosure of cash flow information		
Cash paid for interest during the year	$ 1,105,607	$ 1,112,812

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 three 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/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.

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 wholly owned for-profit subsidiary located in New York; AllSector Technology Group, Inc., a 95% owned 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 of accounting.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fixed Assets

F.E.G.S capitalizes all expenditures in excess of $1,000 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. Amortization of leasehold improvements is provided over the lesser of the useful life or the length of the lease, whichever is shorter.

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. F.E.G.S invests in various types of investment securities. 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' fluctuations, and that such changes could materially affect the amounts reported in the financial statements.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. 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.

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2010, from which the summarized information was derived. $1,373,153 of program revenue and support in 2010 has been reclassed to contributions to conform to the current year's presentation. In addition, $55,207 of fund raising costs in 2010 has been reclassed from various other expenses 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.

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 including Board designated funds are those whose use by F.E.G.S has not been restricted by donors.

K. Contributions Receivable and Allowance for Doubtful Accounts

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-adjusted 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. Management has determined, based upon a review of the accounts, that no allowance for doubtful accounts was required.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 accounts receivable. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent collections 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 approximates the fair value of the investment instruments, which equals the liability for deferred compensation.

N. Estimated Retroactive Rate Adjustments Receivable/Estimated Amounts to 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.

O. Fair Value Measurements and Disclosures

Fair Value Measurements and Disclosures establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that 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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements and Disclosures (continued)

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011.

Cash equivalents, corporate bonds and common stocks - Valued at the closing price reported on the active market on which the individual securities are traded.

Alternative investments - Estimated fair values, in the absence of readily ascertainable market values, have been determined by the investment managers. 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.

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.

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements and Disclosures (continued)

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2011:

	Level 1	Level 3	Total
Investments			
Cash equivalents	$ 180,792		$ 180,792
Mutual funds - domestic	13,681,760		13,681,760
Alternative investments		$ 8,347,203	8,347,203
Corporate bonds	9,765		9,765
Common stocks			
Consumer staples and services	81,760		81,760
Energy	625,609		625,609
Financials	84,224		84,224
Health care	342,761		342,761
Industrial	534,645		534,645
Insurance	271,106		271,106
Technology	725,263		725,263
Other	94,346		94,346
Total investments	$ 16,632,031	$ 8,347,203	$ 24,979,234
Assets held for deferred compensation			
Mutual funds - domestic	$ 1,091,922		$ 1,091,922

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

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements and Disclosures (continued)

Level 3 Investments

Fund Name	Redemption Period	Notice Period	Description of Fund	Amount
Fund A	Fund is winding down and distributing remaining assets as they are liquidated	N/A	Real Estate Holding	$ 12,395
Fund B	Fund is winding down and distributing remaining assets as they are liquidated	N/A	The Fund consists of mortgage servicers and mortgages and other private/restricted securities. This fund is expected to be liquidated in full by the end of calendar year 2011.	121,022
Fund C	Annually - December 31	90 days; 30 days to redeem profits	A commodity pool that invests a substantial portion of its capital in another limited partnership which engaged in the business of trading equities, fixed income products, options, futures and other financial instruments.	3,094,525

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements and Disclosures (continued)

Level 3 Investments (continued)

Fund Name	Redemption Period	Notice Period	Description of Fund	Amount
Fund D	Annually - June 30	90 days	The Fund's stated goal is to achieve positive annual returns that are superior to long-term equity market returns with low beta and low volatility. The Fund is not limited with respect to the types of investment strategies it employs or the markets or instruments in which it invests. The Fund invests opportunistically, primarily in North America, Europe and Asia.	$ 1,084,200
Fund E	Every six months.	60 days	Long/short credit strategy that invests in full spectrum of high yield bonds, bank loans, stressed securities, special situations and capital structure opportunities.	894,227
Fund F	First eligible date - June 30, 2012; Annually - June 30	45 days	Feeder fund to an offshore partnership. Investments are broad in nature.	1,112,175

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements and Disclosures (continued)

Level 3 Investments (continued)

Fund Name	Redemption Period	Notice Period	Description of Fund	Amount
Fund G	Can redeem (without penalty) up to 25% per quarter	90 days	The investment objective of the Fund is to generate consistent long-term appreciation through active leveraged trading and investment on a global basis. The Fund has maximum flexibility to invest in a wide range of instruments including, but not limited to, debt securities and obligations (which may be below investment grade), bank loans, listed and unlisted equities, other collective investment schemes (which may be open-ended or closed-ended, listed or unlisted, may employ leverage and of which the manager or the investment manager may be an affiliate of the Manager or the Investment Manager), currencies, commodities, futures, options, warrants, swaps and other derivative instruments.	$ 1,050,102
Fund-H	Permitted quarterly on the last day of the month preceding each three-month anniversary date of the investment date (October 1)	60 days	Trading in securities, primarily by participating in event-driven arbitrage transactions.	978,557
			Total Level 3 investments	$ 8,347,203

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements and Disclosures (continued)

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

	Fair Value Measurements Using Significant Unobservable Inputs
Beginning balance	$ 7,551,070
Total gains (realized and unrealized gains and losses) included in changes in net assets for 2011	641,900
Sales	(145,767)
Purchases	300,000
Ending balance	$ 8,347,203
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	$ 690,316

P. Financing Costs and Amortization

Financing costs are amortized on the straight-line basis over the term of the applicable debt.

Q. Uncertainty in Income Taxes

F.E.G.S has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2008 and subsequent remain subject to examination by applicable taxing authorities.

R. Subsequent Events

Subsequent events have been evaluated through January 6, 2012, which is the date the financial statements were available to be issued.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Rent Income and Expense

All leases are operating leases and 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.

T. Advances

Advances represent funds advanced by various government agencies for future contract periods from those agencies.

U. Construction Advances

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

V. Program Revenue and Support

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 - Revenues 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' change in net assets or financial position and believes that it is substantially in compliance with all applicable laws and regulations.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

V. Program Revenue and Support (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.

W. Advertising

Advertising costs are expensed in the year incurred.

NOTE 3 - INVESTMENT INCOME

Investment income consists of the following:

Gains on investments	$ 1,720,932
Interest and dividend income	719,829
	$ 2,440,761

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:

2012	$ 805,056
2013	52,000
2014	50,000
Subtotal	907,056
Less discount to present value	(45,694)
Total	$ 861,362

-continued-

NOTE 5 - FIXED ASSETS

	2011	2010	Estimated Useful Lives (in Years)
Land	$ 2,086,682	$ 2,086,682	
Building	29,558,507	29,558,507	25 - 30
Building improvements	13,697,006	13,347,137	28 - 30
Leasehold improvements	27,345,370	26,710,451	2 - 15
Equipment	25,500,400	23,020,136	3 - 10
Office equipment	7,545,348	7,228,194	3 - 10
Construction in progress	38,538		
	105,771,851	101,951,107	
Accumulated depreciation and amortization	(63,405,551)	(58,381,257)	
	$ 42,366,300	$ 43,569,850	

Depreciation and amortization were $5,028,196 in 2011 and $4,993,387 in 2010.

NOTE 6 - MORTGAGES PAYABLE

	Interest Rate	Amount Outstanding
A. F.E.G.S has various signed building mortgage notes with the Dormitory Authority of the State of New York totaling $23,557,373, issued on its behalf. These notes are secured by the properties. The building loan notes have various maturity dates through December 1, 2031.	4.14% - 7.58%	$ 13,779,089
B. F.E.G.S has various signed building mortgage notes with the Industrial Development Agency of the State of New York and Suffolk County totaling $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%	3,740,000
Total		$ 17,519,089

-continued-

NOTE 6 - MORTGAGES PAYABLE (continued)

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

2012	$ 1,256,748
2013	1,307,103
2014	1,325,782
2015	1,327,974
2016	1,192,005
Thereafter	11,109,477
	$ 17,519,089

The net book value of properties secured approximated $12,800,000.

NOTE 7 - LOAN PAYABLE

F.E.G.S has obtained an uncollateralized $5,000,000 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 prime rate. As of June 30, 2011, F.E.G.S has an outstanding balance of $1,469,433 on the line of credit with an interest rate at June 30, 2011 of 3.25%. The credit line expires March 31, 2012.

NOTE 8 - CONSTRUCTION ADVANCES

Construction advances at June 30, 2011 totaled $3,633,446 and are comprised of the following:

A. The U.S. 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, 2011, the construction advance balance is $105,000. 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 construction 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, 2011, the construction advance balance is $253,138. The final repayment date is December 15, 2015.

C. The U.S. 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, 2011, the construction advance balance is $140,000. The final repayment date is June 1, 2022.

-continued-

NOTE 8 - CONSTRUCTION ADVANCES (continued)

D. As of June 30, 2011, F.E.G.S received $3,135,308 from the New York State Department of Mental Health as a construction advance for the design and construction of a mental facility located at 15-19 Duryea Place, Brooklyn, New York. The funds have been fully expended, and the advance will be repaid after tax-exempt bonds are issued for the financing of this property.

Reductions of construction advances under the above agreements as of June 30, 2011 are as follows:

Year Ending June 30	
2012	$ 84,202
2013	3,219,585
2014	84,202
2015	84,203
2016	84,203
Thereafter	77,051
	$ 3,633,446

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 expires on September 30, 2012. The rental expense associated with this sublease was $123,187 for AllSector Technology Group, Inc. and $219,000 for HR Dynamics, Inc.

-continued-

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

A. *Operating Leases (continued)*

Rent expense was $21,991,071 in 2011 and $21,326,036 in 2010. Future minimum rental commitments exclusive of real estate taxes and maintenance charges under noncancelable operating leases as of June 30, 2011 are as follows:

Year Ending June 30	
2012	$ 16,989,655
2013	13,668,411
2014	11,806,701
2015	12,106,532
2016	11,567,465
Thereafter	39,309,359
	$ 105,448,123

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, 2011 are as follows:

Year Ending June 30	
2012	$ 381,669
2013	95,417
	$ 477,086

B. *Letters of Credit*

F.E.G.S maintains two letters of credit related to leased properties. The collateral for these letters is a board-designated investment with a market value of approximately $5.0 million. The letters total $3,575,000 with a fee rate of 0.45%.

-continued-

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

C. *Unemployment Insurance*

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

D. *Third-party Audits*

F.E.G.S is responsible to report to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services (CMS) and New York State Department of Health (DOH). These agencies, as well as the New York State Office of the Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit fiscal, as well as programmatic compliance, i.e., clinical documentation, among other compliance requirements.

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 $4,934,131 in 2011. In addition, certain key employees participate in a nonqualified deferred compensation plan.

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, 2011:

Benefit obligation at June 30, 2011	$ (296,117)
Fair value of plan assets at June 30, 2011	-
Accrued postretirement liability	$ (296,117)

-continued-

NOTE 11 - POSTRETIREMENT MEDICAL BENEFIT PLAN

Weighted average assumptions as of June 30, 2011:

Discount rate	3.80%
Expected return on plan assets	N/A

For measurement purposes, a 4.0% annual rate of increase in the per capita cost of covered health benefits was assumed for 2011.

Benefit cost	$	49,524
Employer contributions		44,329
Plan participants' contributions		-
Benefits paid		44,329

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NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported on the balance sheet of F.E.G.S approximate their fair value.

NOTE 13 - CONCENTRATIONS

Financial instruments which potentially subject F.E.G.S to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

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 $44,771,769.

The majority of services are paid by New York State, New York City and Medicaid which total approximately $195,000,000.

-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 $4,463,000, of which $3,289,441 was for services 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 $310,454.

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 $10,643,000, of which $7,462,323 was for information management services provided to F.E.G.S. F.E.G.S provided administrative services and office space to AllSector Technology Group, Inc. totaling $659,800.

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.

F.E.G.S owns 100% of Staff Resources, Inc., 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. There was no revenue activity for the year.

F.E.G.S is the sole member of 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 HDC.

-continued-

NOTE 14 - RELATED PARTIES (continued)

F.E.G.S is the sponsor organization for NYSD Forsyth Housing Development Fund Company, Inc. (184(F)), NYSD Housing Development Fund Company and NYSD Rombouts HDFC, Inc., not-for-profit corporations, which are each a single-asset housing corporation regulated by HUD with respect to rent charges and operating methods.

Due from related parties are the following:

HR Dynamics, Inc.	$ 52,134
AllSector Technology Group, Inc.	1,098,879
Waverly Residence, Inc.	122,691
Staff Resources, Inc.	6,054
Tanya Towers, Inc.	353,886
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.	123,514
Total	$ 2,042,569

Due to related parties are the following:

HR Dynamics, Inc.	$ 245,632
AllSector Technology Group, Inc.	224,628
	$ 470,260

A member of the Board is a partner of a firm that provides legal services for F.E.G.S. Fees for the year ended June 30, 2011 totaled $54,110.

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, 2011, the UJA-Federation Community Trust for Disabled Adults was valued at approximately $9,100,000.

-continued-

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NOTE 16 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Awards and scholarships	$ 692,714
Long Island services	5,393,389
Training and intern programs	950,171
	$ 7,036,274

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

Awards and scholarships	$ 16,821
Long Island services	262,102
Training and intern programs	82,510
	$ 361,433

General

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.

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, F.E.G.S classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of any subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

-continued-

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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NOTE 16 - RESTRICTED NET ASSETS (continued)

Interpretation of Relevant Law (continued)

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. As of September 17, 2010, New York State adopted New York Prudent Management of Institutional Funds Act (NYPMIFA), which has eliminated the requirement of maintaining new endowment funds at their historical dollar value. In addition, it has given the option to older endowment funds to opt "in" or "out" of the new provisions.

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 and to generate investment income to support the training and interns program. 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, 2011

The 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

Changes in Endowment Net Assets for the Year Ended June 30, 2011

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year		$ 1,685,936	$ 1,685,936
Interest income	$ 27,006		27,006
Appropriated for expenditures	(27,006)		(27,006)
Endowment net assets, end of year	$ -	$ 1,685,936	$ 1,685,936

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

JUNE 30, 2010

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

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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, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Federation Employment and Guidance Service, 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 Federation Employment and Guidance Service, Inc.'s 2009 financial statements and, in our report dated December 8, 2009, 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, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

January 7, 2011

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

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

BALANCE SHEET

JUNE 30, 2010
(With Summarized Financial Information for June 30, 2009)

		2010		2009
ASSETS				
Cash and cash equivalents	$	9,724,308	$	13,350,740
Cash - escrow		37,108		51,071
Investments (Note 2)		23,555,183		20,466,031
Accounts receivable (net of allowance for accounts doubtful of collection of $5,613,600 in 2010 and $5,372,550 in 2009)		52,084,844		53,892,765
Assets held for deferred compensation		887,405		1,225,433
Contributions receivable (Note 4)		796,981		695,623
Prepaid expenses and other assets		8,091,457		8,024,197
Deposits		1,872,098		1,582,369
Fixed assets (Note 5)		43,569,850		46,969,897
Total assets	$	140,619,234	$	146,258,126
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable, accrued expenses and other liabilities	$	33,156,950	$	36,164,319
Accrued salaries and vacations payable		9,914,468		9,397,280
Allowance for third-party adjustments		5,530,680		5,104,513
Advances		13,338,082		17,341,924
Liability for deferred compensation		887,405		1,225,433
Mortgages payable (Note 6)		18,756,378		19,120,127
Loan payable (Note 7)		1,378,540		1,780,306
Construction advances (Note 8)		3,717,611		3,801,776
Total liabilities		86,680,114		93,935,678
Net assets (Exhibit B)				
Unrestricted				
Operating		14,054,019		14,055,194
Board designated		31,688,731		30,000,410
Total unrestricted		45,742,750		44,055,604
Temporarily restricted (Note 16)		6,510,434		6,580,908
Permanently restricted (Note 16)		1,685,936		1,685,936
Total net assets		53,939,120		52,322,448
Total liabilities and net assets	$	140,619,234	$	146,258,126

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, 2010
(With Summarized Financial Information
for the Year Ended June 30, 2009)

	Unrestricted					Total	
	Operating	Board Designated	Total	Temporarily Restricted	Permanently Restricted	2010	2009
Revenues, gains (losses) and other support							
Program revenues and support	$ 233,170,541		$ 233,170,541			$ 233,170,541	$ 227,256,773
UJA/Federation - basic and pension grants	3,295,757		3,295,757			3,295,757	3,295,757
Contributions	74,351	$ 63,060	137,411	$ 77,554		214,965	1,450,301
Special events		1,074,078	1,074,078			1,074,078	923,200
Less direct cost of special events (Exhibit C)		(170,153)	(170,153)			(170,153)	(170,873)
Investment income (loss) (Note 3)	87,054	1,386,325	1,473,379	280,171		1,753,550	(1,137,010)
Net assets released from restrictions							
Satisfaction of program restrictions (Note 16)	428,199		428,199	(428,199)			
Total revenues, gains (losses) and other support	237,055,902	2,353,310	239,409,212	(70,474)		239,338,738	231,618,148
Expenses							
Program services (Exhibit C)							
Educational/vocational services	59,354,103		59,354,103			59,354,103	59,726,260
Behavioral health and family services	54,870,125		54,870,125			54,870,125	50,931,060
Developmental disabilities and work services	48,138,907		48,138,907			48,138,907	47,108,953
Residential	48,189,556		48,189,556			48,189,556	47,790,429
Various other	282,591	592,820	875,411			875,411	529,725
Total program services	210,835,282	592,820	211,428,102			211,428,102	206,086,427
Supporting services							
Management and general	26,221,795		26,221,795			26,221,795	26,135,301
Fund raising		72,169	72,169			72,169	77,464
Total supporting services	26,221,795	72,169	26,293,964			26,293,964	26,212,765
Total expenses	237,057,077	664,989	237,722,066			237,722,066	232,299,192
Change in net assets (Exhibit D)	(1,175)	1,688,321	1,687,146	(70,474)		1,616,672	(681,044)
Net assets - beginning of year	14,055,194	30,000,410	44,055,604	6,580,908	$ 1,685,936	52,322,448	53,003,492
Net assets - end of year (Exhibit A)	$ 14,054,019	$ 31,688,731	$ 45,742,750	$ 6,510,434	$ 1,685,936	$ 53,939,120	$ 52,322,448

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, 2010
(With Summarized Financial Information
for the Year Ended June 30, 2009)

	Program Services						Supporting Services			Total	
	Educational/ Vocational Services	Behavioral Health and Family Services	Developmental Disabilities and Work Services	Residential	Various Other	Total	Management and General	Fund Raising	Special Events	2010	2009
Salaries and stipends	$ 29,785,329	$ 31,837,076	$ 16,473,859	$ 21,748,735	$ 290,471	$ 100,135,470	$ 9,261,046			$ 109,396,516	$ 108,442,235
Payroll taxes and employee benefits	9,001,565	9,414,209	4,591,960	6,629,027	316,720	29,953,481	2,671,540			32,625,021	29,184,122
Total salaries and related expenses	38,786,894	41,251,285	21,065,819	28,377,762	607,191	130,088,951	11,932,586			142,021,537	137,626,357
Rent	5,425,883	3,774,566	3,535,289	6,796,844	15,923	19,548,505	1,777,531			21,326,036	19,865,502
Utilities	1,128,896	1,249,581	793,799	1,573,627	7,657	4,753,560	353,078			5,106,638	5,368,692
Contract/subcontract services	7,511,113	1,456,618	12,188,406	180,501	2,315	21,338,953	328,557	$ 47,500		21,715,010	18,784,370
Skills training supplies	78,267	384,702	48,604	8,608		520,181	94			520,275	503,812
Office equipment	113,563	164,947	53,152	495,076	2,794	829,532	57,764			887,296	581,371
Building and equipment maintenance	221,575	339,480	226,378	697,059	4,462	1,488,954	191,924			1,680,878	1,682,533
Janitorial	139,270	214,755	188,241	254,449		796,715	43,931			840,646	872,027
Consultants	96,778	687,902	2,581,532	222,206	24,819	3,613,237	8,200			3,621,437	5,868,808
Professional fees	634,863	14,814	37,238	22,986	118,024	827,925	9,798,415			10,626,340	10,368,727
Travel	96,994	389,596	103,812	125,816	10,651	726,869	169,908	2,872		899,649	884,041
Client transportation	2,164,247	871,109	5,440,644	507,073	347	8,983,420	583			8,984,003	7,946,901
Office supplies/printing	336,487	292,206	88,150	167,884	4,891	889,618	265,174	17,217		1,172,009	1,214,301
Advertising	11,838	31,870	7,881	59,939	2,285	113,813	34,283			148,096	208,272
Postage and delivery	81,922	58,311	24,563	83,891	1,776	250,463	80,081	2,911		333,455	343,259
Dues and subscriptions	14,924	32,363	9,858	35,198	7,800	100,143	57,654			157,797	158,790
Food	44,446	489,585	121,638	1,714,761	1,259	2,371,689	7,342			2,379,031	2,551,404
Medical/test supplies	8,249	332,159	22,836	147,980		511,224	4,601			515,825	660,837
Equipment leasing	177,918	129,803	66,276	89,751	579	464,327	147,492			611,819	737,219
Accreditation	206,390	10,009	16,367	58,532	270	291,568	118,840	839		411,247	403,426
Temporary help	686,949	758,300	363,941	2,071,542	9,988	3,890,720	65,347			3,956,067	4,816,297
Insurance	208,484	415,501	220,953	738,890	364	1,584,192	114,315			1,698,507	1,740,425
Client trips/entertainment/clothing	121,382	39,162	64,707	195,495	3,114	423,860	901			424,761	579,312
Bad debts		513,000	250,000	50,000		813,000				813,000	900,064
Interest				1,167,549		1,167,549				1,167,549	1,232,233
Catering and facilities									$ 170,153	170,153	170,873
Miscellaneous	181,829	13,564	12,472	290,678	36,644	535,187	141,040	830		677,057	892,778
Total expenses before depreciation and amortization	58,479,161	53,915,188	47,532,556	46,134,097	863,153	206,924,155	25,699,641	72,169	170,153	232,866,118	226,962,631
Depreciation and amortization	874,942	954,937	606,351	2,022,745	12,258	4,471,233	522,154			4,993,387	5,461,214
Amortization of finance costs				32,714		32,714				32,714	46,220
Total expenses	59,354,103	54,870,125	48,138,907	48,189,556	875,411	211,428,102	26,221,795	72,169	170,153	237,892,219	232,470,065
Direct cost of special events									(170,153)	(170,153)	(170,873)
Total expenses (Exhibit B)	$ 59,354,103	$ 54,870,125	$ 48,138,907	$ 48,189,556	$ 875,411	$ 211,428,102	$ 26,221,795	$ 72,169	$ -	$ 237,722,066	$ 232,299,192

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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EXHIBIT D

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 1,616,672	$ (681,044)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	4,993,387	5,461,214
Amortization of finance costs	32,714	46,220
Loss (gain) on investments	(1,304,113)	1,861,545
Decrease (increase) in assets		
Accounts receivable	1,807,921	3,024,400
Contributions receivable	(101,358)	362,653
Prepaid expenses and other assets	(99,974)	63,729
Deposits	(289,729)	(62,862)
Increase (decrease) in liabilities		
Accounts payable, accrued expenses and other liabilities	(3,007,369)	(1,811,093)
Accrued salaries and vacations payable	517,188	1,016,875
Allowance for third-party adjustments	426,167	5,775
Advances	(4,003,842)	286,299
Net cash provided by operating activities	587,664	9,573,711
Cash flows from investing activities		
Purchase of fixed assets	(1,593,340)	(3,706,912)
Purchase of investments	(6,826,140)	(12,763,158)
Proceeds from sale of investments	5,041,101	14,456,376
Decrease in escrow account	13,963	53,299
Net cash used by investing activities	(3,364,416)	(1,960,395)
Cash flows from financing activities		
Payments on loan and mortgage	(1,838,816)	(1,484,716)
Proceeds from loan and mortgage	1,073,301	1,125,240
Reduction of construction advances	(84,165)	(84,024)
Net cash used by financing activities	(849,680)	(443,500)
Net change in cash and cash equivalents	(3,626,432)	7,169,816
Cash and cash equivalents - beginning of year	13,350,740	6,180,924
Cash and cash equivalents - end of year	$ 9,724,308	$ 13,350,740
Supplemental disclosure of cash flow information		
Cash paid for interest during the year	$ 1,167,549	$ 1,232,233

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, 2010

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 three 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/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 of accounting.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. __Fixed Assets__

F.E.G.S capitalizes all expenditures in excess of $1,000 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
Alternative 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' fluctuations, 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, 2009, from which the summarized information was derived.

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.

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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 and Allowance for Doubtful Accounts

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. Management has determined, based upon a review of the accounts, that no allowance for doubtful accounts was required.

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 accounts receivable. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent collections 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 approximates 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

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that 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, 2010.

Alternative investments - Estimated fair values, in the absence of readily ascertainable market values, have been determined by the investment managers. 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.

Cash equivalents, 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.

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. *Fair Value Measurements (continued)*

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, 2010:

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 59,359	$ -	$ -	$ 59,359
U.S. Government and agency obligations	11,242,852	-	-	11,242,852
Mutual funds	3,014,626	-	-	3,014,626
Alternative investments	-	-	7,551,070	7,551,070
Corporate bonds	9,610	-	-	9,610
Common stocks				
Consumer staples and services	278,529	-	-	278,529
Energy	335,540	-	-	335,540
Financials	77,970	-	-	77,970
Health care	254,387	-	-	254,387
Industrial	57,813			57,813
Insurance	348,350			348,350
Technology	305,620	-	-	305,620
Other	19,457	-	-	19,457
	$ 16,004,113	$ -	$ 7,551,070	$ 23,555,183

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

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements (continued)

Level 3 Investments:

Fund Name	Redemption Period	Notice Period	Description of Fund	Amount
Fund A	Fund is winding down and distributing remaining assets as they are liquidated	n/a	Real Estate Holding	$ 47,211
Fund B	Fund is winding down and distributing remaining assets as they are liquidated	n/a	Biotechnology shares (transferred to a liquidating trust at Wilmington Trust in July, 2010).	24,762
Fund C	Fund is winding down and distributing remaining assets as they are liquidated	n/a	The Fund consist of mortgage servicers and mortgages and other private/restricted securities. In addition, they continue to maintain less than 1% of NAV cash holdback until the final liquidating audit is complete.	255,453
Fund D	Annually - December 31	90 days	A commodity pool that invests a substantial portion of its capital in another limited partnership which engaged in the business of trading equities, fixed income products, options, futures and other financial instruments.	2,654,159

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements (continued)

Level 3 Investments (continued):

Fund Name	Redemption Period	Notice Period	Description of Fund	Amount
Fund E	First eligible date - June 30, 2011; Annually - June 30	90 days	The Fund's stated goal is to achieve positive annual returns that are superior to long term equity market returns with low beta and low volatility. The Fund is not limited with respect to the types of investment strategies it employs or the markets or instruments in which it invests. The Fund invests opportunistically, primarily in North America, Europe and Asia.	$ 1,015,700
Fund F	First eligible date - February 1, 2011 and October 1, 2011; redemption annually.	60 days	Long/Short Credit Strategy that invests in Full Spectrum of High Yield Bonds, Bank Loans, Stressed Securities, Special Situations and Capital Structure Opportunities.	514,793
Fund G	First eligible date - June 30, 2012; Annually- June 30	45 days	Feeder fund to an offshore partnership. Investments are broad in nature.	1,062,072

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements (continued)

Level 3 Investments (continued):

Fund Name	Redemption Period	Notice Period	Description of Fund	Amount
Fund H	After initial one year period which expired 10/1/2010; can redeem (without penalty) up to 25% per quarter on a redemption day, which will be determined by the directors of the fund.	90 days	The investment objective of the Fund is to generate consistent long-term appreciation through active leveraged trading and investment on a global basis. The Fund has maximum flexibility to invest in a wide range of instruments including, but not limited to, debt securities and obligations (which may be below investment grade), bank loans, listed an unlisted equities, other collective investment schemes (which may be open-ended or close ended, listed or unlisted, may employ leverage and of which the manager or the investment manager may be an affiliate of the Manager or the Investment Manager), currencies, commodities, futures, options, warrants, swaps and other derivative instruments.	$ 1,030,981
Fund I	Permitted quarterly on the last day of the month preceding each three month anniversary date of the investment date (October 1)	60 days	Trading in securities, primarily by participating in event-driven arbitrage transactions.	945,939
			Total Level 3 investments	$ 7,551,070

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fair Value Measurements (continued)

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

	Fair Value Measurements Using Significant Unobservable Inputs
Beginning balance	$ 4,265,423
Total gains (realized and unrealized gains and losses) included in changes in net assets for 2010	317,428
Sales	(1,578,992)
Purchases	4,547,211
Ending balance	$ 7,551,070
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	$ 742,117

P. Accounting for Uncertainty in Income Taxes

Effective July 1, 2009, F.E.G.S adopted the provision pertaining to uncertain tax positions (ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Q. Subsequent Events

Subsequent events have been evaluated through January 7, 2011, which is the date the financial statements were available to be issued.

R. Rent Income and Expense

All leases are operating leases and 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.

-continued-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

V. ***Estimated Retroactive Rate Adjustments Receivable/Estimated Amounts to 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.

W. ***FASB Accounting Standards Codification***

In July 2009, the FASB released FASB Accounting Standards Codification (ASC) as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. All other accounting literature not included in the Codification is nonauthoritative.

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NOTE 3 - INVESTMENT INCOME

Investment income consists of the following:

Gains on investments	$ 1,304,113
Interest and dividend income	449,437
	$ 1,753,550

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:

2011	$ 386,805
2012	52,000
2013	350,000
2014	50,000
Subtotal	838,805
Less discount to present value	(41,824)
Total	$ 796,981

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FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 5 - FIXED ASSETS

	2010	2009	Estimated Useful Lives (in Years)
Land	$ 2,086,682	$ 2,079,183	
Building	29,558,507	29,557,556	25 - 30
Building improvements	13,347,137	12,677,186	28 - 30
Leasehold improvements	26,710,451	26,367,421	2 - 15
Equipment	23,020,136	22,716,789	3 - 10
Office equipment	7,228,194	6,993,707	3 - 10
	101,951,107	100,391,842	
Accumulated depreciation and amortization	(58,381,257)	(53,421,945)	
	$ 43,569,850	$ 46,969,897	

Depreciation and amortization were $4,993,387 in 2010 and $5,461,214 in 2009.

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 $23,557,373, 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%	$ 14,782,628
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%	3,973,750
Total		$ 18,756,378

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NOTE 6 - MORTGAGES PAYABLE (continued)

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

2011	$ 1,237,289
2012	1,256,748
2013	1,307,103
2014	1,325,782
2015	1,327,974
Thereafter	12,301,482
	$ 18,756,378

The net book value of properties secured approximated $13,600,000.

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 the prime rate plus 0.5% or LIBOR plus 2.5%. As of June 30, 2010, F.E.G.S has an outstanding balance of $1,378,540 on the line of credit with an interest rate at June 30, 2010 of 3.75%. The credit line expires March 31, 2011.

NOTE 8 - CONSTRUCTION ADVANCES

Construction advances at June 30, 2010 totaled $3,717,611, 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, 2010, the construction advance balance is $125,000. 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, 2010, the construction advance balance is $301,303. 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, 2010, the construction advance balance is $156,000. The final repayment date is June 1, 2022.

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NOTE 8 - CONSTRUCTION ADVANCES (continued)

D. As of June 30, 2010, F.E.G.S received $3,135,308 from the New York State Department of Mental Health as a capital advance for the design and construction of a mental facility located at 15-19 Duryea Place, Brooklyn, New York. The funds have been fully expended, and the advance will be repaid after tax-exempt bonds are issued for the financing of this property.

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 expires on September 30, 2012. The rental expense associated with this sublease was $130,000 for AllSector Technology Group, Inc. and $230,000 for HR Dynamics, Inc.

Rent expense was $21,326,036 in 2010 and $19,865,501 in 2009. Future minimum rental commitments exclusive of real estate taxes and maintenance charges under noncancelable operating leases as of June 30, 2010 are as follows:

Year Ending June 30	
2011	$ 17,548,193
2012	15,007,859
2013	12,435,381
2014	10,742,929
2015	10,323,066
Thereafter	44,769,667
	$ 110,827,095

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NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

A. Operating Leases (continued)

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, 2010 are as follows:

Year Ending June 30		
2011	$	381,669
2012		381,669
2013		95,417
	$	858,755

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.

D. Third-party Audits

F.E.G.S is responsible to report to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services (CMS) and New York State Department of Health (DOH). These agencies, as well as the New York State Office of the Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit fiscal, as well as programmatic compliance, i.e., clinical documentation, among other compliance requirements.

-continued-

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 $4,752,735 in 2010. In addition, certain key employees participate in a nonqualified deferred compensation plan.

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, 2010:

Benefit obligation at June 30, 2010	$	(346,323)
Fair value of plan assets at June 30, 2010		-
Accrued postretirement liability	$	(346,323)

Weighted average assumptions as of June 30, 2010:

Discount rate	4.00%
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 2010.

Benefit cost	$	52,479
Employer contributions		51,722
Plan participants' contributions		-
Benefits paid		51,722

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported on the balance sheet of F.E.G.S approximates their fair value.

-continued-

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 $43,717,614.

The majority of services are paid by New York State, New York City and Medicaid totaling approximately $218,000,000.

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 $3,852,000, of which $3,231,327 was for services 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 $290,100.

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 $8,455,000, of which $5,436,908 was for information management services provided to F.E.G.S. F.E.G.S provided administrative services and office space to AllSector Technology Group, Inc. totaling $555,628.

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. There was no revenue activity for the year.

-continued-

NOTE 14 - RELATED PARTIES (continued)

F.E.G.S is 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 HDC.

F.E.G.S is the sponsor organization for NYSD Forsyth Housing Development Fund Company, Inc. (184(F)), NYSD Housing Development Fund Company and NYSD Rombouts HDFC, Inc., not-for-profit corporations, which are each a single-asset housing corporation regulated by HUD with respect to rent charges and operating methods.

Due from related parties are the following:

HR Dynamics, Inc.	$ 51,545
AllSector Technology Group, Inc.	716,960
Waverly Residence, Inc.	116,071
Staff Resources, Inc.	3,000
Tanya Towers, Inc.	285,163
NYSD Forsyth HDFC, Inc. (184(F))	101,697
NYSD HDFC, Inc. a/k/a Tanya Towers II (174(F))	211,065
NYSD Rombouts HDFC, Inc.	217,509
Total	$ 1,703,010

Due to related parties are the following:

HR Dynamics, Inc.	$ 314,054
AllSector Technology Group, Inc.	233,158
	$ 547,212

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, 2010, the UJA-Federation Community Trust for Disabled Adults was valued at approximately $7.3 million.

-continued-

NOTE 16 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Awards and scholarships	$ 707,924
Long Island services	4,891,311
Training and intern programs	911,199
	$ 6,510,434

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

Awards and scholarships	$ 23,795
Long Island services	259,049
Training and intern programs	145,355
	$ 428,199

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.

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, 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.

-continued-

NOTE 16 - RESTRICTED NET ASSETS (continued)

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, 2010

The 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

Changes in Endowment Net Assets for the Year Ended June 30, 2010

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year		$ 1,685,936	$ 1,685,936
Investment income	$ 68,997		68,997
Appropriated for expenditures	(68,997)		(68,997)
Endowment net assets, end of year	$ -	$ 1,685,936	$ 1,685,936

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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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, 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					Total	
	Operating	Board Designated	Total	Temporarily Restricted	Permanently Restricted	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	1,176,006
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	3,389,343	6,080,677	13,553	18,198,095	1,667,407			19,865,502	18,313,958
Utilities	1,080,837	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	46,303	17,953	59,610	4,065	151,846	56,426			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	81,514	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	548,681
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	543,570
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-

B-II-36

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.

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.

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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-

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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.

-continued-

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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

-continued-

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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.

-continued-

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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-

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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-

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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.

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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.

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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-

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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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

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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.

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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.

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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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APPENDIX B-III

PROGRAM DEVELOPMENT SERVICES INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2011, JUNE 30, 2010 AND JUNE 30, 2009)

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PROGRAM DEVELOPMENT SERVICES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2011

PROGRAM DEVELOPMENT SERVICES, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Program Development Services, Inc.
Brooklyn, NY

We have audited the accompanying statements of financial position of Program Development Services, Inc. as of June 30, 2011 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Program Development Services, Inc. as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

J. Gliksman CPA, PC

November 29, 2011

PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011
(With Comparative Totals for June 30, 2010)

ASSETS

	2011	2010
Current Assets		
Cash and Cash Equivalents	$ 2,240,031	$ 1,956,474
Medicaid Receivables	1,395,143	1,531,896
Fees & Grants Receivables	237,855	180,945
Prepaid Expenses	114,224	100,085
Total Current Assets	**$ 3,987,253**	**$ 3,769,400**
Fixed Assets		
Land	$ 770,009	$ 770,009
Buildings	6,854,854	6,833,858
Leasehold Improvements	1,575,656	1,581,261
Furniture & Equipment	745,932	885,306
Automobiles	282,659	72,664
Accumulated Depreciation	(3,508,897)	(3,256,346)
Total Fixed Assets	**$ 6,720,213**	**$ 6,886,752**
Other Assets		
Deposit	$ 124,922	$ 123,996
Debt Service Reserve Fund	268,302	270,602
Mortgage Closing Costs	362,628	401,734
Escrow	79,155	89,155
Total Other Assets	**$ 835,007**	**$ 885,487**
TOTAL ASSETS	**$ 11,542,473**	**$ 11,541,639**

See notes to financial statements

PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011
(With Comparative Totals for June 30, 2010)

LIABILITIES & NET ASSETS

Current Liabilities	2011	2010
Accounts Payable	$ 197,910	$ 170,740
Wages and Taxes Payable	314,066	269,382
Accrued Vacation/Sick Pay	786,885	799,943
Bank Loans Payable	118,137	74,632
Due to OPWDD	151,834	217,304
Mortgage Payable	565,120	668,467
Total Current Liabilities	**$ 2,133,952**	**$ 2,200,468**
Other Liabilities		
Bank Loans Payable	$ 339,200	$ 294,527
Due to OPWDD	95,014	78,720
Mortgage Payable	4,327,543	4,892,621
Total Other Liabilities	**$ 4,761,757**	**$ 5,265,868**
TOTAL LIABILITIES	**$ 6,895,709**	**$ 7,466,336**
Net Assets		
Unrestricted	$ 4,291,042	$ 3,606,221
Board Designated Funds	355,722	469,082
Total Net Assets	**$ 4,646,764**	**$ 4,075,303**
TOTAL LIABILITIES & NET ASSETS	**$ 11,542,473**	**$ 11,541,639**

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PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for June 30, 2010)

	Unrestricted 2011	Unrestricted 2010
Revenue		
Program Service Fees	$ 18,589,079	$ 18,617,914
Grants	50,715	30,980
Contributions	1,410	350
Other Income	55,693	55,540
Interest and Option Income	6,748	3,343
Total	**$ 18,703,645**	**$ 18,708,127**
Expenses		
Residential Programs	$ 16,662,092	$ 16,063,926
General & Administration	1,470,092	1,490,579
Total	**$ 18,132,184**	**$ 17,554,505**
Change in Net Assets	$ 571,461	$ 1,153,622
Net Assets Beginning	4,075,303	2,921,681
Net Assets - Ending	**$ 4,646,764**	**$ 4,075,303**

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PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for June 30, 2010)

	Residential Programs	General Admin.	Total 2011	Total 2010
EXPENSES:				
Salaries	$ 8,551,103	$ 605,886	$ 9,156,989	$ 8,891,264
Payroll Taxes & Benefits	3,417,791	214,964	3,632,755	3,123,301
Total Salaries and Related Expenses	$ 11,968,894	$ 820,850	$ 12,789,744	$ 12,014,565
Food	575,757	2,182	577,939	571,379
Repairs & Maintenance	123,280	64,006	187,286	200,527
Utilities	248,418	24,217	272,635	266,976
Transportation	158,734	(6,379)	152,355	334,251
Client Expenses	405,525	-	405,525	418,168
Expensed Equipment	30,108	3,090	33,198	34,276
Facility Tax Assessment	178,579	-	178,579	140,182
Leases	92,624	39,959	132,583	164,865
Office Expenses	10,485	71,683	82,168	79,822
Supplies	330,359	43,034	373,393	395,688
Telephone	97,635	76,403	174,038	181,405
Advertising	220	5,051	5,271	7,537
Professional Fees	377,979	99,108	477,087	426,876
Rent	1,029,287	117,718	1,147,005	1,105,286
Insurance	126,085	33,239	159,324	156,906
Real Estate Taxes	3,255	6,796	10,051	6,255
Depreciation & Amortization	448,176	18,800	466,976	495,931
Disposal of Fixed Assets	-	4,315	4,315	29,869
Interest & Mortgage Fees	407,045	-	407,045	422,507
Other Administrative	49,647	46,020	95,667	101,234
Total	**$ 16,662,092**	**$ 1,470,092**	**$ 18,132,184**	**$ 17,554,505**

PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for June 30, 2010)

Cash Flows from Operations:	**2011**	**2010**
Change in Net Assets	$ 571,461	$ 1,153,622
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operations:		
Depreciation & Amortization	466,976	495,931
Change in Receivables, Prepaid and Deposit	74,778	(53,244)
Change in Current Liabilities	58,796	(375,294)
Due to OPWDD	(49,176)	(132,332)
Net Cash Provided by Operations	**$ 1,122,835**	**$ 1,088,683**
Cash Flows from Investing		
Acquisition of Fixed Assets	$ (261,331)	$ (98,506)
Increase (Decrease) of Debt Service Reserve Fund	2,300	(2,700)
Net Cash Used by Investing	**$ (259,031)**	**$ (101,206)**
Cash Flows from Financing:		
Proceeds of Loans	$ 88,178	$ -
Payment of Mortgages	(668,425)	(785,180)
Net Cash (Used)/Provided by Financing	**$ (580,247)**	**$ (785,180)**
Net Increase in Cash	$ 283,557	$ 202,297
Cash Balance - Beginning	1,956,474	1,754,177
CASH BALANCE ENDING	**$ 2,240,031**	**$ 1,956,474**
Interest Paid	$ 397,790	$ 413,205
Taxes Paid	10,051	6,255

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PROGRAM DEVELOPMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note A - Nature of the Agency

Program Development Services, Inc. "the Agency" provides services to developmentally disabled persons in Brooklyn New York, under operating certificates or contracts with New York State Office for People With Developmental Disabilities OPWDD.
Nearly all of the Agency's revenue is Medicaid received from OPWDD.

Note B – Accounting Principles

The accounting policies of the agency conform to accounting principles generally accepted as applicable to voluntary health and welfare agencies. The accrual basis of accounting is followed by the agency. Under the accrual basis of accounting, revenues are reported when earned. Expenditures are recorded when the goods are received or services are rendered.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable un-collectible through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to an expense account and a credit to accounts receivable.

The agency reports investments in equity and debt securities at their fair values in the statements of assets, liabilities and net assets. Interest, dividends, realized and unrealized gains and losses are included in the change in net assets.

All depreciable assets that cost at least $1,000 are recorded at cost and are depreciated on a straight-line basis. Buildings are depreciated over 25 years. Machinery and equipment are depreciated over 3 to 7 years and transportation equipment over 4 years. Leasehold improvements are depreciated over the term of the lease including extensions at the tenant's option.

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results can differ from those estimates.

Note B – Accounting Principles (continued)

The agency reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Restricted revenue whose restriction expired during the year is presented as unrestricted revenue. The agency has no restricted assets as of June 30, 2011.

Information for the year ended June 30, 2010 is presented for comparative purposes only, and was extracted from the financial statements prepared for that year, upon which an unqualified opinion dated October 19, 2010, was expressed.

The agency is a tax-exempt organization under the law of New York State and under Internal Revenue Code 501(c)(3) as a non-private foundation.

For purposes of the statements of cash flows, the organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Subsequent events have been evaluated through November 29, 2011, the date of which financial statements were available to be issued.

Note C – Concentrations of Credit Risk

The agency maintains cash balances at a financial institution located in New York City. Federal Deposit Insurance Corporation insures all non-interest bearing deposits, and up to $250,000 on interest bearing accounts. At June 30, 2011, the Agency's uninsured cash balances totaled $1,979,762. Cash includes a money market fund investment reported at cost of $352,118. Investments included in cash and cash equivalents reported in the statement of financial position are made up of financial instruments with readily determinable fair values based on quoted prices in active markets for identical assets (Level 1).

Note D – Accounts Receivable

Accounts receivable are nearly 100% Medicaid; and are expected to be collected in full; accordingly no allowance has been made for bad debts. Accounts receivable have been pledged as collateral for bank loans and mortgages payable.

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Note E – Reserve Funds and Closing Costs

Reserve funds represents cash held by Bank of New York, under the New York City Industrial Development Agency financing arrangement and by Dormitory Authority of the State of New York (DASNY) as security for payment of the Bonds and Mortgage loans. Closing costs represents the costs of obtaining mortgage financing. The costs are being amortized over 15 or 25 years, which is the life of the mortgages. Closing costs are reported net of accumulated amortization of $333,802.

Note F – Mortgages Payable

Mortgages Payable represents:

1. Several mortgage loans from Medical Care Facilities Finance Agency, or from New York City Industrial Development Agency, to finance construction or renovation of residential sites. The original amount of the loans was $5,631,880. Substantially all the agency's real property is pledged as collateral to the mortgages. The mortgages are repaid by withholding from Medicaid funds or by monthly payments to the bank trustee. Interest rates range from 5.44% to 7.56%. Interest expense for the year ended June 30, 2011 was $179,308. The balance of the mortgages as of that date was $2,527,728.

2. Four mortgage loans from Hudson Valley Bank in the original amount of $2,734,949 to finance renovation of new sites at 74th Street, 85th Street, and Avenue W. The loans are due within 5 to 15 years. Interest rates range from 6.87% - 8.00%. Interest expense for the year ended June 30, 2011 was $194,489. The balance at June 30, 2011 is $2,364,936.

Principal installments due in each of the next five years are as follows:

Year ended June 30, 2012	$573,514
Year ended June 30, 2013	596,010
Year ended June 30, 2014	514,580
Year ended June 30, 2015	405,316
Year ended June 30, 2016	405,066

Note G – Loans Payable

Loans Payable represents:

1. A loan from JP Morgan Chase Bank, in the original amount of $567,120 to finance the construction of residential sites. The loan is due in November 2017. Interest rate is 7.36%. Interest expense for the year ended June 30, 2011 was $19,595. The total loan balance as of that date was $245,712. Certain of the agreements provide for restrictions on the Agency's current ratio, working capital, net assets, and debt to capital ratio. All assets of the Agency are pledged as collateral for these loans.

2. A loan from Hudson Valley Bank in the original amount of $78,950 was taken in February of 2009. The loan is due in February 2014. Interest at 7.50% for the year ended June 30, 2011 was $4,039. The balance as of June 31, 2010 was $45,645.

3. Several loans from Hudson Valley Bank, in the combined original amount of $190,569 to finance vehicles and capitalized auto leases. The loans are due within three years. Interest rates ranges from 4.65% to 5.04%. Interest expense for the year ending June 30, 2011 was $3,996. The total loan balance as of that date was $165,165.

4. Notes payable for the financing of capitalized auto and equipment leases. The total balance at June 30, 2011 is $815. The total amount capitalized to date is $50,775 amortized in full. Final lease payment is due in January 2012. Interest at 8.25% for the year ended June 30, 2011 was $725.

Principal installments due in each of the next five years are as follows:

Year ended June 30, 2012	$118,951
Year ended June 30, 2013	121,467
Year ended June 30, 2014	84,647
Year ended June 30, 2015	37,808
Year ended June 30, 2016	37,808

Note H – Lease Commitments

The residential programs occupy leased sites. The terms of the leases vary from 2 to 10 years. Future rental payments under the terms of existing leases over the next five years are:

Year ended June 30, 2012	$932,711
Year ended June 30, 2013	755,530
Year ended June 30, 2014	573,204
Year ended June 30, 2015	483,755
Year ended June 30, 2016	296,700

Note I – Due to OPWDD

Due to OPWDD is comprised of advance payments received from OPWDD and amounts advanced to fund the start-up of the ICF and IRA residences. The total amount due to OPWDD within one year of June 30, 2011 is $151,834.

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Note J – Equipment Lease

The Agency leases various auto and office equipment under 2 to 4 year leases. Total lease expense for the year ended June 30, 2011 was $152,346. Future payments over the next five years under existing leases are:

Year ended June 30, 2012	$79,531
Year ended June 30, 2013	50,609
Year ended June 30, 2014	2,453

Note K – Pension Plan

The Agency participates in a Profit Sharing Plan under Section 403 (b). An employee is eligible after two years of employment. For the year ended June 30, 2011 the agency contributed a total of $91,883. Additionally the agency adopted a Section 457(f) Plan and contributed $60,000.

Note L – Board Designated Funds

The agency received funds from New York State OPWDD for the purpose of reimbursing employees for healthcare expenses and physical maintenance of its various sites. Board Designated Funds represents the amount of funds not yet expended as of June 30, 2011. These funds will either be expended for employee healthcare expenses and maintenance or returned to New York State.

Note M – Contingency

The workers' compensation carrier was taken over by NYS Workers' Compensation Board; there may be additional assessments due.
There was an overpayment from Medicaid to the agency due to incorrect billing in the amount of $17,241. The agency is awaiting guidance from Medicaid office of Inspector General on how to proceed with this issue.

PROGRAM DEVELOPMENT SERVICES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2010

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PROGRAM DEVELOPMENT SERVICES, INC.

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PEER REVIEW PROGRAM

INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Program Development Services, Inc.
Brooklyn, NY

We have audited the accompanying statements of financial position of Program Development Services, Inc. as of June 30, 2010 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Program Development Services, Inc. as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

J. Gliksman CPA, PC

October 19, 2010

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PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010
(With Comparative Totals for June 30, 2009)

ASSETS

Current Assets	2010	2009
Cash and Cash Equivalents	$ 1,956,474	$ 1,754,177
Medicaid Receivables	1,531,896	1,402,112
Fees & Grants Receivables	180,945	299,867
Prepaid Expenses	100,085	68,822
Total Current Assets	**$ 3,769,400**	**$ 3,524,978**
Fixed Assets		
Land	$ 770,009	$ 770,009
Buildings	6,833,858	6,815,318
Leasehold Improvements	1,581,261	1,606,251
Furniture & Equipment	885,306	873,323
Automobiles	72,664	72,664
Accumulated Depreciation	(3,256,346)	(2,805,193)
Total Fixed Assets	**$ 6,886,752**	**$ 7,332,372**
Other Assets		
Deposit	$ 123,996	$ 122,878
Debt Service Reserve Fund	270,602	267,901
Mortgage Closing Costs	401,734	353,539
Escrow	89,155	79,155
Total Other Assets	**$ 885,487**	**$ 823,473**
TOTAL ASSETS	$ 11,541,639	$ 11,680,823

See notes to financial statements

PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010
(With Comparative Totals for June 30, 2009)

LIABILITIES & NET ASSETS

Current Liabilities	2010	2009
Accounts Payable	$ 170,740	$ 234,654
Wages and Taxes Payable	269,382	607,076
Accrued Vacation/Sick Pay	799,943	773,629
Bank Loans Payable	74,632	316,322
Due to OMR/DD	217,304	241,287
Mortgage Payable	668,467	418,300
Total Current Liabilities	**$ 2,200,468**	**$ 2,591,268**
Other Liabilities		
Bank Loans Payable	$ 294,527	$ 3,011,897
Due to OMR/DD	78,720	187,069
Mortgage Payable	4,892,621	2,968,908
Total Other Liabilities	**$ 5,265,868**	**$ 6,167,874**
TOTAL LIABILITIES	**$ 7,466,336**	**$ 8,759,142**
Net Assets		
Unrestricted	$ 3,606,221	$ 2,476,307
Board Designated Funds	469,082	445,374
Total Net Assets	**$ 4,075,303**	**$ 2,921,681**
TOTAL LIABILITIES & NET ASSETS	**$ 11,541,639**	**$ 11,680,823**

See notes to financial statements

PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(With Comparative Totals for June 30, 2009)

	Unrestricted 2010	Unrestricted 2009
Revenue		
Program Service Fees	$ 18,617,914	$ 17,046,097
Grants	30,980	70,379
Contributions	350	2,850
Other Income	55,540	55,070
Interest and Option Income	3,343	702
Total	**$ 18,708,127**	**$ 17,175,098**
Expenses		
Residential Programs	$ 16,063,926	$ 15,371,354
General & Administration	1,490,579	1,370,639
Total	**$ 17,554,505**	**$ 16,741,993**
Change in Net Assets	$ 1,153,622	$ 433,105
Net Assets Beginning	2,921,681	2,488,576
Net Assets - Ending	**$ 4,075,303**	**$ 2,921,681**

PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010
(With Comparative Totals for June 30, 2009)

EXPENSES:	Residential Programs	General Admin.	Total 2010	Total 2009
Salaries	$ 8,301,405	$ 589,859	$ 8,891,264	$ 8,488,258
Payroll Taxes & Benefits	2,859,560	263,741	3,123,301	2,731,809
Total Salaries and Related Expenses	$ 11,160,965	$ 853,600	$ 12,014,565	$ 11,220,067
Food	569,239	2,140	571,379	516,955
Repairs & Maintenance	159,998	40,529	200,527	181,616
Utilities	241,520	25,456	266,976	267,519
Transportation	329,304	4,947	334,251	338,719
Client Expenses	418,168	-	418,168	449,143
Expensed Equipment	30,494	3,782	34,276	58,136
Facility Tax Assessment	140,182	-	140,182	148,486
Leases	124,368	40,497	164,865	148,043
Office Expenses	11,649	68,173	79,822	75,620
Supplies	359,780	35,908	395,688	365,235
Telephone	94,205	87,200	181,405	178,554
Advertising	2,019	5,518	7,537	2,176
Professional Fees	335,013	91,863	426,876	417,595
Rent	992,712	112,574	1,105,286	1,035,453
Insurance	140,756	16,150	156,906	195,647
Real Estate Taxes	1,896	4,359	6,255	3,576
Depreciation & Amortization	477,539	18,392	495,931	436,386
Disposal of Fixed Assets	-	29,869	29,869	159,049
Interest & Mortgage Fees	420,987	1,520	422,507	449,770
Other Administrative	53,132	48,102	101,234	94,248
Total	**$ 16,063,926**	**$ 1,490,579**	**$ 17,554,505**	**$ 16,741,993**

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PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
(With Comparative Totals for June 30, 2009)

Cash Flows from Operations:	**2010**	**2009**
Change in Net Assets	$ 1,153,622	$ 433,105
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operations:		
Depreciation & Amortization	495,931	436,386
Change in Receivables, Prepaid and Deposit	(53,244)	(69,649)
Change in Current Liabilities	(375,294)	38,223
Due to OMR/DD	(132,332)	39,778
Net Cash Provided by Operations	**$ 1,088,683**	**$ 877,843**
Cash Flows from Investing		
Acquisition of Fixed Assets	$ (98,506)	$ (87,560)
Increase (Decrease) of Debt Service Reserve Fund	(2,700)	(2,700)
Net Cash Used by Investing	**$ (101,206)**	**$ (90,260)**
Cash Flows from Financing:		
Proceeds of Loans	$ -	$ 310,332
Payment of Mortgages	(785,180)	(410,600)
Net Cash (Used)/Provided by Financing	**$ (785,180)**	**$ (100,268)**
Net Increase in Cash	$ 202,297	$ 687,315
Cash Balance - Beginning	1,754,177	1,066,862
CASH BALANCE ENDING	**$ 1,956,474**	**$ 1,754,177**
Interest Paid	$ 413,205	$ 440,508
Taxes Paid	6,255	3,576

See notes to financial statements

PROGRAM DEVELOPMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note A - Nature of the Agency

Program Development Services, Inc. "the Agency" provides services to developmentally disabled persons in Brooklyn New York, under operating certificates or contracts with New York State Office of Mental Retardation and Developmental Disabilities OMR/DD. Nearly all of the Agency's revenue is Medicaid received from OMR/DD.

Note B – Accounting Principles

The accounting policies of the agency conform to accounting principles generally accepted as applicable to voluntary health and welfare agencies. The accrual basis of accounting is followed by the agency. Under the accrual basis of accounting, revenues are reported when earned. Expenditures are recorded when the goods are received or services are rendered.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable un-collectible through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to an expense account and a credit to accounts receivable.

The agency reports investments in equity and debt securities at their fair values in the statements of assets, liabilities and net assets. Interest, dividends, realized and unrealized gains and losses are included in the change in net assets.

All depreciable assets that cost at least $1,000 are recorded at cost and are depreciated on a straight-line basis. Buildings are depreciated over 25 years. Machinery and equipment are depreciated over 3 to 7 years and transportation equipment over 4 years. Leasehold improvements are depreciated over the term of the lease including extensions at the tenant's option.

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results can differ from those estimates.

Note B – Accounting Principles (continued)

The agency reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Restricted revenue whose restriction expired during the year is presented as unrestricted revenue. The agency has no restricted assets as of June 30, 2010.

Information for the year ended June 30, 2009 is presented for comparative purposes only, and was extracted from the financial statements prepared for that year, upon which an unqualified opinion dated December 14, 2009, was expressed.

The agency is a tax-exempt organization under the law of New York State and under Internal Revenue Code 501(c)(3) as a non-private foundation.

For purposes of the statements of cash flows, the organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Subsequent events have been evaluated through October 19, 2010, the date of which financial statements were available to be issued.

Note C – Concentrations of Credit Risk

The agency maintains cash balances at a financial institution located in New York City. Federal Deposit Insurance Corporation insures all non-interest bearing deposits, and up to $250,000 on interest bearing accounts. At June 30, 2010, the Agency's uninsured cash balances totaled $1,358,361 of which $300,000 is pledged as collateral by the institution for a loan. Cash includes a money market fund investment reported at cost of $251,871. Investments included in cash and cash equivalents reported in the statement of financial position are made up of financial instruments with readily determinable fair values based on quoted prices in active markets for identical assets (Level 1).

Note D – Accounts Receivable

Accounts receivable are nearly 100% Medicaid; and are expected to be collected in full; accordingly no allowance has been made for bad debts. Accounts receivable have been pledged as collateral for bank loans and mortgages payable.

Note E – Reserve Funds and Closing Costs

Reserve funds represents cash held by Bank of New York, under the New York City Industrial Development Agency financing arrangement and by Dormitory Authority of the State of New York (DASNY) as security for payment of the Bonds and Mortgage loans. Closing costs represents the costs of obtaining mortgage financing. The costs are being amortized over 15 or 25 years, which is the life of the mortgages. Closing costs are reported net of accumulated amortization of $296,696.

Note F – Mortgages Payable

Mortgages Payable represents:

1. Several mortgage loans from Medical Care Facilities Finance Agency, or from New York City Industrial Development Agency, to finance construction or renovation of residential sites. The original amount of the loans was $5,631,880. Substantially all the agency's real property is pledged as collateral to the mortgages. The mortgages are repaid by withholding from Medicaid funds or by monthly payments to the bank trustee. Interest rates range from 5.44% to 7.56%. Interest expense for the year ended June 30, 2010 was $204,322. The balance of the mortgages as of that date was $2,968,908.

2. Four mortgage loans from Hudson Valley Bank in the original amount of $2,734,949 to finance renovation of new sites at 74th Street, 85th Street, and Avenue W. The loans are due within 5 to 15 years. Interest rates range from 6.87% - 8.00%. Interest expense for the year ended June 30, 2010 was $143,315. The balance at June 30, 2010 is $2,592,180.

   Principal installments due in each of the next five years are as follows:

Year ended June 30, 2011	$668,467
Year ended June 30, 2012	573,514
Year ended June 30, 2013	596,010
Year ended June 30, 2014	514,580
Year ended June 30, 2015	405,316

Note G – Loans Payable

Loans Payable represents:

1. Three loans from JP Morgan Chase Bank, in the combined original amount of $674,035 to finance the construction of residential sites. The loans are due within 1 to 12 years. Interest rates range from 6% to 7.36%. Interest expense for the year ended June 30, 2010 was $23,174. The total loan balance as of that date was $290,470. Certain of the agreements provide for restrictions on the Agency's current ratio, working capital, net assets, and debt to capital ratio. All assets of the Agency are pledged as collateral for these loans.

2. A loan from Hudson Valley Bank in the original amount of $78,950 was taken in February of 2009. The loan is due in February 2014. Interest at 7.50% for the year ended June 30, 2010 was $5,119. The balance as of June 30, 2010 was $60,599.

3. Notes payable for the financing of capitalized auto and equipment leases. The total balance at June 30, 2010 is $18,090. The total amount capitalized to date is $50,775. Amortization to date is $49,089. Final lease payment is due in January 2012. Interest at 8.25% for the year ended June 30, 2010 was $1,732.

   Principal installments due in each of the next five years are as follows:

Year ended June 30, 2011	$70,904
Year ended June 30, 2012	58,767
Year ended June 30, 2013	55,213
Year ended June 30, 2014	49,897
Year ended June 30, 2015	37,808

Note H – Lease Commitments

The residential programs occupy leased sites. The terms of the leases vary from 2 to 10 years. Future rental payments under the terms of existing leases over the next five years are:

Year ended June 30, 2011	$878,133
Year ended June 30, 2012	797,645
Year ended June 30, 2013	631,351
Year ended June 30, 2014	465.314
Year ended June 30, 2015	384,639

Note I – Due to OMR/DD

Due to OMR/DD is comprised of advance payments received from OMR/DD and amounts advanced to fund the start-up of the ICF and IRA residences. The total amount due to OMR/DD within one year of June 30, 2010 is $217,304.

Note J – Equipment Lease

The Agency leases various auto and office equipment under 2 to 4 year leases. Total lease expense for the year ended June 30, 2010 was $164,865. Future payments over the next five years under existing leases are:

Year ended June 30, 2011	$115,866
Year ended June 30, 2012	76,557
Year ended June 30, 2013	40,711
Year ended June 30, 2014	2,453

Note K – Pension Plan

The Agency participates in a Profit Sharing Plan under Section 403 (b). An employee is eligible after two years of employment. For the year ended June 30, 2010 the agency contributed a total of $77,661. Additionally the agency adopted a Section 457(f) Plan and contributed $60,000.

Note L - Board Designated Funds

The Agency participated in a New York State funded program to reimburse employees for certain medical expenses. As of the balance sheet date the agency has designated $469,082 for future reimbursement.

PROGRAM DEVELOPMENT SERVICES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2009

PROGRAM DEVELOPMENT SERVICES, INC.

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PEER REVIEW PROGRAM

B-III-15

INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Program Development Services, Inc.
Brooklyn, NY

We have audited the accompanying statements of financial position of Program Development Services, 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 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Program Development Services, 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.

J. Gliksman CPA PC

J. Gliksman CPA, PC

December 14, 2009

PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009
(With Comparative Totals for June 30, 2008)

ASSETS

	2009	2008
Current Assets		
Cash and Cash Equivalents	$ 1,754,177	$ 1,066,862
Medicaid Receivables	1,402,112	1,564,732
Fees & Grants Receivables	299,867	100,481
Prepaid Expenses	68,822	48,454
Total Current Assets	**$ 3,524,978**	**$ 2,780,529**
Fixed Assets		
Land	$ 770,009	$ 675,785
Buildings	6,815,318	5,752,939
Construction in Progress	-	1,071,781
Leasehold Improvements	1,606,251	1,783,738
Furniture & Equipment	873,323	789,488
Automobiles	72,664	62,848
Accumulated Depreciation	(2,805,193)	(2,455,381)
Total Fixed Assets	**$ 7,332,372**	**$ 7,681,198**
Other Assets		
Deposit	$ 122,878	$ 112,861
Debt Service Reserve Fund	267,901	265,201
Mortgage Closing Costs	353,539	351,041
Escrow	79,155	79,155
Total Other Assets	**$ 823,473**	**$ 808,258**
TOTAL ASSETS	**$ 11,680,823**	**$ 11,269,985**

See notes to financial statements

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PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009
(With Comparative Totals for June 30, 2008)

LIABILITIES & NET ASSETS

Current Liabilities	2009	2008
Accounts Payable	$ 234,654	$ 338,273
Wages and Taxes Payable	607,076	517,979
Accrued Vacation/Sick Pay	773,629	720,884
Bank Loans Payable	316,322	2,651,793
Due to OMR/DD	241,287	264,869
Mortgage Payable	418,300	410,600
Total Current Liabilities	**$ 2,591,268**	**$ 4,904,398**
Other Liabilities		
Bank Loans Payable	$ 3,011,897	$ 366,094
Due to OMR/DD	187,069	123,709
Mortgage Payable	2,968,908	3,387,208
Total Other Liabilities	**$ 6,167,874**	**$ 3,877,011**
TOTAL LIABILITIES	**$ 8,759,142**	**$ 8,781,409**
Net Assets		
Unrestricted	$ 2,476,307	$ 2,050,008
Board Designated Funds	445,374	438,568
Total Net Assets	**$ 2,921,681**	**$ 2,488,576**
TOTAL LIABILITIES & NET ASSETS	**$ 11,680,823**	**$ 11,269,985**

See notes to financial statements

PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009
(With Comparative Totals for June 30, 2008)

	Unrestricted 2009	Unrestricted 2008
Revenue		
Program Service Fees	$ 17,046,097	$ 14,740,591
Grants	70,379	34,885
Contributions	2,850	-
Other Income	55,070	37,689
Interest and Option Income	702	36,419
Total	**$ 17,175,098**	**$ 14,849,584**
Expenses		
Residential Programs	$ 15,371,354	$ 13,793,228
General & Administration	1,370,639	1,195,121
Total	**$ 16,741,993**	**$ 14,988,349**
Change in Net Assets	$ 433,105	$ (138,765)
Prior Period Adjustment	-	30,000
Net Assets Beginning	2,488,576	2,597,341
Net Assets - Ending	**$ 2,921,681**	**$ 2,488,576**

See notes to financial statements

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PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009
(With Comparative Totals for June 30, 2008)

	Residential Programs	General Admin.	Total 2009	Total 2008
EXPENSES:				
Salaries	$ 7,892,894	$ 595,364	$ 8,488,258	$ 7,759,579
Payroll Taxes & Benefits	2,562,842	168,967	2,731,809	2,360,245
Total Salaries and Related Expenses	$ 10,455,736	$ 764,331	$ 11,220,067	$ 10,119,824
Food	515,133	1,822	516,955	461,759
Repairs & Maintenance	139,589	42,027	181,616	193,395
Utilities	239,373	28,146	267,519	231,564
Transportation	322,265	16,454	338,719	277,247
Client Expenses	449,143	-	449,143	372,841
Expensed Equipment	53,826	4,310	58,136	42,153
Facility Tax Assessment	148,486	-	148,486	149,336
Leases	132,271	15,772	148,043	151,909
Office Expenses	16,262	59,358	75,620	77,836
Supplies	330,238	34,997	365,235	311,302
Telephone	94,581	83,973	178,554	155,648
Advertising	741	1,435	2,176	7,008
Professional Fees	322,496	95,099	417,595	416,116
Rent	927,792	107,661	1,035,453	1,000,994
Insurance	170,892	24,755	195,647	270,561
Real Estate Taxes	994	2,582	3,576	11,260
Depreciation & Amortization	420,088	16,298	436,386	330,733
Disposal of Fixed Assets	145,075	13,974	159,049	6,369
Interest & Mortgage Fees	436,313	13,457	449,770	268,224
Bad Debt Expense	-	-	-	62,858
Other Administrative	50,060	44,188	94,248	69,412
Total	**$ 15,371,354**	**$ 1,370,639**	**$ 16,741,993**	**$ 14,988,349**

PROGRAM DEVELOPMENT SERVICES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009
(With Comparative Totals for June 30, 2008)

Cash Flows from Operations:	2009	2008
Change in Net Assets	$ 433,105	$ (108,765)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operations:		
Depreciation & Amortization	436,386	330,733
Change in Receivables, Prepaid and Deposit	(69,649)	(217,812)
Change in Current Liabilities	38,223	125,657
Due to OMR/DD	39,778	(23,827)
Net Cash Provided by Operations	**$ 877,843**	**$ 105,986**
Cash Flows from Investing		
Acquisition of Fixed Assets	$ (87,560)	$ (2,349,881)
Increase (Decrease) of Debt Service Reserve Fund	(2,700)	(182,124)
Net Cash Used by Investing	**$ (90,260)**	**$ (2,532,005)**
Cash Flows from Financing:		
Proceeds of Loans	$ 310,332	$ 541,590
Payment of Mortgages	(410,600)	1,942,000
Net Cash (Used)/Provided by Financing	**$ (100,268)**	**$ 2,483,590**
Net Increase in Cash	$ 687,315	$ 57,571
Cash Balance - Beginning	1,066,862	1,009,291
CASH BALANCE ENDING	**$ 1,754,177**	**$ 1,066,862**
Interest Paid	$ 440,508	$ 257,540
Taxes Paid	3,576	11,260

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PROGRAM DEVELOPMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note A - Nature of the Agency

Program Development Services, Inc. "the Agency" provides services to developmentally disabled persons in Brooklyn New York, under operating certificates or contracts with New York State Office of Mental Retardation and Developmental Disabilities OMR/DD. Nearly all of the Agency's revenue is Medicaid received from OMR/DD.

Note B – Accounting Principles

The accounting policies of the agency conform to accounting principles generally accepted as applicable to voluntary health and welfare agencies. The accrual basis of accounting is followed by the agency. Under the accrual basis of accounting, revenues are reported when earned. Expenditures are recorded when the goods are received or services are rendered.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable un-collectible through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to an expense account and a credit to accounts receivable.

The agency reports investments in equity and debt securities at their fair values in the statements of assets, liabilities and net assets. Interest, dividends, realized and unrealized gains and losses are included in the change in net assets.

All depreciable assets that cost at least $1,000 are recorded at cost and are depreciated on a straight-line basis. Buildings are depreciated over 25 years. Machinery and equipment are depreciated over 3 to 7 years and transportation equipment over 4 years. Leasehold improvements are depreciated over the term of the lease including extensions at the tenant's option.

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results can differ from those estimates.

Note B – Accounting Principles (continued)

The agency reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Restricted revenue whose restriction expired during the year is presented as unrestricted revenue. The agency has no restricted assets as of June 30, 2009.

Information for the year ended June 30, 2008 is presented for comparative purposes only, and was extracted from the financial statements prepared for that year, upon which an unqualified opinion dated November 28, 2008, was expressed.

The agency is a tax-exempt organization under the law of New York State and under Internal Revenue Code 501(c)(3) as a non-private foundation.

For purposes of the statements of cash flows, the organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Subsequent events have been evaluated through December 14, 2009, the date of which financial statements were available to be issued.

Note C – Concentrations of Credit Risk

The agency maintains cash balances at a financial institution located in New York City. Federal Deposit Insurance Corporation insures accounts up to $250,000. At June 30, 2009, the Agency's uninsured cash balances totaled $1,390,231. Cash includes a money market fund reported at cost of $23,832. Investments included in cash and cash equivalents reported in the statement of financial position are made up of financial instruments with readily determinable fair values based on quoted prices in active markets for identical assets (Level 1).

Note D – Accounts Receivable

Accounts receivable are nearly 100% Medicaid; and are expected to be collected in full; accordingly no allowance has been made for bad debts. Accounts receivable have been pledged as collateral for bank loans payable.

Note E – Reserve Funds and Closing Costs

Reserve funds represents cash held by Bank of New York, under the New York City Industrial Development Agency financing arrangement and by Dormitory Authority of the State of New York (DASNY) as security for payment of the Bonds and Mortgage loans. Closing costs represents the costs of obtaining mortgage financing. The costs are being amortized over 15 or 25 years, which is the life of the mortgages. Closing costs are reported net of accumulated amortization of $256,972.

Note F – Mortgages Payable

The agency is liable for several mortgage loans from Medical Care Facilities Finance Agency, or from New York City Industrial Development Agency, to finance construction or renovation of residential sites. The original amount of the loans was $5,631,880. Substantially all the agency's real property is pledged as collateral to the mortgages. The mortgages are repaid by withholding from Medicaid funds or by monthly payments to the bank trustee. Interest rates range from 5.44% to 7.56%. Interest expense for the year ended June 30, 2009 was $229,320. The balance of the mortgages as of that date was $3,387,208. Principal installments due in each of the next five years are as follows:

Year ended June 30, 2010	$418,300
Year ended June 30, 2011	441,180
Year ended June 30, 2012	329,500
Year ended June 20, 2013	333,000
Year ended June 30, 2014	231,700

Note G – Loans Payable

Loans Payable represent:

1. Three loans from JP Morgan Chase Bank, in the combined original amount of $961,552 to finance the construction of residential sites. The loans are due within 1 to 12 years. Interest rates range from 5.95% to 9%. Interest expense for the year ended June 30, 2009 was $26,660. The total loan balance as of that date was $339,371. Certain of the agreements provide for restrictions on the Agency's current ratio, working capital, net assets, and debt to capital ratio. All assets of the Agency are pledged as collateral for these loans.

2. A loan from Hudson Valley Bank in the original amount of $78,950 was taken in February of 2009. The loan is due in February 2014. Interest at 7.50% for the year ended June 30, 2009 was $1,933. The balance as of June 30, 2009 was $74,439.

3. A line of credit from Hudson Valley Bank in the maximum amount of $750,000 was taken in April of 2009. Interest rate is variable. The balance as of June 30, 2009 was $100,000. The loan is due in February 2010.

4. Notes payable for the financing of capitalized auto and equipment leases. The total balance at June 30, 2009 is $24,700.The total amount capitalized to date is $50,775. Amortization to date is $37,124. Final lease payment is due in January 2012. Interest at 8.25% for the year ended June 30, 2009 was $3,990.

5. Three loans from FJC, in the maximum amount of $3,272,000 to finance renovation of new sites at 74th Street, 85th Street, and Avenue W. Interest expense at prime plus 3% for the year ended June 30, 2009 was $189,869, of which $22,871 was capitalized. An additional $45,228 was capitalized in the prior year. Payment of loans is due in June 2009. Subsequent to the financial statement date the agency has replaced these loans with long-term mortgage financing, with maturities of 5-15 years and interest rates ranging from 6.87% - 8.00%. The balance at June 30, 2009 is $2,789,710.

   Principal installments due in each of the next five years are as follows:

Year ended June 30, 2010	$316,322
Year ended June 30, 2011	298,191
Year ended June 30, 2012	302,781
Year ended June 20, 2013	318,223
Year ended June 30, 2014	332,776

Note H – Lease Commitments

The residential programs occupy leased sites. The terms of the leases vary from 2 to 10 years. Future rental payments under the terms of existing leases over the next five years are:

Year ended June 30, 2010	$785,657
Year ended June 30, 2011	623,804
Year ended June 30, 2012	588,902
Year ended June 20, 2013	424,811
Year ended June 30, 2014	238,070

Note I – Due to OMR/DD

Due to OMR/DD is comprised of advance payments received from OMR/DD and amounts advanced to fund the start-up of the ICF and IRA residences. The total amount due to OMR/DD within one year of June 30, 2009 is $241,287.

Note J – Equipment Lease

The Agency leases various auto and office equipment under 2 to 4 year leases. Total lease expense for the year ended June 30, 2009 was $148,043. Future payments over the next five years under existing leases are:

Year ended June 30, 2010	$139,108
Year ended June 30, 2011	82,806
Year ended June 30, 2012	34,659
Year ended June 20, 2013	9,852
Year ended June 30, 2014	2,453

Note K – Pension Plan

The Agency participates in a Profit Sharing Plan under Section 403 (b). An employee is eligible after two years of employment. For the year ended June 30, 2009 the agency contributed a total of $67,682.

Note L - Board Designated Funds

The Agency participated in a New York State funded program to reimburse employees for certain medical expenses. As of the balance sheet date the agency has designated $445,374 for future reimbursement.

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APPENDIX B-IV

SERVICES FOR THE UNDERSERVED, INC.

AND RELATED ORGANIZATIONS

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2011, JUNE 30, 2010 AND JUNE 30, 2009)

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Services for the Underserved and Affiliated Organizations

Combined Financial Statements and Supplemental Material
Year Ended June 30, 2011

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

Services for the Underserved and Affiliated Organizations

Combined Financial Statements and Supplemental Material
Year Ended June 30, 2011

Services for the Underserved and Affiliated Organizations

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Independent Auditors' Report

To the Board of Directors
Services for the Underserved
and Affiliated Organizations

We have audited the accompanying combined statement of financial position of Services for the Underserved and Affiliated Organizations ("SUS") as of June 30, 2011, 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, 2010 is presented for comparative purposes only and was extracted from the financial statements of SUS for the year, on which we expressed an unqualified opinion, dated January 19, 2011.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Services for the Underserved and Affiliated Organizations as of June 30, 2011, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 13, 2011

Services for the Underserved and Affiliated Organizations

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

June 30,	2011	2010
Assets		
Cash and cash equivalents (Notes 2, 10 and 17)	$12,721,945	$ 6,285,077
Accounts receivable, net of allowance for doubtful accounts of $4,608,105 and $4,042,810 for 2011 and 2010, respectively (Note 2)	8,216,874	14,786,306
Prepaid expenses and other assets (Note 3)	1,585,857	1,510,170
Bond escrow fund (Note 4)	164,774	164,774
Due from affiliates (Note 10)	1,573,801	1,683,738
Debt service reserve (Note 4)	1,857,781	1,669,012
Deferred bond financing costs (Note 9)	1,185,143	1,168,334
Fixed assets, net (Notes 2, 5, 8 and 10)	37,196,087	35,120,095
	$64,502,262	$62,387,506
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 4,269,886	$ 3,270,626
Accrued compensation and related taxes	3,255,774	4,782,366
Due to affiliates (Note 10)	1,606,161	685,989
Due to clients	418,511	412,271
Other liabilities	1,867	1,867
Deferred revenue (Notes 12 and 16)	8,048,550	7,557,420
Due to governmental agencies (Note 6)	3,870,136	2,649,010
Line of credit (Note 7)	1,471,191	2,510,719
Workers' compensation assessment payable settlement (Note 17)	537,502	-
Mortgages and loans payable (Note 8)	9,411,909	10,191,886
Bonds payable (Note 9)	14,223,602	11,833,602
Total Liabilities	47,115,089	43,895,756
Commitments and Contingencies (Notes 5, 7, 11, 13, 15 and 16)		
Net Assets:		
Unrestricted (Note 16)	14,614,046	15,514,367
Temporarily restricted (Note 14)	2,773,127	2,977,383
Total Net Assets	17,387,173	18,491,750
	$64,502,262	$62,387,506

See accompanying notes to combined financial statements.

Services for the Underserved and Affiliated Organizations

Combined Statement of Activities
(with comparative totals for 2010)

Year ended June 30,	Unrestricted	Temporarily Restricted	Totals 2011	Totals 2010
Public Support and Revenue:				
Medicaid income	$51,207,522	$ -	$51,207,522	$55,311,594
Contract revenue	27,753,402	-	27,753,402	26,199,606
Participant fees	6,711,790	-	6,711,790	6,491,515
Contributions	633,402	-	633,402	490,040
Management fees	91,045	-	91,045	356,003
Other	249,458	-	249,458	91,288
Net assets released from restriction (Note 14)	204,256	(204,256)	-	-
Total Public Support and Revenue	86,850,875	(204,256)	86,646,619	88,940,046
Expenses:				
Program services:				
SUS - Mental Health Programs, Inc.	24,424,926	-	24,424,926	23,334,626
SUS - Developmental Disabilities Services, Inc.	32,524,782	-	32,524,782	32,054,509
SUS - AIDS Services, Inc.	7,412,497	-	7,412,497	7,013,673
SUS - Home Attendant Program, Inc.	13,780,034	-	13,780,034	17,890,422
SUS - Home Care Services	3,740	-	3,740	20,336
Total Program Services	78,145,979	-	78,145,979	80,313,566
Supporting services:				
Fundraising	485,844	-	485,844	351,017
Management and general	7,368,519	-	7,368,519	7,328,722
Total Expenses	86,000,342	-	86,000,342	87,993,305
Excess (Deficiency) of Public Support and Revenue Over Expenses Before Transfer to Funding Source and Assessment From Default on Workers' Compensation Trust	850,533	(204,256)	646,277	946,741
Transfer to Funding Source (Note 16)	(1,213,352)	-	(1,213,352)	-
Assessment From Default on Workers' Compensation Trust (Note 17)	(537,502)	-	(537,502)	-
Change in Net Assets	(900,321)	(204,256)	(1,104,577)	946,741
Net Assets, Beginning of Year	15,514,367	2,977,383	18,491,750	17,545,009
Net Assets, End of Year	$14,614,046	$2,773,127	$17,387,173	$18,491,750

See accompanying notes to combined financial statements.

Services for the Underserved and Affiliated Organizations

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

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	2011	2010
Salaries and Related Expenses:										
Salaries	$ 8,170,862	$15,127,325	$2,441,260	$ 9,907,514	$ -	$35,646,961	$112,674	$3,178,917	$38,938,552	$42,508,907
Fringe benefits	2,045,368	5,027,904	716,873	3,166,360	250	10,956,755	32,578	536,021	11,525,354	13,112,924
Total Salaries and Related Expenses	10,216,230	20,155,229	3,158,133	13,073,874	250	46,603,716	145,252	3,714,938	50,463,906	55,621,831
Other Expenses:										
Food	544,988	779,832	21,430	-	-	1,346,250	-	(16)	1,346,234	1,276,224
Rent	5,435,496	541,730	2,836,387	-	-	8,813,613	-	332,937	9,146,550	8,932,631
Facility tax	-	394,807	-	-	-	394,807	-	260	395,067	349,992
Telephone and utilities	1,429,194	748,251	355,198	-	-	2,532,643	-	194,949	2,727,592	2,453,229
Transportation	156,355	1,456,876	36,989	-	-	1,650,220	-	68,564	1,718,784	1,508,986
Office supplies and postage	93,057	104,745	37,007	-	2,652	237,461	-	196,953	434,414	472,567
Lease equipment	236,957	389,794	40,700	-	-	667,451	-	151,507	818,958	732,896
Repairs and maintenance	1,007,600	680,622	137,671	-	75	1,825,968	-	317,968	2,143,936	1,800,404
Professional and consultant fees	582,081	257,336	95,408	-	763	935,588	-	687,043	1,622,631	1,484,958
Household supplies	254,617	663,490	88,489	-	-	1,006,596	-	6,584	1,013,180	1,007,414
Medical exams	-	-	-	-	-	-	-	36,920	36,920	51,372
Furniture and equipment expense	445,621	301,800	103,657	-	-	851,078	-	455,107	1,306,185	1,217,292
Insurance	334,105	193,655	42,837	-	-	570,597	-	50,414	621,011	666,286
Community outreach and recruitment	78,472	29,634	506	-	-	108,612	-	197,427	306,039	342,481
Client incidentals	274,275	242,804	21,317	-	-	538,396	-	185	538,581	500,360
Staff training	22,226	91,378	1,673	-	-	115,277	-	12,728	128,005	184,993
Interest expense	517,702	500,239	-	-	-	1,017,941	-	209,539	1,227,480	1,331,693
Temporary labor	1,402,440	2,392,304	172,380	-	-	3,967,124	-	164,161	4,131,285	2,864,472
Real estate taxes	5,624	48,313	106	-	-	54,043	-	-	54,043	42,329
Miscellaneous	47,038	64,890	111,633	-	-	223,561	-	273,346	496,907	473,542
Start-up cost	17,800	2,150	16,025	-	-	35,975	-	-	35,975	106,686
Sheltered workshop		1,291,275	-	-	-	1,291,275	-	-	1,291,275	673,524
Broker and bond administrative fees	36,216	20,094	914	-	-	57,224	-	37,265	94,489	73,987
Fundraising expense	-	-	-	-	-	-	340,592	(3,503)	337,089	351,017
Capital reserve	13,477	-	-	-	-	13,477	-	-	13,477	-
Bad debt expense	2,523	7,638	85,019	706,160	-	801,340	-	17,764	819,104	853,308
Total Expenses Before Depreciation and Amortization	23,154,094	31,358,886	7,363,479	13,780,034	3,740	75,660,233	485,844	7,123,040	83,269,117	85,374,474
Depreciation and Amortization	1,270,832	1,165,896	49,018	-	-	2,485,746	-	245,479	2,731,225	2,618,831
Total Expenses	$24,424,926	$32,524,782	$7,412,497	$13,780,034	$3,740	$78,145,979	$485,844	$7,368,519	$86,000,342	$87,993,305

See accompanying notes to combined financial statements.

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

Year ended June 30,	2011	2010
Cash Flows From Operating Activities:		
Change in net assets	$ (1,104,577)	$ 946,741
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,731,225	2,618,831
Provisions for bad debt	819,104	853,308
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	5,750,328	(4,736,228)
Prepaid expenses and other assets	(75,687)	(47,235)
Due from affiliates	109,937	472,862
Deferred bond servicing cost	(16,809)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	999,260	919,637
Accrued compensation and related taxes	(1,526,592)	(637,662)
Due to affiliates	920,172	(411,495)
Due to clients	6,240	(200,671)
Deferred revenue	491,130	(3,145,066)
Due to governmental agencies	1,221,126	1,261,194
Workers' compensation assessment payable settlement	537,502	-
Net Cash Provided By (Used In) Operating Activities	10,862,359	(2,105,784)
Cash Flows From Investing Activities:		
Purchase of fixed assets	(4,807,217)	(1,347,304)
Cash Flows From Financing Activities:		
Bond escrow fund	-	520,011
Debt service reserve fund	(188,769)	(2,158)
Payments of bond principal	2,390,000	(1,140,000)
Payments of line of credit	(1,039,528)	(498,755)
Payments of mortgages and loans payable	(779,977)	(736,409)
Net Cash Provided By (Used In) Financing Activities	381,726	(1,857,311)
Net Increase (Decrease) in Cash and Cash Equivalents	6,436,868	(5,310,399)
Cash and Cash Equivalents, Beginning of Year	6,285,077	11,595,476
Cash and Cash Equivalents, End of Year	$12,721,945	$ 6,285,077
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 1,227,480	$ 1,331,693

See accompanying notes to combined financial statements.

Notes to Combined Financial Statements

1. Nature of Organization

Services for the Underserved and Affiliated Organizations ("SUS") was established in 1978 and currently serves approximately 3,000 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 affiliated organizations which are affiliated through common Board membership, common management and/or common ownership. All material intercompany transactions and balances have been eliminated. The following entities are included in the combined financial statements:

Services for the Underserved, Inc. (corporate).

Services for the Underserved Foundation, Inc. (fundraising - no activity for the year ended June 30, 2011).

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.

SUS is related to other affiliates, New Life Homes Housing Development Fund Corporation, Macombs Road Housing Development Fund Corporation and Mother Gaston Housing Development Fund Company, Inc.; however, it is not presented in these combined financial statements since it does not meet the criteria for consolidation.

(b) Basis of Presentation

The combined financial statements have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

(c) Financial Statement Presentation

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

These classes are defined as follows:

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

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

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

(d) Cash and Cash Equivalents

SUS considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

(e) Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives of the assets are as follows:

Buildings and building improvements	25 years
Leasehold improvements	25 years
Furniture and equipment	5-7 years
Vehicles	5-7 years

(f) Revenue Recognition

Revenue from governmental grants is recognized as the expenditures for each contract are incurred. All grant monies received in excess of revenue earned are recorded as deferred revenue. Revenue from fees for service programs is recognized as they are earned (services are provided daily and/or monthly).

Reimbursements are subject to audit and retroactive adjustment by the respective third party fiscal intermediary. Revenue from retroactive adjustments is recognized in the year the adjustments are made.

Services for the Underserved and Affiliated Organizations

Notes to Combined Financial Statements

SUS receives Supplemental Security Income ("SSI") and Social Security Income ("SSA") payments for the participants. A portion of the SSI/SSA payments represents the participants' contributions toward the cost of goods and services and is recognized as revenue when received. The remaining portion of SSI/SSA represents the participants' personal allowance and is recognized as a liability due to clients.

Participant fees represent the participant's personal contribution towards the cost of goods and services SUS is allowed to charge as regulated by Federal and state law.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

(g) Contributions and Promises to Give

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

Contributions of property and equipment are recorded at the fair market value of the property and equipment at the time of contribution.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

(h) Income Taxes

SUS and affiliated organizations were incorporated in the State of New York and are exempt from Federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and therefore have made no provision for income taxes in the accompanying financial statements. SUS has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for 2011.

SUS has not taken an unsubstantiated tax position that would require provision of a liability under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, "Income Taxes". SUS has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, SUS has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the year ended June 30, 2011, there was no interest or penalties recorded or included in the statement of activities. See Note 2(o).

(i) Use of Estimates

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

(j) Comparative Financial Information

The financial statements include certain prior year summarized comparative information. The statement of activities is presented in total rather than by net assets class. With respect to the statement of functional expenses, the prior year expenses are presented by expense classification in total rather than functional category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with SUS's financial statements for the year ended June 30, 2010 from which the summarized information was derived.

(k) Concentration of Credit Risk

The financial instruments that potentially subject SUS to concentration of credit risk consist primarily of cash and cash equivalent accounts in financial institutions which, from time to time, exceed the Federal Depository Insurance Coverage ("FDIC") limit.

(l) Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation. These reclassifications did not have an impact on change in net assets.

(m) Due to Governmental Agencies

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Due to governmental agencies consists of operational advances, retroactive rate adjustments and advances received from New York State Office for People With Developmental Disabilities ("OPWDD"), the New York State Office of Mental Health ("OMH") and other advances due to the Human Resources Administration ("HRA"). OPWDD recoups the liability through withholdings from Medicaid remittances over a specified period of time.

(n) Fair Value Measurements

ASC 820, "Fair Value Measurements and Disclosures", establishes a framework for measuring fair value and expands the disclosures about fair value measurements. The adoption did not impact the amounts reported in the combined financial statements. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or unobservable. ASC 820 established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The standard requires that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and their placement within the fair value hierarchy. SUS classifies fair value balances based on the fair value hierarchy defined by ASC 820 as follows:

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

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

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

(o) Accounting for Uncertainty in Income Taxes

Under ASC 740 (relevant portions of which were previously addressed in FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"), and ASU 2009-06, "Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities", an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained upon examination by a taxing authority. SUS does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. SUS has filed for and received income tax exemptions in the jurisdictions where it is required to do so. For the year ended June 30, 2011, there was no interest or penalties recorded or included in the combined statement of activities. As of June 30, 2011, the years still subject to examination by a taxing authority are 2008 through 2010.

(p) Effect of New Accounting Pronouncements

(i) Fair Value Disclosures

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements", which amends ASC 820, adding new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. SUS adopted ASU 2010-06 on July 1, 2010, except for the requirement to provide Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The adoption of this ASU did not have a material impact on SUS's combined financial statements.

(ii) Fair Value Measurements

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

3. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consists of the following:

June 30, 2011	
Security deposits	$ 817,450
Prepaid expenses	438,435
Dormitory Authority of the State of New York surplus funds	329,972
	$1,585,857

4. Debt Service Reserve and Bond Escrow Fund

Debt service reserve represents funds held by OPWDD, Deutsche Bank Trust Company Americas and Bank of New York Mellon, (collectively, the "Trustee"). These funds will be applied to the last payment required on the mortgages with the Facilities Development Corporation ("FDC") and bonds due to the Dormitory Authority of the State of New York Office of Mental Health ("DASNY") and NYC Industrial Development Agency ("IDA"). This reserve will earn interest which will be used to offset SUS's obligations. As of June 30, 2011, the Trustee has $1,857,781 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, 2011, the Trustee has $164,774 in bond escrow funds.

SUS's financial instruments are carried at fair value and have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2(n) for a discussion of SUS's policies regarding this hierarchy.

SUS's publicly-traded U.S. Treasury money market funds, U.S. Treasury bills and U.S. Treasury notes are carried at their aggregate market value that is determined by quoted market prices. Each of these investments can be liquidated daily. The valuation of these investments is based on Level 1 inputs within the hierarchy used in measuring fair value.

SUS's holdings in publicly-traded fixed income securities consist of U.S. government-sponsored agency securities. SUS's Trustee prices these investments using nationally recognized pricing services. Since fixed income securities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements for these securities using their proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of similar securities, sector groupings and matrix pricing. The valuation of these investments is based on Level 2 inputs within the hierarchy used in measuring fair value.

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Services for the Underserved and Affiliated Organizations

Notes to Combined Financial Statements

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, 2011:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of June 30, 2011
Assets				
Money market funds	$1,007,971	$ -	$ -	$1,007,971
U.S. government obligations	574,404	440,180	-	1,014,584
Total assets	$1,582,375	$440,180	$ -	$2,022,555

5. Fixed Assets, Net

Major classes of fixed assets, net consist of the following:

June 30, 2011	
Land	$ 2,044,297
Building and building improvements	56,254,431
Leasehold improvements	1,409,385
Furniture and equipment	5,722,936
Vehicles	495,215
Total fixed assets	65,926,264
Less: Accumulated depreciation and amortization	(28,730,177)
Fixed assets, net	$ 37,196,087

For the year ended June 30, 2011, depreciation and amortization expense was $2,731,225.

6. Due to Governmental Agencies

Due to governmental agencies consists of the following:

June 30, 2011	
Other advances due to OMH and New York City to be recouped	$1,792,825
Other advances due to Medicaid to be recouped	1,430,219
Other advances due to HRA to be recouped	647,092
	$3,870,136

7. Line of Credit

SUS and its affiliated organizations have a $6,000,000 working capital line of credit with Bank of America against which $-0- was outstanding for SUS at June 30, 2011. SUS incurred and paid $1,983 in interest expense during the year ended June 30, 2011. The line of credit matured on June 30, 2011 and the interest rate was equal to the prime rate plus 0.25%. On June 30, 2011, the line of credit was amended and restated from Bank of America with the same amount and conditions. This line of credit matures on June 30, 2012. There is also a quarterly fee on the unused available line of credit amount of 0.25%. The loan is guaranteed by SUS and all of its affiliates, collectively and individually, and is collateralized by a first-priority perfected securities interest in SUS's and its affiliated organizations' present and future accounts receivable and personal property and fixtures.

SUS has a $4,000,000 acquisition line of credit with Bank of America. The line of credit matured on June 30, 2011, and the interest rate was ¼% in excess of the prime rate. The loan is guaranteed by a negative pledge on the related residence and related leased location. The total amount outstanding as of June 30, 2011 was $1,471,291, and there was $286 of related interest during the year ended June 30, 2011. On June 30, 2011, this acquisition line of credit was amended and restated from Bank of America with the same amount and conditions. This acquisition line of credit matures on June 30, 2012.

8. Mortgages and Loans Payable

Mortgages and loans payable consist of the following:

June 30, 2011	
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	$ 304,815
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	698,598
Mortgage payable to DASNY - OMH, due June 1, 2019, payable in semiannual payments of $47,400, including interest at 6.20% per annum, secured by real estate located on Patchen Avenue, Brooklyn, New York	590,611
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	2,101,902
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	580,933
Mortgage payable to DASNY - OMH, due June 1, 2022, payable in semiannual payments of $272,229, including interest at 5.27% per annum, secured by real estate located on Beach 85th Street, Queens, New York	4,499,575
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.	38,925
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.	256,500
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.	340,050
	$9,411,909

Services for the Underserved and Affiliated Organizations

Notes to Combined Financial Statements

Mortgages and loans payable mature as follows:

Year ended June 30,	
2012	$ 832,295
2013	829,594
2014	883,406
2015	929,450
2016	944,114
Thereafter	4,993,050
	$9,411,909

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 wi th 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, 2011 was $5,105,537.

In March 2010, DD entered into a loan agreement with DASNY. Under the terms of the agreement, DASNY issued Insured Revenue Series 2010A-1 and Series 2010A-2 bonds in the principal amount of $3,735,000 and $80,000, which mature on July 1, 2025 and July 1, 2012, respectively. Bond payments, including interest and principal, are required to be made monthly to Deutsche Bank Trust Company Americas, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The Series 2010A-1 bond bears interest ranging from 1.5% to 5% per annum. The Series 2010A-2 bond bears interest at 3.5% per annum. The principal amounts outstanding on the Series 2010A-1 and Series 2010A-2 bonds at June 30, 2011 were $3,440,000 and $10,000, respectively.

(b) IDA

On March 2, 2005, DD entered into a capital lease financing agreement with NYC Industrial Development Agency ("IDA"). Under the terms of the agreement, IDA issued $2,690,000 of Series 2005A term bonds, net of bond discount of $47,755. Interest rates range from 2% to 3% and mature in 2020. Bond payments, including interest and principal, are required to be made monthly to Bank of New York Mellon, which maintains a debt service reserve fund account and makes semi-annual installments January 1 and July 1 of each year. The principal amount outstanding at June 30, 2011 was $1,510,000.

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, 2011 was $1,458,065.

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, 2011 was $2,710,000.

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, 2011, $96,333 of amortized bond costs is included in depreciation and amortization.

Future minimum debt service payments are as follows:

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Year ending June 30,	
2012	$ 1,460,000
2013	1,385,000
2014	1,365,000
2015	1,355,000
2016	960,000
Thereafter	7,698,602
	$14,223,602

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 ("NLHLP"). The Partnership has one general partner, New Life Homes, Inc., which has a .01% interest. The sole shareholder of New Life Homes, Inc. is New Life Homes Housing Development Fund Corporation ("HDFC"). The sole member of the HDFC is SUS. The limited partner of NLHLP is the National Equity Fund - 1999 Limited Partnership, which has a 99.99% interest.

SUS is entitled to an annual partnership management fee of 6.7% of gross potential income. SUS received management fees of $34,583 from New Life Homes, Inc. for the year ended June 30, 2011. At June 30, 2011, SUS had a payable and a receivable of $850,798 and $174,198, respectively, to NLHLP.

Family Residences & Essential Enterprises, Inc. ("FREE") entered into an agreement that substitutes FREE for SUS as sole member of the CDCH Preschool and CDCH Charter School. The agreement also provides that FREE replace SUS in its relationship with CDCH Foundation. The agreement with respect to CDCH Preschool closed on September 1, 2010, and the remaining parts of the agreement for CDCH Charter School closed on October 27, 2010. As consideration for the agreement, FREE will pay SUS the balances due to SUS by CDCH Preschool and CDCH Charter School at closing, subject to a ten-year promissory note of $500,000 issued at prime plus 1.5%.

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. SUS had a receivable from Macombs HLP for $81,184 as of June 30, 2011.

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. SUS had a receivable from Mother Gaston HLP for $18,214 as of June 30, 2011.

11. Pension Plan

Upon termination of the Services for the Underserved, Inc. 401(k) and Profit Sharing Plan on December 31, 2008, SUS established the plan on January 1, 2009 as a defined contribution plan covering all eligible employees of SUS. The plan is administered by SUS. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Employer contributions to the 403(b) plan are discretionary and may vary from year to year. There were no employer contributions to the 403(b) plan for the year ended June 30, 2011.

SUS also sponsors a Simplified Employee Pension Plan ("SEPP") covering all non-union employees of the Services for the Underserved Home Attendant Program, Inc. Employees are eligible to contribute to the plan once they have completed a two-year service requirement and are at least eighteen years of age. Employees who meet the requirements become a participant on the first day of the subsequent plan year. Employees are eligible to receive employer contributions after two years of service. SUS contributions to the SEPP are discretionary and may vary from year to year. Due to the termination of operation for the program on April 15, 2011, the plan was terminated accordingly. There was no employer contribution to the SEPP for the year ended June 30, 2011.

SUS adopted a deferred compensation retirement plan (the "457 Plan") under Section 457(f) of the Internal Revenue Code. The 457 Plan is intended to provide deferred compensation for a group of SUS management employees. Contribution to the 457 Plan for the year ended June 30, 2011 was $90,060.

12. Deferred Revenue

Deferred revenue consists of the following:

June 30, 2011	
Construction and acquisition costs for the Montrose, Marcy Avenue and Briarwood facilities which were financed by grants from the State of New York, Office of Mental Health ("OMH"), which stipulated that SUS will take title to the land and building after 20 years of meeting operational requirements	$5,152,206
Various Mental Health Program contract advances for fiscal year 2011	515,585
Additional OMH funding received for capital improvements for various Mental Health Program facilities	207,221
Various AIDS services contract advances for fiscal year 2012	371,619
Surplus income generated from Home Attendant Program	1,788,456
Other deferred revenue	13,463
	$8,048,550

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 $9,146,548 for the year ended June 30, 2011. The minimum future annual rental payments are as follows:

Year ending June 30,	
2012	$ 5,117,923
2013	2,437,195
2014	1,228,077
2015	1,164,127
2016	1,079,173
Thereafter	5,328,572
Total	$16,355,067

14. Temporarily Restricted Net Assets and Net Assets Released from Restriction

Temporarily restricted net assets at June 30, 2011 were $2,773,127 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 $204,256 for the Hotel Majestic property as of June 30, 2011.

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

As of March 31, 2011, HRA did not renew its contract for the provision of Home Attendant Services with Services for the Underserved - Home Attendant Program, Inc. ("SUS-HA"). All clients were transferred to other providers during April and May of 2011. HRA will continue to reimburse SUS-HA for costs incurred until the program is discontinued, at which time the net assets position of SUS-HA will be liquidated and recouped in cash by HRA. For the year ended June 30, 2011, SUS-HA estimated the net assets recoupment by HRA to be $1,213,352.

17. Workers' Compensation Assessment Payable Settlement

Between 1999 and 2003, SUS participated in a group self-insurance trust (the "Trust") along with multiple other agencies in the human services, not-for-profit sector. On December 31, 2010, the Trust was terminated in the face of a deficiency in assets. The Trust billed all former members of the Trust with an assessed portion of the deficit. The assessment of $537,502 was related to deficits for years in which SUS was a member of the Trust. In July 2011, the State of New York Workers' Compensation Board notified the Trust that it will transfer the Trust to a state contracted administrator. Pending further developments, SUS recorded a liability in the amount of $537,502. No payments were made to the Trust or the state-contracted administrator as of June 30, 2011.

18. Subsequent Events

SUS has evaluated subsequent events through December 13, 2011, which is the date these combined financial statements were available to be issued. No events arose during the period which required additional disclosures.

Independent Auditors' Report on Supplemental Material

Our audit of the basic combined financial statements included in the preceding section of this report was performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

BDO USA, LLP

Certified Public Accountants

New York, New York

December 13, 2011

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Services for the Underserved and Affiliated Organizations

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

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 2011	Total 2010
Assets									
Cash and cash equivalents	$4,041,375	$ 6,087,685	$ 25,920	$ 6,447	$2,423,297	$137,221	$ -	$12,721,945	$ 6,285,077
Accounts receivable, net	572,863	1,671,959	3,340,787	2,315,574	312,395	3,296	-	8,216,874	14,786,306
Prepaid expenses and other assets	330,094	915,583	164,891	149,554	22,143	3,592	-	1,585,857	1,510,170
Bond escrow fund	-	-	164,774	-	-	-	-	164,774	164,774
Due from affiliates, net	566,796	2,133,014	267,517	-	-	-	(1,393,526)	1,573,801	1,683,738
Debt service reserve	483,460	-	1,374,321	-	-	-	-	1,857,781	1,669,012
Deferred bond financing costs	351,578	-	833,565	-	-	-	-	1,185,143	1,168,334
Fixed assets, net	2,874,853	18,493,947	15,441,574	385,713	-	-	-	37,196,087	35,120,095
	$9,221,019	$29,302,188	$21,613,349	$2,857,288	$2,757,835	$144,109	$(1,393,526)	$64,502,262	$62,387,506
Liabilities and Net Assets (Deficit)									
Liabilities:									
Accounts payable and accrued expenses	$ 655,751	$ 1,283,708	$ 1,904,483	$ 261,434	$ 138,049	$ 26,461	$ -	$ 4,269,886	$ 3,270,626
Accrued compensation and related taxes	416,822	988,614	1,603,763	227,441	19,134	-	-	3,255,774	4,782,366
Due to affiliates	629,052	898,669	-	1,098,855	165,104	208,007	(1,393,526)	1,606,161	685,989
Due to clients	-	259,582	158,929	-	-	-	-	418,511	412,271
Other liabilities	-	1,867	-	-	-	-	-	1,867	1,867
Deferred revenue	-	5,875,012	13,463	371,619	1,788,456	-	-	8,048,550	7,557,420
Due to government agencies	-	1,792,925	1,430,119	-	647,092	-	-	3,870,136	2,649,010
Workers' compensation assessment payable settlement	-	317,881	170,233	49,388	-	-	-	537,502	-
Line of credit	-	-	1,471,191	-	-	-	-	1,471,191	2,510,719
Mortgages and loans payable	-	8,776,434	635,475	-	-	-	-	9,411,909	10,191,886
Bonds payable	4,038,892	-	10,184,710	-	-	-	-	14,223,602	11,833,602
Total Liabilities	5,740,517	20,194,692	17,572,366	2,008,737	2,757,835	234,468	(1,393,526)	47,115,089	43,895,756
Commitments and Contingencies									
Net Assets (Deficit):									
Unrestricted	3,480,502	6,334,369	4,040,983	848,551	-	(90,359)	-	14,614,046	15,514,367
Temporarily restricted	-	2,773,127	-	-	-	-	-	2,773,127	2,977,383
Total Net Assets (Deficit)	3,480,502	9,107,496	4,040,983	848,551	-	(90,359)	-	17,387,173	18,491,750
	$9,221,019	$29,302,188	$21,613,349	$2,857,288	$2,757,835	$144,109	$(1,393,526)	$64,502,262	$62,387,506

Services for the Underserved and Affiliated Organizations

Combining Statement of Activities
(with comparative totals for 2010)

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 2011	Total 2010
Public Support and Revenue:									
Medicaid income	$ -	$ 2,979,906	$34,002,224	$ -	$14,225,392	$ -	$ -	$51,207,522	$55,311,594
Contract revenue	-	20,303,260	-	7,450,142	-	-	-	27,753,402	26,199,606
Rental income	753,294	-	-	-	-	-	(753,294)	-	-
Participant fees	-	4,190,609	2,031,256	489,925	-	-	-	6,711,790	6,491,515
Contributions	633,402	-	-	-	-	-	-	633,402	490,040
Management fees	5,033,249	-	-	-	-	-	(4,942,204)	91,045	356,003
Other	185,801	19,905	35,533	2	8,217	-	-	249,458	91,288
Total Public Support and Revenue	6,605,746	27,493,680	36,069,013	7,940,069	14,233,609	-	(5,695,498)	86,646,619	88,940,046
Expenses:									
Program services:									
Mental Health Programs, Inc.	-	24,802,743	-	-	-	-	(377,817)	24,424,926	23,334,626
Developmental Disabilities Services, Inc.	-	-	32,900,259	-	-	-	(375,477)	32,524,782	32,054,509
AIDS Services, Inc.	-	-	-	7,412,497	-	-	-	7,412,497	7,013,673
Home Attendant Program, Inc.	-	-	-	-	13,780,034	-	-	13,780,034	17,890,422
Home Care Services	-	-	-	-	-	3,740	-	3,740	20,336
Total Program Services	-	24,802,743	32,900,259	7,412,497	13,780,034	3,740	(753,294)	78,145,979	80,313,566
Supporting services:									
Fundraising	485,844	-	-	-	-	-	-	485,844	351,017
Management and general	5,899,752	1,743,440	2,850,052	509,954	1,307,525	-	(4,942,204)	7,368,519	7,328,722
Total Expenses	6,385,596	26,546,183	35,750,311	7,922,451	15,087,559	3,740	(5,695,498)	86,000,342	87,993,305
Excess (Deficiency) of Public Support and Revenue Over Expenses Before Transfer to Funding Source and Assessment From Default on Workers' Compensation Trust	220,150	947,497	318,702	17,618	(853,950)	(3,740)	-	646,277	946,741
Transfer to Funding Source	-	-	-	-	(1,213,352)	-	-	(1,213,352)	-
Assessment From Default on Workers' Compensation Trust	-	(317,881)	(170,233)	(49,388)	-	-	-	(537,502)	-
Change in Net Assets	220,150	629,616	148,469	(31,770)	(2,067,302)	(3,740)	-	(1,104,577)	946,741
Net Assets (Deficit), Beginning of Year	3,260,352	8,477,880	3,892,514	880,321	2,067,302	(86,619)	-	18,491,750	17,545,009
Net Assets (Deficit), End of Year	$3,480,502	$ 9,107,496	$ 4,040,983	$ 848,551	$ -	$(90,359)	$ -	$17,387,173	$18,491,750

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Services for the Underserved and Related Organizations

Audit of Combined Financial Statements and Supplemental Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Contents

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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, 2010, 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, 2009 is presented for comparative purposes only and was extracted from the combined financial statements of SUS for that year, on which we expressed an unqualified opinion, dated February 5, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2011 on our consideration of Services for the Underserved and Related Organizations' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole.

The accompanying schedule of expenditures for Federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 USA, LLP

Certified Public Accountants

New York, New York

January 19, 2011

Services for the Underserved and Related Organizations

Combined Statement of Financial Position (with comparative totals for 2009)

June 30,	2010	2009
Assets		
Cash and cash equivalents (Note 2)	**$ 6,285,077**	$11,595,476
Accounts receivable, net of allowance for doubtful accounts of $4,042,810 and $2,749,776 for 2010 and 2009, respectively (Note 2)	**14,786,306**	10,903,386
Prepaid expenses and other assets (Note 3)	**1,510,170**	1,462,935
Bond escrow fund (Note 4)	**164,774**	684,785
Due from affiliates, net (Note 10)	**1,683,738**	2,156,600
Debt service reserve (Note 4)	**1,669,012**	1,666,854
Deferred bond financing costs (Note 9)	**1,168,334**	1,264,667
Fixed assets, net (Notes 2, 5, 8 and 10)	**35,120,095**	36,295,289
	$62,387,506	$66,029,992
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 3,270,626**	$ 2,350,989
Accrued compensation and related taxes	**4,782,366**	5,420,028
Due to affiliates (Note 10)	**685,989**	1,097,484
Due to clients	**412,271**	612,942
Other liabilities	**1,867**	1,867
Deferred revenue (Notes 10, 12 and 16)	**7,557,420**	10,702,486
Due to governmental agencies (Note 6)	**2,649,010**	1,387,816
Line of credit (Note 7)	**2,510,719**	3,009,474
Mortgages and loans payable (Note 8)	**10,191,886**	10,928,295
Bonds payable (Note 9)	**11,833,602**	12,973,602
Total liabilities	**43,895,756**	48,484,983
Commitments and contingencies (Notes 5, 7, 11, 13, 15 and 16)		
Net assets:		
Unrestricted (Note 16)	**15,514,367**	14,366,259
Temporarily restricted (Note 14)	**2,977,383**	3,178,750
Total net assets	**18,491,750**	17,545,009
	$62,387,506	$66,029,992

See accompanying notes to combined financial statements.

Services for the Underserved and Related Organizations

Combined Statement of Activities (with comparative totals for 2009)

Year ended June 30,	Unrestricted	Temporarily restricted	Totals 2010	Totals 2009
Public support and revenue:				
Medicaid income	$55,311,594	$ -	**$55,311,594**	$51,460,216
Contract revenue	26,199,606	-	**26,199,606**	23,914,308
Participant fees	6,491,515	-	**6,491,515**	5,748,884
Contributions	490,040	-	**490,040**	588,761
Management fees	356,003	-	**356,003**	330,097
Other	91,288	-	**91,288**	624,105
Net assets released from restriction (Note 14)	201,367	(201,367)	**-**	-
Total public support and revenue	89,141,413	(201,367)	**88,940,046**	82,666,371
Expenses:				
Program services:				
SUS – Mental Health Programs, Inc.	23,334,626	-	**23,334,626**	21,056,388
SUS – Developmental Disabilities Services, Inc.	32,054,509	-	**32,054,509**	27,308,774
SUS – AIDS Services, Inc.	7,013,673	-	**7,013,673**	6,835,265
SUS – Home Attendant Program, Inc.	17,890,422	-	**17,890,422**	18,671,451
SUS – Home Care Services	20,336	-	**20,336**	39,237
Total program services	80,313,566	-	**80,313,566**	73,911,115
Supporting services:				
Fundraising	351,017	-	**351,017**	236,800
Management and general	7,328,722	-	**7,328,722**	7,301,825
Total expenses	87,993,305	-	**87,993,305**	81,449,740
Change in net assets	1,148,108	(201,367)	**946,741**	1,216,631
Net assets, beginning of year	14,366,259	3,178,750	**17,545,009**	16,328,378
Net assets, end of year	$15,514,367	$2,977,383	**$18,491,750**	$17,545,009

See accompanying notes to combined financial statements.

Combined Statement of Functional Expenses
(with comparative totals for 2009)

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	2010	2009
Salaries and related expenses:										
Salaries	$ 7,916,110	$15,411,618	$2,234,754	$13,799,024	$11,684	$39,373,190	$ -	$3,135,717	$42,508,907	$40,996,595
Fringe benefits	1,911,940	6,217,364	531,643	3,803,585	1,415	12,465,947	-	646,977	13,112,924	11,070,500
Total salaries and related expenses	9,828,050	21,628,982	2,766,397	17,602,609	13,099	51,839,137	-	3,782,694	55,621,831	52,067,095
Other expenses:										
Food	560,037	703,648	11,551	-	-	1,275,236	-	988	1,276,224	1,166,256
Rent	5,263,092	511,037	2,856,351	-	30	8,630,510	-	302,121	8,932,631	7,705,004
Facility tax	-	349,199	-	-	-	349,199	-	793	349,992	304,177
Telephone and utilities	1,222,763	670,714	356,163	-	-	2,249,640	-	203,589	2,453,229	2,273,327
Transportation	126,585	1,276,017	42,640	-	114	1,445,356	-	63,630	1,508,986	1,431,975
Office supplies and postage	101,211	95,209	44,302	-	6,908	247,630	-	224,937	472,567	402,591
Lease equipment	183,111	350,159	38,003	-	-	571,273	-	161,623	732,896	619,648
Repairs and maintenance	855,188	573,858	160,732	-	250	1,590,028	-	210,376	1,800,404	1,424,386
Professional and consultant fees	418,325	321,747	74,238	-	1,113	815,423	-	669,535	1,484,958	1,512,333
Household supplies	306,893	641,358	55,804	-	-	1,004,055	-	3,359	1,007,414	876,130
Medical exams	-	-	-	-	-	-	-	51,372	51,372	54,380
Furniture and equipment expense	446,666	281,112	170,425	-	509	898,712	-	318,580	1,217,292	1,091,408
Insurance	308,207	199,676	54,292	-	-	562,175	-	104,111	666,286	666,068
Community outreach and recruitment	100,264	45,274	3,031	-	-	148,569	-	193,912	342,481	362,219
Client incidentals	289,456	189,898	21,006	-	-	500,360	-	-	500,360	481,233
Staff training	39,503	107,465	5,854	-	-	152,822	-	32,171	184,993	185,468
Interest expense	554,365	555,245	-	-	-	1,109,610	-	222,083	1,331,693	1,397,121
Temporary labor	1,365,213	1,224,842	144,009	-	-	2,734,064	-	130,408	2,864,472	2,405,740
Real estate taxes	11,291	25,882	5,156	-	-	42,329	-	-	42,329	10,943
Miscellaneous	19,174	83,496	4,608	-	(1,687)	105,591	-	367,951	473,542	415,572
Start-up cost	50,909	51,327	4,450	-	-	106,686	-	-	106,686	226,724
Sheltered workshop	-	673,524	-	-	-	673,524	-	-	673,524	33,908
Broker and bond administrative fees	10,628	15,643	3,327	-	-	29,598	-	44,389	73,987	59,354
Fundraising expense	-	-	-	-	-	-	351,017	-	351,017	236,800
Bad debt expense	-	430,000	135,495	287,813	-	853,308	-	-	853,308	1,533,466
Total expenses before depreciation and amortization	22,060,931	31,005,312	6,957,834	17,890,422	20,336	77,934,835	351,017	7,088,622	85,374,474	78,943,326
Depreciation and amortization	1,273,695	1,049,197	55,839	-	-	2,378,731	-	240,100	2,618,831	2,506,414
Total expenses	$23,334,626	$32,054,509	$7,013,673	$17,890,422	$20,336	$80,313,566	$351,017	$7,328,722	$87,993,305	$81,449,740

See accompanying notes to combined financial statements.

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Combined Statement of Cash Flows
(with comparative totals for 2009)

Year ended June 30,	2010	2009
Cash flows from operating activities:		
Change in net assets	**$ 946,741**	$ 1,216,631
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**2,618,831**	2,506,414
Provisions for bad debt	**853,308**	1,533,466
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Bond escrow fund	**520,011**	-
Accounts receivable	**(4,736,228)**	1,116,056
Prepaid expenses and other assets	**(47,235)**	(91,879)
Due from affiliates	**472,862**	545,583
Debt service reserve fund	**(2,158)**	(13,570)
Increase (decrease) in:		
Accounts payable and accrued expenses	**919,637**	(175,903)
Accrued compensation and related taxes	**(637,662)**	666,258
Due to affiliates	**(411,495)**	25,163
Due to clients	**(200,671)**	576,122
Deferred revenue	**(3,145,066)**	3,203,475
Due to governmental agencies	**1,261,194**	275,290
Net cash provided by (used in) operating activities	**(1,587,931)**	11,383,106
Cash flows from investing activities:		
Purchase of fixed assets	**(1,347,304)**	(2,745,239)
Cash flows from financing activities:		
Payments of bond principal	**(1,140,000)**	(1,128,784)
Payments of line of credit	**(498,755)**	(6,506,358)
Payments of mortgages and loans payable	**(736,409)**	(689,970)
Proceeds from line of credit	**-**	7,327,863
Net cash used in financing activities	**(2,375,164)**	(997,249)
Net increase (decrease) in cash and cash equivalents	**(5,310,399)**	7,640,618
Cash and cash equivalents, beginning of year	**11,595,476**	3,954,858
Cash and cash equivalents, end of year	**$ 6,285,077**	$11,595,476
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 1,331,693**	$ 1,397,121

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, 2010).

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 of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

In June 2009, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("Codification" or "ASC") to become the source of authoritative U.S. generally accepted accounting principles ("U.S. GAAP") recognized by the FASB to be applied by nongovernmental entities. All other accounting literature not included in the Codification will be considered nonauthoritative. The Codification does not change current U.S. GAAP. References to authoritative U.S. GAAP literature in the financial statements and the notes thereto have been updated to reflect new Codification references. Subsequent revisions to U.S. GAAP will be incorporated into the ASC through FASB Accounting Standards Updates ("ASU").

(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.

Services for the Underserved and Related Organizations

Notes to Combined Financial Statements

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

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(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 2010.

In addition, SUS has not taken an uncertain tax position that would require provision of a liability under ASC 740, "Income Taxes". See Note 2(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, 2009 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) *Due to Governmental Agencies*

Due to governmental agencies consists of operational advances, retroactive rate adjustments and advances received from New York State Office for People With Developmental Disabilities ("OPWDD"), the New York State Office of Mental Health ("OMH") and other advances due to the Human Resources Administration ("HRA"). OPWDD recoups the liability through withholdings from Medicaid remittances over a specified period of time.

(m) *Fair Value Measurements*

ASC 820, "Fair Value Measurements", formerly Statement of Financial Accounting Standards ("SFAS") No. 157 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. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly

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transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or unobservable. ASC 820 established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The standard requires that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and their placement within the fair value hierarchy. SUS classifies fair value balances based on the fair value hierarchy defined by ASC 820 as follows:

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

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

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

(n) *Accounting for Uncertainty in Income Taxes*

Under ASC 740 (relevant portions of which were previously addressed in FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"), and ASU 2009-06, "Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities", an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained upon examination by a taxing authority. SUS does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. SUS has filed for and received income tax exemptions in the jurisdictions where it is required to do so. For the year ended June 30, 2010, 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, 2010	
Security deposits	$ 886,505
Prepaid expenses	297,285
Dormitory Authority of the State of New York surplus funds	326,380
	$1,510,170

Services for the Underserved and Related Organizations

Notes to Combined Financial Statements

4. Debt Service Reserve and Bond Escrow Fund

Debt service reserve represents funds held by OPWDD, Deutsche Bank Trust Company Americas and Bank of New York Mellon, (collectively, the "Trustee"). These funds will be applied to the last payment required on the mortgages with the Facilities Development Corporation ("FDC") and bonds due to the Dormitory Authority of the State of New York Office of Mental Health ("DASNY") and NYC Industrial Development Agency ("IDA"). This reserve will earn interest which will be used to offset SUS's obligations. As of June 30, 2010, the Trustee has $1,669,012 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, 2010, the Trustee has $164,774 in bond escrow funds.

SUS's financial instruments are carried at fair value and have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2(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, 2010:

	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, 2010
Assets				
Investments in securities:				
Money market funds	$ 774,982	$ -	$-	$ 774,982
U.S. Treasury bills and U.S. Treasury notes	624,734	-	-	624,734
U.S. government-sponsored agency securities	-	434,070	-	434,070
Total investments in securities	$1,399,716	$434,070	$-	$1,833,786

5. Fixed Assets, Net

Major classes of fixed assets, net consist of the following:

June 30, 2010	
Land	$ 2,044,297
Building and building improvements	52,070,523
Construction-in-progress	41,437
Leasehold improvements	1,134,610
Furniture and equipment	5,427,042
Vehicles	505,552
Total fixed assets	61,223,461
Less: Accumulated depreciation and amortization	(26,103,366)
Fixed assets, net	$35,120,095

For the year ended June 30, 2010, depreciation and amortization expense was $2,618,831.

6. Due to Governmental Agencies

Due to governmental agencies consists of the following:

June 30, 2010	
Other advances due to OMH and New York City to be recouped	$1,231,756
Other advances due to Medicaid to be recouped	749,763
Other advances due to HRA to be recouped	667,491
	$2,649,010

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 matured on June 30, 2010 and the interest rate was equal to the prime rate plus 0.50%. On June 30, 2010, this line of credit was amended and restated from Bank of America with a maximum principal amount of $6,000,000. This line of credit matures on June 30, 2011 and bears interest equal to the prime rate plus 0.25%. There is also a quarterly fee on the unused available line of credit amount of 0.25%. The loan is guaranteed by SUS and all

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of its affiliates collectively and individually and is collateralized by a first-priority perfected security interest in SUS and its affiliated organizations' present and future accounts receivable and personal property and fixtures. The total amount outstanding as of June 30, 2010 was $-0-. SUS incurred and paid $1,983 in interest expense during the year ended June 30, 2010.

SUS also has a $6,000,000 acquisition line of credit with the Bank of America. This line of credit matured on June 30, 2010 and the interest rate was ¼ in excess of the prime rate. On June 30, 2010, this line of credit was amended and restated from Bank of America with a maximum principal amount of $4,000,000. This line of credit matures on June 30, 2011 and bears interest equal to the prime rate plus 0.25%. The loan is guaranteed by a negative pledge on the related residences and related leased locations. The total amount outstanding as of June 30, 2010 was $2,510,719, and there was $101,907 of related interest expense during the year ended June 30, 2010.

8. Mortgages and Loans Payable

Mortgages and loans payable consist of the following:

June 30, 2010	
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	$ 360,427
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	764,293
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	646,169

June 30, 2010	
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	$ 2,265,817
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	614,612
Mortgage payable to DASNY - OMH, due June 1, 2022, payable in semiannual payments of $272,229, including interest at 5.27% per annum, secured by real estate located on Beach 85th Street, Queens, New York	4,795,094
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.	73,974
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.	291,500
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.	380,000
	$10,191,886

Mortgages and loans payable mature as follows:

Year ended June 30,	
2011	$ 779,977
2012	832,296
2013	819,394
2014	883,407
2015	929,450
Thereafter	5,947,362
	$10,191,886

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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, 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, 2010 was $5,690,537.

Services for the Underserved
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Notes to Combined Financial Statements

(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, 2010 was $1,630,000.

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, 2010 was $1,513,065.

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, 2010 was $3,000,000.

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, 2010, $96,333 of amortized bond costs is included in depreciation and amortization.

Future minimum debt service payments are as follows:

Year ending June 30,	
2011	$ 1,050,000
2012	1,080,000
2013	1,005,000
2014	985,000
2015	975,000
Thereafter	6,738,602
	$11,833,602

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 ("NLHLP"). The Partnership has one general partner, New Life Homes, Inc., which has a .01% interest. The sole shareholder of New Life Homes, Inc. is New Life Homes Housing Development Fund Corporation ("HDFC"). The sole member of the HDFC is SUS. The limited partner of NLHLP is the National Equity Fund – 1999 Limited Partnership, which has a 99.99% interest.

SUS is entitled to an annual partnership management fee of 6.7% of gross potential income. SUS received management fees of $34,583 from New Life Homes, Inc. for the year ended June 30, 2010. At June 30, 2010, SUS had a payable and a receivable of $815,858 and $93,169, respectively, to NLHLP.

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 $152,261 and $98,689 from the CDCH Charter School and CDCH Preschool, respectively, for the year ended June 30, 2010. 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 $991,688, which is net of a $500,000 reserve at June 30, 2010.

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. SUS had a receivable from Macombs HLP for $90,566 as of June 30, 2010.

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.

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Mother Gaston HLP was formed to own and operate a supportive housing program. SUS shares common staff with Mother Gaston HLP and is entitled to be reimbursed for costs incurred related to the operation of the Mother Gaston Supportive Housing Program. SUS had a receivable from Mother Gaston HLP for $508,316 as of June 30, 2010.

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.

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, 2010.

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, 2010.

Services for the Underserved
and Related Organizations

Notes to Combined Financial Statements

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 $68,246 for the year ended June 30, 2010.

12. Deferred Revenue

Deferred revenue consists of the following:

June 30, 2010	
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.	$5,426,711
Various Mental Health Program contract advances for fiscal year 2010.	874,505
Additional OMH funding received for capital improvements for various Mental Health Program facilities.	253,995
Various AIDS services contract advances for fiscal year 2010	413,642
Surplus income generated from Home Attendant Program	575,104
Other deferred revenue	13,463
	$7,557,420

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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 $8,932,631 for the year ended June 30, 2010. The minimum future annual rental payments are as follows:

Year ended June 30,	
2011	$ 5,231,995
2012	2,345,644
2013	1,299,966
2014	1,383,087
2015	813,385
Thereafter	4,911,694
Total	$15,985,771

14. Temporarily Restricted Net Assets and Net Assets Released from Restriction

Temporarily restricted net assets at June 30, 2010 were $2,977,383 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 $201,367 for the Hotel Majestic property as of June 30, 2010.

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. ("SUS-HA"), 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 2005, HRA requested the recoupment of $233,325. The recoupment funds were transferred to HRA during fiscal year 2010. The net assets of SUS-HA are subject to recoupment by the funding source.

17. Subsequent Events

As a result of HRA not renewing its contract with SUS - HA for fiscal year 2011, SUS-HA has tentatively decided to discontinue its operation. All clients will be transferred to other servicing agencies. HRA will continue to reimburse SUS - HA for services provided until the program is discontinued. When the operations are concluded, the contract with HRA requires that the remaining cash balance be remitted to HRA.

In July 2010, DD entered into an agreement with DASNY. Under the terms of the agreement, DASNY has issued Series 2010A-1 and 2010A-2 bonds in the aggregate principal amount of $3,815,000, which matures in July 2025.

On September 1, 2010, SUS and Family Residences & Essential Enterprises, Inc. ("FREE") entered into an agreement that substitutes FREE for SUS as sole member of the CDCH Preschool and CDCH Charter School. The agreement also provides that FREE replace SUS in its relationship with CDCH Foundation. The agreement with respect to CDCH Preschool closed on September 1, 2010, and the remaining parts of the agreement will be closed subsequent to certain regulatory approvals related to CDCH Charter School which were received on October 27, 2010. As consideration for the agreement, FREE will pay SUS the balances due to SUS by CDCH Preschool and CDCH Charter School at closing, subject to a ten-year promissory note of $500,000 issued at prime plus 1.5%.

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Notes to Combined Financial Statements

SUS has evaluated subsequent events through January 19, 2011, which is the date these financial statements were available to be issued. No events arose during the period which required additional disclosures.

Schedule of Expenditures of Federal Awards

Federal Grantor/Pass-through Grantor/Program Title	Catalog Federal Domestic Assistance Number	Pass-through Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Supportive Housing Program	14.235	NY0198B2T000801	$ 402,279
Supportive Housing Program	14.235	NY0220B2T000801	539,066
Supportive Housing Program	14.235	NY0216B2T000801	522,572
Supportive Housing Program	14.235	NY0197B2T000801	343,718
Supportive Housing Program	14.235	NY0265B2T000801	74,456
Supportive Housing Program	14.235	NY0311B2T000801	140,843
Supportive Housing Program	14.235	NY0328B2T000801	209,777
Subtotal CFDA #14.235			2,232,711
Passed-through NYS Office of Mental Health:			
Shelter Plus Care Program	14.238	NY0327C2T000801	283,428
Passed-through NYC Department of Health and Mental Hygiene:			
Housing Opportunities for Persons with AIDS	14.241	07-SPH-018	980,123
Passed-through the Department of Social Services of NYC Human Resources Administration:			
Housing Opportunities for Persons with AIDS	14.241	20101405927	523,941
Housing Opportunities for Persons with AIDS	14.241	20100001301	951,256
Subtotal CFDA #14.241			2,455,320
Total U.S. Department of Housing and Urban Development			4,971,459
U.S. Department of Health and Human Services:			
Passed-through the Department of Social Services of NYC Human Resources Administration:			
Temporary Assistance for Needy Families	93.558	20090029795	2,426
Temporary Assistance for Needy Families	93.558	20101405927	7,149
Temporary Assistance for Needy Families	93.558	20100001301	96,796
Subtotal CFDA #93.558			106,371
Passed-through Medical and Health Research Association:			
HIV Emergency Relief Projects Grant	93.914	04-HAH-781	483,727
HIV Emergency Relief Projects Grant	93.914	06-OMS-781	121,337
HIV Emergency Relief Projects Grant	93.914	09-HRO-781	297,795
HIV Emergency Relief Projects Grant	93.914	09-MCM-781	224,717
Subtotal CFDA #93.914			1,127,576
Passed-through Substance Abuse and Mental Health Services Administration:			
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	1H79SM059149-01	212,794
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	5H79T1021413-02	275,682
Subtotal CFDA# 93.243			488,476
Total U.S. Department of Health and Human Services			1,722,423
Total Federal Expenditures			$6,693,882

See accompanying note to schedule of expenditures of Federal awards.

Note to Schedule of Expenditures of Federal Awards

1. **Accrual Basis of Accounting**

The accompanying schedule of Federal awards includes the Federal grant activity of SUS and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Services for the Underserved
and Related Organizations

We have audited the combined financial statements of Services for the Underserved and Related Organizations ("SUS") as of and for the year ended June 30, 2010, and have issued our report thereon dated January 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BDO USA, LLP

Certified Public Accountants

New York, New York

January 19, 2011

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100 Park Avenue
New York, NY 10017

Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Services for the Underserved
and Related Organizations

Compliance

We have audited Services for the Underserved and Related Organizations ("SUS") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of SUS's major Federal programs for the year ended June 30, 2010. SUS's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of SUS's management. Our responsibility is to express an opinion on SUS's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about SUS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of SUS's compliance with those requirements.

In our opinion, SUS complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

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Internal Control Over Compliance

The management of SUS is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered SUS's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SUS's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Directors, management and Federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BDO USA, LLP

Certified Public Accountants

New York, New York

January 19, 2011

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June 30, 2010

1. Summary of Auditor's Results

Financial Statements

(i) An unqualified opinion was issued on the combined financial statements of Services for the Underserved and Related Organizations

(ii) Internal control over financial reporting:
- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

(iii) Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

(iv) Internal control over major programs:
- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

(v) An unqualified opinion was issued on compliance for major programs

(vi) Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? ☐ Yes ☒ No

(vii) Major Programs:
CFDA #93.558 Temporary Assistance for Needy Families
CFDA #93.914 HIV Emergency Relief Projects Grant
CFDA #93.243 Substance Abuse and Mental Health Services – Projects of Regional and National Significance

(viii) Federal awards expenses that exceeded $300,000 were considered type A programs.

(ix) Services for the Underserved and Related Organizations qualifies as a low risk auditee as described in Section .530 of OMB Circular A-133. ☐ Yes ☒ No

2. Findings Related to the Financial Statements ☐ Yes ☒ No

3. Findings and Questioned Costs for Federal Awards ☐ Yes ☒ No

4. Summary of Prior Year Findings ☐ Yes ☒ No

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
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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

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	101,482
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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Services for the Underserved and Related Organizations

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.

Services for the Underserved and Related Organizations

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.

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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. 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.

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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

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

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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,

Services for the Underserved
and Related Organizations

Notes to Combined Financial Statements

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

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.

(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.

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.

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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.

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.

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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Services for the Underserved and Related Organizations

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

Services for the Underserved and Related Organizations

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

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APPENDIX B-V

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2011, JUNE 30, 2010 AND JUNE 30, 2009)

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HOLTZ
RUBENSTEIN
REMINICK

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

REPORT ON AUDITS OF COMBINED FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

HOLTZ
RUBENSTEIN
REMINICK

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Years Ended June 30, 2011 and 2010

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REMINICK

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HOLTZ
RUBENSTEIN
REMINICK
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2011 and 2010, 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, 2011 and 2010, 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 15, 2011

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statements of Financial Position

June 30,	2011	2010
Assets		
Cash and Cash Equivalents	$ **17,832,000**	$ 16,533,000
Investments (Notes 2 and 3)	**8,912,000**	7,360,000
Grants and Fees Receivable from Governmental Agencies	**10,419,000**	11,936,000
Other Assets	**2,180,000**	1,545,000
Fixed Assets (Note 4)	**29,344,000**	28,059,000
Assets Limited as to Use (Note 7)	**2,924,000**	2,785,000
Total Assets	$ **71,611,000**	$ 68,218,000
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ **7,388,000**	$ 7,071,000
Accrued payroll and related liabilities	**6,070,000**	5,368,000
Lines of credit payable (Note 5)	**1,620,000**	850,000
Capital leases payable (Note 6)	**302,000**	158,000
Mortgages payable (Note 7)	**17,038,000**	17,910,000
Accrued pension liability (Note 8)	**10,140,000**	14,741,000
Accrued reimbursement adjustments (Note 9)	**2,337,000**	2,222,000
Other liabilities	**8,356,000**	9,281,000
Total Liabilities	**53,251,000**	57,601,000
Commitments and Contingencies (Note 10)		
Net Assets:		
Unrestricted	**17,575,000**	9,873,000
Temporarily restricted (Note 1)	**785,000**	744,000
Total Net Assets	**18,360,000**	10,617,000
Total Liabilities and Net Assets	$ **71,611,000**	$ 68,218,000

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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, 2011 (with summarized comparative totals for 2010)

	Unrestricted	Temporarily Restricted	Total 2011	Total 2010
Support, Revenue and Reclassifications				
Support from the Public:				
Contributions	$ 211,000	$ 138,000	$ **349,000**	$ 340,000
Special events	912,000	-	**912,000**	726,000
Legacies and bequests	103,000	-	**103,000**	104,000
Total Support from the Public	1,226,000	138,000	**1,364,000**	1,170,000
Direct Expenses of Special Events	(377,000)	-	**(377,000)**	(370,000)
Net Support from the Public	849,000	138,000	**987,000**	800,000
Contracts, Grants and Fees Applicable to Program and Community Services:				
Contracts and grants	2,717,000	-	**2,717,000**	3,419,000
Fees for services	101,214,000	-	**101,214,000**	99,496,000
Total Contracts, Grants and Fees	103,931,000	-	**103,931,000**	102,915,000
Other Revenue:				
Rental income	1,015,000	-	**1,015,000**	977,000
Other income	145,000	-	**145,000**	219,000
Investment income:				
Interest and dividends	288,000	-	**288,000**	288,000
Realized and unrealized gains on investments, net	1,486,000	-	**1,486,000**	718,000
Total Other Revenue	2,934,000	-	**2,934,000**	2,202,000
Net Assets Released from Restrictions (Note 1)	97,000	(97,000)	-	-
Total Support, Revenue and Reclassifications	107,811,000	41,000	**107,852,000**	105,917,000
Expenses				
Program Services:				
Educational programs	20,423,000	-	**20,423,000**	19,897,000
Adult day programs	37,065,000	-	**37,065,000**	38,000,000
Residential programs	36,514,000	-	**36,514,000**	35,316,000
Family support services programs	2,481,000	-	**2,481,000**	3,196,000
Total Program Services	96,483,000	-	**96,483,000**	96,409,000
Supporting Services:				
Management and general	7,135,000	-	**7,135,000**	7,168,000
Public relations and fund-raising	159,000	-	**159,000**	343,000
Total Supporting Services	7,294,000	-	**7,294,000**	7,511,000
Total Program and Supporting Services	103,777,000	-	**103,777,000**	103,920,000
Payments to Affiliated Organizations:				
National program of research, education and service	50,000	-	**50,000**	50,000
State program of education and service	42,000	-	**42,000**	41,000
Total Payments to Affiliated Organizations	92,000	-	**92,000**	91,000
Total Expenses	103,869,000	-	**103,869,000**	104,011,000
Changes in Net Assets Before Pension Related Changes	3,942,000	41,000	**3,983,000**	1,906,000
Pension Related Changes Other Than Net Periodic Pension Cost (Note 8)	3,760,000	-	**3,760,000**	(420,000)
Changes in Net Assets	7,702,000	41,000	**7,743,000**	1,486,000
Net Assets, beginning of year	9,873,000	744,000	**10,617,000**	9,131,000
Net Assets, end of year	$ 17,575,000	$ 785,000	**$ 18,360,000**	$ 10,617,000

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, 2010

	Unrestricted	Temporarily Restricted	Total 2010
Support, Revenue and Reclassifications			
Support from the Public:			
Contributions	$ 272,000	$ 68,000	$ 340,000
Special events	726,000	-	726,000
Legacies and bequests	104,000	-	104,000
Total Support from the Public	1,102,000	68,000	1,170,000
Direct Expenses of Special Events	(370,000)	-	(370,000)
Net Support from the Public	732,000	68,000	800,000
Contracts, Grants and Fees Applicable to Program and Community Services:			
Contracts and grants	3,419,000	-	3,419,000
Fees for services	99,496,000	-	99,496,000
Total Contracts, Grants and Fees	102,915,000	-	102,915,000
Other Revenue:			
Rental income	977,000	-	977,000
Other income	219,000	-	219,000
Investment income:			
Interest and dividends	288,000	-	288,000
Realized and unrealized gains on investments	718,000	-	718,000
Total Other Revenue	2,202,000	-	2,202,000
Net Assets Released from Restrictions (Note 1)	202,000	(202,000)	-
Total Support, Revenue and Reclassifications	106,051,000	(134,000)	105,917,000
Expenses			
Program Services:			
Educational programs	19,897,000	-	19,897,000
Adult day programs	38,000,000	-	38,000,000
Residential programs	35,316,000	-	35,316,000
Family support services programs	3,196,000	-	3,196,000
Total Program Services	96,409,000	-	96,409,000
Supporting Services:			
Management and general	7,168,000	-	7,168,000
Public relations and fund-raising	343,000	-	343,000
Total Supporting Services	7,511,000	-	7,511,000
Total Program and Supporting Services	103,920,000	-	103,920,000
Payments to Affiliated Organizations:			
National program of research, education and service	50,000	-	50,000
State program of education and service	41,000	-	41,000
Total Payments to Affiliated Organizations	91,000	-	91,000
Total Expenses	104,011,000	-	104,011,000
Changes in Net Assets Before Pension Related Changes	2,040,000	(134,000)	1,906,000
Pension Related Changes Other Than Net Periodic Pension Cost (Note 8)	(420,000)	-	(420,000)
Changes in Net Assets	1,620,000	(134,000)	1,486,000
Net Assets, beginning of year	8,253,000	878,000	9,131,000
Net Assets, end of year	$ 9,873,000	$ 744,000	$ 10,617,000

See notes to combined financial statements.

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Combined Statement of Functional Expenses

Year Ended June 30, 2011 (with summarized comparative totals for 2010)

	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	2011 Grand Total	2010 Grand Total
Salaries	$ 10,123,000	$ 14,360,000	$ 18,925,000	$ 1,232,000	$ 44,640,000	$ 3,170,000	$ 44,000	$ 3,214,000	$ -	$ -	$ 47,854,000	$ 46,537,000
Payroll Taxes and Employee Benefits	3,376,000	5,702,000	7,115,000	500,000	16,693,000	1,059,000	24,000	1,083,000	-	-	17,776,000	17,725,000
Clinical Consultants and Professional Fees	3,960,000	3,845,000	2,799,000	18,000	10,622,000	1,236,000	10,000	1,246,000	-	-	11,868,000	11,979,000
Vehicle Rental and Maintenance	15,000	154,000	230,000	6,000	405,000	-	-	-	-	-	405,000	344,000
Occupancy, principally rent, utilities and building supplies	830,000	3,667,000	2,701,000	204,000	7,402,000	777,000	20,000	797,000	-	-	8,199,000	7,874,000
Insurance	248,000	517,000	346,000	14,000	1,125,000	41,000	1,000	42,000	-	-	1,167,000	1,280,000
Telephone	97,000	195,000	255,000	9,000	556,000	84,000	2,000	86,000	-	-	642,000	635,000
Office Supplies	65,000	116,000	98,000	14,000	293,000	60,000	30,000	90,000	-	-	383,000	360,000
Medical Supplies	51,000	155,000	245,000	-	451,000	-	-	-	-	-	451,000	438,000
Operating Supplies	338,000	295,000	199,000	356,000	1,188,000	-	-	-	-	-	1,188,000	1,613,000
Household Supplies	-	1,000	1,040,000	-	1,041,000	-	-	-	-	-	1,041,000	967,000
Food	-	-	782,000	-	782,000	-	-	-	-	-	782,000	765,000
Publications, Postage and Shipping	35,000	44,000	8,000	6,000	93,000	154,000	1,000	155,000	-	-	248,000	232,000
Conferences, Conventions and Meetings	110,000	74,000	106,000	23,000	313,000	81,000	3,000	84,000	-	-	397,000	390,000
Equipment Rental, Repairs and Maintenance	47,000	121,000	90,000	21,000	279,000	144,000	8,000	152,000	-	-	431,000	531,000
Expensed Equipment	51,000	61,000	122,000	4,000	238,000	6,000	-	6,000	-	-	244,000	194,000
Program Transportation	1,000	6,665,000	30,000	-	6,696,000	-	-	-	-	-	6,696,000	7,756,000
Purchased Services	-	-	-	-	-	-	-	-	377,000	-	377,000	370,000
Interest (Notes 5, 6, and 7)	353,000	238,000	309,000	4,000	904,000	41,000	11,000	52,000	-	-	956,000	1,052,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	19,700,000	36,210,000	35,400,000	2,411,000	93,721,000	6,853,000	154,000	7,007,000	377,000	-	101,105,000	101,042,000
Payments to Affiliated Organizations	-	-	-	-	-	-	-	-	-	92,000	92,000	91,000
Depreciation and Amortization	723,000	855,000	1,114,000	70,000	2,762,000	282,000	5,000	287,000	-	-	3,049,000	3,248,000
Total Expenses	20,423,000	37,065,000	36,514,000	2,481,000	96,483,000	7,135,000	159,000	7,294,000	377,000	92,000	104,246,000	104,381,000
Less Direct Expenses of Special Events	-	-	-	-	-	-	-	-	(377,000)	-	(377,000)	(370,000)
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ 20,423,000	$ 37,065,000	$ 36,514,000	$ 2,481,000	$ 96,483,000	$ 7,135,000	$ 159,000	$ 7,294,000	$ -	$ 92,000	$ 103,869,000	$104,011,000

See notes to combined financial statements.

Combined Statement of Functional Expenses

Year Ended June 30, 2010

	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	2010 Grand Total
Salaries	$ 9,490,000	$ 13,844,000	$ 18,355,000	$ 1,379,000	$ 43,068,000	$ 3,320,000	$ 149,000	$ 3,469,000	$ -	$ -	$ 46,537,000
Payroll Taxes and Employee Benefits	3,049,000	5,804,000	7,055,000	578,000	16,486,000	1,187,000	52,000	1,239,000	-	-	17,725,000
Clinical Consultants and Professional Fees	4,381,000	4,256,000	2,405,000	8,000	11,050,000	928,000	1,000	929,000	-	-	11,979,000
Vehicle Rental and Maintenance	13,000	141,000	182,000	8,000	344,000	-	-	-	-	-	344,000
Occupancy, principally rent, utilities and building supplies	790,000	3,357,000	2,666,000	187,000	7,000,000	783,000	91,000	874,000	-	-	7,874,000
Insurance	270,000	587,000	360,000	17,000	1,234,000	41,000	5,000	46,000	-	-	1,280,000
Telephone	84,000	200,000	263,000	10,000	557,000	72,000	6,000	78,000	-	-	635,000
Office Supplies	64,000	117,000	102,000	17,000	300,000	58,000	2,000	60,000	-	-	360,000
Medical Supplies	51,000	175,000	212,000	-	438,000	-	-	-	-	-	438,000
Operating Supplies	293,000	260,000	197,000	863,000	1,613,000	-	-	-	-	-	1,613,000
Household Supplies	-	-	967,000	-	967,000	-	-	-	-	-	967,000
Food	-	-	765,000	-	765,000	-	-	-	-	-	765,000
Publications, Postage and Shipping	40,000	38,000	16,000	9,000	103,000	126,000	3,000	129,000	-	-	232,000
Conferences, Conventions and Meetings	85,000	81,000	112,000	22,000	300,000	88,000	2,000	90,000	-	-	390,000
Equipment Rental, Repairs and Maintenance	104,000	139,000	101,000	12,000	356,000	174,000	1,000	175,000	-	-	531,000
Expensed Equipment	37,000	55,000	89,000	4,000	185,000	9,000	-	9,000	-	-	194,000
Program Transportation	-	7,726,000	30,000	-	7,756,000	-	-	-	-	-	7,756,000
Purchased Services	-	-	-	-	-	-	-	-	370,000	-	370,000
Interest (Notes 5, 6, and 7)	371,000	256,000	328,000	5,000	960,000	82,000	10,000	92,000	-	-	1,052,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	19,122,000	37,036,000	34,205,000	3,119,000	93,482,000	6,868,000	322,000	7,190,000	370,000	-	101,042,000
Payments to Affiliated Organizations	-	-	-	-	-	-	-	-	-	91,000	91,000
Depreciation and Amortization	775,000	964,000	1,111,000	77,000	2,927,000	300,000	21,000	321,000	-	-	3,248,000
Total Expenses	19,897,000	38,000,000	35,316,000	3,196,000	96,409,000	7,168,000	343,000	7,511,000	370,000	91,000	104,381,000
Less Direct Expenses of Special Events	-	-	-	-	-	-	-	-	(370,000)	-	(370,000)
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ 19,897,000	$ 38,000,000	$ 35,316,000	$ 3,196,000	$ 96,409,000	$ 7,168,000	$ 343,000	$ 7,511,000	$ -	$ 91,000	$ 104,011,000

See notes to combined financial statements.

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Combined Statements of Cash Flows

Years Ended June 30,		2011		2010
Cash Flows from Operating Activities:				
Changes in net assets before pension related changes	$	3,983,000	$	1,906,000
Adjustments to reconcile changes in net assets before pension related changes to net cash provided by operating activities:				
Depreciation and amortization		3,049,000		3,248,000
Provision for reimbursement adjustments		(86,000)		471,000
Deferred rent liability		186,000		-
Realized and unrealized gains on investments, net		(1,486,000)		(718,000)
Changes in operating assets and liabilities:				
Decrease (increase) in assets:				
Grants and fees receivable from governmental agencies		1,603,000		(167,000)
Other assets		(635,000)		107,000
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses		316,000		(760,000)
Accrued payroll and related liabilities		(139,000)		669,000
Accrued reimbursement adjustments		115,000		348,000
Other liabilities		(1,111,000)		3,291,000
Net Cash Provided by Operating Activities		5,795,000		8,395,000
Cash Flows from Investing Activities:				
Purchases of fixed assets		(4,110,000)		(2,023,000)
Purchases of investments		(320,000)		(506,000)
Redemption of investments		254,000		433,000
Net increase in assets limited as to use		(139,000)		(63,000)
Net Cash Used in Investing Activities		(4,315,000)		(2,159,000)
Cash Flows from Financing Activities:				
Principal payments on capital lease obligations		(79,000)		(77,000)
Principal payments on mortgages payable		(872,000)		(779,000)
Proceeds of new mortgages		-		2,386,000
Proceeds of draw down on lines of credit		1,620,000		250,000
Repayments of draw down on lines of credit		(850,000)		(3,602,000)
Net Cash Used in Financing Activities		(181,000)		(1,822,000)
Net Increase in Cash and Cash Equivalents		1,299,000		4,414,000
Cash and Cash Equivalents, beginning of year		16,533,000		12,119,000
Cash and Cash Equivalents, end of year	$	17,832,000	$	16,533,000
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the year for interest	$	988,000	$	1,036,000
Non-cash investing and financing activities:				
Assets acquired under capital lease	$	223,000	$	26,000

See notes to combined financial statements.

Notes to Combined Financial Statements

Years Ended June 30, 2011 and 2010

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 create opportunities for people with disabilities to lead independent and fulfilling lives.

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 51% of the Agency's employees are covered under collective bargaining arrangements with the United Federation of Teachers which are due to expire in June 2012.

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, 2011 and 2010, approximately $785,000 and $744,000, respectively, have been restricted for specific purposes.

During the years ended June 30, 2011 and 2010, temporarily restricted net assets of approximately $97,000 and $202,000, respectively, were expended satisfying the restrictions 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, 2011 and 2010, the Companies had cash balances in financial institutions that exceeded federal depository insurance limits. Approximately 75% and 79% of the Companies' cash and cash equivalents are on deposit in various accounts with one financial institution at June 30, 2011 and 2010, 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 Company'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.

Uncertain tax positions - The Companies follow the provisions of *"Accounting for Uncertainty in Income Taxes". Accounting for Uncertainty in Income Taxes* prescribes recognition thresholds that must be met before a tax position is recognized in the combined financial statements and provides guidance on de-recognition, classification, interest and penalties, disclosure, and transition. Under *Accounting for Uncertainty in Income Taxes,* an entity may only recognize or continue to recognize tax positions that meet a "more-likely-than-not" threshold. The Companies are no longer subject to the United States federal, state, and local income tax exemptions by tax authorities for years before 2007. The Companies have evaluated their tax positions for the years ended June 30, 2011 and 2010, and do not believe they have any uncertain tax positions that would qualify for either recognition or disclosure in the accompanying combined financial statements.

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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UNITED CEREBRAL PALSY OF
NEW YORK CITY, INC.

Notes to Combined Financial Statements
Years Ended June 30, 2011 and 2010

Subsequent events - The Companies have evaluated events and transactions that occurred between July 1, 2011 and November 15, 2011, which is the date the combined financial statements were available to be issued, for possible disclosure and recognition in the combined 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,	2011 Cost	2011 Fair Value	2010 Cost	2010 Fair Value
Certificates of Deposit	$ 250,000	$ 250,000	$ 350,000	$ 350,000
Equity Securities	5,326,000	6,577,373	5,355,000	5,123,525
Bonds	1,808,000	1,964,000	1,654,000	1,809,000
Pooled Separate Accounts	100,000	120,627	75,000	77,475
Total Investments	$ 7,484,000	$ 8,912,000	$ 7,434,000	$ 7,360,000

3. Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. The 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, 2011	**Total Fair Value**	**Quoted Prices in Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**
Equity Securities	$ 6,577,373	$ 6,577,373	$ -
Bonds	1,964,000	1,964,000	-
Pooled Separate Accounts	120,627	-	120,627
Total Investments	$ 8,662,000	$ 8,541,373	$ 120,627

June 30, 2010	Total Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity Securities	$ 5,123,525	$ 5,123,525	$ -
Bonds	1,809,000	1,809,000	-
Pooled Separate Accounts	77,475	-	77,475
Total Investments	$ 7,010,000	$ 6,932,525	$ 77,475

4. Fixed Assets, net

Fixed assets, net, consists of the following:

June 30,	2011	2010
Land	$ 5,515,000	$ 5,515,000
Buildings	35,836,000	35,836,000
Building Improvements	9,331,000	8,403,000
Furniture and Fixtures	16,835,000	15,603,000
Leasehold Improvements	7,438,000	7,246,000
Construction in Progress	2,366,000	384,000
	77,321,000	72,987,000
Less Accumulated Depreciation and Amortization	47,977,000	44,928,000
	$ 29,344,000	$ 28,059,000

5. 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, 2012. As of June 30, 2011 and 2010, the Agency had no outstanding balance under this line of credit. Interest on outstanding amounts under this agreement is at the prime rate (3.25% at June 30, 2011 and 2010) 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, 2011 and 2010. The line of credit is unsecured. Interest expense on the line of credit for the years ended June 30, 2011 and 2010 approximated $1,000 and $97,000, 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. Borrowings under the line bear an average interest rate of 3.25% and 3.0% as of June 30, 2011 and 2010, respectively. As of June 30, 2011 and 2010, the Agency had drawn down approximately $-0- and $850,000, respectively, under this line of credit. This line of credit expires on July 1, 2012. Interest expense on this line of credit for the years ended June 30, 2011 and 2010 approximated $17,000 and $38,000, respectively.

During year ended June 30, 2011, the Agency entered into a revolving note with TD Bank, N.A. for a restoring credit facility to fund renovations for the newly leased space in the amount of $3,224,000. It is secured by an interest in the Prior Property Approval for the relocation of a Day Habilitation facility to the leased property. The agreement contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2011. Interest, paid monthly, on outstanding amounts through March 1, 2013 under this agreement is at the greater of 3.50% or the prime rate (3.25% at June 30, 2011). Prepayments, in whole or in part, may be made on this loan through March 1, 2013. Commencing April 1, 2013, monthly payments of principal plus interest will be required over a 15- year amortization period. As of June 30, 2011, the Agency had drawn down $1,620,000. Interest expense on this revolver for the year ended June 30, 2011 approximated $10,000.

6. Capital Leases Payable

The Agency owns certain motor vehicles under capital leases. These leases have terms of 60 months and contain bargain purchase options.

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As of June 30, 2011 and 2010, the costs of the fixed assets recorded under the capital leases were approximately $1,429,000 and $1,238,000, respectively. The net book values were approximately $302,000 and $154,000 as of June 30, 2011 and 2010, respectively.

Future minimum payments under the lease agreements, by year and in the aggregate, consisted approximately of the following:

Year Ending June 30,	
2012	$ 101,000
2013	94,000
2014	70,000
2015	50,000
2016	25,000
Total Minimum Lease Payments	340,000
Less Amounts Representing Interest	38,000
Net Minimum Lease Payments	302,000
Less Current Portion	86,000
Long-Term Portion of Capital Leases Included in Loans and Capital Leases Payable	$ 216,000

Interest expense on the capital leases for the years ended June 30, 2011 and 2010 was approximately $12,000 and $15,000, respectively.

7. Mortgages Payable

A summary of mortgages payable is as follows:

June 30,	2011	2010
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, 2011 and 2010. (a)	$ 8,360,000	$ 8,735,000
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 the rate of 5.1% per annum at June 30, 2011 and 2010. Includes bond premium of approximately $18,000 at June 30, 2011 and 2010, respectively. (b)	1,037,000	1,098,000
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)	2,731,000	2,760,000
Mortgage with Office for People With Developmental Disabilities ("OPWDD") 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)	1,349,000	1,484,000

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.	**1,239,000**	1,459,000
Mortgage with the Dormitory Authority on the Stillwell Avenue IRA, Bronx, New York, payable in annual installments ranging from approximately $39,000 to $182,000 through June 30, 2024, including interest at the rate of 1.5% per annum. (e)	**1,505,000**	1,505,000
Mortgage with the Dormitory Authority on 389 Eighth Avenue, Manhattan, New York, payable in annual installments ranging from approximately $16,000 to $21,000 through June 30, 2012, including interest at the rate of 3.5% per annum. (e)	**35,000**	35,000
Mortgage with JP Morgan Chase Bank on the Avenue D IRA, Manhattan, New York, payable in monthly installments of $9,432, through May 2021, including interest at 7.5% per annum. (f)	**782,000**	834,000
	$ 17,038,000	$ 17,910,000

Land, buildings and improvements with an aggregate net book value of approximately $15,092,000 and $15,544,000 at June 30, 2011 and 2010, 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 cost of issuance of the Series 1996 Revenue Bonds, and to make a deposit into a 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, 2011 and 2010, approximately $609,000 and $617,000, 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. A 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, 2011 and 2010,

approximately $946,000 and $949,000, respectively, for each year 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, a 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, 2011 and 2010 were approximately $433,000 and $415,000, 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 as of June 30, 2011 and 2010, 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 5), to fund the cost of issuance of these bonds, and to make a deposit into a 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, 2011 and 2010, approximately $124,000 and $125,000, 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, 2011 and 2010, approximately $88,000 and $89,000, 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, 2011 and 2010.

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. During the year ended June 30, 2011, $29,000 was paid towards principal. 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 $292,000 and $304,000 as of June 30, 2011 and 2010, 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 a mortgage agreement with OPWDD to provide long-term financing for the Lake Street Intermediate Care Facility. The funds were provided to OPWDD 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 OPWDD 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, 2011 and 2010. These funds have been included in assets limited as to use in the accompanying combined statements of financial position at June 30, 2011 and 2010.

Reduction of the principal as well as payment of interest and financing costs related to the mortgaged property is achieved through an agreement with OPWDD whereby reimbursement of future program expenditures is reduced based upon OPWDD 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 OPWDD at both June 30, 2011 and 2010 is approximately $49,000 greater than what the principal and interest liability would have been had OPWDD deducted principal and interest payments in accordance with the terms of the repayment schedules found in the original mortgage agreements.

(e) In June 2010, the Agency became a participant in the Dormitory Authority's New York Interagency Council's Pooled Loan Program Revenue Bonds, consisting of Series 2010A-1 and Series 2010A-2 ("Pooled Bonds"). The aggregate amount of this issue was $29,670,000, of which $1,540,000 benefits the Agency. Proceeds were used to pay down monies previously borrowed from a revolving line of credit, to fund the cost of issuance of these bonds, and to make a deposit into a Debt Service Reserve Fund. At June 30, 2011 and 2010, approximately $207,000 and $61,000, 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 the borrowing, the Agency is required to make monthly deposits into a Debt Service Fund. The fund accumulated amounts necessary to make principal and interest payments semi-annually. Payments are made on January 1 and July 1. 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, 2011 and 2010.

(f) In March 2010, the Agency entered into a mortgage agreement with JPMorgan Chase Bank to refinance the Agency's condominium apartments at Avenue D, Manhattan, New York. The mortgage is secured by the apartments at Avenue D. The debt agreement for the mortgage contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2011 and 2010.

Interest expense on the mortgages payable for the years ended June 30, 2011 and 2010 approximated $849,000 and $799,000, respectively.

Scheduled future principal payments on mortgages payable are approximately as follows:

Year Ending June 30,	
2012	$ 1,000,000
2013	1,036,000
2014	1,164,000
2015	1,203,000
2016	1,045,000
Thereafter	11,590,000
	$ 17,038,000

8. 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, 2011 and 2010. Employee data as of July 1, 2010 and 2009 was projected forward to the June 30, 2011 and 2010 measurement dates, respectively. 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,	**2011**	2010
Reconciliation of Projected Benefit Obligation:		
Projected benefit obligation at beginning of year	**$ 43,783,000**	$ 40,151,000
Service cost	**-**	40,000
Interest cost	**2,496,000**	2,438,000
Change due to assumption changes	**-**	2,724,000
Actuarial loss (gain)	**302,000**	(433,000)
Expense charges	**-**	24,000
Benefits disbursed	**(1,329,000)**	(1,161,000)
Projected Benefit Obligation at end of year	**45,252,000**	43,783,000
Funded Status:		
Fair value of Plan assets, consisting principally of stocks and bonds, at beginning of year	**29,042,000**	25,788,000
Actual return on Plan assets	**5,857,000**	3,366,000
Employer contributions	**1,636,000**	1,025,000
Benefits disbursed from Plan assets (including expense charges)	**(1,423,000)**	(1,137,000)
Fair Value of Plan Assets at end of year	**35,112,000**	29,042,000
Projected Benefit Obligation in Excess of Plan Assets	**(10,140,000)**	(14,741,000)
Accrued Pension Cost in the Accompanying Combined Statements of Financial Position	**$ (10,140,000)**	$ (14,741,000)
Accumulated Benefit Obligation at end of year	**$ 45,252,000**	$ 43,783,000

Weighted-average assumptions used to measure benefit obligations are as follows:

June 30,	**2011**	2010
Discount Rate	**5.75%**	5.75%

Weighted-average assumptions used to measure net periodic pension cost are as follows:

Years Ended June 30,	2011	2010
Discount Rate	5.75%	6.25%
Expected Long-term Rate of Return on Plan Assets	9.00%	9.00%

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,	2011	2010
Service Cost - benefits earned during the year	$ -	$ 40,000
Interest Cost on Projected Benefit Obligation	2,497,000	2,438,000
Actual Return on Plan Assets	(5,857,000)	(3,366,000)
Net Amortization and Deferral of Asset Loss	4,155,000	1,871,000
Net Periodic Pension Cost	$ 795,000	$ 983,000

The percentages of fair value of total Plan assets by asset category are as follows:

June 30,	2011	2010
Equity	67.8%	68.8%
Fixed Income	31.7	25.6
Guaranteed Investment Contract	0.5	5.6
	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:

Year Ending June 30,	
2012	$ 1,689,000
2013	1,903,000
2014	2,039,000
2015	2,259,000
2016	2,411,000
2017 - 2021	14,290,000

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The Agency expects to contribute approximately $2,700,000 to the Plan during the year ending June 30, 2012.

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, 2011 and 2010 approximated $1,952,000 and $2,010,000, 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.

9. 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, 2011 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 $1,214,000 and $1,041,000 as of June 30, 2011 and 2010, 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 $413,000 and $409,000 as of June 30, 2011 and 2010, 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 $710,000 and $772,000 as of June 30, 2011 and 2010, 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 ($594,000 and $955,000 at June 30, 2011 and 2010, 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.

10. Commitments and Contingencies

Operating leases - On April 1, 2010, the Agency entered into a non-cancelable ten-year lease for a new treatment facility in New York City. The lease calls for escalation charges throughout the lease term and includes six months of free rent and six months of reduced rent. 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,	
2012	$ 2,183,000
2013	1,690,000
2014	1,389,000
2015	689,000
2016	686,000
Thereafter	4,048,000
	$ 10,685,000

Rent expense on real property was approximately $4,926,000 and $4,631,000 for the years ended June 30, 2011 and 2010, respectively. Rent expense on equipment for the years ended June 30, 2011 and 2010 was approximately $200,000 and $247,000, 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, 2010 and 2009

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

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Combined Financial Statements

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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, 2010 and 2009, 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, 2010 and 2009, 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 24, 2010

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Combined Statements of Financial Position

June 30,	2010	2009
Assets		
Cash and Cash Equivalents	$ 16,533,000	$ 12,119,000
Investments (Notes 2 and 3)	7,360,000	6,569,000
Grants and Fees Receivable from Governmental Agencies	11,936,000	12,240,000
Other Assets	1,545,000	1,652,000
Fixed Assets (Note 5)	28,059,000	29,197,000
Assets Limited as to Use (Note 8)	2,785,000	2,722,000
Total Assets	$ 68,218,000	$ 64,499,000
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 7,071,000	$ 7,832,000
Accrued payroll and related liabilities	5,368,000	4,657,000
Lines of credit payable (Note 6)	850,000	4,202,000
Capital leases payable (Note 7)	158,000	209,000
Mortgages payable (Note 8)	17,910,000	16,303,000
Accrued pension liability (Note 9)	14,741,000	14,363,000
Accrued reimbursement adjustments (Note 10)	2,222,000	1,874,000
Other liabilities	9,281,000	5,928,000
Total Liabilities	57,601,000	55,368,000
Commitments and Contingencies (Note 11)		
Net Assets:		
Unrestricted	9,873,000	8,253,000
Temporarily restricted (Note 1)	744,000	878,000
Total Net Assets	10,617,000	9,131,000
Total Liabilities and Net Assets	$ 68,218,000	$ 64,499,000

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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, 2010 (with summarized comparative totals for 2009)

	Unrestricted	Temporarily Restricted	Total 2010	Total 2009
Support, Revenue and Reclassifications				
Support from the Public:				
Contributions	$ 272,000	$ 68,000	$ **340,000**	$ 552,000
Special events	726,000	-	**726,000**	734,000
Legacies and bequests	104,000	-	**104,000**	57,000
Total Support from the Public	1,102,000	68,000	**1,170,000**	1,343,000
Direct Expenses of Special Events	(370,000)	-	**(370,000)**	(399,000)
Net Support from the Public	732,000	68,000	**800,000**	944,000
Contracts, Grants and Fees Applicable to Program and Community Services:				
Contracts and grants	3,419,000	-	**3,419,000**	2,589,000
Fees for services	99,496,000	-	**99,496,000**	93,027,000
Total Contracts, Grants and Fees	102,915,000	-	**102,915,000**	95,616,000
Other Revenue:				
Rental income	977,000	-	**977,000**	957,000
Other income	219,000	-	**219,000**	124,000
Investment income:				
Interest and dividends	288,000	-	**288,000**	374,000
Realized and unrealized gains (losses) on investments	718,000	-	**718,000**	(1,690,000)
Total Other Revenue	2,202,000	-	**2,202,000**	(235,000)
Net Assets Released from Restrictions (Note 1)	202,000	(202,000)	**-**	-
Total Support, Revenue and Reclassifications	106,051,000	(134,000)	**105,917,000**	96,325,000
Expenses				
Program Services:				
Educational programs	19,897,000	-	**19,897,000**	18,816,000
Adult day programs	38,000,000	-	**38,000,000**	36,314,000
Residential programs	35,316,000	-	**35,316,000**	31,420,000
Family support services programs	3,196,000	-	**3,196,000**	3,099,000
Total Program Services	96,409,000	-	**96,409,000**	89,649,000
Supporting Services:				
Management and general	7,168,000	-	**7,168,000**	6,577,000
Public relations and fund-raising	343,000	-	**343,000**	525,000
Total Supporting Services	7,511,000	-	**7,511,000**	7,102,000
Total Program and Supporting Services	103,920,000	-	**103,920,000**	96,751,000
Payments to Affiliated Organizations:				
National program of research, education and service	50,000	-	**50,000**	50,000
State program of education and service	41,000	-	**41,000**	45,000
Total Payments to Affiliated Organizations	91,000	-	**91,000**	95,000
Total Expenses	104,011,000	-	**104,011,000**	96,846,000
Changes in Net Assets Before Pension Related Changes	2,040,000	(134,000)	**1,906,000**	(521,000)
Pension Related Changes Other Than Net Periodic Pension Cost (Note 9)	(420,000)	-	**(420,000)**	(7,622,000)
Changes in Net Assets	1,620,000	(134,000)	**1,486,000**	(8,143,000)
Net Assets, beginning of year	8,253,000	878,000	**9,131,000**	17,274,000
Net Assets, end of year	$ 9,873,000	$ 744,000	**$ 10,617,000**	$ 9,131,000

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, 2009

	Unrestricted	Temporarily Restricted	Total 2009
Support, Revenue and Reclassifications			
Support from the Public:			
Contributions	$ 276,000	$ 276,000	$ 552,000
Special events	734,000	-	734,000
Legacies and bequests	57,000	-	57,000
Total Support from the Public	1,067,000	276,000	1,343,000
Direct Expenses of Special Events	(399,000)	-	(399,000)
Net Support from the Public	668,000	276,000	944,000
Contracts, Grants and Fees Applicable to Program and Community Services:			
Contracts and grants	2,589,000	-	2,589,000
Fees for services	93,027,000	-	93,027,000
Total Contracts, Grants and Fees	95,616,000	-	95,616,000
Other Revenue:			
Rental income	957,000	-	957,000
Other income	124,000	-	124,000
Investment income:			
Interest and dividends	374,000	-	374,000
Realized and unrealized losses on investments	(1,690,000)	-	(1,690,000)
Total Other Revenue	(235,000)	-	(235,000)
Net Assets Released from Restrictions (Note 1)	448,000	(448,000)	-
Total Support, Revenue and Reclassifications	96,497,000	(172,000)	96,325,000
Expenses			
Program Services:			
Educational programs	18,816,000	-	18,816,000
Adult day programs	36,314,000	-	36,314,000
Residential programs	31,420,000	-	31,420,000
Family support services programs	3,099,000	-	3,099,000
Total Program Services	89,649,000	-	89,649,000
Supporting Services:			
Management and general	6,577,000	-	6,577,000
Public relations and fund-raising	525,000	-	525,000
Total Supporting Services	7,102,000	-	7,102,000
Total Program and Supporting Services	96,751,000	-	96,751,000
Payments to Affiliated Organizations:			
National program of research, education and service	50,000	-	50,000
State program of education and service	45,000	-	45,000
Total Payments to Affiliated Organizations	95,000	-	95,000
Total Expenses	96,846,000	-	96,846,000
Changes in Net Assets Before Pension Related Changes	(349,000)	(172,000)	(521,000)
Pension Related Changes Other Than Net Periodic Pension Cost (Note 9)	(7,622,000)	-	(7,622,000)
Changes in Net Assets	(7,971,000)	(172,000)	(8,143,000)
Net Assets, beginning of year	16,224,000	1,050,000	17,274,000
Net Assets, end of year	$ 8,253,000	$ 878,000	$ 9,131,000

See notes to combined financial statements.

Combined Statement of Functional Expenses

Year Ended June 30, 2010 (with summarized comparative totals for 2009)

	Program Services			
	Educational Programs	Adult Day Programs	Residential Programs	Family Support Services Programs
Salaries	$ 9,490,000	$ 13,844,000	$ 18,355,000	$ 1,379,000
Payroll Taxes and Employee Benefits	3,049,000	5,804,000	7,055,000	578,000
Clinical Consultants and Professional Fees	4,381,000	4,256,000	2,405,000	8,000
Vehicle Rental and Maintenance	13,000	141,000	182,000	8,000
Occupancy, principally rent, utilities and building supplies	790,000	3,357,000	2,666,000	187,000
Insurance	270,000	587,000	360,000	17,000
Telephone	84,000	200,000	263,000	10,000
Office Supplies	64,000	117,000	102,000	17,000
Medical Supplies	51,000	175,000	212,000	-
Operating Supplies	293,000	260,000	197,000	863,000
Household Supplies	-	-	967,000	-
Food	-	-	765,000	-
Publications, Postage and Shipping	40,000	38,000	16,000	9,000
Conferences, Conventions and Meetings	85,000	81,000	112,000	22,000
Equipment Rental, Repairs and Maintenance	104,000	139,000	101,000	12,000
Expensed Equipment	37,000	55,000	89,000	4,000
Program Transportation	-	7,726,000	30,000	-
Purchased Services	-	-	-	-
Interest (Notes 6, 7 and 8)	371,000	256,000	328,000	5,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	19,122,000	37,036,000	34,205,000	3,119,000
Payments to Affiliated Organizations	-	-	-	-
Depreciation and Amortization	775,000	964,000	1,111,000	77,000
Total Expenses	19,897,000	38,000,000	35,316,000	3,196,000
Less Direct Expenses of Special Events	-	-	-	-
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ 19,897,000	$ 38,000,000	$ 35,316,000	$ 3,196,000

		Support Services						
	Total Program Services	Management and General	Public Relations and Fund-Raising	Total Supporting Services	Direct Expenses of Special Events	Payments to Affiliated Organizations	**2010 Grand Total**	2009 Grand Total
Salaries	$ 43,068,000	$ 3,320,000	$ 149,000	$ 3,469,000	$ -	$ -	**$ 46,537,000**	$ 43,550,000
Payroll Taxes and Employee Benefits	16,486,000	1,187,000	52,000	1,239,000	-	-	**17,725,000**	13,682,000
Clinical Consultants and Professional Fees	11,050,000	928,000	1,000	929,000	-	-	**11,979,000**	12,536,000
Vehicle Rental and Maintenance	344,000	-	-	-	-	-	**344,000**	401,000
Occupancy, principally rent, utilities and building supplies	7,000,000	783,000	91,000	874,000	-	-	**7,874,000**	7,537,000
Insurance	1,234,000	41,000	5,000	46,000	-	-	**1,280,000**	1,231,000
Telephone	557,000	72,000	6,000	78,000	-	-	**635,000**	691,000
Office Supplies	300,000	58,000	2,000	60,000	-	-	**360,000**	347,000
Medical Supplies	438,000	-	-	-	-	-	**438,000**	411,000
Operating Supplies	1,613,000	-	-	-	-	-	**1,613,000**	1,134,000
Household Supplies	967,000	-	-	-	-	-	**967,000**	925,000
Food	765,000	-	-	-	-	-	**765,000**	729,000
Publications, Postage and Shipping	103,000	126,000	3,000	129,000	-	-	**232,000**	264,000
Conferences, Conventions and Meetings	300,000	88,000	2,000	90,000	-	-	**390,000**	463,000
Equipment Rental, Repairs and Maintenance	356,000	174,000	1,000	175,000	-	-	**531,000**	451,000
Expensed Equipment	185,000	9,000	-	9,000	-	-	**194,000**	330,000
Program Transportation	7,756,000	-	-	-	-	-	**7,756,000**	7,721,000
Purchased Services	-	-	-	-	370,000	-	**370,000**	399,000
Interest (Notes 6, 7 and 8)	960,000	82,000	10,000	92,000	-	-	**1,052,000**	1,073,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	93,482,000	6,868,000	322,000	7,190,000	370,000	-	**101,042,000**	93,875,000
Payments to Affiliated Organizations	-	-	-	-	-	91,000	**91,000**	95,000
Depreciation and Amortization	2,927,000	300,000	21,000	321,000	-	-	**3,248,000**	3,275,000
Total Expenses	96,409,000	7,168,000	343,000	7,511,000	370,000	91,000	**104,381,000**	97,245,000
Less Direct Expenses of Special Events	-	-	-	-	(370,000)	-	**(370,000)**	(399,000)
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ 96,409,000	$ 7,168,000	$ 343,000	$ 7,511,000	$ -	$ 91,000	**$ 104,011,000**	$ 96,846,000

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See notes to combined financial statements.

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Combined Statement of Functional Expenses

Year Ended June 30, 2009

	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	2009 Grand Total
Salaries	$ 8,314,000	$ 13,202,000	$ 17,131,000	$ 1,507,000	$ 40,154,000	$ 3,110,000	$ 286,000	$ 3,396,000	$ -	$ -	$ 43,550,000
Payroll Taxes and Employee Benefits	2,894,000	4,340,000	5,044,000	460,000	12,738,000	874,000	70,000	944,000	-	-	13,682,000
Clinical Consultants and Professional Fees	4,538,000	5,006,000	2,073,000	26,000	11,643,000	876,000	17,000	893,000	-	-	12,536,000
Vehicle Rental and Maintenance	14,000	169,000	208,000	9,000	400,000	1,000	-	1,000	-	-	401,000
Occupancy, principally rent, utilities and building supplies	771,000	3,081,000	2,449,000	427,000	6,728,000	723,000	86,000	809,000	-	-	7,537,000
Insurance	262,000	537,000	359,000	31,000	1,189,000	38,000	4,000	42,000	-	-	1,231,000
Telephone	109,000	226,000	268,000	15,000	618,000	68,000	5,000	73,000	-	-	691,000
Office Supplies	44,000	102,000	96,000	21,000	263,000	80,000	4,000	84,000	-	-	347,000
Medical Supplies	41,000	155,000	215,000	-	411,000	-	-	-	-	-	411,000
Operating Supplies	267,000	248,000	191,000	428,000	1,134,000	-	-	-	-	-	1,134,000
Household Supplies	-	-	925,000	-	925,000	-	-	-	-	-	925,000
Food	-	-	729,000	-	729,000	-	-	-	-	-	729,000
Publications, Postage and Shipping	32,000	28,000	13,000	15,000	88,000	170,000	6,000	176,000	-	-	264,000
Conferences, Conventions and Meetings	80,000	107,000	137,000	40,000	364,000	95,000	4,000	99,000	-	-	463,000
Equipment Rental, Repairs and Maintenance	49,000	131,000	101,000	36,000	317,000	130,000	4,000	134,000	-	-	451,000
Expensed Equipment	180,000	39,000	80,000	10,000	309,000	21,000	-	21,000	-	-	330,000
Program Transportation	-	7,696,000	25,000	-	7,721,000	-	-	-	-	-	7,721,000
Purchased Services	-	-	-	-	-	-	-	-	399,000	-	399,000
Interest (Notes 6, 7 and 8)	407,000	261,000	312,000	9,000	989,000	77,000	7,000	84,000	-	-	1,073,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	18,002,000	35,328,000	30,356,000	3,034,000	86,720,000	6,263,000	493,000	6,756,000	399,000	-	93,875,000
Payments to Affiliated Organizations	-	-	-	-	-	-	-	-	-	95,000	95,000
Depreciation and Amortization	814,000	986,000	1,064,000	65,000	2,929,000	314,000	32,000	346,000	-	-	3,275,000
Total Expenses	18,816,000	36,314,000	31,420,000	3,099,000	89,649,000	6,577,000	525,000	7,102,000	399,000	95,000	97,245,000
Less Direct Expenses of Special Events	-	-	-	-	-	-	-	-	(399,000)	-	(399,000)
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ 18,816,000	$ 36,314,000	$ 31,420,000	$ 3,099,000	$ 89,649,000	$ 6,577,000	$ 525,000	$ 7,102,000	$ -	$ 95,000	$ 96,846,000

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See notes to combined financial statements.

Combined Statements of Cash Flows

Years Ended June 30,	2010	2009
Cash Flows from Operating Activities:		
Changes in net assets before pension related changes	$ 1,906,000	$ (521,000)
Adjustments to reconcile changes in net assets before pension related changes to net cash provided by operating activities:		
Depreciation and amortization	3,248,000	3,275,000
Provision for reimbursement adjustments	471,000	225,000
Realized and unrealized (gains) losses on investments	(718,000)	1,690,000
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Grants and fees receivable from governmental agencies	(167,000)	(1,769,000)
Other assets	107,000	(127,000)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(760,000)	(712,000)
Accrued payroll and related liabilities	669,000	(2,026,000)
Accrued reimbursement adjustments	348,000	(77,000)
Other liabilities	3,291,000	441,000
Net Cash Provided by Operating Activities	8,395,000	399,000
Cash Flows from Investing Activities:		
Purchases of fixed assets	(2,023,000)	(3,324,000)
Purchases of investments	(506,000)	(1,138,000)
Redemption of investments	433,000	692,000
Net (increase) decrease in assets limited as to use	(63,000)	122,000
Net Cash Used in Investing Activities	(2,159,000)	(3,648,000)
Cash Flows from Financing Activities:		
Principal payments on capital lease obligations	(77,000)	(126,000)
Principal payments on mortgages payable	(779,000)	(746,000)
Proceeds of new mortgages	2,386,000	2,690,000
Proceeds of draw down on lines of credit	250,000	(308,000)
Repayments of draw down on lines of credit	(3,602,000)	-
Net Cash (Used in) Provided by Financing Activities	(1,822,000)	1,510,000
Net Increase (Decrease) in Cash and Cash Equivalents	4,414,000	(1,739,000)
Cash and Cash Equivalents, beginning of year	12,119,000	13,858,000
Cash and Cash Equivalents, end of year	$ 16,533,000	$ 12,119,000
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$ 1,036,000	$ 1,056,000
Non-cash investing and financing activities:		
Assets acquired under capital lease	$ 26,000	$ 92,000

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See notes to combined financial statements.

Notes to Combined Financial Statements

Years Ended June 30, 2010 and 2009

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 June 2012.

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, 2010 and 2009, approximately $744,000 and $878,000, respectively, have been restricted for specific purposes.

During the years ended June 30, 2010 and 2009, temporarily restricted net assets of approximately $202,000 and $448,000, 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, 2010 and 2009, the Companies had cash balances in financial institutions that exceeded federal depository insurance limits. Approximately 79% and 73% of the Companies' cash and cash equivalents are on deposit in various accounts with one financial institution at June 30, 2010 and 2009, respectively. Management believes that credit risk related to these deposits is minimal.

Notes to Combined Financial Statements

Years Ended June 30, 2010 and 2009

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, 2010 and November 24, 2010, 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.

Notes to Combined Financial Statements

Years Ended June 30, 2010 and 2009

2. Investments

The cost and fair value of investments are as follows:

June 30,	2010 Cost	2010 Fair Value	2009 Cost	2009 Fair Value
Cash and Cash Equivalents	$ 350,000	$ 350,000	$ 350,000	$ 350,000
Equity Securities	5,430,000	5,201,000	5,684,000	4,857,000
Bonds	1,654,000	1,809,000	1,339,000	1,362,000
Total Investments	$ 7,434,000	$ 7,360,000	$ 7,373,000	$ 6,569,000

3. Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. The 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, 2010	Total Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)
Equity Securities	$ 5,201,000	$ 5,201,000
Bonds	1,809,000	1,809,000
Total Investments	$ 7,010,000	$ 7,010,000

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
Total Investments	$ 6,219,000	$ 6,219,000

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4. Uncertain Tax Positions

Effective July 1, 2009, the Agency adopted the provisions of *"Accounting for Uncertainty in Income Taxes"*. Uncertain Tax Position prescribes recognition thresholds that must be met before a tax position is recognized in the combined financial statements and provides guidance on de-recognition, classification, interest and penalties, disclosure, and transition. Under *Accounting for Uncertainty in Income Taxes,* an entity may only recognize or continue to recognize tax positions that meet a "more-likely-than-not" threshold. The Agency has evaluated its tax position for the year ended June 30, 2010, and 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,	2010	2009
Land	$ 5,515,000	$ 5,515,000
Buildings	35,836,000	35,836,000
Building Improvements	8,403,000	7,524,000
Furniture and Fixtures	15,603,000	14,679,000
Leasehold Improvements	7,246,000	7,097,000
Construction in Progress	384,000	226,000
	72,987,000	70,877,000
Less Accumulated Depreciation and Amortization	44,928,000	41,680,000
	$ 28,059,000	$ 29,197,000

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, 2011. At June 30, 2010 and 2009, the Agency had drawn down approximately $0 and $2.4 million, respectively, under this line of credit. Interest on outstanding amounts under this agreement is at the prime rate (3.25% at June 30, 2010 and 2009) 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, 2010 and 2009. The line of credit is unsecured. Interest expense on the line of credit for the years ended June 30, 2010 and 2009 approximated $97,000 and $112,000, 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 an average interest rate of 3.0% and 1.75% as of June 30, 2010 and 2009, respectively. As of June 30, 2010 and 2009, the Agency had drawn down approximately $850,000 and $1,800,000, respectively, under this line of credit. This line of credit expires on July 1, 2011. Interest expense on this line of credit for the years ended June 30, 2010 and 2009 approximated $38,000 and $22,000, respectively.

7. Capital Leases Payable

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, 2010 and 2009, the costs of the fixed assets recorded under the capital leases were approximately $1,238,000 and $1,208,000, respectively. The net book values were approximately $154,000 and $197,000 as of June 30, 2010 and 2009, respectively.

Future minimum payments under the lease agreements, by year and in the aggregate, consisted approximately of the following:

Years Ending June 30,	
2011	$ 67,000
2012	49,000
2013	43,000
2014	21,000
2015	2,000
Total Minimum Lease Payments	182,000
Less Amounts Representing Interest	24,000
Net Minimum Lease Payments	158,000
Less Current Portion	56,000
Long-Term Portion of Capital Leases Included in Loans and Capital Leases Payable	$ 102,000

Interest expense on the capital leases for the years ended June 30, 2010 and 2009 was approximately $15,000 and $16,000, respectively.

8. Mortgages Payable

A summary of mortgages payable is as follows:

June 30,	2010	2009
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, 2010 and 2009. (a)	$ 8,735,000	$ 9,110,000
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 the rate of 5.1% per annum at June 30, 2010 and 2009. Includes bond premium of approximately $18,000 and $20,000 at June 30, 2010 and 2009, respectively. (b)	1,098,000	1,154,000
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 for People With Developmental Disabilities ("OPWDD") 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)	1,484,000	1,614,000
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.	1,459,000	1,665,000
Mortgage with the Dormitory Authority on the Stillwell Avenue IRA, Bronx, New York , payable in annual installments ranging from approximately $39,000 to $182,000 through June 30, 2024, including interest at the rate of 1.5% per annum at June 30, 2010. (e)	1,505,000	-
Mortgage with the Dormitory Authority on 389 Eight Avenue, Manhattan, New York, payable in annual installments ranging from approximately $16,000 to $21,000 through June 30, 2012, including interest at the rate of 3.5% per annum at June 30, 2010. (e)	35,000	-
Mortgage with JP Morgan Chase Bank on the Avenue D IRA, Manhattan, New York, payable in monthly installments of $9,432, through May 2021, including interest at 7.5% per annum. (f)	834,000	-
	$ 17,910,000	$ 16,303,000

Land, buildings and improvements with an aggregate net book value of approximately $15,544,000 and $13,899,000 at June 30, 2010 and 2009, 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 cost of issuance of the Series 1996 Revenue Bonds, and to make a deposit into a 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, 2010 and 2009, approximately $617,000 and $647,000, 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. A 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, 2010 and 2009, approximately $949,000 for each year 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, a 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, 2010 and 2009 were approximately $415,000 and $397,000, 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 as of June 30, 2010 and 2009, 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 a 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, 2010 and 2009, approximately $125,000 and $126,000, 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, 2010 and 2009, approximately $89,000 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, 2010 and 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 $304,000 and $290,000 as of June 30, 2010 and 2009, 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 OPWDD to provide long-term financing for the Lake Street Intermediate Care Facility. The funds were provided to OPWDD 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 OPWDD 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, 2010 and 2009. These funds have been included in assets limited as to use in the accompanying combined statements of financial position at June 30, 2010 and 2009.

Reduction of the principal as well as payment of interest and financing costs related to the mortgaged property is achieved through an agreement with OPWDD whereby reimbursement of future program expenditures is reduced based upon OPWDD 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 OPWDD at both June 30, 2010 and 2009 is approximately $49,000 greater than what the principal and interest liability would have been had OPWDD deducted principal and interest payments in accordance with the terms of the repayment schedules found in the original mortgage agreements.

(e) In June 2010, the Agency became a participant in the Dormitory Authority's New York Interagency Council's Pooled Loan Program Revenue Bonds, consisting of Series 2010A-1 and Series 2010A-2 ("Pooled Bonds"). The aggregate amount of this issue was $29,670,000, of which $1,540,000 benefits the Agency. Proceeds were used to pay down monies previously borrowed from a revolving line of credit, to fund the cost of issuance of these bonds, and to make a deposit into a Debt Service Reserve Fund. At June 30, 2010, approximately $61,000 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 the borrowing, the Agency is required to make monthly deposits into a Debt Service Fund. The fund accumulated amounts necessary to make principal and interest payments semi-annually. Payments are made on January 1 and July 1. 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, 2010.

(f) In March 2010, the Agency entered into a mortgage agreement with JPMorgan Chase Bank to refinance the Agency's condominium apartments at Avenue D, Manhattan, New York. The mortgage is secured by the apartments at Avenue D. The debt agreement for the mortgage contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2010.

HOLTZ RUBENSTEIN REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Notes to Combined Financial Statements

Years Ended June 30, 2010 and 2009

Interest expense on the mortgages payable for the years ended June 30, 2010 and 2009 approximated $799,000 and $828,000, respectively.

Scheduled future principal payments on mortgages payable are approximately as follows:

Years Ending June 30,	
2011	$ 965,000
2012	1,000,000
2013	1,036,000
2014	1,169,000
2015	1,203,000
Thereafter	12,537,000
	$ 17,910,000

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, 2010 and 2009. Employee data as of July 1, 2009 and 2008 was projected forward to the June 30, 2010 and 2009 measurement dates, respectively. 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,	2010	2009
Reconciliation of Projected Benefit Obligation:		
Projected benefit obligation at beginning of year	$ 40,151,000	$ 39,022,000
Service cost	40,000	79,000
Interest cost	2,438,000	2,486,000
Change due to assumption changes	2,724,000	(1,655,000)
Actuarial loss	(433,000)	1,343,000
Expense charges	24,000	(39,000)
Benefits disbursed	(1,161,000)	(1,085,000)
Projected Benefit Obligation at end of year	43,783,000	40,151,000
Funded Status:		
Fair value of Plan assets, consisting principally of stocks and bonds, at beginning of year	25,788,000	30,513,000
Actual return on Plan assets	3,366,000	(5,201,000)
Employer contributions	1,025,000	1,600,000
Benefits disbursed from Plan assets (including expense charges)	(1,137,000)	(1,124,000)
Fair Value of Plan Assets at end of year	29,042,000	25,788,000
Projected Benefit Obligation in Excess of Plan Assets	(14,741,000)	(14,363,000)
Accrued Pension Cost in the Accompanying Combined Statements of Financial Position	$ (14,741,000)	$ (14,363,000)
Accumulated Benefit Obligation	$ 43,783,000	$ 40,151,000

Weighted-average assumptions used to measure benefit obligations are as follows:

June 30,	**2010**	2009
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,	**2010**	2009
Discount Rate	6.25%	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 8.20% to 10.06%. A rate of 9.0%, which is near the midpoint of the best estimate range, was selected.

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Net periodic pension cost includes the following:

Years Ended June 30,	**2010**	2009
Service Cost - benefits earned during the year	$ 40,000	$ 79,000
Interest Cost on Projected Benefit Obligation	2,438,000	2,486,000
Actual Negative Return on Plan Assets	(3,366,000)	5,201,000
Net Amortization and Deferral of Asset Loss	1,871,000	(7,934,000)
Net Periodic Pension Cost	$ 983,000	$ (168,000)

The percentages of fair value of total Plan assets by asset category are as follows:

June 30,	**2010**	2009
Equity	68.8%	70.0%
Fixed Income	25.6	24.0
Guaranteed Investment Contract	5.6	6.0
	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,	
2011	$ 1,574,000
2012	1,678,000
2013	1,899,000
2014	2,052,000
2015	2,291,000
2016 – 2020	13,738,000

The Agency expects to contribute approximately $1,000,000 to the Plan during the year ending June 30, 2011.

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, 2010 and 2009 approximated $2,010,000 and $1,939,000, 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, 2010 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 $1,041,000 and $513,000 as of June 30, 2010 and 2009, 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 $409,000 and $205,000 as of June 30, 2010 and 2009, 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 $772,000 and $1,156,000 as of June 30, 2010 and 2009, 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 ($955,000 and $635,000 at June 30, 2010 and 2009, 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. On April 1, 2010, the Agency entered into a non-cancelable ten-year lease for a new treatment facility in New York City. The lease calls for escalation charges throughout the lease term and includes six months of free rent and six months of reduced rent. 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,	
2011	$ 2,991,000
2012	1,048,000
2013	780,000
2014	757,000
2015	453,000
Thereafter	3,163,000
	$ 9,192,000

Rent expense on real property was approximately $4,631,000 and $4,519,000 for the years ended June 30, 2010 and 2009, respectively. Rent expense on equipment for the years ended June 30, 2010 and 2009 was approximately $247,000 and $232,000, 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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REMINICK

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

REPORT ON AUDITS OF COMBINED FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

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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

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

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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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Combined Statement of Functional Expenses

Year Ended June 30, 2009 (with summarized comparative totals for 2008)

	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	**2009 Grand Total**	2008 Grand Total
Salaries	$ 8,314,000	$ 13,202,000	$ 17,131,000	$ 1,507,000	$ 40,154,000	$ 3,110,000	$ 286,000	$ 3,396,000	$ -	$ -	**$ 43,550,000**	$ 41,538,000
Payroll Taxes and Employee Benefits	2,894,000	4,340,000	5,044,000	460,000	12,738,000	874,000	70,000	944,000	-	-	**13,682,000**	12,187,000
Clinical Consultants and Professional Fees	4,538,000	5,006,000	2,073,000	26,000	11,643,000	876,000	17,000	893,000	-	-	**12,536,000**	12,137,000
Vehicle Rental and Maintenance	14,000	169,000	208,000	9,000	400,000	1,000	-	1,000	-	-	**401,000**	399,000
Occupancy, principally rent, utilities and building supplies	771,000	3,081,000	2,449,000	427,000	6,728,000	723,000	86,000	809,000	-	-	**7,537,000**	7,104,000
Insurance	262,000	537,000	359,000	31,000	1,189,000	38,000	4,000	42,000	-	-	**1,231,000**	1,393,000
Telephone	109,000	226,000	268,000	15,000	618,000	68,000	5,000	73,000	-	-	**691,000**	514,000
Office Supplies	44,000	102,000	96,000	21,000	263,000	80,000	4,000	84,000	-	-	**347,000**	313,000
Medical Supplies	41,000	155,000	215,000	-	411,000	-	-	-	-	-	**411,000**	402,000
Operating Supplies	267,000	248,000	191,000	428,000	1,134,000	-	-	-	-	-	**1,134,000**	1,078,000
Household Supplies	-	-	925,000	-	925,000	-	-	-	-	-	**925,000**	869,000
Food	-	-	729,000	-	729,000	-	-	-	-	-	**729,000**	662,000
Publications, Postage and Shipping	32,000	28,000	13,000	15,000	88,000	170,000	6,000	176,000	-	-	**264,000**	239,000
Conferences, Conventions and Meetings	80,000	107,000	137,000	40,000	364,000	95,000	4,000	99,000	-	-	**463,000**	389,000
Equipment Rental, Repairs and Maintenance	49,000	131,000	101,000	36,000	317,000	130,000	4,000	134,000	-	-	**451,000**	496,000
Expensed Equipment	180,000	39,000	80,000	10,000	309,000	21,000	-	21,000	-	-	**330,000**	433,000
Program Transportation	-	7,696,000	25,000	-	7,721,000	-	-	-	-	-	**7,721,000**	8,235,000
Purchased Services	-	-	-	-	-	-	-	-	399,000	-	**399,000**	297,000
Interest (Notes 6, 7 and 8)	407,000	261,000	312,000	9,000	989,000	77,000	7,000	84,000	-	-	**1,073,000**	1,074,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	18,002,000	35,328,000	30,356,000	3,034,000	86,720,000	6,263,000	493,000	6,756,000	399,000	-	**93,875,000**	89,759,000
Payments to Affiliated Organizations	-	-	-	-	-	-	-	-	-	95,000	**95,000**	87,000
Depreciation and Amortization	814,000	986,000	1,064,000	65,000	2,929,000	314,000	32,000	346,000	-	-	**3,275,000**	3,409,000
Total Expenses	18,816,000	36,314,000	31,420,000	3,099,000	89,649,000	6,577,000	525,000	7,102,000	399,000	95,000	**97,245,000**	93,255,000
Less Direct Expenses of Special Events	-	-	-	-	-	-	-	-	(399,000)	-	**(399,000)**	(297,000)
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ 18,816,000	$ 36,314,000	$ 31,420,000	$ 3,099,000	$ 89,649,000	$ 6,577,000	$ 525,000	$ 7,102,000	$ -	$ 95,000	**$ 96,846,000**	$ 92,958,000

Combined Statement of Functional Expenses

Year Ended June 30, 2008

	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
Salaries	$ 7,632,000	$ 12,574,000	$ 16,298,000	$ 1,631,000	$ 38,135,000	$ 3,304,000	$ 99,000	$ 3,403,000	$ -	$ -	$ 41,538,000
Payroll Taxes and Employee Benefits	2,112,000	3,756,000	4,992,000	417,000	11,277,000	869,000	41,000	910,000	-	-	12,187,000
Clinical Consultants and Professional Fees	3,988,000	5,402,000	1,712,000	45,000	11,147,000	981,000	9,000	990,000	-	-	12,137,000
Vehicle Rental and Maintenance	23,000	202,000	165,000	7,000	397,000	2,000	-	2,000	-	-	399,000
Occupancy, principally rent, utilities and building supplies	698,000	2,959,000	2,247,000	417,000	6,321,000	669,000	114,000	783,000	-	-	7,104,000
Insurance	289,000	625,000	393,000	34,000	1,341,000	45,000	7,000	52,000	-	-	1,393,000
Telephone	101,000	182,000	167,000	14,000	464,000	45,000	5,000	50,000	-	-	514,000
Office Supplies	45,000	100,000	82,000	15,000	242,000	68,000	3,000	71,000	-	-	313,000
Medical Supplies	36,000	182,000	184,000	-	402,000	-	-	-	-	-	402,000
Operating Supplies	245,000	263,000	180,000	390,000	1,078,000	-	-	-	-	-	1,078,000
Household Supplies	-	-	869,000	-	869,000	-	-	-	-	-	869,000
Food	-	-	662,000	-	662,000	-	-	-	-	-	662,000
Publications, Postage and Shipping	34,000	29,000	14,000	5,000	82,000	152,000	5,000	157,000	-	-	239,000
Conferences, Conventions and Meetings	46,000	92,000	130,000	43,000	311,000	75,000	3,000	78,000	-	-	389,000
Equipment Rental, Repairs and Maintenance	46,000	141,000	98,000	11,000	296,000	196,000	4,000	200,000	-	-	496,000
Expensed Equipment	241,000	59,000	95,000	17,000	412,000	21,000	-	21,000	-	-	433,000
Program Transportation	-	8,213,000	22,000	-	8,235,000	-	-	-	-	-	8,235,000
Purchased Services	-	-	-	-	-	-	-	-	297,000	-	297,000
Interest (Notes 6, 7 and 8)	416,000	288,000	322,000	10,000	1,036,000	31,000	7,000	38,000	-	-	1,074,000
Total Expenses before Payments to Affiliated Organizations and Depreciation and Amortization	15,952,000	35,067,000	28,632,000	3,056,000	82,707,000	6,458,000	297,000	6,755,000	297,000	-	89,759,000
Payments to Affiliated Organizations	-	-	-	-	-	-	-	-	-	87,000	87,000
Depreciation and Amortization	846,000	1,155,000	983,000	67,000	3,051,000	324,000	34,000	358,000	-	-	3,409,000
Total Expenses	16,798,000	36,222,000	29,615,000	3,123,000	85,758,000	6,782,000	331,000	7,113,000	297,000	87,000	93,255,000
Less Direct Expenses of Special Events	-	-	-	-	-	-	-	-	(297,000)	-	(297,000)
Total Expenses per Combined Statement of Activities and Changes in Net Assets	$ 16,798,000	$ 36,222,000	$ 29,615,000	$ 3,123,000	$ 85,758,000	$ 6,782,000	$ 331,000	$ 7,113,000	$ -	$ 87,000	$ 92,958,000

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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

See notes to combined financial statements.

Notes to Combined Financial Statements

Years Ended June 30, 2009 and 2008

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)(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 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

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.

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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.

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

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.

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APPENDIX C

UNAUDITED FINANCIAL STATEMENTS OF SERIES 2012A PARTICIPANTS

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APPENDIX C-I

BIRCH FAMILY SERVICES, INC.

UNAUDITED FINANCIAL INFORMATION

(FOR THE PERIOD JULY 1, 2011 – DECEMBER 31, 2011)

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Birch Family Services, Inc.
Balance Sheet
December 31, 2011

	Actual P/E 6/30/2011	Actual P/E 7/31/2011	Actual P/E 8/31/2011	Actual P/E 9/30/2011	Actual P/E 10/31/2011	Actual P/E 11/30/2011	Actual P/E 12/31/2011
ASSETS							
Current Assets							
Cash and cash equivalents	957,571	1,492,057	3,084,053	3,638,043	3,263,086	2,810,054	3,146,915
Restricted Cash	73,481	79,663	7,932	18,014	18,014	42,062	55,604
Accounts receivable, net of allowance for doubtful	4,629,624	6,489,652	4,270,355	3,950,394	3,143,871	3,728,252	3,353,459
Prepaid expenses & other assets	203,222	247,731	264,189	314,996	320,427	206,535	208,455
Total Current Assets	5,863,897	8,309,103	7,626,529	7,921,448	6,745,397	6,786,903	6,764,432
Fixed assets - net	12,218,913	12,334,300	12,309,655	12,264,947	12,221,865	12,192,242	12,111,047
Limited use assets	747,188	726,531	702,413	709,004	715,595	722,187	728,779
Deferred bond, loan financing and other program costs	216,191	218,909	221,460	223,953	222,771	230,156	203,427
Total assets	19,046,189	21,588,842	20,860,058	21,119,352	19,905,628	19,931,488	19,807,685
LIABILITIES AND NET ASSETS							
Current liabilities							
Accounts payable, accrued expenses	2,897,903	3,074,274	2,966,443	2,736,511	2,890,684	2,814,822	2,643,363
Accrued Compensation	1,156,266	1,239,603	1,322,940	1,456,273	1,556,273	1,656,273	1,756,273
Due to Government Agencies	2,423,475	3,064,638	3,087,965	4,802,227	3,207,409	3,970,638	3,716,897
Due from The Herbert G. Birch Services Fund, Inc.	(162,662)	(118,497)	(120,000)	(180,723)	(184,155)	(192,535)	(251,431)
Current Short Term Loan Payable - LOC	1,051,599	2,051,599	2,051,599	1,051,599	1,051,599	0	0
Total Current liabilities	7,366,581	9,311,617	9,308,947	9,865,887	8,521,810	8,249,199	7,865,102
Long-term debt and capital leases	9,266,266	9,486,481	10,284,813	10,211,347	10,194,423	10,120,964	10,042,611
Total Liabilities	16,632,847	18,798,098	19,593,760	20,077,233	18,716,233	18,370,162	17,907,712
Net assets- unrestricted - (Exhibit B)	2,413,342	2,790,744	1,266,298	1,042,119	1,189,395	1,561,326	1,899,972
Total liabilities and net assets	19,046,189	21,588,842	20,860,058	21,119,352	19,905,628	19,931,488	19,807,685

C-I-1

Birch Family Services, Inc.
Statement of Activities
December 31, 2011

	Actual P/E 12/31/2011	Budget P/E 12/31/2011	Variance	Actual YTD 12/31/2011	Budget YTD 12/31/2011	Variance	Total Budget	Remaining Budget
Revenues								
Tuition	2,574,214	2,746,978	(172,764)	14,407,651	14,843,797	(436,146)	31,396,377	(16,988,726)
Total Revenue for CS	1,525,340	1,199,740	325,600	7,750,715	7,198,440	552,275	14,396,863	(6,646,148)
Federal & NYS Grants	513,970	423,603	90,367	2,517,574	2,541,618	(24,044)	5,083,216	(2,565,642)
Grants from The HGB Fund, Inc.	52,302	14,167	38,135	141,266	85,002	56,264	170,000	(28,734)
Interest Income	1,407	0	1,407	11,872	0	11,872	0	11,872
Total Revenues	4,667,233	4,384,488	282,745	24,829,078	24,668,857	160,221	51,046,456	(26,217,378)
Expenses								
Personnel Costs								
Salary	2,717,502	2,746,136	28,634	15,769,699	16,476,818	707,119	32,953,554	17,183,855
Payroll Taxes & Fringe	561,389	566,247	4,858	3,328,765	3,397,480	68,715	6,794,829	3,466,064
Total	3,278,891	3,312,383	33,493	19,098,465	19,874,299	775,834	39,748,383	20,649,918
OTPS								
Contract Dir. Care & Clin.Pers/Teach Supp	43,171	68,672	25,501	369,553	412,032	42,479	824,024	454,471
Contracted Service	161,749	50,371	(111,378)	778,651	302,226	(476,425)	604,435	(174,216)
Building Rent	249,527	222,928	(26,599)	1,560,760	1,337,568	(223,192)	2,675,119	1,114,359
Audit & Legal	27,985	22,573	(5,412)	105,254	135,438	30,184	270,875	165,621
Food	79,227	73,042	(6,185)	446,334	438,252	(8,082)	876,483	430,149
Repairs And Maintenance	85,739	52,511	(33,228)	421,767	315,066	(106,701)	630,098	208,331
Utilities	35,296	48,081	12,785	257,982	288,486	30,504	576,956	318,974
Staff Travel	23,123	26,335	3,212	161,368	158,010	(3,358)	315,982	154,614
Expensed Equipment	15,583	27,431	11,848	116,955	164,586	47,631	329,118	212,163
Computer	0	6,043	6,043	14,021	36,258	22,237	72,487	58,466
Services Assessment	26,666	33,796	7,130	157,619	202,776	45,157	405,545	247,926
Staff Development	3,598	15,246	11,648	29,295	91,476	62,181	182,968	153,673
Non-Household	0	179	179	968	1,074	106	2,140	1,172
Household	12,542	20,153	7,611	132,851	120,918	(11,933)	241,781	108,930
Telephone	847	14,538	13,691	63,657	87,228	23,571	174,438	110,781

Birch Family Services, Inc.
Statement of Activities
December 31, 2011

C-I-3

	Actual P/E 12/31/2011	Budget P/E 12/31/2011	Variance	Actual YTD 12/31/2011	Budget YTD 12/31/2011	Variance	Total Budget	Remaining Budget
Insurance	20,233	18,734	(1,499)	118,617	112,404	(6,213)	224,737	106,120
Other & MTA Tax	5,392	440	(4,952)	21,674	2,640	(19,034)	5,285	(16,389)
Office Supplies & Postage	24,251	23,630	(621)	114,209	141,780	27,571	283,540	169,331
Payroll Processing Expense	9,329	6,764	(2,565)	50,472	40,584	(9,888)	81,173	30,701
Advertisement Expense	1,998	10,417	8,419	41,617	62,502	20,885	125,000	83,383
Bank Charges	556	389	(167)	3,738	2,334	(1,404)	4,672	934
Employment Agency Fees	0	2,914	2,914	23,433	17,484	(5,949)	34,975	11,542
License And Other Fees	9,417	6,688	(2,729)	58,227	40,128	(18,099)	80,245	22,018
Office Temporary Help	11,744	9,330	(2,414)	106,734	55,980	(50,754)	111,947	5,213
Property & Equipment	124,849	98,956	(25,893)	710,157	593,736	(116,421)	1,187,427	477,271
Interest - Working Capital	75,806	61,995	(13,811)	373,116	371,970	(1,146)	743,893	370,777
Other	1,066	215	(851)	9,455	1,290	(8,165)	2,580	(6,875)
Total OTPS	1,049,696	922,371	(127,325)	6,248,483	5,534,226	(714,257)	11,067,923	4,819,440
Total Expenses	4,328,587	4,234,754	(93,832)	25,346,948	25,408,525	61,577	50,816,306	25,469,358
NET SURPLUS/(DEFICIT)	**338,647**	**149,734**	**188,913**	**(517,870)**	**(739,668)**	**221,798**	**230,150**	**(748,020)**

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APPENDIX C-II

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

UNAUDITED FINANCIAL INFORMATION

(FOR THE PERIOD JULY 1, 2011 – DECEMBER 31, 2011)

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FEGS HEALTH AND HUMAN SERVICES SYSTEM
SUMMARY OF OPERATION
DECEMBER 2011 YEAR TO DATE ACTUALS

	SIX MONTHS ENDING DECEMBER 31, 2011 ACTUAL
TOTAL REVENUES	110,600,000
TOTAL EXPENSES	108,200,000
NET OPERATING INCOME	2,400,000
LESS DEPRECIATION	(2,600,000)
ADD: INTEREST AND PRIOR YEAR'S INCOME	175,000
NET SURPLUS/(DEFICIT)	(25,000)

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.

BALANCE SHEET (Unaudited)

DECEMBER 31, 2011

	31-Dec-11	Audited 30-Jun-11	Difference
ASSETS			
Cash and cash equivalents	$ 5,375,538	$ 7,276,684	(1,901,146)
Cash - escrow	37,145	37,145	0
Investments	24,730,601	24,979,234	(248,633)
Accounts receivable	52,054,863	49,292,134	2,762,729
Assets held for deferred compensation	1,124,514	1,091,922	32,592
Contributions receivable	357,421	861,362	(503,942)
Prepaid expenses and other assets	8,283,647	8,062,398	221,249
Deposits	2,923,215	2,754,543	168,672
Fixed assets	41,534,914	42,366,300	(831,386)
Total assets	$ 136,421,858	$ 136,721,722	(299,865)
LIABILITIES AND NET ASSETS			
Accounts payable, accrued expenses and other liabilities	$ 23,866,905	$ 27,957,005	(4,090,100)
Accrued salaries and vacations payable	10,164,644	9,798,518	366,125
Allowance for third-party adjustments	5,716,438	5,728,407	(11,969)
Advances	17,284,451	12,931,535	4,352,917
Liability for deferred compensation	1,124,514	1,091,922	32,592
Mortgages payable	16,856,386	17,519,089	(662,703)
Loan payable	1,469,433	1,469,433	0
Construction advances	3,591,345	3,633,446	(42,101)
Total liabilities	80,074,116	80,129,354	(55,241)
Net assets (Exhibit B)			
Unrestricted			
Operating	14,195,260	14,189,884	5,375
Board designated	33,430,273	33,680,273	(250,000)
Total unrestricted	47,625,532	47,870,157	(244,625)
Temporarily restricted	7,036,274	7,036,274	0
Permanently restricted	1,685,936	1,685,936	0
Total net assets	56,347,742	56,592,367	(244,625)
Total liabilities and net assets	$ 136,421,858	$ 136,721,721	(299,865)

APPENDIX C-III

PROGRAM DEVELOPMENT SERVICES INC.

UNAUDITED FINANCIAL INFORMATION

(FOR THE PERIOD JULY 1, 2011 – DECEMBER 31, 2011)

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Balance Sheet
As of 12/31/2011

PROGRAM DEVELOPMENT SERVICES, INC. (PRO)

		Prior Year End	Year to Date	Variance	Var %
ASSETS					
CURRENT ASSETS					
10110-00-000	Operating:PDS00-OPER	1,143,521.67	2,123,402.46	979,880.79	85.69%
10120-00-000	Food Stamp:PDS00-OPER	34,398.26	500.00	(33,898.26)	(98.55)%
10130-00-000	Social Security A/C:PDS00-OPER	26,784.67	28,206.53	1,421.86	5.31%
10140-00-000	Money Market A/C:PDS00-OPER	650,990.83	1,103,834.01	452,843.18	69.56%
10150-00-000	Payroll Account:PDS00-OPER	4,356.69	6,574.42	2,217.73	50.90%
10600-00-000	Chemical - Main Account	27,860.13	18,311.76	(9,548.37)	(34.27)%
10800-00-000	Vanguard:PDS00-OPER	352,118.32	102,133.32	(249,985.00)	(70.99)%
11000-00-000	Escrow West 7	599.38	599.38	0.00	0.00%
11000-11-000	Escrow Ave W #1	5,000.00	5,000.00	0.00	0.00%
11000-12-000	Escrow Ave W #2	5,000.00	5,000.00	0.00	0.00%
12140-00-000	Day-Hab Medicaid Receivables	30,617.20	69,195.78	38,578.58	126.00%
12141-00-000	Res-Hab Medicaid Receivable	1,023,839.48	1,056,043.14	32,203.66	3.15%
12142-00-000	Re-Hab Medicaid Receivable	(3,581.35)	(3,581.35)	0.00	0.00%
12143-00-000	NWE Receivables	(6.51)	(6.51)	0.00	0.00%
12144-00-000	MSC Receivable	89,126.18	94,417.82	5,291.64	5.94%
12145-00-000	Medicaid Receivable ICF	255,148.08	(153,724.63)	(408,872.71)	(160.25)%
12146-00-000	IRA SUPPLEMENTAL R&B RECEIVABLES	236,346.78	335,179.10	98,832.32	41.82%
12147-00-000	ISS Operating Fees Receivables	1,531.11	(2,179.45)	(3,710.56)	(242.34)%
12200-00-000	Other Receivables	(22.57)	(22.57)	0.00	0.00%
13000-00-000	Prepaid Interest:PDS00-OPER	8,058.12	8,058.12	0.00	0.00%
14000-00-000	Prepaid Insurance	86,195.17	45,464.32	(40,730.85)	(47.25)%
14100-00-000	Ppd Exp:PDS00-OPER	19,970.37	14,777.75	(5,192.62)	(26.00)%
	Total CURRENT ASSETS:	3,997,852.01	4,857,183.40	859,331.39	21.49%
FIXED ASSETS					
15000-11-000	Land Ave W #1-OPER	51,372.01	51,372.01	0.00	0.00%
15000-12-000	Land Ave W #2-OPER	51,372.00	51,372.00	0.00	0.00%
15000-19-000	Land E. 19 St	50,000.00	50,000.00	0.00	0.00%
15000-23-000	Land 133 Bay 23 St.	50,000.00	50,000.00	0.00	0.00%
15000-46-000	Land 46-OPER	102,849.11	102,849.11	0.00	0.00%
15000-66-000	Land 662 85 St-OPER	94,223.57	94,223.57	0.00	0.00%
15000-86-000	Land West 7th	69,674.90	69,674.90	0.00	0.00%
15000-87-000	Land Dikeman Street	110,517.00	110,517.00	0.00	0.00%
15000-88-000	Land 7th Avenue	190,000.00	190,000.00	0.00	0.00%
16000-11-000	Building Improvement:1022 #1-OPER	650,318.90	650,318.90	0.00	0.00%
16000-12-000	Building Improvement:1022 #2-OPER	650,318.98	650,318.98	0.00	0.00%
16000-19-000	Building Improvements E. 19 St	546,009.32	546,009.32	0.00	0.00%
16000-23-000	Building 133 Bay 23 St.	175,000.00	175,000.00	0.00	0.00%
16000-46-000	Building Improvement:46-OPER	631,824.42	631,824.42	0.00	0.00%
16000-66-000	Building Improvement:662 85 St-OPER	1,046,406.61	1,046,406.61	0.00	0.00%
16000-79-000	Building 790 Riverside Dr.	441,100.00	441,100.00	0.00	0.00%
16000-86-000	Building Improvement:86-OPER	984,810.18	984,810.18	0.00	0.00%
16000-87-000	Building Dikeman Street	1,052,861.00	1,052,861.00	0.00	0.00%
16000-88-000	IMPROVEMENTS - 7TH AVENUE	604,912.62	604,912.62	0.00	0.00%
17000-01-000	Leasehold Improvements-Admin	65,112.80	65,112.80	0.00	0.00%
17000-03-000	Leasehold Improvements 551 #2	34,333.33	34,333.33	0.00	0.00%
17000-09-000	Leasehold Improve. 5222 9 Ave.	18,652.55	18,652.55	0.00	0.00%
17000-10-000	Leasehold Improve. 5222 9 #1	11,333.00	11,333.00	0.00	0.00%
17000-11-000	Leasehold Improvements 1022 Avenue W	25,992.71	25,992.71	0.00	0.00%
17000-12-000	Leasehold Improvemen:1022 #2-OPER	25,992.72	25,992.72	0.00	0.00%
17000-13-000	Leasehold Improvement 1516 IRA	(1.00)	(1.00)	0.00	0.00%
17000-14-000	Leasehold Improvements 514 78	5,050.00	5,050.00	0.00	0.00%
17000-15-000	Leasehold Improve. 1516 Mermai	(0.17)	(0.17)	0.00	0.00%
17000-21-000	Leasehold Improv-8421 3rd	2,749.50	2,749.50	0.00	0.00%
17000-22-000	Leasehold Improve. 223 78 St.	5,622.00	5,622.00	0.00	0.00%
17000-23-000	Leasehold Improve. 133 Bay 23	201,235.50	201,235.50	0.00	0.00%
17000-29-000	Leasehold Improve. 2905 W. 15	21,108.00	21,108.00	0.00	0.00%
FIXED ASSETS	(Continued)				
17000-31-000	Leasehold Improvements 313 80	14,000.00	14,000.00	0.00	0.00%
17000-32-000	Improvements - St. Vincent's	315,663.34	315,663.34	0.00	0.00%

17000-33-000	Improvements E.38th CR A	103,392.58	103,392.58	0.00	0.00%
17000-34-000	Improvements E.38 CR B	103,392.59	103,392.59	0.00	0.00%
17000-35-000	Leasehold Improve. 7402 B10	6,947.00	6,947.00	0.00	0.00%
17000-36-000	Leasehold Improve. 7402 E9	9,569.00	9,569.00	0.00	0.00%
17000-37-000	Leasehold Improve. 7402 F2	5,822.00	5,822.00	0.00	0.00%
17000-38-000	Leasehold Improve. 7402 #A5	10,410.00	10,410.00	0.00	0.00%
17000-39-000	Leasehold Improve. 7402 D2	13,536.00	13,536.00	0.00	0.00%
17000-40-000	Leasehold Improvemen:40-OPER	1,000.00	1,000.00	0.00	0.00%
17000-41-000	Leasehold Improv-551 72	1,525.00	1,525.00	0.00	0.00%
17000-42-000	Leasehold Improv-560 72	4,478.50	4,478.50	0.00	0.00%
17000-43-000	Leasehold Improvemen:560#1-OPER	1,000.00	1,000.00	0.00	0.00%
17000-44-000	Leasehold Improve. 446 77 St.	6,500.00	6,500.00	0.00	0.00%
17000-46-000	Improvements 465 74 St.	75,478.00	75,478.00	0.00	0.00%
17000-48-000	Leasehold Improve. 4810 13 #A	0.11	0.11	0.00	0.00%
17000-49-000	Leasehold Improve. 4810 13 #B	(0.45)	(0.45)	0.00	0.00%
17000-51-000	Leasehold Improv-7805 Ridge	3,306.68	3,306.68	0.00	0.00%
17000-52-000	Leasehold Improv-7807 Ridge#1	2,246.68	2,246.68	0.00	0.00%
17000-60-000	Leasehold Improvemen:72096-OPER	2,750.00	2,750.00	0.00	0.00%
17000-61-000	Leasehold Improve. 638 78 St.	17,350.00	17,350.00	0.00	0.00%
17000-62-000	Leasehold Improvemnets 365 1R	5,016.00	5,016.00	0.00	0.00%
17000-63-000	Leasehold Improvements 365 1F	6,334.00	6,334.00	0.00	0.00%
17000-66-000	Leasehold Improvemen:662 85 St-OPER	24,653.25	24,653.25	0.00	0.00%
17000-67-000	Leasehold Improve. 420 64 7B	8,667.55	8,667.55	0.00	0.00%
17000-70-000	Leasehold Improve. 1527 70 St.	89,145.77	89,145.77	0.00	0.00%
17000-72-000	Leasehold Improv-736 Riverside	45,453.00	45,453.00	0.00	0.00%
17000-73-000	Improvements 730 Riverside Dr.	38,299.68	38,299.68	0.00	0.00%
17000-75-000	Leasehold Improve. 7617 2R	3,822.00	3,822.00	0.00	0.00%
17000-76-000	Leasehold Improve. 7617 3 2L	6,155.55	6,155.55	0.00	0.00%
17000-77-000	Leasehold Improve. 7617 3R	3,822.00	3,822.00	0.00	0.00%
17000-78-000	Leasehold Improv-7617 3 Avenue #3L	7,145.32	7,145.32	0.00	0.00%
17000-79-000	Leasehold Improve. 790 Riversi	87,481.00	87,481.00	0.00	0.00%
17000-81-000	Leasehold Improvemen:81-OPER	4,730.00	4,730.00	0.00	0.00%
17000-82-000	Leasehold Improvemen:82 St-OPER	2,750.00	2,750.00	0.00	0.00%
17000-83-000	Leasehold Improvemen:-83-OPER	2,750.00	2,750.00	0.00	0.00%
17000-84-000	Leasehold Improvemen:8403-OPER	1,000.00	1,000.00	0.00	0.00%
17000-85-000	Leasehold Improvemen:8403 #3-OPER	11,817.00	11,817.00	0.00	0.00%
17000-86-000	Leasehold Improvemen:86-OPER	35,901.78	35,901.78	0.00	0.00%
17000-87-000	Leasehold Improve. Dikeman St.	27,919.00	27,919.00	0.00	0.00%
17000-91-000	Leasehold Improve. 9212 #3F	11,500.00	11,500.00	0.00	0.00%
17000-92-000	Leasehold Improv-9212 3rd#2F	750.00	750.00	0.00	0.00%
17000-93-000	Leasehold Improv-9212 3rd#3R	750.00	750.00	0.00	0.00%
17000-94-000	Leasehold Improvemen:94-OPER	7,320.00	7,320.00	0.00	0.00%
17000-96-000	Leasehold Improvemen:96-OPER	10,000.00	10,000.00	0.00	0.00%
17000-97-000	Leasehold Improvemen:97-OPER	11,955.00	11,955.00	0.00	0.00%
17000-97-001	Leasehold Improvemen:97-PREOP	4,970.00	4,970.00	0.00	0.00%
18000-01-000	Furniture & Fixtures-Admin	135,076.95	135,076.95	0.00	0.00%
18000-03-000	Furn & Fix-551 72nd Street #2	4,928.95	4,928.95	0.00	0.00%
18000-06-000	Furniture & Fixtures:N. 5th 303-OPER	3,668.23	3,668.23	0.00	0.00%
18000-07-000	Furniture & Fixtures:N 5 305-OPER	7,508.99	7,508.99	0.00	0.00%
18000-08-000	Furniture & Fixtures:N 5 #323-OPER	1,350.23	1,350.23	0.00	0.00%
18000-09-000	Furniture & Fixtures:09-OPER	3,425.00	3,425.00	0.00	0.00%
18000-10-000	Furniture & Fix. 5222 9 Ave #1	4,804.60	4,804.60	0.00	0.00%
18000-11-000	Furn & Fix-W.21	7,879.40	8,254.65	375.25	4.76%
18000-12-000	Furniture & Fixtures:1022 #2-OPER	7,879.41	7,392.21	(487.20)	(6.18)%
18000-13-000	Furniture & Fix. Mermaid #2	12,889.83	12,889.83	0.00	0.00%
18000-14-000	Furn & Fixture 514 78 St.	3,924.00	3,924.00	0.00	0.00%
18000-15-000	Furniture & Fix. Mermaid #1	15,022.83	15,022.83	0.00	0.00%
FIXED ASSETS	(Continued)				
18000-16-000	Furn. & Fixtures 116 88 St.	6,158.03	6,158.03	0.00	0.00%
18000-17-000	Furniture & Fixtures:N 5 #322-OPER	4,264.46	4,264.46	0.00	0.00%
18000-18-000	Furniture & Fixtures:N 5 #320-OPER	3,484.70	3,484.70	0.00	0.00%
18000-19-000	Furn & Fix-19th Street	21,632.46	21,632.46	0.00	0.00%
18000-21-000	Furn & Fix-8421 3rd	17,981.52	17,981.52	0.00	0.00%
18000-22-000	Furniture & Fix 223 78 St.	510.00	510.00	0.00	0.00%
18000-23-000	Furniture & Fix. 133 Bay 23 St	18,817.44	18,817.44	0.00	0.00%
18000-27-000	Furniture & Fixtures:N 5 #321-OPER	1,887.05	1,887.05	0.00	0.00%
18000-28-000	Furniture & Fixtures:28-OPER	1,975.00	1,975.00	0.00	0.00%
18000-29-000	Furniture & Fix. 2905 W. 15 St	9,633.52	9,633.52	0.00	0.00%
18000-31-000	Furniture & Fix. 313 80 St.	3,125.00	3,125.00	0.00	0.00%
18000-32-000	Furn & Fix - E. 38 Street	73,382.91	73,382.91	0.00	0.00%

18000-33-000	Furn & Fix - E. 38 St. CR A	4,359.16	4,359.16	0.00	0.00%
18000-34-000	Furn & Fix - E. 38 St. CR B	3,515.69	3,515.69	0.00	0.00%
18000-35-000	Furniture & Fix. 7402 B10	3,152.60	3,152.60	0.00	0.00%
18000-36-000	Furniture & Fix. 7402 E09	7,424.60	7,867.20	442.60	5.96%
18000-37-000	Furniture & Fixture 7402 F2	4,137.60	4,137.60	0.00	0.00%
18000-38-000	Furniture & Fix. 7402 Bay PA05	5,261.20	5,261.20	0.00	0.00%
18000-39-000	Furniture & Fix. 7402 Bay P D2	3,014.20	3,014.20	0.00	0.00%
18000-40-000	Furniture & Fix. 7402 Bay Pkwy	19,048.45	19,048.45	0.00	0.00%
18000-41-000	Furn & Fix-551 72nd	6,064.38	6,064.38	0.00	0.00%
18000-42-000	Furn & Fix-560 72nd	7,158.85	7,158.85	0.00	0.00%
18000-43-000	Furn & Fix-560 72 #1	8,865.63	8,865.63	0.00	0.00%
18000-44-000	Furniture & Fixtures:44-OPER	1,540.00	1,540.00	0.00	0.00%
18000-45-000	Furniture & Fixtures:45-OPER	4,614.87	4,614.87	0.00	0.00%
18000-45-001	Furniture & Fixtures:45-PREOP	2,879.00	2,879.00	0.00	0.00%
18000-46-000	Furniture & Fix. 465 74 St.	12,098.79	12,098.79	0.00	0.00%
18000-51-000	Furn & Fix-7805 Ridge	3,435.63	3,435.63	0.00	0.00%
18000-54-000	Furniture & Fixtures:548-OPER	1,525.00	1,525.00	0.00	0.00%
18000-60-000	Furn & Fix-7209 6th	3,272.40	3,272.40	0.00	0.00%
18000-61-000	Furniture & Fix. 638 78 Street	5,407.36	5,407.36	0.00	0.00%
18000-62-000	Furniture & Fixtures 365 62 1R	4,991.56	4,991.56	0.00	0.00%
18000-63-000	Furniture & Fix. 365 62 St. 1F	4,391.00	4,391.00	0.00	0.00%
18000-64-000	Furn & Fix. 64 St. 1B	3,474.34	3,474.34	0.00	0.00%
18000-65-000	Furn & Fix. 64 St. 3E	13,032.91	13,032.91	0.00	0.00%
18000-66-000	Furniture & Fixtures:662 85 St-OPER	25,225.40	27,952.60	2,727.20	10.81%
18000-67-000	Furn & Fix 420 7B	2,844.80	2,844.80	0.00	0.00%
18000-70-000	Furn.& Fixtures Day Hab	2,605.95	11,605.95	9,000.00	345.36%
18000-72-000	Furn & Fix- 736 Riverside Dr.	13,350.18	13,350.18	0.00	0.00%
18000-73-000	Furniture & Fixture Riverside	37,508.20	37,508.20	0.00	0.00%
18000-74-000	Furn & Fix-411 74th	2,707.00	2,707.00	0.00	0.00%
18000-75-000	Furniture & Fix 7617 2R	3,395.00	3,395.00	0.00	0.00%
18000-76-000	Furniture & Fix. 7617 3 Ave 2L	4,188.00	4,188.00	0.00	0.00%
18000-77-000	Furnitue & Fix. 7617 3R	1,620.00	1,620.00	0.00	0.00%
18000-78-000	Furn & Fix-7617 3 Ave. 3L	2,761.61	2,761.61	0.00	0.00%
18000-79-000	Furniture & Fixture 790 RSD	14,938.70	14,938.70	0.00	0.00%
18000-81-000	Furniture & Fixtures:81-OPER	1,360.00	1,360.00	0.00	0.00%
18000-82-000	Furn & Fix - 549 82nd Street	3,849.91	3,849.91	0.00	0.00%
18000-83-000	Furn & Fix - 549 82nd St. 1R	13,871.09	13,871.09	0.00	0.00%
18000-84-000	Furn. & Fixtures 8403 3rd Ave	9,903.00	9,903.00	0.00	0.00%
18000-85-000	Furniture & Fixtures:8403 #3-OPER	4,255.00	4,255.00	0.00	0.00%
18000-86-000	Furniture & Fixtures:86-OPER	17,691.36	17,691.36	0.00	0.00%
18000-87-000	Furn & Fixtures Dikeman Street	30,914.68	30,914.68	0.00	0.00%
18000-88-000	Furn & Fix 8838 7th Ave	30,123.78	31,489.58	1,365.80	4.53%
18000-91-000	Furniture & Fix. 9212 3 #3F	11,869.40	11,869.40	0.00	0.00%
18000-92-000	Furn & Fix-9212 3rd #2F	2,689.95	2,689.95	0.00	0.00%
18000-93-000	Furn & Fix-9212 3rd Ave #3R	2,178.95	2,178.95	0.00	0.00%
18000-94-000	Furniture & Fixtures:94-OPER	(2,050.40)	(1,620.64)	429.76	(20.96)%
18000-96-000	Furniture & Fixtures:96-OPER	2,990.00	2,990.00	0.00	0.00%
FIXED ASSETS	(Continued)				
18000-97-000	Furniture & Fixtures:97-OPER	1,265.00	1,265.00	0.00	0.00%
18900-01-000	Vehicle Agency	0.00	20,640.00	20,640.00	0.00%
18900-06-000	Vehicle Agency:N. 5th 303-OPER	28,167.00	0.00	(28,167.00)	(100.00)%
18900-11-000	Vehicle Agency:1022 #1-OPER	27,115.00	55,282.00	28,167.00	103.88%
18900-19-000	Vehicle E. 19 Street	655.00	655.00	0.00	0.00%
18900-23-000	Vehicle Agency:23-OPER	28,167.00	28,167.00	0.00	0.00%
18900-46-000	Vehicle Agency:46-OPER	27,115.00	27,115.00	0.00	0.00%
18900-70-000	Vehicle Agency:70-OPER	116,625.20	116,625.20	0.00	0.00%
18900-86-000	Vehicle Agency:86-OPER	27,115.00	27,115.00	0.00	0.00%
18900-87-000	Vehicle Agency:DIKE-OPER	27,700.00	27,700.00	0.00	0.00%
19000-00-000	Accumulated Depreciation	(3,508,896.64)	(3,741,001.54)	(232,104.90)	6.61%
	Total FIXED ASSETS:	6,648,921.34	6,451,309.85	(197,611.49)	(2.97)%
OTHER ASSETS					
20000-00-000	Deposits	81,022.07	81,235.09	213.02	0.26%
20000-79-000	Deposits 790 Riverside Drive	43,900.00	43,900.00	0.00	0.00%
21000-11-000	Closing Costs E19:1022 #1-OPER	38,492.91	38,492.91	0.00	0.00%
21000-12-000	Closing Costs E19:1022 #2-OPER	38,492.93	38,492.93	0.00	0.00%
21000-19-000	Closing Costs E19	174,858.18	174,858.18	0.00	0.00%
21000-23-000	Closing Costs Bay 23	47,027.84	47,027.84	0.00	0.00%
21000-46-000	Closing Costs E19:46-OPER	10,006.41	10,006.41	0.00	0.00%
21000-66-000	Closing Costs E19:662 85 St-OPER	60,512.40	60,512.40	0.00	0.00%

21000-79-000	Closing Costs 790 Riverside Dr	2,598.00	2,598.00	0.00	0.00%
21000-86-000	Closing Costs West 7th	5,623.00	5,623.00	0.00	0.00%
21000-87-000	Closing Costs Dikeman St.	137,902.26	137,902.26	0.00	0.00%
21000-88-000	Closing Costs 7th Ave.	76,494.53	76,494.53	0.00	0.00%
22000-00-000	Accumulated Amortization	(333,801.67)	(353,354.39)	(19,552.72)	5.86%
23000-00-000	Bond Closing Proceeds 7th Ave.	(40,658.54)	(40,658.54)	0.00	0.00%
23000-46-000	Bond Closing Proceed:46-OPER	65,358.97	65,358.97	0.00	0.00%
23000-86-000	Bond Closing Proceed:86-OPER	79,720.86	79,720.86	0.00	0.00%
23100-00-000	Capitalized interest 7th Ave	71,292.00	71,292.00	0.00	0.00%
23200-00-000	Debt Service Reserve 7th Ave	42,035.00	42,035.00	0.00	0.00%
23200-46-000	Debt Service Reserve:46-OPER	61,500.00	61,500.00	0.00	0.00%
23200-86-000	Debt Service Reserve:86-OPER	97,917.00	97,917.00	0.00	0.00%
23200-87-000	Escrow Dikeman Street	68,555.00	68,555.00	0.00	0.00%
23298-00-000	BONY Trust 269019:PDS00-OPER	7,190.64	7,190.64	0.00	0.00%
23299-00-000	BONY Trust 269023:PDS00-OPER	5,122.09	3,972.31	(1,149.78)	(22.45)%
23300-00-000	Debt Service Reserve 133 Bay 2	51,675.95	51,675.95	0.00	0.00%
23400-00-000	Depreciation Reserve	2,861.69	2,861.69	0.00	0.00%
	Total OTHER ASSETS:	895,699.52	875,210.04	(20,489.48)	(2.29)%
	Total ASSETS:	11,542,472.87	12,183,703.29	641,230.42	5.56%
LIABILITIES					
CURRENT LIABILITES					
25000-00-000	Accounts Payable	197,909.92	187,381.08	(10,528.84)	(5.32)%
25100-00-000	Accrued Expenses	49,661.08	14,909.22	(34,751.86)	(69.98)%
25261-00-000	Executive 457(b):PDS00-OPER	(239.94)	(239.94)	(0.00)	0.00%
25262-00-000	Employee Transit Deduction:PDS00-OPER	2,000.01	3,240.17	1,240.16	62.01%
25263-00-000	Voluntary Insurance:PDS00-OPER	(792.37)	512.66	1,305.03	(164.70)%
25265-00-000	FICA Payable	35,141.52	40,510.21	5,368.69	15.28%
25266-00-000	FWT Payable	11,377.37	23,306.91	11,929.54	104.85%
25267-00-000	SWT Payable	11,927.07	16,771.55	4,844.48	40.62%
25268-00-000	CWT Payable	(1,907.03)	1,073.30	2,980.33	(156.28)%
25269-00-000	Net Payroll	211,896.32	273,984.57	62,088.25	29.30%
25270-00-000	Accrued Vacation/Sick	786,884.58	786,884.58	(0.00)	0.00%
26100-00-000	HRA Visa Cards	(4,997.86)	(7,380.67)	(2,382.81)	47.68%
26200-00-000	Bank Loans Payable	245,712.00	226,807.98	(18,904.02)	(7.69)%
26400-00-000	Payroll Adjust.	(0.00)	(28,488.25)	(28,488.25)	0.00%
26600-00-000	Loan: Hudson Valley	2,410,580.27	2,283,567.32	(127,012.95)	(5.27)%
26700-00-000	Note Payable:PDS00-OPER	815.00	270.60	(544.40)	(66.80)%
26700-01-000	Note Payable:ADMIN-OPER	(0.00)	(135.85)	(135.85)	0.00%
26700-06-000	Note Payable:N. 5th 303-OPER	20,460.40	20,460.40	(0.00)	0.00%
26700-11-000	Note Payable:1022 #1-OPER	26,379.71	17,049.85	(9,329.86)	(35.37)%
26700-23-000	Note Payable:23-OPER	20,460.40	16,337.40	(4,123.00)	(20.15)%
26700-46-000	Note Payable:46-OPER	24,972.30	20,669.90	(4,302.40)	(17.23)%
26700-70-000	Note Payable:70-OPER	24,297.28	19,977.04	(4,320.24)	(17.78)%
26700-86-000	Note Payable:86-OPER	24,297.28	19,977.04	(4,320.24)	(17.78)%
26700-87-000	Note Payable:DIKE-OPER	24,297.30	19,977.12	(4,320.18)	(17.78)%
27000-03-000	Due to Medicaid voids	(18.65)	(18.65)	(0.00)	0.00%
27000-78-000	Due to Medicaid voids	(6,845.99)	(6,845.99)	(0.00)	0.00%
27900-00-000	Due to Medicaid 7 day advance	(0.41)	(0.41)	(0.00)	0.00%
28000-03-000	Due to NYS 551 72 St. #2	(29,135.00)	(29,135.00)	(0.00)	0.00%
28000-15-000	Due To NYS Mermaid Ave.	5,918.80	5,918.80	(0.00)	0.00%
28000-19-000	Due To NYS E. 19 St.	47,182.84	42,091.04	(5,091.80)	(10.79)%
28000-23-000	Due to NYS IRA:23-OPER	(17,125.01)	(17,125.01)	(0.00)	0.00%
28000-31-000	Due to NYS IRA:313-OPER	109.12	109.12	(0.00)	0.00%
28000-32-000	Due to NYS E. 38 St.	9,015.58	315,740.61	306,725.03	3,402.17%
28000-73-000	Due to NYS IRA:RIVER-OPER	(1,121.44)	(1,682.12)	(560.68)	50.00%
28000-79-000	Due to NYS IRA:790-OPER	(10,449.01)	(10,449.01)	(0.00)	0.00%
28000-87-000	Due To NYS Dikeman St.	67,135.21	61,257.41	(5,877.80)	(8.76)%
28000-88-000	Due to NYS 7th Ave	58,631.78	268,009.09	209,377.31	357.11%
28000-91-000	Due to NYS IRA:91-OPER	(1,105.19)	(1,105.19)	(0.00)	0.00%
28400-15-000	Due to Medicaid Mermaid #2	(1,357.66)	(1,357.66)	(0.00)	0.00%
28400-19-000	Due to Medicaid E. 19 St.	(7,152.76)	(7,152.76)	(0.00)	0.00%
28900-00-000	Due to IDA Bonds	194,999.54	182,499.56	(12,499.98)	(6.41)%
28900-46-000	Due to IDA Bonds:46-OPER	659,999.87	609,999.89	(49,999.98)	(7.58)%
28900-86-000	Due to IDA Bonds:86-OPER	879,999.85	824,999.88	(54,999.97)	(6.25)%
	Total CURRENT LIABILITES:	5,969,814.08	6,193,177.79	223,363.71	3.74%
OTHER LIABILITES					
29100-00-000	Due To NYS	0.80	0.80	(0.00)	0.00%

29200-19-000	MGT Payable FDC	325,395.12	303,145.14	(22,249.98)	(6.84)%
29200-87-000	Mortgage Dikeman Street	8,333.53	8,333.53	(0.00)	0.00%
29200-88-000	Mortgage Payable-7th Ave.	459,000.20	434,000.24	(24,999.96)	(5.45)%
29400-00-000	MEDICAID VOIDS 97-01	(976.15)	(976.15)	(0.00)	0.00%
29500-00-000	IRA SUPP VOIDS 97-01	134,141.12	134,141.12	(0.00)	0.00%
	Total OTHER LIABILITES:	925,894.62	878,644.68	(47,249.94)	(5.10)%
	Total LIABILITIES:	6,895,708.70	7,071,822.47	176,113.77	2.55%
NET ASSETS					
32000-00-000	Retained Earnings-Current Year	571,462.65	465,116.65	(106,346.00)	(18.61)%
32000-00-000	Fund Balance-General Fund	4,075,301.52	4,646,764.17	571,462.65	14.02%
	Total NET ASSETS:	4,646,764.17	5,111,880.82	465,116.65	10.01%
	Total LIABILITIES & NET ASSETS:	11,542,472.87	12,183,703.29	641,230.42	5.56%

Income Statement
For The 6 Periods Ended 12/31/2011

PROGRAM DEVELOPMENT SERVICES, INC. (PRO)

		Period to Date	ORIGINAL PTD Budget	Variance	Var %	Year to Date	ORIGINAL YTD Budget	Variance	Var %
REVENUE									
40690	Rental Income: 551 72 ST. #2	4,414.49	4,781.41	-366.92	-7.67%	31,007.06	28,688.46	2,318.60	8.08%
40700	Social Security Income: 551 #2	146,762.15	150,000.00	-3,237.85	-2.16%	910,170.70	900,000.00	10,170.70	1.13%
40719	RRR Income	6,046.99	-0.00	6,046.99	0.00%	36,222.75	-0.00	36,222.75	0.00%
40720	Medcaid 551 72 Street #2	1,216,366.67	1,152,000.00	64,366.67	5.59%	7,258,243.35	6,912,000.00	346,243.35	5.01%
40722	Prior Period Income 551 #2	-7,294.81	-0.00	-7,294.81	0.00%	19,396.00	-0.00	19,396.00	0.00%
40731	Med Service Coor.: 551#2	41,836.58	39,412.40	2,424.18	6.15%	262,969.28	236,474.40	26,494.88	11.20%
40733	HCA Income	-0.00	53,760.00	-53,760.00	-100.00%	-0.00	322,560.00	-322,560.00	-100.00%
40735	Food Stamps Revenue	26,290.00	25,000.00	1,290.00	5.16%	156,586.07	150,000.00	6,586.07	4.39%
40740	Clothing Allowance: CMCM	-0.00	3,437.50	-3,437.50	-100.00%	18,500.00	20,625.00	-2,125.00	-10.30%
40750	OMRDD R&B Supplement: CMCM	98,172.43	39,346.58	58,825.85	149.51%	588,312.10	236,079.48	352,232.62	149.20%
40751	OMR/DD non	3,748.31	8,000.00	-4,251.69	-53.15%	22,489.86	48,000.00	-25,510.14	-53.15%
40934	ISS Grant Income:551 72 Base	1,393.76	1,326.67	67.09	5.06%	8,272.64	7,960.02	312.62	3.93%
41010	Interest Income: ADMIN	419.14	500.00	-80.86	-16.17%	2,858.18	3,000.00	-141.82	-4.73%
41030	Contributions: ADMIN	750.00	-0.00	750.00	0.00%	1,950.00	-0.00	1,950.00	0.00%
41040	Other Income	-0.00	-0.00	0.00	0.00%	8,904.61	-0.00	8,904.61	0.00%
Total REVENUE:		1,538,905.71	1,477,564.56	61,341.15	4.15%	9,325,882.60	8,865,387.36	460,495.24	5.19%
Gross Profit:		1,538,905.71	1,477,564.56	61,341.15	4.15%	9,325,882.60	8,865,387.36	460,495.24	5.19%
EXPENSES									
50104	Transportation Worker W. 21 St	4,752.75	4,600.00	-152.75	-3.32%	27,964.53	27,600.00	-364.53	-1.32%
50190	Maintenance Agency	25,398.04	15,000.00	-10,398.04	-69.32%	120,874.13	90,000.00	-30,874.13	-34.30%
50201	Direct Care: 551 72 #2	535,108.83	510,000.00	-25,108.83	-4.92%	3,062,385.57	3,060,000.00	-2,385.57	-0.08%
50302	Case Management: PDS00	32,223.65	31,493.09	-730.56	-2.32%	172,034.17	188,958.54	16,924.37	8.96%
50309	QMRP	22,732.45	23,000.00	267.55	1.16%	131,780.55	138,000.00	6,219.45	4.51%
50317	Clinical Staff 551 72 #2	32,962.87	33,139.13	176.26	0.53%	183,270.84	198,834.78	15,563.94	7.83%
50503	Residence Manager 551 #2	58,864.19	54,679.22	-4,184.97	-7.65%	346,746.40	328,075.32	-18,671.08	-5.69%
50601	Program Admin: PDS00	41,886.75	54,863.32	12,976.57	23.65%	282,904.79	329,179.92	46,275.13	14.06%
50603	Comptroller	8,963.65	8,913.27	-50.38	-0.57%	52,509.64	53,479.62	969.98	1.81%
50605	Bookkeeper: PDS00	14,990.41	14,500.00	-490.41	-3.38%	88,131.77	87,000.00	-1,131.77	-1.30%
50613	Secretary: PDS00	9,473.43	12,500.00	3,026.57	24.21%	55,476.23	75,000.00	19,523.77	26.03%
51180	MTA Tax Expense	3,393.24	2,000.00	-1,393.24	-69.66%	14,672.02	12,000.00	-2,672.02	-22.27%
51181	FICA Expense	81,529.76	53,570.77	-27,958.99	-52.19%	310,058.86	321,424.62	11,365.76	3.54%
51182	Workmen's Compensation: ADMIN	2,388.88	11,635.05	9,246.17	79.47%	53,746.38	69,810.30	16,063.92	23.01%
51183	SUI EXPENSE	5,400.60	4,930.83	-469.77	-9.53%	33,964.51	29,584.98	-4,379.53	-14.80%
51184	Disability: ADMIN	2,088.94	1,986.58	-102.36	-5.15%	12,450.28	11,919.48	-530.80	-4.45%
51185	Voluntary Life Insurance	0.00	65.42	65.42	100.00%	0.00	392.52	392.52	100.00%
51186	HRA	15,739.68	12,164.08	-3,575.60	-29.39%	57,004.00	72,984.48	15,980.48	21.90%
51187	Met Life Loan	-80.13	0.00	80.13	0.00%	142.16	0.00	-142.16	0.00%
51188	Employee Transit deduction	0.00	2,000.00	2,000.00	100.00%	0.00	12,000.00	12,000.00	100.00%
51191	Medical Insurance: ADMIN	203,263.77	200,000.00	-3,263.77	-1.63%	1,195,742.34	1,200,000.00	4,257.66	0.35%
51192	Employee life ins.	393.15	537.75	144.60	26.89%	2,268.42	3,226.50	958.08	29.69%
51193	Employee Cont 403b Agency	6,739.38	5,688.00	-1,051.38	-18.48%	44,138.96	34,128.00	-10,010.96	-29.33%
51194	Employee Deductions: PDS00	-631.93	105.08	737.01	701.38%	-2,805.43	630.48	3,435.91	544.97%

51195	Executive 457 (f)	0.00	2,500.00	2,500.00	100.00%	0.00	15,000.00	15,000.00	100.00%
52210	Food: ADMIN	49,779.73	45,976.67	-3,803.06	-8.27%	296,486.19	275,860.02	-20,626.17	-7.48%
52220	Repairs & Maintenance: ADMIN	19,214.56	12,496.50	-6,718.06	-53.76%	118,654.54	74,979.00	-43,675.54	-58.25%
52230	Utilities: ADMIN	27,875.89	22,675.83	-5,200.06	-22.93%	151,082.76	136,054.98	-15,027.78	-11.05%
52240	Transportation: ADMIN	1,107.40	12,000.00	10,892.60	90.77%	39,769.83	72,000.00	32,230.17	44.76%
52241	Auto Expense	7,230.19	5,642.33	-1,587.86	-28.14%	47,518.51	33,853.98	-13,664.53	-40.36%
52242	Fines	1,075.00	225.50	-849.50	-376.72%	2,135.38	1,353.00	-782.38	-57.83%
52260	Client Expense 551 72 St. #2	31,947.08	31,765.17	-181.91	-0.57%	199,718.86	190,591.02	-9,127.84	-4.79%
52261	Recreation 7807 #1: PDS00	1,367.12	4,414.92	3,047.80	69.03%	11,217.93	26,489.52	15,271.59	57.65%
52280	Expensed Equip. Agency	0.00	5,272.60	5,272.60	100.00%	12,189.61	31,635.60	19,445.99	61.47%
52330	Facility Tax Assessment: W.21	12,173.16	12,373.83	200.67	1.62%	73,038.96	74,242.98	1,204.02	1.62%
52340	Conferences Agency	3,154.58	1,750.00	-1,404.58	-80.26%	5,832.95	10,500.00	4,667.05	44.45%
52355	Outside Medical Service 551 #2	125.00	2,274.42	2,149.42	94.50%	2,490.17	13,646.52	11,156.35	81.75%
52360	Office Supplies: ADMIN	4,200.03	5,158.50	958.47	18.58%	31,207.28	30,951.00	-256.28	-0.83%
52361	Office Expense	9,336.67	6,792.02	-2,544.65	-37.47%	44,751.07	40,752.12	-3,998.95	-9.81%
52363	Medical Supplies 551 72 St. #2	2,839.74	8,321.00	5,481.26	65.87%	52,224.67	49,926.00	-2,298.67	-4.60%
52370	Household 4810 13 Ave. #A: PDS	15,671.65	16,000.00	328.35	2.05%	101,294.88	96,000.00	-5,294.88	-5.52%
52380	Telephone: ADMIN	13,363.06	14,500.00	1,136.94	7.84%	82,916.00	87,000.00	4,084.00	4.69%
52400	Fees & Licenses	3,675.00	666.58	-3,008.42	-451.32%	5,285.00	3,999.48	-1,285.52	-32.14%
52420	Auto Lease Agency	4,770.19	6,000.00	1,229.81	20.50%	27,792.46	36,000.00	8,207.54	22.80%
52430	Equipment Leasing Agency	2,979.84	4,068.67	1,088.83	26.76%	17,948.13	24,412.02	6,463.89	26.48%
52440	Depreciation: Vehicle: Admin	6,033.37	6,000.00	-33.37	-0.56%	36,200.25	36,000.00	-200.25	-0.56%
52450	Depreciation:Equip: ADMIN	5,529.85	5,479.03	-50.82	-0.93%	33,677.27	32,874.18	-803.09	-2.44%
52490	Rent: ADMIN	98,105.59	97,000.00	-1,105.59	-1.14%	595,359.77	582,000.00	-13,359.77	-2.30%
52500	Depreciation:Lease Imp:Adm	4,122.98	4,468.00	345.02	7.72%	24,931.93	26,808.00	1,876.07	7.00%
52510	Depreciation:Building:E 19	13,666.17	13,344.33	-321.84	-2.41%	81,996.74	80,065.98	-1,930.76	-2.41%
52520	Depreciation:Bldg Imp:E 19	9,827.72	9,136.67	-691.05	-7.56%	58,964.78	54,820.02	-4,144.76	-7.56%
52540	Mortgage Fees	427.00	771.83	344.83	44.68%	2,562.00	4,630.98	2,068.98	44.68%
52550	Other Insurance: ADMIN	29,268.18	9,890.83	-19,377.35	-195.91%	85,999.06	59,344.98	-26,654.08	-44.91%
52560	Real Estate Taxes Agency	837.62	279.33	-558.29	-199.87%	5,025.72	1,675.98	-3,349.74	-199.87%
53011	Fundraising	0.00	0.00	0.00	0.00%	250.00	0.00	-250.00	0.00%
53060	Accounting & Legal: ADMIN	5,725.00	7,595.58	1,870.58	24.63%	41,303.93	45,573.48	4,269.55	9.37%
53100	Printinmg & Publications: PDS0	0.00	23.58	23.58	100.00%	20.00	141.48	121.48	85.86%
53120	Interest Expense: ADMIN	29,509.98	26,000.00	-3,509.98	-13.50%	176,240.07	156,000.00	-20,240.07	-12.97%
53170	Advertising: PDS00	0.00	135.50	135.50	100.00%	240.00	813.00	573.00	70.48%
53171	Promotion: ADMIN	3,750.00	61.92	-3,688.08	-5,956.20%	3,845.95	371.52	-3,474.43	-935.19%
53172	Dues & Subscriptions: ADMIN	4,209.25	2,014.08	-2,195.17	-108.99%	15,891.70	12,084.48	-3,807.22	-31.51%
53173	Bank Charges: ADMIN	681.82	1,498.17	816.35	54.49%	4,090.92	8,989.02	4,898.10	54.49%
53190	Contracted Maintenance	0.00	2,000.00	2,000.00	100.00%	17,800.00	12,000.00	-5,800.00	-48.33%
53200	Amortization Exp: E19	3,258.90	3,229.92	-28.98	-0.90%	19,552.72	19,379.52	-173.20	-0.89%
53210	Fixed Assets Disposal	0.00	1,467.25	1,467.25	100.00%	2,092.33	8,803.50	6,711.17	76.23%
53290	Consultants: Direct Care	8,420.66	8,383.74	-36.92	-0.44%	57,932.01	50,302.44	-7,629.57	-15.17%
53317	Consultants	1,575.00	0.00	-1,575.00	0.00%	9,292.50	0.00	-9,292.50	0.00%
53320	Contracted Physician	3,600.00	0.00	-3,600.00	0.00%	15,600.00	0.00	-15,600.00	0.00%
53336	Contracted Dietician	1,080.00	538.67	-541.33	-100.49%	2,880.00	3,232.02	352.02	10.89%
55000	Admin allocation debit	121,138.57	0.00	-121,138.57	0.00%	723,546.38	0.00	-723,546.38	0.00%
55010	Agency Admin Alloc. Credit	-121,138.57	0.00	121,138.57	0.00%	-723,546.38	0.00	723,546.38	0.00%
55040	Client Contribution R&B	0.00	0.00	0.00	0.00%	0.00	0.00	0.00	0.00%
Total EXPENSES:		1,549,097.34	1,477,564.56	-71,532.78	-4.84%	8,860,765.95	8,865,387.36	4,621.41	0.05%
NET INCOME FROM OPERATIONS:		-10,191.63	-0.00	-10,191.63	0.00%	465,116.65	-0.00	465,116.65	0.00%

EARNINGS BEFORE INCOME TAX:	-10,191.63	-0.00	-10,191.63	0.00%	465,116.65	-0.00	465,116.65	0.00%
Net Income (Loss):	-10,191.63	-0.00	-10,191.63	0.00%	465,116.65	-0.00	465,116.65	0.00%

APPENDIX C-IV

SERVICES FOR THE UNDERSERVED, INC.

AND RELATED ORGANIZATIONS

UNAUDITED FINANCIAL INFORMATION

(FOR THE PERIOD JULY 1, 2011 – DECEMBER 31, 2011)

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Services for the Underserved
Developmental Disabilities Services, Inc.
Statement of Activities
(with comparative totals for 2010)

Year ended December 30,	2011	2010
	(Unrestricted)	
Public support and revenue:		
Medicaid income	16,192,603	17,001,112
Participant fees	999,647	1,015,628
Other	23,724	17,767
Total public support and revenue	17,215,974	18,034,507
Expenses:		
Program services:		
Intermediate Care Facilities	2,597,496	3,284,942
Individual Residental Alternatives	10,401,260	10,512,160
Day Habilitation	2,123,773	2,301,800
MSC and Other	112,161	185,302
Community Residence	-	-
Training and Employment	-	-
Individual Support Services	140,269	165,926
Total program services	15,374,959	16,450,130
Supporting services:		
Management & general	1,639,862	1,425,026
Total expenses	17,014,821	17,875,156
Excess of public support and revenue over expenses	201,153	159,351
Assessment from default on workers' compensation trust		(85,117)
Change in net assets	201,153	74,235
Net assets, beginning of year	4,040,983	3,892,514
Net assets, end of year	4,242,136	3,966,749

Combining Statement of Activities
(with comparative totals for December 31, 2010)

Period ended December 31, 2011	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	Eliminations	Total 2011	Total 12/31/2010
Public support and revenue:									
Medicaid income	$ -	$ 1,519,789	$ 16,003,910	$ -	313,592	-	$ -	$ 17,837,291	$25,603,761
Contract revenue	-	10,449,053	-	2,575,126	-	-	-	13,024,179	13,876,701
Rental income	367,070	-	-	-	-	-	(367,070)	-	-
Participant fees	-	2,259,232	999,647	187,833	-	-	-	3,446,712	3,355,895
Contributions	490,587	-	-	-	-	-	-	490,587	316,701
Management fees	2,754,123	-	-	-	-	-	(2,754,123)	-	45,523
Other	50,394	10,376	212,417	-	-	-	-	273,187	124,729
Total public support and revenue	3,662,174	14,238,450	17,215,974	2,762,959	313,592	-	(3,121,193)	35,071,956	43,323,310
Expenses:									
Program services:									
Mental Health Programs, Inc.	-	12,920,132	-	-	-	-	(183,908)	12,736,224	12,212,463
Developmental Disabilities Services, Inc.	-	-	15,374,959	-	-	-	(183,162)	15,191,797	16,262,391
AIDS Services, Inc.	-	-	-	2,888,597	-	-	-	2,888,597	3,706,249
Home Attendant Program, Inc.	-	-	-	-	360,759	-	-	360,759	6,890,017
Home Care Services	-	-	-	-	-	-	-	-	1,870
Total program services	-	12,920,132	15,374,959	2,888,597	360,759	-	(367,070)	31,177,377	39,072,990
Supporting services:									
Fundraising	350,703	-	-	-	-	-	-	350,703	242,922
Management and general	3,029,095	947,283	1,639,862	164,931	-	-	(2,754,123)	3,027,048	3,684,260
Total expenses	3,379,798	13,867,415	17,014,821	3,053,528	360,759	-	(3,121,193)	34,555,128	43,000,171
(Deficiency) excess of public support and revenue over expenses before transfer to funding source and assessment from default on workers' compensation trust	282,376	371,035	201,153	(290,569)	(47,167)	-	-	516,828	323,139
Transfer to funding source					-			-	(606,676)
Assessment from default on workers' compensation trust	-	-	-	-	-	-		-	(268,751)
Change in net assets	282,376	371,035	201,153	(290,569)	(47,167)	-	-	516,828	(552,289)
Net assets, beginning of year	3,480,502	9,107,496	4,040,983	848,551	-	(90,359)	-	17,387,173	18,491,750
Net assets (deficit), end of year	$ 3,762,878	$ 9,478,531	$ 4,242,136	$ 557,982	$ (47,167)	$ (90,359)	$ -	$ 17,904,001	$17,939,462

Services for the Underserved
and Related Organizations

Combining Statement of Financial Position
(with comparative totals for June 30, 2011)

As of December 31, 2011	Services for the Underserved, Inc.	SUS - Mental Health Programs, Inc.	JS - Developmental Disabilities Services, Inc.	SUS - AIDS Services, Inc.	SUS - Home Attendant Program, Inc.	SUS - Home Care Services	Eliminations	Total 12/31/2011	Total 6/30/2011
Assets									
Cash and cash equivalents	10,390,098	3,710,193	36,970	6,448	2,401,190	-	-	16,544,899	12,721,945
Accounts receivable, net	406,376	1,508,972	4,366,591	1,281,365	244,925	-	-	7,808,229	8,216,874
Prepaid expenses and other assets	504,568	1,593,566	223,721	169,222	22,072	-	-	2,513,149	1,585,857
Bond escrow fund	-	-	154,774	-	-	-	-	154,774	164,774
Due from affiliates, net	-	2,210,552	3,583,582	-	-	-		5,794,134	1,573,801
Debt service reserve	-	-	-	-	-	-	-	0	1,857,781
Deferred bond financing costs	351,578	-	686,942	-	-	-	-	1,038,520	1,185,143
Fixed assets, net	3,299,316	18,509,045	16,786,409	343,128	-	-	-	38,937,898	37,196,087
	14,951,936	27,532,328	25,838,989	1,800,163	2,668,187	-	-	72,791,603	$ 64,502,262
Liabilities and Net Assets (Deficit)									
Liabilites:									
Accounts payable and accrued expenses	761,384	846,202	721,773	94,053	226,638	-	-	2,650,050	$4,269,886
Accrued compensation and related taxes	1,128,043	765,892	1,384,486	248,338	0	-	-	3,526,759	3,255,774
Due to affiliates	5,242,766	0	0	404,780	165,114	-		5,812,660	1,606,161
Due to clients	0	0	0	0	-	-	-	0	418,511
Other liabilities	135,324	1,703,415	1,287,599	0	647,092	-	-	3,773,430	1,867
Deferred revenue	0	5,976,875	3,303,555	408,339	1,676,510	-	-	11,365,279	8,048,550
Due to governmental agencies	0	16,504	3,124,214	37,283		-	-	3,178,001	3,870,136
Workers' compensation assessment payable settlement		317,881	170,233	49,388	-	-	-	537,502	537,502
Line of credit	0	0	1,471,191	0	-	-	-	1,471,191	1,471,191
Mortgages and loans payable	3,921,392	8,427,028	321,758	0	-	-	-	12,670,178	9,411,909
Bond payable		0	9,812,044	0	-	-	-	9,812,044	14,223,602
Total liabilities	11,188,909	18,053,797	21,596,853	1,242,181	2,715,354	-	-	54,797,094	47,115,089
Commitments and contingencies									
Net assets (deficit):									
Unrestricted	3,763,027	9,478,531	4,242,136	557,982	(47,167)	(90,359)	-	17,904,150	14,614,046
Temporarily restricted	-	-	-	-	-	-	-	0	2,773,127
Total net assets (deficit)	3,763,027	9,478,531	4,242,136	557,982	(47,167)	(90,359)	-	17,904,150	17,387,173
	14,951,936	27,532,328	25,838,989	1,800,163	2,668,187	(90,359)	-	72,701,244	64,502,262

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APPENDIX C-V

UNITED CEREBRAL PALSY OF NEW YORK CIY, INC.

UNAUDITED FINANCIAL INFORMATION

(FOR THE PERIOD JULY 1, 2011 – DECEMBER 31, 2011)

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

UNAUDITED COMBINED FINANCIAL STATEMENTS

Six Months Ended December 31, 2011

UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Contents

Six Months Ended December 31, 2011 *Pages*

Combined Unaudited Financial Statements

Unaudited Combined Financial Statements

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Unaudited Combined Statements of Financial Position

December 31,		2011
Assets		
Cash and Cash Equivalents	$	24,324,000
Investments		8,943,000
Grants and Fees Receivable from Governmental Agencies		10,260,000
Other Assets		2,135,000
Fixed Assets		30,483,000
Assets Limited as to Use		2,545,000
Total Assets	$	78,690,000
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$	5,933,000
Accrued payroll and related liabilities		3,766,000
Lines of credit payable		3,477,000
Mortgages payable		16,268,000
Accrued pension liability		9,775,000
Accrued reimbursement adjustments		2,337,000
Other liabilities		18,054,000
Total Liabilities		59,610,000
Commitments and Contingencies		
Net Assets:		
Unrestricted		18,264,000
Temporarily restricted		816,000
Total Net Assets		19,080,000
Total Liabilities and Net Assets	$	78,690,000

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UNITED CEREBRAL PALSY OF NEW YORK CITY, INC.

Unaudited Combined Statement of Activities and Changes in Net Assets

Six Months Ended December 31, 2011

	Unrestricted	Temporarily Restricted	**Total 2011**
Support, Revenue and Reclassifications			
Support from the Public:			
Contributions	$ 91,000	$ 109,000	**$ 200,000**
Special events	208,000	-	**208,000**
Legacies and bequests	-	-	**-**
Total Support from the Public	299,000	109,000	**408,000**
Direct Expenses of Special Events	(187,000)	-	**(187,000)**
Net Support from the Public	112,000	109,000	221,000
Contracts, Grants and Fees Applicable to Program and Community Services:			
Contracts and grants	1,246,000	-	**1,246,000**
Fees for services	48,792,000	-	**48,792,000**
Total Contracts, Grants and Fees	50,038,000	-	50,038,000
Other Revenue:			
Rental income	525,000	-	**525,000**
Other income	95,000	-	**95,000**
Investment income:			
Interest and dividends	178,000	-	**178,000**
Realized and unrealized losses on investments	(199,000)	-	**(199,000)**
Total Other Revenue	599,000	-	599,000
Net Assets Released from Restrictions	78,000	(78,000)	**-**
Total Support, Revenue and Reclassifications	50,827,000	31,000	50,858,000
Expenses			
Program Services:			
Educational programs	10,307,000	-	**10,307,000**
Adult day programs	17,157,000	-	**17,157,000**
Residential programs	18,085,000	-	**18,085,000**
Family support services programs	1,040,000	-	**1,040,000**
Total Program Services	46,589,000	-	**46,589,000**
Supporting Services:			
Management and general	3,349,000	-	**3,349,000**
Public relations and fund-raising	153,000	-	**153,000**
Total Supporting Services	3,502,000	-	**3,502,000**
Total Program and Supporting Services	50,091,000	-	**50,091,000**
Payments to Affiliated Organizations:			
National program of research, education and service	25,000	-	**25,000**
State program of education and service	22,000	-	**22,000**
Total Payments to Affiliated Organizations	47,000	-	**47,000**
Total Expenses	50,138,000	-	**50,138,000**
Changes in Net Assets Before Pension Related Changes	689,000	31,000	**720,000**
Pension Related Changes Other Than Net Periodic Pension Cost	-	-	**-**
Changes in Net Assets	689,000	31,000	**720,000**
Net Assets, beginning of year	17,575,000	785,000	**18,360,000**
Net Assets, end of year	$ 18,264,000	$ 816,000	**$ 19,080,000**

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 2012A 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 March 1, 2012, among the Authority, the Program Facilitator and the Participants.

Allocable Portion means with respect to a Series of Bonds, an Applicable Participant's proportionate share of certain obligations arising under such Series of Bonds from time to time and under the Applicable Loan Agreement, particularly with respect to the Debt Service Reserve Fund Requirement, if any, the Arbitrage Rebate Fund and Costs of Issuance, in each case corresponding to the principal amount of the Applicable Loan made to such Participant by the Authority with proceeds of such Series of Bonds and determined by the Applicable Series Resolution or Applicable Bond Series Certificate; *provided, however*, that with respect to the payment of principal, Sinking Fund Installments and Redemption Price, if any, of and interest on such Series of Bonds, Allocable Portion shall mean that portion of each such payment designated in Exhibit D attached to the Applicable Loan Agreement as being allocable to such Participant, as the same may be adjusted from time to time to reflect any prepayments of the Applicable Loan by or on behalf of such Participant.

Annual Administrative Fee means the annual fee for the general administrative expenses of the Authority in the amount or percentage stated in each of the Loan Agreements relating to the Loans made thereunder.

Applicable means

(i) with respect to a particular Loan or Project referred to in the Resolution, the Loan and the Project established and undertaken with respect to a particular Participant and particular Project as described in a particular Loan Agreement;

(ii) with respect to any Account, the Account established with respect to a particular Participant in connection with such Participant's Allocable Portion of a particular Series of Bonds;

(iii) with respect to any Series Resolution, the Series Resolution relating to a particular Projects or Projects and/or a particular Series of Bonds;

(iv) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for a particular Project or Projects for the particular Participant or Participants;

(v) with respect to any Loan Agreement, the Loan Agreement entered into by and between a particular Participant and the Authority, relating to a particular Project or Projects for such Participant financed or refinanced with such Participant's Allocable Portion of a particular Series of Bonds;

(vi) with respect to a Bond Series Certificate, such certificate authorized pursuant to a particular Series Resolution;

(vii) with respect to any Supplemental Resolution, any such Resolution supplementing a particular Series Resolution;

(viii) with respect to a Participant, the Participant undertaking the obligations set forth in the Applicable Loan Agreement;

(ix) with respect to a Paying Agent, the Paying Agent accepting the responsibility to perform the obligations set forth therefor with respect to a particular Series of Bonds;

(x) with respect to Revenues, the Revenues pledged to the payment of a particular Series of Bonds pursuant to the Resolution and an Applicable Series Resolution;

(xi) with respect to Pledged Revenues, the Pledged Revenues pledged by the Participants as security for their respective obligations under the Applicable Loan Agreements; and

(xii) with respect to a Facility Provider, the Facility Provider that has provided a Reserve Fund Facility with respect to a particular Series of Bonds.

Arbitrage Rebate Fund means the fund so designated and established by a Series Resolution pursuant to the Resolution.

Authority means the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State created by the Act, or any body, agency or instrumentality of the State which shall hereafter succeed to the rights, powers, duties and functions of the Authority.

Authority Fee means a fee payable to the Authority upon the issuance of any Series of Bonds authorized under the Resolution in an amount set forth in the Applicable Series Resolution, unless otherwise provided in the Applicable Series Resolution or Applicable Bond Series Certificate.

Authorized Newspaper means The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five (5) days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority.

Authorized Officer means (i) in the case of the Authority, the Chair, the Vice Chair, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Managing Director of Public Finance and Portfolio Monitoring, the Managing Director of Construction, the General Counsel, the Secretary and any Assistant Secretary, and when used with reference to any act or document also means any other person authorized by a resolution or the by-laws of the Authority to perform such act or execute such document; (ii) in the case of any Participant, the person or persons authorized by a resolution or the by-laws of such Participant to perform any act or execute any document; (iii) in the case of the Trustee, the President, a Vice President, an Assistant Vice President, a Corporate Trust Officer, a Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of such Trustee or the by-laws of such Trustee; and (iv) in the case of any Insurer, the person or persons authorized by a resolution or bylaws of the Insurer to perform any act or execute any document.

Balloon Indebtedness means with respect to a Participant (i) long-term Indebtedness, or short-term Indebtedness which is intended to be refinanced upon or prior to its maturity (and which short-term Indebtedness is subject to a commercially reasonable binding commitment for such refinancing) so that such short-term Indebtedness will be outstanding, in the aggregate, for more than one year as certified in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee, twenty-five percent (25%) or more of the initial principal amount of which matures (or is payable at the option of the holder) in any twelve month period, or (ii) long-term Indebtedness, or short-term Indebtedness which is intended to be refinanced upon or prior to its maturity (and which short-term Indebtedness is subject to a commercially reasonable binding commitment for such refinancing) so that such short-term Indebtedness will be outstanding, in the aggregate, for more than one year as certified in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee, twenty-five percent (25%) or more of the initial principal amount of which is payable at the option of the holder in any twelve month period, if such twenty-five percent (25%) or more is not to be amortized to below twenty-five percent (25%) by mandatory redemption prior to such twelve month period, or (iii) any portion of an issue of long-term Indebtedness which, if treated as a separate issue of Indebtedness would meet the test set forth in clause (i) of this definition and which Indebtedness is designated as Balloon Indebtedness in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee stating that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

Bond or **Bonds** means the InterAgency Council Pooled Loan Program Revenue Bonds and any of the bonds of the Authority authorized pursuant to the Resolution and issued pursuant to an Applicable Series Resolution.

Bond Counsel means an attorney or a law firm, appointed by the Authority with respect to a particular Series of Bonds, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

Bond Series Certificate means a certificate of an Authorized Officer of the Authority fixing terms, conditions and other details of Bonds of a Series in accordance with the delegation of power to do so under a Series Resolution.

Bond Year means, unless otherwise provided in an Applicable Series Resolution or Applicable Bond Series Certificate, a period of twelve (12) consecutive months beginning July 1 in any calendar year and ending on June 30 of the succeeding calendar year.

Bondholder, Holder of Bonds, Owner or **Holder** or any similar term, when used with reference to a Bond or Bonds of a Series, means the registered owner of any Outstanding Bonds of such Series.

Book Entry Bond means any Bond issued hereunder in book entry form pursuant to the Resolution.

Business Day means, unless otherwise defined with respect to Bonds of a Series in an Applicable Series Resolution or Applicable Bond Series Certificate, any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed.

Code means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

Contract Documents means any general contract or agreement for the construction of a Project, notice to bidders, information for bidders, form of bid, general conditions, supplemental general conditions, general requirements, supplemental general requirements, bonds, plans and specifications, addenda, change orders, and any other documents entered into or prepared by or on behalf of an Applicable Participant relating to the construction of a Project, and any amendments to the foregoing.

Contribution Amounts means amounts received by a Participant and deposited in the Applicable Project Loan Account of the Project Loan Fund or the Applicable Debt Service Account of the Debt Service Fund pursuant to the Applicable Loan Agreement, which amounts shall constitute Revenues.

Cost or Costs of Issuance means the item or items of expense incurred in connection with the authorization, sale and issuance of Bonds authorized under the Resolution, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of such Bonds, premiums, fees and charges for Municipal Bond Insurance

Policies for such Bonds or for Mortgage Insurance Policies, costs and expenses of refunding such Bonds and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

Cost or Costs of the Project means, with respect to an Applicable Project or any portion thereof, costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection therewith, including, but not limited to, (i) costs and expenses of the acquisition of the title to (including premiums and other charges in connection with obtaining title insurance) or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen for the acquisition, construction, reconstruction, rehabilitation, renovation, repair and improvement of such Project, (iii) the cost of surety bonds and insurance of all kinds that may be required or necessary prior to completion of such Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of such Project, (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Applicable Participant shall be required to pay for the acquisition, construction, reconstruction, rehabilitation, renovation, repair, improvement and equipping of such Project, (vii) any sums required to reimburse the Applicable Participant or the Authority for advances made by either of them for any of the above items or for other costs incurred and for work done by either of them in connection with such Project (including interest on moneys borrowed from parties other than such Applicable Participant), (viii) interest on the Bonds of a Series prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, renovation, repair, improvement or equipping of such Project, and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project or pursuant to the Resolution, to the Applicable Series Resolution or to any Applicable Loan or Applicable Loan Agreement.

Debt Service Account means each of the respective accounts so designated, created and established in the Applicable Debt Service Fund pursuant to the Applicable Series Resolution.

Debt Service Fund means the fund so designated, created and established for a Series of Bonds by an Applicable Series Resolution pursuant to the Resolution.

Debt Service Reserve Fund means a reserve fund, if any, for the payment of the principal and Sinking Fund Installments of and interest on a Series of Bonds, so designated, created and established by the Authority by or pursuant to an Applicable Series Resolution.

Debt Service Reserve Fund Requirement means the amount of moneys required to be deposited in the Debt Service Reserve Fund, if any, established with respect to a Series of Bonds as determined in accordance with the Applicable Series Resolution or Applicable Bond Series Certificate.

Defaulted Allocable Portion means with respect to an event of default on a particular Series of Bonds pursuant to the Resolution, that portion of each maturity of such Series of Bonds then Outstanding that corresponds to a principal installment on a defaulting Participant's Applicable Loan under the terms of the Applicable Loan Agreement, in each case as determined by the Trustee in the manner set forth in the Resolution.

Defeasance Security means

(i) a Government Obligation of the type described in clauses (i), (ii) or (iii) of the definition of Government Obligation;

(ii) a Federal Agency Obligation described in clauses (i) or (ii) of the definition of Federal Agency Obligation; and

(iii) an Exempt Obligation, provided such Exempt Obligation (a) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (b) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (a) above, (c) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (a) above, and (d) is rated by at least two nationally recognized statistical rating services in the highest rating category for such Exempt Obligation;

provided, however, that (1) such term shall not include any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

Excess Earnings means, with respect to an Applicable Series of Bonds, the amount equal to the rebatable arbitrage and any income attributable to the rebatable arbitrage as required by the Code.

Exempt Obligation means:

(i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a “specified private activity bond” within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, no lower than the second highest rating category for such obligation by at least two Rating Services; and

(ii) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1940, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, whose objective is to maintain a constant share value of $1.00 and which, at the time such investment is rated, no lower than the second highest rating category for such obligation by at least two Rating Services.

Facility Provider means the issuer of a Reserve Fund Facility.

Federal Agency Obligation means:

(i) an obligation issued by any federal agency or instrumentality rated no lower than the second highest rating category for such obligation by at least two Rating Services;

(ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency or instrumentality, and which is rated no lower than the second highest rating category for such obligation by at least two Rating Services;

(iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and

(iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations and whose objective is to maintain a constant share value of $1.00.

Fiscal Year means the duly adopted fiscal year of a Participant.

Fitch means Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns.

Government Obligation means:

(i) a direct obligation of the United States of America;

(ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by the United States of America;

(iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and

(iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations and whose objective is to maintain a constant share value of $1.00.

Governmental Requirements means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to the Project or any Project Property, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and having or asserting jurisdiction over the Project or any Project Property or any part of either.

Gross Proceeds means, with respect to an Applicable Series of Bonds, unless inconsistent with the provisions of the Code, (i) amounts received by the Authority from the sale of such Series of Bonds (other than amounts used to pay underwriters' fees and other expenses of issuing such Series of Bonds), (ii) amounts treated as transferred proceeds of such Series of Bonds in accordance with the Code, (iii) amounts treated as proceeds under the provisions of the Code relating to invested sinking funds, including any necessary allocation between two or more Series of Bonds in the manner required by the Code, (iv) amounts in the Debt Service Reserve Fund, if any, established with respect to such Series of Bonds, (v) securities or obligations pledged by the Authority or the Participant as security for payment of debt service on such Bonds, (vi) amounts received with respect to obligations acquired with Gross Proceeds, (vii) amounts used to pay debt service on such Series of Bonds, and (viii) amounts received as a result of the investment of Gross Proceeds at a yield equal to or less than the yield on such Series of Bonds as such yield is determined in accordance with the Code.

Indebtedness means with respect to a Participant, without duplication, (i) all obligations of such Participant recorded or required to be recorded as liabilities on the balance sheets thereof for the payment of moneys incurred or assumed by such Participant as determined in accordance with generally accepted accounting principles consistently applied (exclusive of reserves such as those established for deferred taxes) and (ii) all contingent obligations in respect of, or to purchase or otherwise acquire or service, indebtedness of other persons, including but not limited to guarantees and endorsements (other than for purposes of collection in the ordinary course of business) of indebtedness of other persons, obligations to reimburse issuers of letters of credit or equivalent instruments for the benefit of any person, and contingent obligations to repurchase property theretofore sold by such contingent obligor. For the purposes of calculating Indebtedness for any period with respect to any Balloon Indebtedness, the Participant may, at its option, by a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee at the end of each Fiscal Year, direct that such Indebtedness may be calculated assuming that (i) the principal of such Indebtedness that is not amortized is amortized on a level debt service basis from the date of calculation thereof over a term not to exceed thirty (30) years, and (ii) interest is calculated at (A) the actual rate (if such rate is not variable or undeterminable) or (B) if such rate is variable or undeterminable, an assumed rate derived from The Bond Buyer Thirty-year Revenue Bond Index published immediately prior to the date of calculation, as certified in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee; provided that if such index is at such time not being published a comparable index reasonably acceptable to the Authority and the Trustee may be used.

Insurance Consultant means a person or firm which is qualified to survey risks and to recommend insurance coverage for a Participant's facilities and services and organizations engaged in like operations and which is selected by the Applicable Participant.

Intercept Agreement means each letter dated the date of issuance of the Bonds from the Applicable Participant to OPWDD, as acknowledged by OPWDD, as may be amended and supplemented from time to time, regarding the deduction, withholding and/or payment of public funds by OPWDD, in an amount required by the Applicable Loan Agreement to the Authority or the Trustee.

Governmental Requirements means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to the Project or any Project Property, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and having or asserting jurisdiction over the Project or any Project Property or any part of either.

Investment Agreement means an agreement for the investment of moneys with a Qualified Financial Institution.

Letter of Credit means, with respect to an Applicable Series of Bonds, an irrevocable letter of credit, or as appropriate, a confirmation or confirming letter of credit, issued in favor of the Authority or the Trustee, as the case may be, in form and substance satisfactory to the Authority or the Trustee, as the case may be, which is issued by a Qualified Financial Institution, and is accompanied by a legal opinion or opinions addressing the enforceability thereof.

Loan means each loan made by the Authority to a Participant pursuant to the provisions of the Resolution, the Applicable Series Resolution and the Applicable Loan Agreement relating thereto in an amount equal to the Participant's Allocable Portion of the principal amount of a Series of Bonds. Each Loan shall relate to a particular Project or Projects for a particular Participant including amounts required to pay such Participant's Allocable Portion of the Costs of Issuance, Costs of the Project related to such Loan and the Debt Service Reserve Fund Requirement, if any, established for such Series of Bonds.

Loan Agreement or **Loan Agreements** mean each of the Loan Agreements or other agreement, between the Authority and the Applicable Participant in connection with each Loan made under the Resolution, as the same may from time to time be amended, supplemented or otherwise modified as permitted by the Resolution and by the Loan Agreement.

Loan Repayments means the scheduled monthly payments of principal of and interest on the Loan paid by a Participant pursuant to the Applicable Loan Agreement.

Management Consultant means a nationally recognized accounting or management consulting firm or other similar firm, experienced in reviewing and assessing operations of organizations similar to the Participants, acceptable to the Authority.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns.

Mortgage means, collectively, any fee or leasehold mortgage or mortgages granted by any of the Participants, or a party related to any Participant, to the Authority in connection with the granting of a particular Loan under the Resolution, in form and substance satisfactory to the Authority, on the Mortgaged Property mortgaged in connection therewith, as security for the performance of said Participant's obligations under the Applicable Loan Agreement, as such Mortgage may be amended or modified as provided in such Loan Agreement.

Mortgaged Property means the land or interest therein described in a Mortgage and the buildings and improvements thereon or thereafter erected thereon and the fixtures, furnishings and equipment owned by the Applicable Participant and now or hereafter located therein or thereon.

Non-PPA Expenses means with respect to a Participant, all operating and nonoperating expenses of such Participant other than PPA Expenses.

Non-PPA Facility means with respect to a Participant, any facility of such Participant which is, or was, not subject to the Prior Property Approval process incorporated in New York State Codes, Rules and Regulations, Title 14, Parts 681, 686 and 690, as amended from time to time.

Non-PPA Indebtedness means with respect to a Participant, any Indebtedness incurred by such Participant to finance, in whole or in part, a Non-PPA Facility. Indebtedness incurred by such Participant with respect to a facility only a portion of which constitutes a Non-PPA Facility shall constitute Non-PPA Indebtedness to the extent such Indebtedness financed the Non-PPA Facility portion of such facility.

Non-PPA Revenues means with respect to a Participant, all operating and nonoperating revenues of such Participant other than PPA Revenues.

Official Statement means an official statement or other offering document relating to and in connection with the sale of any Bonds of a Series.

OPWDD means the New York State Office for People with Developmental Disabilities (formerly known as the New York State Office of Mental Retardation and Developmental Disabilities).

Outstanding, when used in reference to an Applicable Series of Bonds means, as of a particular date, all Bonds of such Series authenticated and delivered under the Resolution and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Trustee at or before such date; (ii) any such Bond or Bonds deemed to have been paid in accordance with the Resolution; and (iii) any such Bond or Bonds in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to the Resolution.

Participant or **Participants** collectively means each or all of the not-for-profit members of the Program Facilitator for whose benefit the Authority shall have issued Bonds under the Resolution and with whom the Authority shall have executed one or more Loan Agreements as particularly defined in the Applicable Series Resolution.

Paying Agent means, with respect to a Series of Bonds, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution or of the Applicable Series Resolution, the Applicable Bond Series Certificate or any other resolution of the Authority adopted prior to authentication and delivery of such Bonds for which such Paying Agent or Paying Agents shall be so appointed.

Permitted Collateral means:

(i) Government Obligations described in clauses (i) or (ii) of the definition of Government Obligations;

(ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations;

(iii) commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) is rated in the highest short term rating category by at least one Rating Service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category;

(iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company (a) that has an equity capital of at least $125,000,000, (b) is rated by Bests Insurance Guide or a nationally recognized statistical rating service in the highest rating category, and (c) which regularly deals in such agreements, bonds or instruments; and

(v) bankers' acceptances that (a) mature within three hundred sixty-five (365) days after its date of issuance, and (b) are issued by a bank rated in the highest short term rating category by at least one Rating Service.

Permitted Encumbrances means with respect to a Participant, (i) the Applicable Loan Agreement; (ii) the Resolutions; (iii) the Mortgage, if any; (iv) any instrument recorded pursuant to the Loan Agreement; (v) any encumbrances or matters set forth in the Applicable Loan Agreement, including matters referred to in any title insurance policy described in the Loan Agreement and accepted by the Authority; (vi) any mortgage or other lien or encumbrance in connection with any additional Bonds issued under the Resolution approved in writing by the Authority; (vii) liens for real estate taxes, assessments, levies and other governmental charges, the payment of which is not in default; (viii) utility, access and other easements and rights-of-way, restrictions and exceptions that will not interfere with or impair the Participant's use of its Project Property; (ix) such minor defects, irregularities, encumbrances, easements, rights-of-way (including agreements with any railroad the purpose of which is to service a railroad siding) and clouds on title as normally exist with respect to property similar in character to the Project Property and as do not, in the opinion of counsel acceptable to the Authority, either singly or in the aggregate, materially impair the property affected thereby for the purpose for which it was acquired and operated under this Loan Agreement; (x) any mechanics', workmen's, repairmen's, materialmen's, contractors', warehousemen's, carriers', suppliers' or vendors' lien or right in respect thereof if payment is not yet due and payable, all if and to the extent permitted by the Mortgage, if any; (xi) any subordinate mortgage granted as security for bonds issued by the Authority or another issuer of bonds after the date of issuance of the Bonds, up to an amount approved by OPWDD pursuant to the PPA process, for the purpose of financing the cost of renovating, constructing, equipping or completing a Project of a Project Property, and any loan agreement, or any related company lease and installment sale agreement between the Participant and the issuer of such bonds leasing or selling such Project Property, any indenture of trust between such issuer and a trustee with respect to such bonds, or any building loan agreement among such the Participant and a trustee, in each case in connection with such financing; and (xii) any other encumbrances or matters approved in writing by the Authority after the date of delivery of the Bonds.

Permitted Investments means:

(i) Government Obligations;

(ii) Federal Agency Obligations;

(iii) Exempt Obligations;

(iv) uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State;

(v) collateralized certificates of deposit that are (a) issued by a banking organization authorized to do business in the State that has an equity capital of not less than $125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized statistical rating service in at least the second highest rating category, and (b) fully collateralized by Permitted Collateral;

(vi) Investment Agreements that are fully collateralized by Permitted Collateral; and

(vii) Permitted Collateral of the type described in clauses (iii) and (v) of the definition of Permitted Collateral.

Person means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Pledged Revenues means the Public Funds attributable to the Applicable Project and/or the Project Property..

PPA Expenses means with respect to a Participant, all operating and nonoperating expenses properly incurred by such Participant with respect to a PPA Facility in accordance with the Prior Property Approval received by such Participant with respect to such PPA Facility.

PPA Facility means with respect to a Participant, any facility of such Participant which was, or will be, approved by OPWDD pursuant to the Prior Property Approval process incorporated in New York State Codes, Rules and Regulations, Title 14, Parts 681, 686 and 690, as amended from time to time.

PPA Revenues means with respect to a Participant, revenues received by such Participant with respect to a PPA Facility intended to amortize the PPA Expenses incurred with respect to such PPA Facility.

Prior Pledges means, with respect to the Bonds of the Applicable Series and any Applicable Loan made under a Loan Agreement, any liens, pledges, charges, encumbrances and security interests made and given by a Participant to secure prior obligations of such Participant as described in such Loan Agreement.

Program Facilitator means Interagency Council of Developmental Disabilities Agencies, Inc., as program facilitator under the Administration Agreement, and its successors in such capacity.

Project or **Projects** means, with respect to each Participant and each Loan under the Resolution, the acquisition, financing, refinancing, construction, reconstruction, renovation, development, improvement, expansion and equipping of certain educational, administrative, day program and residential facilities to be located in the State, which may include more than one part, financed in whole or in part from the proceeds of the sale of an Applicable Series of Bonds or any portion thereof, as more particularly described and designated the Applicable Series Resolution.

Project Loan Account means each of the respective accounts or subaccounts so designated, created and established in the Applicable Project Loan Fund by an Applicable Series Resolution.

Project Loan Fund means the fund so designated and established for a Series of Bonds by an Applicable Series Resolution.

Project Property or **Series 2012A Facility** means the administrative, educational and residential facilities owned or leased by a Participant including real and personal property located thereat, as more particularly described in the Applicable Loan Agreement.

Public Funds means all moneys appropriated, apportioned or otherwise payable to a Participant by the Federal government, any agency thereof, the State, any agency of the State, a political subdivision, as defined in Section 100 of the General Municipal Law, any social services district in the State or any governmental entity, including OPWDD pursuant to each Prior Property Approval with respect to the Applicable Project Property.

Purchased Bonds means Bonds of a Series purchased by or at the direction of an Applicable Participant pursuant to the provisions of the Applicable Series Resolution or Applicable Bond Series Certificate as authorized by the Resolution.

Qualified Financial Institution means any of the following entities that has an equity capital of at least $125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least $125,000,000:

(i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one Rating Service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one Rating Service no lower than in the highest rating category for such short term debt;

(ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America, whose unsecured long term debt or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, is, at the time an investment with it is made, rated by at least one Rating Service no lower than in the second highest rating category;

(iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity or which is a subsidiary of a foreign insurance company, whose senior unsecured long term debt or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, is, at the time an investment with it is made, rated by at least one Rating Service no lower than in the second highest rating category;

(iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, the Student Loan Marketing Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; or

(v) a corporation whose obligations, including any investments of any moneys held hereunder purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above.

Rating Service means each of Fitch, Moody's and S&P, in each case, which has assigned a rating to Outstanding Bonds of the Applicable Series at the request of the Authority, or their respective successors and assigns.

Record Date means, unless otherwise defined with respect to Bonds of a Series in an Applicable Series Resolution or Applicable Bond Series Certificate, the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding an interest payment date.

Redemption Price means, when used with respect to a Series of Bonds, the principal amount of such Bonds plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution or to the Applicable Series Resolution or Applicable Bond Series Certificate; *provided, however*, when used with respect to an extraordinary mandatory redemption of a Defaulted Allocable Portion of a Series of Bonds, Redemption Price shall have the meaning set forth in the Resolution.

Refunding Bonds means all Bonds, whether issued in one or more Series of Bonds, authenticated and delivered on original issuance pursuant to the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds.

Reserve Fund Facility means a surety bond, insurance policy or Letter of Credit authorized by or pursuant to a Series Resolution establishing a Debt Service Reserve Fund to be delivered in lieu of or substitution of all or a portion of the moneys otherwise required to be held in such Debt Service Reserve Fund.

Resolution means this InterAgency Council Pooled Loan Program Revenue Bond Resolution, as the same may be from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions hereof.

Revenues mean, with respect to a particular Series of Bonds, all payments received or receivable by the Authority (including Contribution Amounts and Public Funds) pursuant to each of the Applicable Loan Agreements, which payments are to be paid to the Trustee, except (i) payments to such Trustee for the administrative costs and expenses or fees of such Trustee, (ii) payments to such Trustee for deposit to the Arbitrage Rebate Fund, and (iii) the Annual Administrative Fee.

S&P means Standard & Poor's Ratings Service, a division of The McGraw Hill Corporation, a corporation organized and existing under the laws of the State, and its successors and assigns.

Serial Bonds means the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate.

Series means all of the Bonds authenticated and delivered on original issuance and pursuant the Resolution and an Applicable Series Resolution, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

Series Resolution means a resolution of the members of the Authority authorizing the issuance of a Series of Bonds, adopted by the Authority pursuant to the Resolution.

Series 2012A Resolution means the Authority's Series Resolution Authorizing Up to $14,500,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2012A adopted by the Authority on February 29, 2012, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

Sinking Fund Installment means, with respect to any Series or Subseries of Bonds, as of any date of calculation and with respect to any Bonds of such Series or Subseries, so long as any such Bonds are Outstanding, the amount of money required by the Applicable Series Resolution or the Applicable Bond Series Certificate to be paid on a single future July 1 for the retirement of any Outstanding Bonds of such Series which mature after such future July 1, but does not include any amount payable by the Authority by reason only of the maturity of such Bond, and such future July 1 is deemed to be the date when such Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment.

State means the State of New York.

Subseries means the grouping of Bonds of a Series established by the Authority pursuant to the Applicable Series Resolution or the Applicable Bond Series Certificate.

Supplemental Resolution means any resolution of the members of the Authority amending or supplementing the Resolution, any Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of the Resolution.

Term Bonds means, with respect to Bonds of a Series, the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate and payable from Sinking Fund Installments.

Total Debt Service Coverage Ratio means with respect to a Participant, the ratio for the applicable Fiscal Year of Total Net Revenues Available for Debt Service to Total Maximum Annual Debt Service.

Total Maximum Annual Debt Service means with respect to a Participant, the greatest amount required in the then current or any future Fiscal Year to pay the debt service on any outstanding Indebtedness of such Participant; *provided, however*, that any Indebtedness secured solely by a security interest in its Accounts Receivable in accordance with such Participant's rate covenant set forth in the Applicable Loan Agreement shall not be included in "Indebtedness" for the purposes of this definition; *provided further* that the debt service for the final year of amortization of any Indebtedness shall not be included for purposes of this definition to the extent that such debt service is payable from any funded reserve(s) established with and held by a Person other than such Participant.

Total Net Revenues Available for Debt Service means with respect to a Participant, for any Fiscal Year, the excess of Revenues, including the proceeds of business interruption insurance, over the Expenses accrued or paid by such Participant for such Fiscal Year as determined and reported by the independent certified public accountants of such Participant in its most recently audited financial statements. For purposes of this definition, as determined in accordance with generally accepted accounting principles, consistently applied, (i) extraordinary items shall be excluded from Revenues and Expenses, (ii) depreciation, amortization and current interest expenses shall be excluded from Expenses, and (iii) if the Indebtedness to be incurred or guaranteed is with respect to the refinancing of a Project, then "current interest expenses" for purposes of clause (ii) above and such Participant's additional Indebtedness covenant set forth in the Applicable Loan Agreement shall include the bona fide loan payments made by such Participant with respect to such Project Property in the Fiscal Year for which the determination is made.

Trustee means a bank or trust company appointed as Trustee for a Series of Bonds pursuant to an Applicable Series Resolution or an Applicable Bond Series Certificate delivered hereunder and having the duties, responsibilities and rights provided for herein with respect to such Series, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant hereto.

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS

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 2012A-1 Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes. As a condition to such approval, the Authority may require that the Participant pay to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund an amount not to exceed the principal amount of the Applicable Loan outstanding relating to a Project Property at the date of such transfer, sale or conveyance, as such amount is determined by the Authority based upon the applicable amortization schedule set forth in the Loan Agreement. Notwithstanding the foregoing, the Participant may remove equipment, furniture or fixtures in the Project or which comprise a part of the Project provided that the Participant substitutes equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced.

The Participant covenants that it shall not sell, assign or transfer, nor shall it be released from, any of its obligations under the Loan Agreement without the prior written consent of the Authority, which consent shall be accompanied by (i) an agreement by the Participant and the assignee to comply with all terms and conditions of such consent and (ii) an opinion of Bond Counsel stating that the assignment will not have an effect on the status of the taxability of the Subseries 2012A-1 Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes. In connection with any such assignment and assumption, the Participant and assignee shall execute and deliver such documents, certificates and agreements as may be required by the Authority, including but not limited to documents, certificates and agreements regarding the deduction, withholding and/or payment of Pledged Revenues in the amount required by the Loan Agreement.

Notwithstanding any other provision of the Loan Agreement, so long as there exists no Event of Default under the Loan Agreement, nor any event which upon the giving of notice or the passage of time or both, would constitute an Event of Default, in the event that the Project Property consists of two or more separate and distinct facilities, the Participant may, upon written notice to the Authority and the Trustee and compliance with the following, effect the release of a Project Property from the Loan Agreement and, if a Mortgaged Property, the lien of the Mortgage. Upon receipt of such notice, the Authority and the Trustee shall, at the sole cost and expense of the Participant, execute and deliver any and all instruments necessary or appropriate to so release and remove such Project Property from the Loan Agreement and if a Mortgaged Property, the lien of the Mortgage; provided, that, no such release shall be effected unless (i) the Participant shall cause Bonds allocable to such Project Property to cease to be Outstanding (either through the redemption or the defeasance provisions of the Resolution) and (ii) there shall be delivered to the Authority an opinion of Bond Counsel stating that such release will not have an effect on the status of the taxability of the Subseries 2012A-1 Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes.

Notwithstanding any other provision of the Loan Agreement, so long as there exists no Event of Default under the Loan Agreement, nor any event which upon the giving of notice or the passage of time or both, would constitute an Event of Default, in the event that (y) the Project Property consists of two or more separate and distinct facilities, and (z) the Participant shall have paid in full the Bonds allocable to a Project Property according to the applicable amortization schedule attached to the Loan Agreement, the Participant may, upon written notice to the Authority and the Trustee, effect the release of such fully amortized Project Property from the Loan Agreement and, if a Mortgaged Property, the lien of the Mortgage. Upon receipt of such notice, the Authority and the Trustee shall, at the sole cost and expense of the Participant, execute and deliver any and all instruments necessary or appropriate to so release and remove such Project Property from the Loan Agreement and if a Mortgaged Property, the lien of the Mortgage.

The Participant shall provide such moneys or an irrevocable letter of credit or other security in such form as may be acceptable to the Authority as in the reasonable judgment of the Authority may be required to pay the cost of completing the Project in excess of the moneys, letter of credit or other security in the Applicable Project Loan Account of the Project Loan Fund established for such Project. Such moneys, letter of credit or other security shall be paid or be available to the Trustee for deposit in the Applicable Project Loan Account of the Project Loan Fund within thirty (30) days of receipt of notice from the Authority that such moneys or other security are required.

No Contract Documents shall be entered into after the date of execution and delivery of the Loan Agreement and no material modification, addition or amendment to the Contract Documents shall be made after the date of the execution and delivery of the Loan Agreement, including without limitation change orders materially affecting the scope or nature of the Project or where the cost of implementing the change exceeds $50,000, without the prior written approval of the Authority, which approval shall not be unreasonably withheld. The Participant agrees to furnish or cause to be furnished to the Authority copies of all change orders regardless of amount, upon the request of the Authority therefor.

The Authority, upon request of the Participant, may, but shall not be required to, issue Bonds to provide moneys required for the cost of completing the Project in excess of the moneys in the Applicable Project Loan Account of the Project Loan Fund. Nothing contained in the Loan Agreement or in the Resolutions shall be construed as creating any obligation upon the Authority to issue Bonds for such purpose, it being the intent to reserve to the Authority full and complete discretion to decline to issue such Bonds. The proceeds of any additional

Bonds shall be deposited and applied as specified in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bonds.

(Section 6)

Financial Obligations of the Participant; General and Unconditional Obligation; Voluntary Payments

Except to the extent that moneys are available therefor under the Resolution or the Series Resolution or under the Loan Agreement, including, without limitation, moneys in the Applicable Debt Service Account of the Debt Service Fund, but excluding moneys from the Participant's Allocable Portion of the Debt Service Reserve Fund (except as set forth in the Loan Agreement) and excluding interest accrued but unpaid on investments held in the Applicable Debt Service Account of the Debt Service Fund, the Participant unconditionally agrees to pay, so long as the Loan is outstanding, to or upon the order of the Authority or, with respect to paragraph (d) below, the Program Facilitator from its general funds or any other moneys legally available to it:

(a) On or before the date of delivery of the Bonds, the Authority Fee in the amount set forth in the Loan Agreement;

(b) On or before the date of delivery of the Bonds, such amount, if any, as in the reasonable judgment of the Authority is necessary to pay the Participant's Allocable Portion of the Costs of Issuance of such Bonds, and the Participant's Allocable Portion of the other costs in connection with the issuance of such Bonds;

(c) The Participant shall make Loan Repayments on the dates and in the amounts as set forth in the Loan Agreement; provided, however, if moneys on deposit in the Participant's Applicable Debt Service Account of the Debt Service Fund and in the Participant's Allocable Portion of the Debt Service Reserve Fund are in an amount sufficient to pay the principal of and interest on the Participant's Allocable Portion of the Bonds Outstanding, no further Loan Repayments need be made by the Participant;

(d) The fees of the Program Facilitator to be paid by the Participant pursuant to the Administration Agreement;

(e) At least forty-five (45) days prior to any date on which the Redemption Price or purchase price of Bonds previously called for redemption or contracted to be purchased is to be paid exclusive of Bonds to be redeemed or purchased pursuant to Sinking Fund Installments, the Participant's Allocable Portion of the amount required to pay the Redemption Price or purchase price of such Bonds;

(f) The Annual Administrative Fee, through the final maturity date of the Bonds or until such Bonds are no longer Outstanding, as set forth in the Loan Agreement;

(g) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Participant's Allocable Portion of the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made by it pursuant to the penultimate paragraph under this heading and any expenses or liabilities incurred by the Authority pursuant to provisions of the Loan Agreement as described under the headings "Covenant as to Insurance" and "Taxes and Assessments" below and other provisions of the Loan Agreement relating to indemnity by the Participant, (iii) to reimburse the Authority for the Participant's Allocable Portion of any external costs or expenses incurred by it attributable to the issuance of the Bonds of a Series, (iv) to reimburse the Authority for any external costs or expenses incurred by it attributable to the financing or construction of the Project, including, but not limited to, costs and expenses of insurance and auditing, (v) for the costs and expenses incurred by the Authority to compel full and punctual performance by the Participant of all the provisions of the Loan Agreement, of the Intercept Agreement, of the Resolution or of the Series Resolution in accordance with the terms of the Loan Agreement and thereof, and (vi) for the Participant's Allocable Portion of the fees and expenses of the Trustee and any Paying Agent in connection with performance of their duties under the Resolution or the Series Resolution;

(h) Promptly upon demand by the Authority (a copy of which demand shall be furnished to the Trustee), all amounts required to be paid by the Participant as a result of an acceleration pursuant to the Loan Agreement; and

(i) Promptly upon demand by the Authority, the difference between the amount on deposit in the Participant's Allocable Portion of the Arbitrage Rebate Fund or otherwise available therefor under the Resolution for the payment of any rebate required by the Code to be made and the Participant's Allocable Portion of the amount required to be rebated to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Bonds.

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 as set forth in the Loan Agreement, provided that the Participant shall be required to deliver moneys or Permitted Investments to the Trustee for deposit in the Debt Service Reserve Fund as a result of a deficiency in such Fund within (5) days after the notice required by the Series Resolution is received.

The Participant may deliver to the Trustee a Reserve Fund Facility for all or any part of the Participant’s Allocable Portion of the Debt Service Reserve Fund Requirement in accordance with and to the extent permitted by the Series Resolution. Whenever a Reserve Fund Facility has been delivered to the Trustee and the Participant is required to restore the Participant’s Allocable Portion of the Debt Service Reserve Fund Requirement, it shall reimburse directly, or pay to the Authority an amount sufficient to reimburse, the Facility Provider in order to cause the Reserve Fund Facility provided by the Participant or Participant’s Allocable Portion of the Reserve Fund Facility to be restored to the amount of the Participant’s Allocable Portion of the Debt Service Reserve Fund Requirement or shall then deliver additional moneys or Permitted Investments necessary to restore the Debt Service Reserve Fund to the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement.

The delivery to the Trustee of Permitted Investments or Reserve Fund Facility from time to time made by the Participant pursuant to the Loan Agreement as described under this heading shall constitute a pledge thereof, and shall create a security interest therein, for the benefit of the Authority to secure performance of the Participant's obligations under the Loan Agreement and for the benefit of the Trustee to secure the performance of the obligations of the Authority under the Resolution. The Participant authorizes the Authority pursuant to the Resolution to pledge such Permitted Investments or Reserve Fund Facility to secure payment of the principal, Sinking Fund Installments, if any, and Redemption Price of, and interest on, the Bonds, whether at maturity, upon acceleration or otherwise, and the fees and expenses of the Trustee, and to make provision for and give directions with respect to the custody, reinvestment and disposition thereof in any manner not inconsistent with the terms of the Loan Agreement and of the Resolution or the Series Resolution.

All Permitted Investments deposited with the Trustee pursuant to the Loan Agreement as described under this heading, other than United States Treasury Certificates of Indebtedness State and Local Government Series ("SLGs") (subject to provisions for registration thereof), and the principal thereof and the interest, dividends or other income payable with respect thereto shall be payable to bearer or to the registered owner. All such Permitted Investments in registered form shall be registered in the name of the Trustee (in its fiduciary capacity) or its nominee. Record ownership of all such Permitted Investments shall be transferred promptly following their delivery to the Trustee into the name of the Trustee (in its fiduciary capacity) or its nominee. The Participant appoints the Trustee its lawful attorney-in-fact for the purpose of effecting such registrations and transfers.

The Participant agrees that upon each delivery to the Trustee of Permitted Investments, whether initially or upon later delivery or substitution, the Participant shall deliver to the Authority and the Trustee a certificate of an Authorized Officer of the Participant to the effect that the Participant warrants and represents that the Permitted Investments delivered by the Participant (i) are on the date of delivery thereof free and clear of any lien, pledge, charge, security interest or other encumbrance or any statutory, contractual or other restriction that would be inconsistent with or interfere with or prohibit the pledge, application or disposition thereof as contemplated by the Loan Agreement, by the Series Resolution or by the Resolution and (ii) are pledged under the Loan Agreement pursuant to appropriate corporate action of the Participant duly had and taken.

Prior to the initial delivery of Permitted Investments (other than moneys) to the Trustee pursuant to the Loan Agreement as described under this heading, and upon any later delivery or substitution, the Participant will, at its cost and expense, provide to the Authority and the Trustee a written opinion of counsel satisfactory to the Authority to the effect that the Participant has full corporate power and authority to pledge such Permitted Investments as security in accordance with the Loan Agreement, such Permitted Investments have been duly delivered by the Participant to the Trustee, such delivery creates a valid and binding pledge and security interest therein in accordance with the terms thereof and of the Resolution, and nothing has come to the attention of such counsel that would lead it to believe that the Permitted Investments delivered by the Participant are not free and clear of all liens, pledges, encumbrances and security interests or are subject to any statutory, contractual or other restriction which would invalidate or render unenforceable the pledge and security interest therein, or the application or disposition thereof, contemplated by the Loan Agreement or by the Resolution.

(Section 10)

Security Interest in Pledged Revenues

As security for the payment of all liabilities and the performance of all obligations of the Participant pursuant to the Loan Agreement, the Participant does continuously pledge, grant a security interest in, and assign to the Authority the Pledged Revenues, together with the Participant's right to receive and collect the Pledged Revenues and the proceeds of the Pledged Revenues.

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, OPWDD, the State, a political subdivision (as defined in Section 100 of the General Municipal Law), or any social services district in the State, to authorize or implement such payment of Pledged Revenues to the Authority or the Trustee in an amount sufficient to pay all amounts required to be paid under the Loan Agreement. The Participant further acknowledges that OPWDD and all State and local officers are authorized and required to pay any Pledged Revenues so assigned and pledged to the Authority in accordance with the Loan Agreement. The Authority may periodically file a certificate with OPWDD, the State, a political subdivision (as defined in Section 100 of the General Municipal Law), or any social services district in the State setting forth the amount of Pledged Revenues required to be paid to satisfy the obligations of the Participant under the Loan Agreement, which certificate may be amended by the Authority from time to time. Copies of said certificate and any amendments thereto filed pursuant to this paragraph shall be delivered to the Trustee and the Participant.

Unless and until an event described in the Loan Agreement as described in the second paragraph above shall have occurred, the Authority waives its right to collect those amounts payable to the Authority pursuant to the Loan Agreement as described in the paragraph above. Upon the occurrence of an event described in Loan Agreement as described in the second paragraph above, the Authority may, in addition to all other remedies available to it pursuant to the Loan Agreement, cause the Pledged Revenues to be deducted, withheld or paid directly to the Authority or the Trustee, as appropriate, in an amount sufficient to make all payments required to be made by the Participant under the Loan Agreement.

(Section 12)

Mortgage; Lien on Fixtures and Equipment

With respect to each Project Property which is owned by the Participant, at or before the delivery by the Authority of the Bonds, the Participant shall execute and deliver to the Authority the Mortgage, in recordable form, mortgaging the Mortgaged Property to the Authority, subject only to Permitted Encumbrances. As further security for the obligations and liabilities of the Participant under the Loan Agreement, the Participant shall grant the Authority a security interest in such fixtures, furnishings and equipment owned by the Participant which then are or thereafter will be located in or on any Mortgaged Property, together with all proceeds thereof and substitutions therefor. Such security interest in such fixtures, furnishings and equipment shall be subject only to Permitted Encumbrances.

With respect to each Project Property which is leased by the Participant, the Participant grants by the Loan Agreement the Authority a security interest in all furnishings and equipment located in or on or used or to be used in connection with the Project Property, excepting and excluding therefrom any furnishings and equipment held or used by the Participant as a lessee and any furnishings and equipment during the time when such furnishings and equipment are covered by perfected purchase money security interests in third parties. With respect to such furnishings and equipment in which a security interest is granted by the Loan Agreement, the Loan Agreement constitutes a "security agreement" within the meaning of the Uniform Commercial Code. Upon the occurrence of an Event of Default under the Loan Agreement, the Authority, in addition to any other rights and remedies which it may have, shall have and may exercise immediately and without demand, any and all rights and remedies granted to a secured party upon default under the Uniform Commercial Code.

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

(Section 13)

Warranty as to Title; Encumbrances; Title Insurance

The Participant warrants and represents to the Authority that (i) it has good and marketable title to the Project and all Project Property, free and clear of liens and encumbrances, except Permitted Encumbrances, so as to permit it to have quiet enjoyment and use thereof for purposes of the Loan Agreement and the Participant's programs and (ii) the Participant has such rights of way, easements or other rights in land as may be reasonably necessary for ingress and egress to and from the Project and all Project Property, for proper operation and utilization of such Project and such Project Property and for utilities required to serve such Project and such Project Property, together with such rights of way, easements or other rights in, to and over land as may be necessary for construction by the Participant of each such Project.

The Participant covenants that title to the Project and all Project Property shall be kept free from any encumbrances, liens or commitments of any kind, other than Permitted Encumbrances.

The Participant warrants, represents and covenants that (i) the Project and all Project Property are and shall be serviced by all necessary utilities (including, to the extent applicable, without limitation, electricity, gas, water, sewer, steam, heating, air-conditioning and ventilation), and (ii) to the extent applicable, such Project and Project Property shall have its own separate and independent means of access, apart from any other property owned by the

Participant or others. Such access, however, may be through common roads or walks owned by the Participant used also for other parcels owned by the Participant.

(Section 14)

Consent to Pledge and Assignment by the Authority

The Participant consents to and authorizes the assignment, transfer or pledge by the Authority to the Trustee of the Authority's rights to receive the payments required to be made pursuant to the Loan Agreement as described in paragraphs (c), (e), and (h) under the heading "Financial Obligations of the Participant; General and Unconditional Obligations; Voluntary Payments" above, any or all security interests granted by the Participant under the Loan Agreement, including without limitation the security interest in the Pledged Revenues and the Permitted Investments delivered pursuant to the Loan Agreement and all funds and accounts established by the Resolution (other than the Arbitrage Rebate Fund) and pledged under the Resolution in each case to secure any payment or the performance of any obligation of the Participant under the Loan Agreement or arising out of the transactions contemplated by the Loan Agreement whether or not the right to enforce such payment or performance shall be specifically assigned by the Authority to the Trustee. The Participant further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by the Loan Agreement, the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided therefor thereby or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the Participant's obligations to make all payments required by the Loan Agreement and to performing all other obligations required to be performed by the Participant thereunder. Any realization upon any pledge made or security interest granted by the Loan Agreement shall not, by operation of law or otherwise, result in cancellation or termination thereof or the obligations of the Participant thereunder.

The Participant covenants, warrants and represents that it is duly authorized by all applicable laws, its charter or certificate of incorporation and by laws to enter into the Loan Agreement, to incur the indebtedness contemplated by the Loan Agreement, to pledge, grant a security interest in and assign to the Authority and the Trustee, for the benefit of the Bondholders, the Pledged Revenues and the Permitted Investments delivered pursuant to the Loan Agreement in the manner and to the extent provided therein and in the Resolution. The Participant further covenants, warrants and represents that any and all pledges, security interests in and assignments to the Authority and the Trustee for the benefit of the Bondholders, granted or made pursuant to the Loan Agreement are and shall be free and clear of any pledge, lien, charge, security interest or encumbrance prior thereto, or of equal rank therewith, other than the Prior Pledges and the Permitted Encumbrances, and that all corporate action on the part of the Participant and any parties related thereto, to that end has been duly and validly taken. The Participant further covenants that the provisions of the Loan Agreement are and shall be valid and legally enforceable obligations of the Participant in accordance with their terms. The Participant further covenants that it shall at all times, to the extent permitted by law, defend, preserve and protect the pledge, security interest in and assignment of the Pledged Revenues, Permitted Investments and Reserve Fund Facility delivered pursuant to the Loan Agreement and all of the rights of the Authority and Trustee for the benefit of the Bondholders under the Loan Agreement, under the Series Resolution, under the Resolution and under the Intercept Agreement against all claims and demands of all persons whomsoever. The Participant further covenants, warrants and represents that the execution and delivery of the Loan Agreement and of the Intercept Agreement, and the consummation of the transactions contemplated and compliance with the provisions thereof, including, but not limited to, the assignment as security or the granting of a security interest in the Permitted Investments delivered to the Trustee pursuant to the Loan Agreement, do not violate, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the charter or certificate of incorporation or by laws of the Participant (or any party related thereto) or any indenture or mortgage, or any trusts, endowments or other commitments or agreements to which the Participant (or any party related thereto) is party or by which it or any of its or their properties are bound, or any existing law, rule, regulation, judgment, order, writ, injunction or decree of any governmental authority, body, agency or other instrumentality or court having jurisdiction over the Participant, any party related thereto or any of its or their properties.

(Section 15)

Tax-Exempt Status

The Participant represents that (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is not a "private foundation," as such term is defined under Section 509(a) of the Code, (ii) it has received a letter or other notification from the Internal Revenue Service to that effect, (iii) such letter or other notification has not been modified, limited or revoked, (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification, (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist, and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The Participant agrees that (a) it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which will conform to the standards necessary to qualify the Participant as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law and (b) it shall not perform any act, enter into any agreement or use or permit the Project and the Project Property to be used in any manner, or for any trade or business or other non exempt use unrelated to the purposes of the Participant, which could adversely affect the exclusion of interest on the Subseries 2012A-1 Bonds from federal gross income pursuant to Section 103 of the Code.

(Section 16)

Use of the Project; Restrictions on Religious Use

The Participant agrees that, unless in the opinion of Bond Counsel the Project may be occupied or used other than as required by the Loan Agreement as described under this heading, at least ninety-five percent (95%) of the Project shall be occupied or used primarily by the Participant or members of the staff of the Participant or residents of the Project, as applicable, for activities related to the tax-exempt purposes of the Participant, or, on a temporary basis, persons connected with activities incidental to the operations of the Participant, subject to and consistent with the requirements of the Loan Agreement as described under this heading.

Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the Participant shall have sole and exclusive control of, possession of and responsibility for (i) the Project and all Project Property, (ii) the operation of the Project and all Project Property and supervision of the activities conducted therein or in connection with any part thereof, and (iii) the maintenance, repair and replacement of the Project and all Project Property.

The Participant agrees that with respect to the Project or any portion thereof, so long as such Project or portion thereof exists and unless and until such Project or portion thereof is sold for the fair market value thereof, such Project or any portion thereof shall not be used for sectarian religious instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; provided, however, that the foregoing restriction shall not prohibit the free exercise of any religion; and, further provided, however, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit the Project or a portion thereof to be used without regard to the above stated restriction, said restriction shall not apply to such Project and each portion thereof. The Authority and its agents may conduct such inspections as the Authority deems necessary to determine whether the Project or any portion of real property thereof financed by Bonds is being used for any purpose proscribed by the Loan Agreement. The Participant further agrees that prior to any disposition of any portion of the Project for less than fair market value, it shall execute and record (or cause to be executed and recorded) in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of such portion of such Project to the restriction that (i) so long as such portion of such Project (and, if included in such Project, the real property on or in which such portion of such Project is situated) shall exist and the Bonds allocable to such Project remain Outstanding and (ii) until such portion of such Project is sold or otherwise transferred to a Person who purchases the same for the fair market value thereof at the time of such sale or transfer, such portion of such Project shall not be used for sectarian religious instruction or as a place of religious worship or used in connection with any part of the program of a school or department of divinity of any religious denomination. The instrument containing such restriction shall further provide that such restriction may be enforced at the instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction shall also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of such Project, or, if included in such Project, the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction shall be without any force or effect. For the purposes of this heading an involuntary transfer or disposition of the Project or a portion thereof, upon foreclosure or otherwise, shall be considered a sale for the fair market value thereof.

(Sections 20 and 21)

Covenant as to Insurance

The Participant agrees to maintain or cause to be maintained insurance with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried by organizations located in the State of a nature similar to that of the Participant, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance in amounts estimated to indemnify the reasonably anticipated damage, loss or liability, subject to reasonable deductible provisions. The Participant shall at all times also maintain worker's compensation coverage and disability benefits insurance coverage as required by the laws of the State.

(Section 23)

Damage or Condemnation

In the event of a taking of the Project or the Project Property or any portion thereof by eminent domain or of condemnation, damage or destruction affecting all or part of the Project or the Project Property, then and in such event the entire proceeds of any insurance, condemnation or eminent domain award shall be paid upon receipt thereof by the Participant or the Authority to the Trustee for deposit in the Applicable Project Loan Account of the Project Loan Fund, and

(a) if within 120 days from the receipt by the Authority of actual notice or knowledge of such occurrence, the Participant and the Authority agree in writing that the Project, the Project Property or the affected portion thereof shall be repaired, replaced or restored, the Participant shall proceed to repair, replace or restore the Project, the Project Property or the affected portion thereof, including all fixtures, furniture, equipment and effects, to its original condition insofar as possible with such changes and additions as shall be appropriate to the needs of the Participant and approved in writing by the Authority. The funds required for such repair, replacement or restoration shall be paid from time to time as the work progresses, subject to such conditions and limitations as the Authority may reasonably impose, from the proceeds of insurance, condemnation or eminent domain awards received by reason of such occurrence or from funds to be provided by the Participant; or

(b) if no agreement for the repair, restoration or replacement of the Project, the Project Property or the affected portion thereof shall be reached by the Authority and the Participant within such 120 day period, all respective proceeds (other than the proceeds of builders' risk insurance which shall be deposited pursuant to the Resolution and the Series Resolution) shall be transferred from the Applicable Project Loan Account of the Project Loan Fund in which such proceeds were deposited to the Applicable Debt Service Account of the Debt Service Fund for the redemption at par, at the option of the Authority, of Bonds on any future interest payment date.

(Section 24)

Taxes and Assessments

The Participant shall pay or cause to be paid when due at its own expense, and hold the Authority harmless from, all taxes, assessments, water and sewer charges and other impositions, if any, which may be levied or assessed upon the Project or the Project Property or any part thereof, and upon all ordinary costs of operating, maintaining, renovating, repairing and replacing the Project and the Project Property and its equipment. The Participant shall file or cause to be filed exemption certificates as required by Governmental Requirements. The Participant agrees to exhibit to the Authority within ten (10) days after written demand by the Authority, certificates or receipts issued by the appropriate authority showing full payment of all taxes, assessments, water and sewer charges and other impositions; provided, however, that the good faith contest of such impositions shall be deemed to be complete compliance with the requirements of the Loan Agreement if the Participant deposits with the Authority the full amount of such contested impositions. Notwithstanding the foregoing, the Authority, in its sole discretion, after notice in writing to the Participant, may pay (such payment shall be made under protest if so requested by the Participant) any such charges, taxes and assessments if, in the reasonable judgment of the Authority, the Project or the Project Property, or any part thereof, would be in substantial danger by reason of the Participant's failure to pay such charges, taxes and assessments of being sold, attached, forfeited, foreclosed, transferred, conveyed, assigned or otherwise subjected to any proceeding, equitable remedy, lien, charge, fee or penalty that would impair (i) the interests or security of the Authority under the Loan Agreement, under the Series Resolution, under the Resolution or under the Mortgage; (ii) the ability of the Authority to enforce its rights under the Loan Agreement or thereunder; (iii) the ability of the Authority to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement, under the Series Resolution or under the Resolution; or (iv) the ability of the Participant to fulfill the terms of the covenants or perform any of its obligations under the Loan Agreement, under the Series Resolution, and the Participant agrees to reimburse the Authority for any such payment, with interest thereon from the date payment was made by the Authority at a rate equal to the highest rate of interest payable on any investment held for the Debt Service Fund on the date such payment was made by the Authority.

(Section 25)

Reports Relating to the Project or the Mortgaged Property, Financial Information and Financial Covenants

The Participant shall, if and when requested by the Authority, render to the Authority and the Trustee reports with respect to all repairs, replacements, renovations, and maintenance made to the Project or the Project Property. In addition, the Participant shall, if and when requested by the Authority, render such other reports concerning the condition of the Project or the Project Property as the Authority may request. The Participant shall also furnish annually, not later than one hundred and eighty (180) days after the end of the Participant's Fiscal Year, to the Trustee, the Program Facilitator, the Underwriter, the Authority and to such other parties as the Authority may reasonably designate, including rating services, copies of its financial statements audited by an independent public accountant selected by the Participant and acceptable to the Authority and prepared in conformity with generally accepted accounting principles applied on a consistent basis, except that such audited financial statements may contain such changes as are concurred in by such accountants, and such other statements, reports and schedules describing the finances, operation and management of the Participant and such other information as may be reasonably required by the Authority.

Furthermore, the Participant shall also furnish annually, not later than one hundred and eighty (180) days after the end of the Participant's Fiscal Year, to the Authority, the Underwriter and the Trustee a certificate of an Authorized Officer of the Participant stating whether the Participant is in compliance with the provisions the Loan Agreement.

The Participant covenants that it has maintained in its current Fiscal Year and it will maintain in each Fiscal Year subsequent to the date of delivery of the Loan Agreement Total Net Revenues Available for Debt Service sufficient to produce in each Fiscal Year a Total Debt Service Coverage Ratio of not less than 1.00 to 1.00.

The Participant may not incur any additional Indebtedness (including, but not limited to, guarantees or derivatives in the form of credit default swaps or total-rate-of-return swaps or similar instruments), without the prior written consent of the Authority, except for the following:

(a) Indebtedness (other than for working capital, other than installment purchase payments payable under installment sale agreements and other than rents payable under lease agreements) incurred in the ordinary course of the Participant's business for its current operations including the maintenance and repair of its property, advances from third party payors and obligations under reasonably necessary employment contracts,

(b) Indebtedness in the form of rentals under leases which are not required to be capitalized in accordance with generally accepted accounting principles in effect on the date of issuance of the Bonds,

(c) Indebtedness in which recourse to the Participant for repayment is expressly limited to proceeds from the sale, lease or foreclosure of any tangible property of the Participant other than the Project Property,

(d) Non-PPA Indebtedness to the extent that the Participant has delivered to the Authority and the Trustee a certificate signed by the Participant's chief executive officer or chief financial officer demonstrating a

Total Debt Service Coverage Ratio of not less than 1.25 to 1.00 for the most recent Fiscal Year for which audited financial statements exist. In preparing its calculations of the required ratios, the Participant's representative or the independent certified public accountant, as applicable, shall include the proposed debt service requirements with respect to the Non-PPA Indebtedness to be issued,

(e) Indebtedness to finance a PPA Facility, and

(f) short-term Indebtedness for working capital purposes, provided, however, that such Indebtedness may be secured by no more than ninety percent (90%) of the Participant's Accounts Receivables.

(Section 26)

Defaults and Remedies

As used in the Loan Agreement, the term "Event of Default" shall mean:

(a) the Participant shall default in the timely payment of any amount payable pursuant to the Loan Agreement as described under the heading "Financial Obligations of the Participant; General and Unconditional Obligation; Voluntary Payments" or in the payment of any other amounts required to be delivered or paid in accordance with the Loan Agreement, the Series Resolution or the Resolution or in the timely payment of any amount payable pursuant to any loan agreement with the Authority or any agreement with any lender with respect to the Project Property or Public Funds, and such default continues for a period in excess of seven (7) days;

(b) the Participant shall default in the due and punctual performance of any other covenant contained in the Loan Agreement (except as set forth in paragraph (d) below) and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given to the Participant by the Authority or the Trustee;

(c) as a result of any default in payment or performance required of the Participant under the Loan Agreement or any Event of Default under the Loan Agreement, whether or not declared, continuing or cured, the Authority shall be in default in the payment or performance of any of its obligations under the Resolution or an "event of default" (as defined in the Resolution) shall have been declared under the Resolution so long as such default or event of default shall remain uncured or the Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Resolution as a result thereof;

(d) the Participant shall have violated the applicable provisions of regulations or the covenants set forth in the Loan Agreement with respect to compliance with all Government Requirements or shall fail to continue to operate the Project Property as a certified program for the developmentally disabled in accordance with a valid operating certificate duly issued by OPWDD, and the Participant, subsequent to 15 days after written notice shall have been given to the Participant by OPWDD or the Authority requiring the same to be remedied, fails to remedy such violation or such failure to operate such certified program;

(e) the Participant shall (i) be generally not paying its debts as they become due, (ii) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (iii) make a general assignment for the benefit of its creditors, (iv) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (v) be adjudicated insolvent or be liquidated or (vi) take corporate action for the purpose of any of the foregoing;

(f) a court or governmental authority of competent jurisdiction shall enter an order appointing, without consent by the Participant, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Participant, or any petition for any such relief shall be filed against the Participant and such petition shall not be dismissed within ninety (90) days;

(g) the charter or certificate of incorporation of the Participant shall be suspended or revoked;

(h) a petition to dissolve the Participant shall be filed by the Participant with the legislature of the State or other governmental authority having jurisdiction over the Participant;

(i) an order of dissolution of the Participant shall be made by the legislature of the State or other governmental authority having jurisdiction over the Participant, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(j) a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the Participant which petition shall remain undismissed or unstayed for an aggregate of ninety (90) days;

(k) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the Participant, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(l) a final judgment for the payment of money, which in the judgment of the Authority will adversely affect the rights of the Bondholders, shall be rendered against the Participant and at any time after forty-five (45) days from the entry thereof, (i) such judgment shall not have been discharged or (ii) the Participant shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within thirty (30) days, the execution of or levy under such judgment, order, decree or process for the enforcement thereof, to have been stayed pending determination of such appeal; or

(m) the Participant shall default in the payment of any indebtedness or guaranty aggregating at least $500,000 when due, or shall default in the performance of any other obligations in connection with any indebtedness or guaranty aggregating at least $500,000 which default entitles the holder of such indebtedness or guaranty to accelerate the Participant's obligations thereunder.

Upon the occurrence of an Event of Default the Authority may take any one or more of the following actions:

(a) declare all sums payable by the Participant under the Loan Agreement immediately due and payable;

(b) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of the Loan or the Applicable Project Loan Account of the Project Loan Fund or otherwise to which the Participant may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion, apply any such proceeds or moneys for such purposes as are authorized by the Resolution;

(c) withhold any or all further performance under the Loan Agreement;

(d) maintain an action against the Participant under the Loan Agreement to recover any sums payable by the Participant or to require its compliance with the terms of the Loan Agreement;

(e) permit, direct or request the Trustee to liquidate all or any portion of the assets comprising the Participant's Allocable Portion of the Debt Service Reserve Fund by selling the same at public or private sale in any commercially reasonable manner and apply the proceeds thereof and any dividends or interest received on investments thereof to the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Participant's Allocable Portion of the Bonds, or any other obligation or liability of the Participant or the Authority arising herefrom, from the Series Resolution or from the Resolution;

(f) realize upon any security interest which the Authority may then have in the pledge and assignment of the Pledged Revenues and the rights to receive the same, whether pursuant to the Intercept Agreement or otherwise, all to the extent provided in the Loan Agreement as described under the headings "Security Interest in Pledged Revenues" and "Collection of Pledged Revenues" above, by any one or more of the following actions: (i) enter the Project or the property of the Participant and examine and make copies of the financial books and records of the Participant relating to the Pledged Revenues and, to the extent of the assigned Pledged Revenues, take possession of all checks or other orders for payment of money and moneys in the possession of the Participant representing Pledged Revenues or proceeds thereof; (ii) [Reserved]; (iii) [Reserved]; (iv) require the Participant to deposit all moneys, checks or other orders for the payment of money which represent Pledged Revenues in an amount equal to the Pledged Revenues assigned under the Loan Agreement within five (5) Business Days after receipt of written notice of such requirement, and thereafter as received, into a fund or account to be established for such purpose by the Authority, provided that the moneys in such fund or account shall be applied by the Authority to the payment of any of the obligations of the Participant under the Loan Agreement including the fees and expenses of the Authority; and provided further that the Authority in its sole discretion may authorize the Participant to make withdrawals from such fund or account for its corporate purposes; and provided further that the requirement to make such deposits shall cease and the balance of such fund or account shall be paid to the Participant when all Events of Default under the Loan Agreement by the Participant have been cured; (v) forbid the Participant to extend, compromise, compound or settle any accounts receivable or contract rights which represent any unpaid assigned Pledged Revenues, or release, wholly or partly, any Person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; (vi) endorse in the name of the Participant any checks or other orders for the payment of money representing any unpaid assigned Pledged Revenues or the proceeds thereof; and (vii) follow the procedures for the collection of Pledged Revenues as provided in the Act and in the Loan Agreement as described under the heading “Collection of Pledged Revenues” above;

(g) if applicable and to the extent permitted by law, (i) enter upon the Project and complete the construction of such Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect such Project, all at the risk, cost and expense of the Participant, consent to such entry being given by the Participant; (ii) at any time discontinue any work commenced in respect of the construction of the Project or change any course of action undertaken by the Participant and not be bound by any limitations or requirements of time whether set forth in the Loan Agreement or otherwise; (iii) assume any construction contract made by the Participant in any way relating to the construction of the Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by the Participant, whether or not previously incorporated into the construction of the Project; and (iv) in connection with the construction of the Project undertaken by the Authority pursuant to the provisions of this paragraph (g), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of the Project, (y) pay, settle or compromise all bills or claims which may become liens against the Project or against any moneys of the Authority applicable to the construction of the Project, or which have been or may be incurred in any manner in connection with completing the construction of the Project or for the discharge of liens, encumbrances or defects in the title to the Project or against any moneys of the Authority applicable to the construction of the Project, and (z) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The Participant shall be liable to the Authority for all sums paid or incurred for construction of the Project whether the same shall be paid or incurred pursuant to the provisions of this paragraph (g) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever shall be paid by the Participant to the Authority upon demand. The Participant irrevocably constitutes and appoints the Authority its true and lawful attorney-in-fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the Participant for the purpose of exercising the rights granted to the Authority by this subparagraph during the term of the Loan Agreement;

(h) request OPWDD, in accordance with applicable statutes and regulations, to enter the Project, or replace the Participant with another operator, to take possession without judicial action of all real property contained in such Project and all personal property located in or on or used in connection with the Project, including furnishings and equipment thereon, and further including Pledged Revenues and cause to be operated thereon a certified program for the developmentally disabled within the Project Property in accordance with a valid operating certificate duly issued by OPWDD;

(i) require the Participant to engage, at the Participant’s expense, a Management Consultant to review the rates, operations and management of the Participant and any other matter deemed appropriate by the Authority and make recommendations with respect to such rates, operations, management and other matters; and

(j) take any legal or equitable action necessary to enable the Authority to realize on its liens under the Loan Agreement, under the Mortgage, or by law, including foreclosure of the Mortgage, and any other action or proceeding permitted by the terms of the Loan Agreement, by the Mortgage or by law.

All rights and remedies in the Loan Agreement given or granted to the Authority are, to the extent permitted by law, cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy shall effect a waiver of the Authority's right to exercise such remedy thereafter.

At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made pursuant to paragraph (a) above and its consequences if such Events of Default shall be cured. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereto.

In the event of an Event of Default under the Loan Agreement as described in paragraph (d), (e), (f), (g), (h), (i), (j), (k) or (l) above shall have occurred and be continuing with respect to the Participant, or in the event that OPWDD shall have revoked the Participant's license to operate as a qualified operator, the Participant shall exercise best efforts in accordance with all applicable laws and regulations, to facilitate the continued availability of its respective facilities for the benefit of its clients and patients including but not limited to cooperating with any OPWDD qualified service provider in order to permit such service provider to assume the Participant's liabilities and obligations to provide benefits to such clients and patients. In furtherance of such purposes the Participant agrees to cooperate with all State regulatory agencies and acknowledges that the Authority's enforcement of such cooperation constitutes an exercise of the police powers of the State for the public good of the citizens of the State.

(Section 29)

Arbitrage

The Participant covenants that it shall take no action, nor shall it consent to the taking of any action, nor shall it fail to take any action or consent to the failure to take any action, the making of any investment or the use of the Loan, which would cause the Subseries 2012A-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)

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 2012A 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 2012A Resolution establishes a Debt Service Reserve Fund to be held and maintained by the Trustee with respect to the Series 2012A 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 2012A 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;
>
> 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 2012A Bonds or Permitted Investments in an amount sufficient to satisfy each Applicable Series 2012A Participant's Allocable Portion of the Debt Service Reserve Fund Requirement as set forth in the Applicable Bond Series Certificate. An Applicable Series 2012A 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 2012A Bonds for all or any part of the Debt Service Reserve Fund Requirement or any Applicable Series 2012A 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 2012A are not rated by Moody's and S&P by whichever of said rating services that then rates the Outstanding Series 2012A Bonds..

In addition to the conditions and requirements set forth above, no Reserve Fund Facility shall be deposited in full or partial satisfaction of the Debt Service Reserve Fund Requirement unless the Trustee shall have received prior to such deposit (i) an opinion of counsel acceptable to the Authority to the effect that such Reserve Fund Facility has been duly authorized, executed and delivered by the Facility Provider thereof and is valid, binding and enforceable in accordance with its terms, and (ii) in the event such Facility Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Authority.

Each Reserve Fund Facility shall be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Debt Service Reserve Fund and such withdrawal cannot be made without (i) if the Reserve Fund Facility consists of a Letter of Credit, drawing upon the Letter of Credit, or (ii) if the Reserve Fund Facility consists of a surety bond or insurance policy, obtaining payment under such surety bond or insurance policy.

For the purposes of this section and, in computing the amount on deposit in the Debt Service Reserve Fund, a Reserve Fund Facility shall be valued at the amount available to be drawn or payable thereunder on the date of computation.

Except as otherwise provided in the Resolutions, moneys and investments held for the credit of the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement shall be transferred to the Applicable Debt Service Account of the Debt Service Fund and applied in accordance with the Resolution.

If, upon a valuation, the value of all moneys, Permitted Investments and Reserve Fund Facilities held for the credit of an Applicable Series 2012A Participant's Allocable Portion of a Debt Service Reserve Fund is less than such Applicable Series 2012A 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 2012A Participant of such deficiency. Such Applicable Series 2012A 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 2012A 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 2012A Participant's Allocable Portion of, respectively, interest on the Outstanding Series 2012A 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 2012A 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 2012A Bonds upon the acceleration of such Series 2012A Participant's Loan pursuant to the Applicable Loan Agreement.

Upon the exercise by a Series 2012A Participant of its option to prepay its Loan under the Applicable Loan Agreement and upon final maturity of a Participant's Allocable Portion of the Series 2012A Bonds, the Trustee shall transfer such Applicable Participant's Allocable Portion of the Debt Service Reserve Fund to the Applicable Debt Service Account of the Debt Service Fund for application to payment of the portion of principal of and interest on the Applicable Subseries of Series 2012A Bonds which (i) which correspond to the principal of and interest on the Loan so prepaid or (ii) so maturing.

(c) The Trustee, as promptly as practicable (i) after the end of each calendar month, (ii) upon the request of the Authority, (iii) upon the request of a Series 2012A 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 2012A 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 2012A 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 2012A 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: <u>*first*</u>, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; <u>*second*</u>, 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; <u>*third*</u>, 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, <u>*fourth*</u>, the balance thereof to the Applicable Participants, and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Applicable Loan Agreement.

(d) Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or Paying Agent in trust for the payment and discharge of any of the Bonds of a Series which remain unclaimed for two (2) years after the date when such moneys become due and payable, upon such Bonds either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date, or for two (2) years after the date of deposit of such moneys if deposited with the Trustee or Paying Agent after said date when such Bonds become due and payable, shall at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect thereto and the Holders of Bonds of such Series shall look only to the Authority for the payment of such Bonds; *provided, however*, that, before being required to make any such payment to the Authority, the Trustee or Paying Agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than forty (40) nor more than ninety (90) days after the date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.

(Section 12.01)

APPENDIX G

FORM OF APPROVING OPINION OF BOND COUNSEL

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PROPOSED FORM OF APPROVING OPINION
OF BOND COUNSEL

Upon delivery of the Series 2012A 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 $12,745,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2012A, consisting of two subseries: $12,285,000 Subseries 2012A-1 (the “Subseries 2012A-1 Bonds”) and $460,000 Subseries 2012A-2 (Federally Taxable) (the “Subseries 2012A-2 Bonds” and together with the Subseries 2012A-1 Bonds, the “Series 2012A 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 2012A 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 February 29, 2012 (the “Series 2012A Resolution”). The Bond Resolution and the Series 2012A Resolution are herein collectively referred to as the “Resolutions.”

The Series 2012A 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 2012A 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 2012A Bonds, the Revenues and all funds and accounts established by the Series 2012A 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 2012A 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 2012A 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 2012A Bonds be payable out of funds of the Authority other than those pledged for the payment of the Series 2012A Bonds.

5. The Loan Agreements between the Authority and, respectively, Birch Family Services, Inc., Federation Employment and Guidance Service, Inc., Program Development Services Inc., Services for the Underserved, Inc. and SUS-Developmental Disabilities Services, Inc. and United Cerebral Palsy of New York City, Inc. (collectively, the “Series 2012A Participants”), each dated as of February 29, 2012 (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 2012A 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 2012A-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 2012A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, each of the Series 2012A Participants, as applicable, the Interagency Council of Developmental Disabilities Agencies, Inc. and others, and we have assumed compliance by Authority and each of the Series 2012A Participants, as applicable, with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subseries 2012A-1 Bonds from gross income under Section 103 of the Code. In addition, we have relied on the opinion of counsel to the Series 2012A Participants regarding, among other matters, the current qualifications of the Series 2012A Participants as organizations described in Section 501(c)(3) of the Code. Any Subseries 2012A-1 Bonds having original issue discount (“OID”), OID that has accrued and is properly allocable to the owners of such Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Subseries 2012A-1 Bonds.

7. Interest on the Subseries 2012A-2 Bonds is included in gross income for Federal income tax purposes pursuant to the Code. The opinion in this paragraph is not intended or provided by Bond Counsel to be used and cannot be used by an owner of the Subseries 2012A-2 Bonds for the purpose of avoiding Federal taxpayer penalties that may be imposed on such owner. The opinion in this paragraph is provided to support the promotion or marketing of the Subseries 2012A-2 Bonds. Each owner of the Subseries 2012A-2 Bonds should seek advice based on its particular circumstances from an independent tax advisor.

8. Under existing statutes, interest on the Series 2012A 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 2012A 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 2012A-1 Bonds, or the exemption from personal income taxes of interest on the Series 2012A 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 2012A 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 2012A-1 Bond and a Subseries 2012A-2 Bond and, in our opinion, the form of said Series 2012A Bonds and their execution are regular and proper.

Very truly yours,

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DORMITORY AUTHORITY OF THE STATE OF NEW YORK • INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS, SERIES 2012A

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